MSB FINANCIAL CORP.
Form 10-K
September 26, 2014

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

FORM 10-K

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

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: June 30, 2014 or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________

Commission File No. 001-33246

MSB FINANCIAL CORP.
(Exact name of Registrant as specified in its Charter)

United States (State or Other Jurisdiction of Incorporation or Organization)	34-1981437 (I.R.S. Employer Identification No.)
1902 Long Hill Road, Millington, New Jersey (Address of Principal Executive Offices)	07946-0417 (Zip Code)

Registrant’s telephone number, including area code: 908-647-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.10 par value	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES [ ] NO [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES [ ] NO [X]

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [X] YES [ ] NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's common stock as quoted on the Nasdaq Stock Market LLC on December 31, 2013, was approximately $15.3 million.

As of September 16, 2014 there were 5,010,437 shares outstanding of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the 2014 Annual Meeting of Shareholders. (Parts II and III)

MSB FINANCIAL CORP.

FORM 10-K

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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PART I

Forward-Looking Statements

MSB Financial Corp. (the "Company") may from time to time make written or oral "forward-looking statements," including statements contained in the Company's filings with the Securities and Exchange Commission (including this Annual Report on Form 10-K and the exhibits thereto), in its reports to stockholders and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the private securities litigation reform act of 1995.

These forward-looking statements involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations, estimates and intentions, that are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: The strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the board of governors of the federal reserve system, inflation, interest rate, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Company and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services; the willingness of users to substitute competitors' products and services for the Company's products and services; the success of the Company in gaining regulatory approval of its products and services, when required; the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes, acquisitions; market volatility; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Item 1. Business

General

The Company is a federally chartered corporation organized in 2004 for the purpose of acquiring all of the capital stock that Millington Savings Bank (the "Bank") issued in its mutual holding company reorganization. During the fiscal year ended June 30, 2007, the Company conducted its initial public offering and sold 2,529,281 shares including 202,342 shares acquired by the Employee Stock Ownership Plan for net proceeds of approximately $24.5 million. The Company's principal executive offices are located at 1902 Long Hill Road, Millington, New Jersey 07946-0417 and its telephone number at that address is (908) 647-4000.

MSB Financial, MHC (the "MHC") is a federally chartered mutual holding company that was formed in 2004 in connection with the mutual holding company reorganization. The MHC has not engaged in any significant business since its formation. So long as the MHC is in existence, it will at all times own a majority of the outstanding stock of the Company.

The Bank is a New Jersey-chartered stock savings bank and its deposits are insured by the Federal Deposit Insurance Corporation. As of June 30, 2014, the Bank had 53 full time equivalent employees. The Bank maintains a website at www.millingtonsb.com. Information on the Bank's website should not be treated as part of this Annual Report on Form 10-K.

The Bank is regulated by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation. The MHC and the Company are regulated as savings and loan holding companies by the Board of Governors of the Federal Reserve System ("FRB"), as successor to the Office of Thrift Supervision ("OTS") under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act").

Throughout this document, references to "we," "us," or "our" refer to the Bank or Company, or both, as the context indicates.

Competition

We operate in a market area with a high concentration of banking and other financial institutions, and we face substantial competition in attracting deposits and in originating loans. A number of our competitors are significantly larger institutions with greater financial and managerial resources and lending limits. Our ability to compete successfully is a significant factor affecting our growth potential and profitability.

Our competition for deposits and loans historically has come from other insured financial institutions such as local and regional commercial banks, savings institutions, and credit unions located in our primary market area. We also compete with mortgage banking and finance companies for real estate loans and with commercial banks and savings institutions for consumer loans, and we face competition for funds from investment products such as mutual funds, short-term money funds and corporate and government securities. There are large competitors operating throughout our total market area, and we also face strong competition from other community-based financial institutions.

Lending Activities

We have traditionally and currently focused on the origination of one- to four-family loans and home equity loans and lines of credit, which together comprise a substantial portion of the total loan portfolio. We also provide financing for commercial real estate, including multi-family dwellings/apartment buildings, service/retail and mixed-use properties, churches and non-profit properties, medical and dental facilities and other commercial real estate. We also originate residential and commercial construction loans and commercial and industrial loans. Our consumer loans are comprised of auto loans, personal loans and account loans and overdraft lines of credit.

Loan Portfolio Composition. The following tables analyze the composition of the Company's loan portfolio by loan category at the dates indicated. Except as set forth below, there were no concentrations of loans exceeding 10% of total loans.

	At June 30,									
	2014		2013		2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Type of Loans:										
One- to four-family real estate	$ 143,283	60.50%	$ 136,704	59.79%	$ 141,927	57.65%	$ 149,399	57.66%	$ 155,241	56.94%
Commercial real estate	32,036	13.53	32,171	14.07	32,181	13.07	32,559	12.57	33,776	12.39
Construction	12,517	5.29	8,895	3.89	11,669	4.74	16,633	6.42	16,639	6.10
Home equity	38,484	16.25	40,682	17.79	49,224	19.99	50,240	19.39	56,862	20.86
Commercial and industrial	9,666	4.08	9,267	4.05	10,092	4.10	9,325	3.60	9,190	3.37
Consumer	832	0.35	929	0.41	1,107	0.45	941	0.36	918	0.34
Total loans receivable	236,818	100.00%	228,648	100.00%	246,200	100.00%	259,097	100.00%	272,626	100.00%
Less:										
Construction loans in process	(2,491)		(745)		(2,261)		(3,452)		(4,027)	
Allowance for loan losses	(3,686)		(4,270)		(3,065)		(2,170)		(2,588)	
Deferred loan fees	(366)		(377)		(354)		(224)		(197)	
Total loans receivable, net	$ 230,275		$ 223,256		$ 240,520		$ 253,251		$ 265,814	

Loan Maturity Schedule. The following table sets forth the maturity of the Company's loan portfolio at June 30, 2014. Demand loans, loans having no stated maturity, and overdrafts are presented as due in one year or less. The construction loans presented in the table as of June 30, 2014 are net of $2,491,000 of undistributed amounts. The table presents contractual maturities and does not reflect repricing or the effect of prepayments. Actual maturities may differ.

	At June 30, 2014						
	One- to Four-Family Real Estate	Commercial Real Estate	Construction	Consumer	Home Equity	Commercial and Industrial	Total
				(In thousands)			
Amounts Due:							
Within 1 Year	$ 6,267	$ 1,068	$ 8,033	$ 199	$ 1,699	$ 2,226	$ 19,492
After 1 year:							
1 to 5 years	14,119	14,674	1,993	69	11,254	5,922	48,031
5 to 10 years	8,808	2,336	-	-	10,190	385	21,719
After 10 years	114,089	13,958	-	564	15,341	1,133	145,085
Total due after one year	137,016	30,968	1,993	633	36.785	7,440	214,835
Total	$ 143,283	$ 32,036	$ 10,026	$ 832	$ 38,484	$ 9,666	$ 234,327

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The following table sets forth the dollar amount of all loans at June 30, 2014 due after June 30, 2015, which have fixed interest rates and which have floating or adjustable interest rates.

	Fixed Rates	Floating or Adjustable Rates	Total
		(In thousands)	
One-to four-family real estate	$ 127,336	$ 9,680	$ 137,016
Commercial real estate	30,968	-	30,968
Construction	1,993	-	1,993
Consumer	633	-	633
Home equity	14,206	22,579	36,785
Commercial and industrial	3,309	4,131	7,440
Total	$ 178,445	$ 36,390	$ 214,835

One- to Four-Family Real Estate Mortgages. Our primary lending activity consists of the origination of one- to four-family first mortgage loans. Fixed rate, conventional mortgage loans are offered by the Company with terms from 5 to 30 years.

We originate adjustable rate mortgages, or ARMs, with up to 30 year terms at rates based upon the U.S. Treasury One Year Constant Maturity as an index. Our ARMs currently reset on an annual basis, beginning with the first year, and have a 200 basis point annual increase cap and a 600 basis point lifetime adjustment cap. We do not originate "teaser" rate or negative amortization loans.

We are also offering a two-step loan program whereby we offer an initial rate for a fixed period of time, normally 7 to 10 years, and thereafter there is one preset interest rate adjustment based on competitive rates.

Substantially all residential mortgages include "due on sale" clauses, which are provisions giving us the right to declare a loan immediately payable if the borrower sells or otherwise transfers an interest in the property to a third party. Property appraisals on real estate securing one-to four-family residential loans are made by state certified or licensed independent appraisers and are performed in accordance with applicable regulations and policies. We require title insurance policies on all first lien one-to four-family residential loans and all home equity loans over $250,000. Homeowners, liability, fire and, if applicable, flood insurance policies are also required.

We provide financing on residential investment properties with 5 to 30 year fixed duration mortgages. Our investment property lending product is available to individuals or proprietorships, partnerships, limited liability corporations, and corporations with personal guarantees. All investment property is underwritten on its ability substantially to carry itself, unless the property is a two-family residence with the mortgagor living in one of the units. Preference is given to those loans where rental income covers all operating expenses, including but not limited to principal and interest, real estate taxes, hazard insurance, utilities, maintenance, and reserve. The cash coverage ratio to cover operating expenses must be at least 1.25 times. Any negative cash flow will be included in borrower's total debt ratio.

We generally originate one-to four-family first mortgage loans for primary residences with loan-to-value ratios ranging from 65% up to 80% depending on the collateral value and investment properties with loan-to-value ratios ranging from 65% up to 75%.

Commercial Real Estate Mortgages. Our commercial real estate lending includes multi-family dwellings/apartment buildings, service/retail and mixed-use properties, churches and non-profit properties, medical and dental facilities and other commercial real estate. Our commercial real estate mortgage loans are either 3 to 10 year balloon mortgages (with a maximum amortization period of 25 years) or 15 year fixed duration mortgages. This type of lending is made available to proprietorships, partnerships, limited liability companies and corporations with personal guarantees. All commercial property is underwritten on its ability substantially to provide satisfactory cash flows. A cash flow and lease analysis is performed for each property. Preference is given to those loans where rental income covers all operating expenses, including but not limited to principal and interest, real estate tax, hazard insurance, utilities, maintenance, and reserve. The cash coverage ratio to cover operating expenses must be at least 1.25 times. Any negative cash flow will be included in the limit on the borrower's total debt ratio. Cash from other assets of the borrower, who may own multiple properties and generate a surplus, can be made available to cover debt-service shortages of the financed property. The loan-to-value ratio on commercial real estate loans ranges from 65% to 75%.

The management skills of the borrower are judged on the basis of his/her professional experience and must be documented to meet the Company's satisfaction in relation to the desired project. The assets of the borrower must indicate his/her ability to support the proposed investment, both in terms of liquidity and net worth, and tangible history of the borrower's capability and experience must be evident.

Unlike single-family residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income, and which are secured by real property the value of which tends to be more easily ascertainable, multi-family and commercial real estate loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business or rental income. As a result, the availability of funds for the repayment of commercial real estate and multi-family loans may be substantially dependent on the success of the business itself and the general economic environment. Commercial real estate and multi-family loans, therefore, have greater credit risk than one-to four-family residential mortgages or consumer loans. In addition, commercial real estate and multi-family loans generally result in larger balances to single borrowers, or related groups of borrowers and also generally require substantially greater evaluation and oversight efforts.

Construction Loans. We originate construction loans for an owner-occupied residence or to a builder with a valid contract of sale. With prior Board of Director approval, we also provide financing for speculative residential or commercial construction and development. Individual consideration is given to builders based on their past performance, workmanship, and financial worth. Our construction lending includes loans for construction or major renovations or improvements of owner-occupied residences. The portfolio is virtually divided equally between owner-occupied properties and real estate developers.

Construction loans are mortgages up to 18 months in duration. Funds are disbursed periodically upon inspections made by our inspectors on the percentage of work completed, as per the approved budget. Funds disbursed may not exceed 50% of the loan-to-value of land and up to 80% of the loan-to-value of improvements any time during construction. Interest rates on disbursed funds are based on the rates and terms set at the time of closing. The majority of our construction loans are variable rate loans with rates tied to the prime rate published in The Wall Street Journal, plus a premium. The Bank also has established a floor rate on all new transactions. A minimum of interest-only payments on disbursed funds must be made on a monthly basis.

Construction lending is generally considered to involve a higher degree of credit risk than residential mortgage lending. If the estimate of construction cost proves to be inaccurate, we may be compelled to advance additional funds to complete the construction with repayment dependent, in part, on

the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. If we are forced to foreclose on a project prior to completion, there is no assurance that we will be able to recover the entire unpaid portion of the loan. In addition, we may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminate period of time.

Consumer Loans. Our consumer lending products consist of new and used auto loans, secured and unsecured personal loans, account loans and overdraft lines of credit. The maximum term for a loan on a new or used automobile is six years and four years, respectively. We will lend up to 80% of retail value or dealer invoice on a car loan. We offer a reduction on the interest rate for car loans if payments are automatically deducted from a Millington Savings Bank checking or statement savings account.

Our personal loans have terms of up to four years with a minimum and maximum balance of $1,000 and $5,000, respectively. A reduction to the interest rate is offered for loans with automatic debit repayment from a Millington Savings Bank checking or statement savings account. Our account loans permit a depositor to borrow up to 90% of his or her funds on deposit with us in certificate of deposit accounts. The interest rate is the current rate paid to the depositor, plus a premium. A minimum payment of interest only is required. We offer an overdraft line of credit with a minimum of $500 and up to a maximum of $5,000 and an interest rate tied to the prime rate published in The Wall Street Journal, plus a premium.

Consumer lending is generally considered to involve a higher degree of credit risk than residential mortgage lending. Consumer loan repayment is dependent on the borrower’s continuing financial stability and can be adversely affected by job loss, divorce, illness, personal bankruptcy and other factors. The application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on consumer loans in the event of a default. Account loans are fully secured.

Home Equity Loans and Lines of Credit. We offer fixed rate home equity loans and variable rate home equity lines of credit with a minimum credit limit of $5,000. Collateral valuation is established through a variety of methods, including an on-line appraisal valuation estimator, drive by appraisals, recent assessed tax value, purchase price or consideration value as evidenced by a deed or property search report or a report of real estate comparables from a licensed realtor. Loan requests over $100,000, however, require full appraisals, and requests over $500,000 require Loan Committee approval. Loan requests over $3.0 million require Board approval. The loan-to-value limit on home equity lending varies depending on the collateral value and ranges from 65% up to 80% on owner occupied property and from 65% up to 75% on investment property. The variable rate on home equity lines of credit is adjusted monthly and is currently set at prime for owner occupied properties and prime plus a premium for investment properties. The fixed rate loans on investment property are also higher than fixed rate owner occupied home equity loans. We generally provide home equity financing only for a first or second lien position.

Our fixed rate home equity loans have terms of 5 to 30 years. Our variable rate home equity lines of credit have terms of 15 years, and we also offer an interest only home equity line of credit based on a 10 year term. The loan-to-value limit on interest only home equity financing is 70% on owner-occupied property and 60% on investment property. We also offer bridge loans with a variable rate and a 70% loan-to-value limit on owner-occupied property and 60% on investment property.

Commercial and Industrial Loans. We offer revolving lines of credit to businesses to finance short-term working capital needs like accounts receivable and inventory. These lines of credit may be unsecured or secured by accounts receivable and inventory or real estate. We generally provide such financing for no more than a 3 year term and with a variable rate.

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We also originate commercial term loans to fund longer-term borrowing needs such as purchasing equipment, property improvements or other fixed asset needs. These loans are secured by new and used machinery, equipment, fixtures, furniture or other long-term fixed assets and have terms of 1 to 15 years. We originate commercial term loans for other general long-term business purposes, and these loans are secured by real estate. Principal and interest on commercial term loans is payable monthly.

The normal minimum amount for our commercial term loans and lines of credit is $5,000. The maximum amount is based on the Loan to Value limits set in our policy. We typically do not provide working capital loans to businesses outside our normal market area or to new businesses where repayment is dependent solely on future profitable operation of the business. We avoid originating loans for which the primary source of repayment could be liquidation of the collateral securing the loan in light of poor repayment prospects. We typically require personal guarantees on all commercial loans, regardless of other collateral securing the loan.

The loan-to-value limits on commercial lending vary according to the collateral. Loans secured by real estate may be originated for up to 80% loan-to-value. Other limits are as follows: Savings accounts-90% of the deposit amount; new equipment-75% of purchase price; and used equipment-lesser of 75% of purchase price or 75% of current market value.

Loans to One Borrower. The Bank’s regulatory limit on total loans to any borrower or attributed to any one borrower is 15% of unimpaired capital and surplus. Accordingly, as of June 30, 2014, our loans to one borrower legal limit was approximately $5.6 million.

The Bank’s lending policies require Board approval before any borrower’s existing and/or committed borrowings from the Bank may exceed $4.5 million in the aggregate. Any single loan in excess of $3.0 million also requires prior Board approval.

At June 30, 2014, the Bank’s largest lending relationship with a single borrower totaled $5.2 million, consisting of a $4.1 million loan, a $932,000 loan and a $170,000 loan. Two of the loans were secured by commercial properties and the other loan was secured by a single family residence and all were performing according to their terms.

Loan Originations, Purchases, Sales, Solicitation and Processing. Our customary sources of loan applications include repeat customers, referrals from realtors and other professionals and “walk-in” customers. Our residential loan originations are driven by the Bank’s reputation, as opposed to being advertising driven.

We normally do not sell loans into the secondary mortgage market and did not sell any loans in the five year period ended June 30, 2014. It is our policy to retain the loans we originate in our portfolio. We have not uniformly originated our real estate mortgage loans to meet the documentation standards to sell loans in the secondary mortgage market. We may do so, however, in the future if we find it desirable in connection with interest rate risk management to sell longer term fixed rate mortgages into the secondary mortgage market.

We did not purchase any whole loans in the five-year period ended June 30, 2014. We did, however, purchase insignificant participation interests in loans originated by other banks during this period.

Loan Approval Procedures and Authority. Lending policies and loan approval limits are approved and adopted by the Board of Directors. Lending authority is vested primarily in President and

Chief Executive Officer and Vice President and Chief Lending Officer. Each of these officers may approve loans within the following limits: first mortgage real estate and construction loans up to $500,000; home equity loans up to $500,000; consumer loans up to $500,000; and commercial loans up to $500,000. Loans in excess of $500,000 but under $3.0 million require the approval of the Loan Committee. Prior Board approval is required for all loan products in excess of $3.0 million. The Board also must give prior approval for any aggregation of existing and/or committed loans to one borrower that exceeds $4.5 million. Certain other Bank employees also have limited lending authority.

Asset Quality

Loan Delinquencies and Collection Procedures. The Company's procedures for delinquent loans are as follows:

15 days delinquent:	late charge added, first delinquent notice mailed
30 days delinquent:	second delinquent notice mailed
45 days delinquent:	additional late charge, third delinquent notice mailed, telephone contact made
60 days delinquent:	telephone contact made, separate letter mailed
90 days delinquent:	decision made to refer to attorney to send demand letter
120 days delinquent:	attorney to file complaint to begin legal action

When a loan is 90 days delinquent, the Vice President - Lending or the President may determine to refer it to an attorney to send demand letter. After 120 days, attorney is able to start the foreclosure proceedings by filing a complaint with the court. All reasonable attempts are made to collect from borrowers prior to referral to an attorney for collection. In certain instances, we may modify the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize his or her financial affairs, and we attempt to work with the borrower to establish a repayment schedule to cure the delinquency.

As to mortgage loans, if a foreclosure action is taken and the loan is not reinstated, paid in full or refinanced, the property is sold at judicial sale at which we may be the buyer if there are no adequate offers to satisfy the debt. Any property acquired as the result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until it is sold or otherwise disposed of. When real estate owned is acquired, it is recorded at the lower of cost or its fair market value less estimated selling costs. The initial write-down of the property is charged to the allowance for loan losses. Adjustments to the carrying value of the property that result from subsequent declines in value are charged to operations in the period in which the declines occur. At June 30, 2014, we had $409,000 in other real estate owned.

As to commercial loans, the Company requests updated financial statements when the loan becomes 90 days delinquent. As to account loans, the outstanding balance is collected from the related account along with accrued interest when the loan is 180 days delinquent.

Loans are reviewed on a regular basis, and all delinquencies of 60 days or more are reported to the Board of Directors. Loans are placed on non-accrual status when they are more than 90 days delinquent, except for such loans which are "well secured" and "in the process of collection." In addition a loan may be placed on non-accrual status at any time if, in the opinion of management, the collection of the loan in full is doubtful. An asset is "well secured" if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guarantee of a financially responsible party. An asset is "in process of collection" if collection of the asset is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or its restoration to a current status in the near future.

Loans with interest accrued and unpaid during the year placed on non-accrual status and are charged against interest income. Interest accrued and unpaid in prior years is charged against the allowance for loan losses. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectability of the loan. At June 30, 2014, we had approximately $8.0 million of loans that were held on a non-accrual basis, all of which were classified as impaired with $137,000 subject to specific loss allowances totaling $73,000.

Non-Performing Assets. The following table provides information regarding our non-performing loans and other non-performing assets as of the dates indicated.

	At June 30,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Loans accounted for on a non-accrual basis:					
One-to four-family real estate	$ 4,346	$ 7,955	$ 9,003	$ 8,317	$ 6,764
Commercial real estate	1,248	2,587	2,337	3,132	3,465
Construction	137	601	1,258	1,027	864
Consumer	-	802	—	2	9
Home equity	1,586	1,502	923	950	2,281
Commercial and industrial	635	—	1,064	642	514
Total	7,952	13,447	14,585	14,070	13,897
Accruing loans contractually past due 90 days or more:					
One-to four-family real estate	310	501	1,263	1,369	1,439
Commercial real estate	—	—	—	—	—
Construction	—	—	—	—	—
Consumer	—	—	1	—	2
Home equity	51	146	906	934	321
Commercial and industrial	—	—	—	—	—
Total	361	647	2,170	2,303	1,762
Total non-performing loans	$ 8,313	$ 14,094	$ 16,755	$ 16,373	$ 15,659
Total non-performing assets (1)	$ 8,722	$ 14,624	$ 16,755	$ 17,234	$ 16,726
Accruing loans modified in troubled debt restructuring	$ 13,439	$ 11,848	$ 7,061	$ 543	$ 6,555
Total non-performing loans to total loans	3.51%	6.16%	6.81%	6.32	5.74%
Total non-performing loans to total assets	2.41%	4.00%	4.82%	4.69	4.36%
Total non-performing assets to total assets	2.53%	4.15%	4.82%	4.93	4.66%

2014

(1) Total non-performing assets consist of total non-performing loans and other real estate owned of $409, $530, $-, $861 and $1,067 at June 30, 2014, 2013, 2012, 2011 and 2010, respectively.

At June 30, 2014, there were no loans not disclosed in the table above where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with present loan repayment terms and which may result in disclosure of such loans in the future.

During the year ended June 30, 2014, gross interest income of $400,000 would have been recorded on loans accounted for on a non-accrual basis and $533,000 would have been recorded on troubled debt restructurings if those loans had been current in accordance with their original terms, and $275,000 and $585,000, respectively, of interest collected on such loans was included in income.

Classified Assets. The Company in compliance with the Uniform Credit Classification and Account Management Policy adopted by the Federal Deposit Insurance Corporation, and the Company has an internal loan review program, whereby non-performing loans are classified as special mention, substandard, doubtful or loss. It is our policy to review the loan portfolio, in accordance with regulatory classification procedures, on at least a quarterly basis. When a loan is classified as substandard or doubtful, management is required to evaluate the loan for impairment. When management classifies a portion of a loan as loss, a reserve equal to 100% of the loss amount is required to be established or the loan is to be charged-off, if a conforming loss event has occurred.

An asset that does not currently expose the Company to a sufficient degree of risk to warrant an adverse classification, but which possesses credit deficiencies or potential weaknesses that deserve management’s close attention is classified as “special mention.”

An asset classified as “substandard” is inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Assets so classified have well-defined weaknesses and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

An asset classified as “doubtful” has all the weaknesses inherent in a “substandard” asset with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of a loss on a doubtful asset is high.

That portion of an asset classified as “loss” is considered uncollectible and of such little value that its continuance as an asset, without charge-off, is not warranted. This classification does not necessarily mean that an asset has absolutely no recovery or salvage value; but rather, it is not practical or desirable to defer writing off a basically worthless asset even though partial recovery may be affected in the future.

Management’s classification of assets is reviewed by the Board on a regular basis and by the regulatory agencies as part of their examination process.

The following table discloses the Company’s classification of assets as of June 30, 2014.

	At June 30, 2014 (In thousands)	
Special Mention	$	3,612
Substandard		4,170
Doubtful		-
Loss		73
Total	$	7,855

At June 30, 2014, 13 out of the 23 loans adversely classified totaling $2.0 million are included as non-performing loans in the non-performing assets table.

Allowance for Credit Losses. The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded credit commitments. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the Statement of Financial Condition date and is recorded as a reduction to loans. The reserve for unfunded credit commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated Statement of Financial Condition. The allowance for credit losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. All, or part, of the principal balance of loans receivable that are deemed uncollectible are charged against the allowance when management determines that the repayment of that amount is highly unlikely. Any subsequent recoveries are credited to the allowance. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible.

Management, in determining the allowance for loan losses, considers the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available. The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price of the impaired loan) is lower than the carrying value of that loan. The general component covers pools of loans by loan class. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these classes of loans, adjusted for qualitative factors. Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. The unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The allowance calculation methodology includes segregation of the total loan portfolio into segments. The Company's loans receivable portfolio is comprised of the following segments: residential mortgage, commercial real estate, construction, consumer and commercial and industrial. Some segments of the Company's loan receivable portfolio are further disaggregated into classes which allows management to better monitor risk and performance.

The residential mortgage loan segment is disaggregated into two classes: one-to four-family loans, which are primarily first liens, and home equity loans, which consist of first and second liens. The commercial real estate loan segment consists of both owner and non-owner occupied loans which have medium risk due to historical activity on these type loans. The construction loan segment is further disaggregated into two classes: one-to four-family owner occupied, which includes land loans, whereby the owner is known and there is less risk, and other, whereby the property is generally under development and tends to have more risk than the one-to four-family owner occupied loans. The commercial and industrial loan segment consists of loans made for the purpose of financing the activities of commercial customers. The majority of commercial and industrial loans are secured by real estate and thus carry a lower risk than traditional commercial and industrial loans. The consumer loan segment consists primarily of installment loans and overdraft lines of credit connected with customer deposit accounts.

Management evaluates individual loans in all of the loan segments (including loans in residential mortgage and consumer segments) for possible impairment if the recorded investment in the loan is greater than $200,000 and if the loan is either in nonaccrual status or risk rated Substandard or worse or has been modified in a troubled debt restructuring. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a reduction in interest rate, a below market interest rate based on risk, or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The evaluation of the need and amount of the allowance for impaired loans and whether a loan can be removed from impairment status is made on a quarterly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

In addition, the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation, as an integral part of their examination processes, periodically review our loan and real estate owned portfolios and the related allowance for loan losses and valuation allowance for real estate owned. They may require the allowance for loan losses or the valuation allowance for real estate owned to be increased based on their review of information available at the time of the examination, which would negatively affect our earnings.

The following table sets forth information with respect to the Company's allowance for loan losses for the periods indicated:

	Year Ended June 30,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Allowance balance at beginning of period	$ 4,270	$ 3,065	$ 2,170	$ 2,588	$ 1,808
Provision for loan losses	600	4,044	2,217	1,686	1,600
Charge-offs:					
One-to four-family real estate	522	1,574	857	1,134	6
Commercial real estate	340	348	5	155	166
Construction	119	333	—	34	487
Consumer	9	5	17	8	14
Home equity	15	293	443	759	148
Commercial and industrial	236	342	2	14	—
Total charge-offs	1,241	2,895	1,324	2,104	821
Recoveries:					
Consumer	57	56	2	—	1
Net charge-offs	$ 1,184	$ 2,839	$ 1,322	$ 2,104	$ 820
Allowance balance at end of period	$ 3,686	$ 4,270	$ 3,065	$ 2,170	$ 2,588
Total loans outstanding at end of period	$ 236,818	$ 228,648	$ 246,200	$ 259,097	$ 272,626
Average loans outstanding during period	$ 232,148	$ 237,776	$ 248,124	$ 264,476	$ 277,379
Allowance for loan losses as a percentage of non-performing loans	44.34%	30.30%	18.29%	13.25%	16.53%
Allowance for loan losses as a percentage of total loans	1.56%	1.87%	1.24%	0.84%	0.95%
Net loans charged-off as a percentage of average loans	0.51%	1.19%	0.53%	0.80%	0.30%

Allocation of Allowance for Loan Losses. The following table sets forth the allocation of the Company's allowance for loan losses by loan category and the percent of loans in each category to total loans receivable at the dates indicated. The portion of the loan loss allowance allocated to each loan category does not represent the total available for future losses that may occur within the loan category since the total loan loss allowance is a valuation allocation applicable to the entire loan portfolio.

	At June 30,									
	2014		2013		2012		2011		2010	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
	(Dollars in thousands)									
One-to-four family real estate	$1,851	60.50 %	$2,488	59.79 %	$1,251	57.65 %	$733	57.66 %	$969	56.94 %
Commercial real estate	860	13.53	706	14.07	445	13.07	303	12.57	507	12.39
Construction	379	5.29	238	3.89	527	4.74	514	6.42	272	6.10
Home equity	332	16.25	548	17.79	557	19.99	397	19.39	665	20.86
Commercial and industrial	256	4.08	276	4.05	272	4.10	211	3.60	164	3.37
Consumer	8	0.35	11	0.41	13	0.45	12	0.36	11	0.34
Unallocated	-	-	3	-	-	-	-	-	-	-
Total allowance	$3,686	100.00%	$4,270	100.00%	$3,065	100.00%	$2,170	100.00%	$2,588	100.00%

Securities Portfolio

Our investment policy is designed to manage cash flows and foster earnings within prudent interest rate risk and credit risk guidelines. The portfolio mix is governed by our short term and long term liquidity needs. Rate-of-return, cash flow, rating and guarantor-backing are also considered when making investment decisions. The purchase of principal only and stripped coupon interest only security instruments is specifically not authorized by our investment policy. Furthermore, other than government related securities which may not be rated, we only purchase securities with a rating of AAA or AA. We invest primarily in mortgage-backed securities, U.S. Government obligations, U.S. Government agency issued securities and to a lesser extent in Corporate Bonds and Certificates of Deposits.

Mortgage-backed securities represent a participation interest in a pool of mortgages issued by U.S. government agencies or government-sponsored enterprises, such as Federal Home Loan Mortgage Corporation (“Freddie Mac”), the Government National Mortgage Association (“Ginnie Mae”), and the Federal National Mortgage Association (“Fannie Mae”), as well as non-government, private corporate issuers. Mortgage-backed securities are pass-through securities and generally yield less than the mortgage loans underlying the securities. The characteristics of the underlying pool of mortgages, i.e., fixed-rate or adjustable-rate, as well as prepayment risk, are passed on to the certificate holder.

Mortgage-backed securities issued or sponsored by U.S. government agencies and government-sponsored entities are guaranteed as to the payment of principal and interest to investors.

Corporate bonds often pay higher rates than government or municipal bonds, because they tend to be riskier. The bond holder receives interest payments (yield) and principal and is repaid on a fixed maturity date. Corporate bonds can mature anywhere between 1 to 30 years and changes in interest rates are generally reflected in the bond prices. Corporate bonds carry no claims to ownership and do not pay a dividend, but are considered to be less risky than stocks, since the company has to pay off all of its debts (including bonds) before it handles its obligations to stockholders. Corporate bonds have a wide range of ratings and yields because the financial health of the issuers can vary widely,

Accounting standards require that securities be categorized as “held to maturity,” “trading securities” or “available for sale,” based on management’s intent as to the ultimate disposition of each security. These standards allow debt securities to be classified as “held to maturity” and reported in financial statements at amortized cost if the reporting entity has the positive intent and ability to hold these securities to maturity. Securities that might be sold in response to changes in market interest rates, changes in the security’s prepayment risk, increases in loan demand, or other similar factors cannot be classified as “held to maturity.”

At June 30, 2014, our entire securities portfolio was classified as held to maturity. All securities are purchased with the intent to hold each security until maturity. Securities not classified as “held to maturity” or as “trading securities” are classified as “available for sale” and are reported at fair value with unrealized gains and losses on the securities impacting equity. The Company held no available for sale or trading securities during or as of years ending June 30, 2014 and 2013.

Individual securities are considered impaired when their fair values are less than their amortized cost. Management evaluates all securities with unrealized losses quarterly to determine if such impairments are “temporary” or “other-than-temporary” in accordance with applicable accounting guidance. Accordingly, the Company accounts for temporary impairments based upon security classification as either trading, available for sale or held to maturity. Temporary impairments on “available for sale” securities would be recognized, on a tax-effected basis, through other comprehensive

income with offsetting entries adjusting the carrying value of the security and the balance of deferred taxes. Temporary impairments of “held to maturity” securities are not recognized in the consolidated financial statements; however, information concerning the amount and duration of impairments on held to maturity securities is disclosed in the notes to the consolidated financial statements. The carrying value of securities held in a trading portfolio would be adjusted to fair value through earnings on a quarterly basis.

Other-than-temporary impairments on securities that the Company has decided to sell or will more likely than not be required to sell prior to the full recovery of their fair value to a level equal to or exceeding amortized cost are recognized in earnings. Otherwise, the other-than-temporary impairment is bifurcated into credit-related and noncredit-related components. The credit-related impairment generally represents the amount by which the present value of the cash flows expected to be collected on a debt security falls below its amortized cost. The noncredit-related component represents the remaining portion of the impairment not otherwise designated as credit-related. Credit-related other-than-temporary impairments are recognized in earnings while noncredit-related other-than-temporary impairments are recognized, net of deferred taxes, in other comprehensive income.

At June 30, 2014, our securities portfolio did not contain securities of any issuer, other than the U.S. Government agencies and government-sponsored enterprises, having an aggregate book value in excess of 10% of stockholders’ equity. We do not currently participate in hedging programs, interest rate caps, floors or swaps, or other activities involving the use of off-balance sheet derivative financial instruments, however, we may in the future utilize such instruments if we believe it would be beneficial for managing our interest rate risk.

The following table sets forth certain information regarding the carrying values, weighted average yields and maturities of our held to maturity securities portfolio at June 30, 2014. Our held to maturity securities portfolio is carried at amortized cost. This table shows contractual maturities and does not reflect repricing or the effect of prepayments. Actual maturities of the securities held by us may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties. Callable securities pose reinvestment risk because we may not be able to reinvest the proceeds from called securities at an equivalent or higher interest rate.

	At June 30, 2014										
	One Year or Less		One to Five Years		Five to Ten Years		More than Ten Years		Total Investment Securities		
	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Market Value
	(Dollars in thousands)										
U.S. Government Agency Obligations	$ -	-%	$ 23,000	1.37%	$ 12,177	2.41%	$ 14,000	3.31%	$ 49,177	2.18%	$ 47,675
Mortgage-Backed Securities:											
Government National Mortgage Association	-	-	1	9.21	13	1.97	-	-	14	2.69	14
Federal Home Loan Mortgage Corporation	-	-	56	2.22	16	3.57	2,854	1.92	2,926	1.93	2,892
Federal National Mortgage Association	-	-	1,008	1.21	19,631	2.61	2,510	2.13	23,149	2.50	23,309
Corporate bonds	-	-	4,630	1.62	-	-	-	-	4,630	1.62	4,681
Certificate of deposits	1,425	0.82	3,611	1.08	-	-	-	-	5,036	1.01	5,065
Total	$ 1,425	0.82%	$ 32,306	1.37%	$ 31,837	2.54%	$ 19,364	2.95%	$ 84,932	2.16%	$ 83,636

The following table sets forth the carrying value of our held to maturity securities portfolio at the dates indicated. Securities classified as held to maturity are shown at our amortized cost.

	At June 30		
	2014	2013	2012
	(In thousands)		
U.S. Government Agency Obligations	$ 49,177	$ 46,194	$ 37,018
Government National Mortgage Association	14	17	20
Federal Home Loan Mortgage Corporation	2,926	3,397	325
Federal National Mortgage Association	23,149	21,354	9,775
Corporate bonds	4,630	4,669	2,143
Certificates of deposits	5,036	5,281	1,425
Total securities held to maturity	$ 84,932	$ 80,912	$ 50,706

Sources of Funds

General. Deposits are our major source of funds for lending and other investment purposes. To the extent that our loan originations may exceed the funding available from deposits, we have borrowed funds from the Federal Home Loan Bank to supplement the amount of funds for lending and funding daily operations.

In addition, we derive funds from loan and mortgage-backed securities principal repayments, interest, and proceeds from the maturity and call of investment securities. Loan and securities payments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by pricing strategies and money market conditions.

Deposits. Our current deposit products include checking and savings accounts, certificates of deposit and fixed or variable rate individual retirement accounts (IRAs). Deposit account terms vary, primarily as to the required minimum balance amount, the amount of time, if any, that the funds must remain on deposit and the applicable interest rate. Our savings account menu includes regular passbook, statement, money market and club accounts. We also offer a six-level tiered savings account. Our certificates of deposit currently range in terms from 6 months to 10 years. Our IRAs are available with the same maturities as certificates of deposit accounts, with the exception of the 30 month term. We offer a two year certificate of deposit that permits the depositor to increase the interest rate to the current two year rate once during the term.

Deposits are obtained primarily from within New Jersey. The Bank also utilizes brokered deposits as a funding source. As of June 30, 2014 the Bank did not have any brokered deposits. Premiums or incentives for opening accounts are sometimes offered. We periodically select particular certificate of deposit maturities for promotion in connection with asset/liability management and interest rate risk concerns.

The determination of deposit and certificate interest rates is based upon a number of factors, including: (1) need for funds based on loan demand, current maturities of deposits and other cash flow needs; (2) a current survey of a selected group of competitors' rates for similar products; (3) economic conditions; and (4) business plan projections.

A large percentage of our deposits are in certificates of deposit. The inflow of certificates of deposit and the retention of such deposits upon maturity are significantly influenced by general interest rates and money market conditions, making certificates of deposit traditionally a more volatile source of funding than core deposits. Our liquidity could be reduced if a significant amount of certificates of deposit maturing within a short period of time were not renewed. To the extent that such deposits do not remain with us, they may need to be replaced with borrowings which could increase our cost of funds and negatively impact our net interest rate spread and our financial condition.

The following table sets forth the distribution of average deposits for the periods indicated and the weighted average nominal interest rates for each period on each category of deposits presented.

	For the Year Ended June 30,								
	2014			2013			2012		
	Average Balance	Percent of Total Deposits	Weighted Average Nominal Rate	Average Balance	Percent of Total Deposits	Weighted Average Nominal Rate	Average Balance	Percent of Total Deposits	Weighted Average Nominal Rate
	(Dollars in thousands)								
Non-interest-bearing demand	$ 21,598	7.98%	—%	$ 18,691	6.64%	—%	$ 16,094	5.65%	—%
Interest-bearing demand	39,356	14.54	0.13	36,918	13.12	0.14	34,012	11.94	0.18
Savings and club	107,960	39.88	0.22	110,916	39.42	0.23	112,901	39.63	0.37
Certificates of deposit	101,801	37.60	1.35	114,876	40.82	1.48	121,858	42.78	1.78
Total deposits	$ 270,715	100.00%	0.66%	$ 281,401	100.00%	0.76%	$ 284,865	100.00%	0.93

The following table sets forth certificates of deposit classified by interest rate categories as of the dates indicated.

	At June 30,					
	2014		2013		2012	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)					
Interest Rate:						
Under - 1.00%	$ 57,698	58.56%	$ 54,101	49.21%	$ 46,094	38.52%
1.00% - 1.99%	19,758	20.05	31,737	28.86	44,694	37.35
2.00% - 2.99%	7,618	7.73	9,575	8.71	10,728	8.97
3.00% - 3.99%	6,055	6.15	6,774	6.16	7,225	6.04
4.00% - 4.99%	1,188	1.21	1,414	1.29	3,177	2.65
5.00% - 5.99%	6,211	6.30	6,347	5.77	7,712	6.45
6.00%+	-	-	-	-	26	0.02
Total	$ 98,528	100.00%	$ 109,948	100.00%	$ 119,656	100.00%

The following table sets forth the amount and maturities of certificates of deposit at June 30, 2014.

	Amount Due Year Ended June 30,						
	2015	2016	2017	2018	2019	After June 30, 2019	Total
	(Dollars in thousands)						
Interest Rate:							
Under - 1.00%	$ 48,655	$ 8,506	$ 536	$ -	$ -	$ 1	$ 57,698
1.00% - 1.99%	7,195	2,964	5,764	1,872	1,323	640	19,758
2.00% - 2.99%	878	4,089	1,478	-	-	1,173	7,618
3.00% - 3.99%	3,302	2,071	-	82	282	318	6,055
4.00% - 4.99%	204	90	-	727	167	-	1,188
5.00% - 5.99%	1,908	1,338	1,376	834	755	-	6,211
6.00%+	-	-	-	-	-	-	-
Total	$ 62,142	$ 19,058	$ 9,154	$ 3,515	$ 2,527	$ 2,132	$ 98,528

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The following table shows the amount of the Company's certificates of deposit of $100,000 or more by time remaining until maturity as of June 30, 2014.

	Certificates of Deposit (In thousands)
Remaining Time Until Maturity:	
Within three months	$ 5,910
Three through six months	19,826
Six through twelve months	12,529
Over twelve months	3,510
Total	$ 41,775

Borrowings. To supplement our deposits as a source of funds for lending or investment, we have borrowed funds in the form of advances from the Federal Home Loan Bank of New York. At June 30, 2014, our collateralized borrowing limit with the Federal Home Loan Bank was $69.5 million and our outstanding borrowings with the Federal Home Loan Bank totaled $30.0 million. Information regarding our total borrowings as of June 30, 2014 is set forth in the following table.

	At June 30, 2014		
	Balance	Rate	Maturity
	(Dollars in thousands)		
Total Borrowings:			
Three year fixed rate advance	$ 5,000	0.780%	February 2016
Three year fixed rate advance	$ 5,000	0.780%	March 2016
Ten year fixed rate convertible advance	$ 10,000	3.272%	November 2017
Ten year fixed rate convertible advance	$ 10,000	3.460%	March 2018

In addition, the Bank had an $8.0 million overnight advance with the Federal Home Loan Bank of New York as of June 30, 2014 and did not have any overnight borrowings with the Federal Home Loan Bank as of June 30, 2013.

Advances from the Federal Home Loan Bank of New York are typically secured by the Federal Home Loan Bank stock and a portion of our residential mortgage loans and by other assets, mainly securities which are obligations of or guaranteed by the U.S. government. Additional information regarding our borrowings is included under Note 9 to our consolidated financial statements beginning on page F-1.

Subsidiary Activity

The Company has no direct subsidiaries other than the Bank. The Bank has one wholly owned subsidiary, Millington Savings Service Corp., formed in 1984. The service corporation is currently inactive.

Regulation and Supervision

The Bank and the Company operate in a highly regulated industry. This regulation establishes a comprehensive framework of activities in which they may engage and is intended primarily for the protection of the Deposit Insurance Fund and depositors. Set forth below is a brief description of certain

laws that relate to the regulation of the Bank and the Company. The description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on operations, the classification of assets and the adequacy of the allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, including changes in the regulations governing mutual holding companies, could have a material adverse impact on the Company and the Bank. The adoption of regulations or the enactment of laws that restrict the operations of the Bank and/or the Company or impose burdensome requirements upon one or both of them could reduce their profitability and could impair the value of the Bank’s franchise, resulting in negative effects on the trading price of the Company’s common stock.

Holding Company Regulation

General. The Company is a savings and loan holding company within the meaning of Section 10 of the HOLA. As a result of the Dodd-Frank Act, it is now required to file reports with the Federal Reserve and is subject to regulation and examination by the Federal Reserve, as successor to the OTS. The Company must also obtain regulatory approval from the Federal Reserve before engaging in certain transactions, such as mergers with or acquisitions of other financial institutions. In addition, the Federal Reserve has enforcement authority over the Company and any non-savings institution subsidiaries. This permits the Federal Reserve to restrict or prohibit activities that it determines to be a serious risk to the Bank. This regulation is intended primarily for the protection of the depositors and not for the benefit of stockholders of the Company.

The Federal Reserve has indicated that, to the greatest extent possible taking into account any unique characteristics of savings and loan holding companies and the requirements of the HOLA, it intends to apply its current supervisory approach to the supervision of bank holding companies to savings and loan holding companies. The stated objective of the Federal Reserve is to ensure the savings and loan holding company and its non-depository subsidiaries are effectively supervised and can serve as a source of strength for, and do not threaten the safety and soundness of the subsidiary depository institutions. The Federal Reserve has generally adopted the substantive provisions of former OTS regulations governing savings and loan holding companies on an with certain modifications as discussed below.

Activities Restrictions. As a savings and loan holding company and as a subsidiary holding company of a mutual holding company, the Company is subject to statutory and regulatory restrictions on its business activities. The non-banking activities of the Company and its non-savings institution subsidiaries are restricted to certain activities specified by the Federal Reserve regulation, which include performing services and holding properties used by a savings institution subsidiary, activities authorized for savings and loan holding companies as of March 5, 1987 and non-banking activities permissible for bank holding companies pursuant to the Bank Holding Company Act of 1956, as amended, or authorized for financial holding companies pursuant to the Gramm-Leach-Bliley Act. Before engaging in any non-banking activity or acquiring a company engaged in any such activities, the Company must file with the Federal Reserve either a prior notice or (in the case of non-banking activities permissible for bank holding companies) an application regarding its planned activity or acquisition. Under the Dodd-Frank Act, a savings and loan holding company may only engage in activities authorized for financial holding companies if they meet all of the criteria to qualify as a financial holding company. Accordingly, the Federal Reserve will require savings and loan holding companies to elect to be treated as financial holding companies in order to engage in financial holding company activities. In order to make such an election, the savings and loan holding company and its depository institution subsidiaries must be well capitalized and well managed.

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Mergers and Acquisitions. The Company must obtain approval from the Federal Reserve before acquiring, directly or indirectly, more than 5% of the voting stock of another savings institution or savings and loan holding company or acquiring such an institution or holding company by merger, consolidation, or purchase of its assets. Federal law also prohibits a savings and loan holding company from acquiring more than 5% of a company engaged in activities other than those authorized for savings and loan holding companies by federal law; or acquiring or retaining control of a depository institution that is not insured by the FDIC. In evaluating an application for the Company to acquire control of a savings institution, the Federal Reserve would consider the financial and managerial resources and future prospects of the Company and the target institution, the effect of the acquisition on the risk to the insurance funds, the convenience and the needs of the community and competitive factors.

Waivers of Dividends by MSB Financial MHC. OTS policies had permitted mutual holding companies to waive the receipt of dividends and, when permitted, the MHC had waived the receipt of dividends from the Company. However, under current Federal Reserve regulations, any notice of waiver of dividends must include a board resolution together with any supporting materials relied upon by the MHC board to conclude that the dividend waiver is consistent with the board’s fiduciary duties. The resolution must include; (i) a description of the conflict of interest that exists because of a MHC director’s ownership of stock in the subsidiary declaring the dividend and any actions taken to eliminate the conflict of interest, such as a waiver by the directors of their right to receive dividends; (ii) a finding by the MHC that the waiver is consistent with its fiduciary duties despite any conflict of interest; (iii) an affirmation that the MHC is able to meet the terms of any loan agreement for which the stock of the subsidiary is pledged or to which the MHC is subject; and (iv) any affirmation that a majority of the MHC’s members have approved a waiver of dividends within the past 12 months and that the proxy statement used for such vote included certain disclosures. The MHC did not waive any dividends during the year ended June 30, 2014.

Conversion of the MHC to Stock Form. Federal regulations permit the MHC to convert from the mutual form of organization to the capital stock form of organization, commonly referred to as a second step conversion. In a second step conversion a new holding company would be formed as a successor to the Company, the MHC’s corporate existence would end and certain depositors of the Bank would receive the right to subscribe for shares of the new holding company. In a second step conversion, each share of common stock held by stockholders other than the MHC would be automatically converted into a number of shares of common stock of the new holding company determined pursuant to an exchange ratio that ensures that the Company’s stockholders own the same percentage of common stock in the new holding company as they owned in the Company immediately prior to the second step conversion. The total number of shares held by the Company’s stockholders after a second step conversion also would be increased by any purchases by the Company’s stockholders in the stock offering of the new holding company conducted as part of the second step conversion.

Under the Dodd-Frank Act, waived dividends must be taken into account in determining the appropriate exchange ratio for a second-step conversion of a mutual holding company unless the mutual holding company has waived dividends prior to December 1, 2009.

Acquisition of Control. Under the Federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve if any person (including a company), or group acting in concert, seeks to acquire “control” of a savings and loan holding company. An acquisition of “control” can occur upon the acquisition of 10% or more of the voting stock of a savings and loan holding company or as otherwise defined by the Federal Reserve. Under the Change in Bank Control Act, the Federal Reserve has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial

and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that so acquires control is then subject to regulation as a savings and loan holding company.

Regulation of the Bank

General. As a New Jersey chartered, FDIC-insured bank, the Bank is regulated by the New Jersey Department of Banking and Insurance and the FDIC. The Bank's operations are subject to extensive regulation, including restrictions or requirements with respect to loans to one borrower, the percentage of non-mortgage loans or investments to total assets, capital distributions, permissible investments and lending activities, liquidity, transactions with affiliates and community reinvestment. The Bank must file regulatory reports concerning its activities and financial condition, and must obtain regulatory approvals prior to entering into certain transactions, such as mergers with or acquisitions of other financial institutions. The New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation regularly examine the Bank and prepare reports to the Bank's Board of Directors on deficiencies, if any, found in its operations. The regulatory authorities have substantial discretion to impose enforcement action on an institution that fails to comply with applicable regulatory requirements, particularly with respect to its capital requirements.

Federal Deposit Insurance. The Bank's deposits are insured to applicable limits by the FDIC. The maximum deposit insurance amount is $250,000. The FDIC has adopted a risk-based premium system that provides for quarterly assessments based on an insured institution's ranking in one of four risk categories based on their examination ratings and capital ratios. The assessment base is the institution's average consolidated assets less average tangible equity. Insured banks with more than $1.0 billion in assets must calculate quarterly average assets based on daily balances while smaller banks and newly chartered banks may use weekly averages. In the case of a merger, the average assets of the surviving bank for the quarter must include the average assets of the merged institution for the period in the quarter prior to the merger. Average assets would be reduced by goodwill and other intangibles. Average tangible equity equals Tier 1 capital. For institutions with more than $1.0 billion in assets average tangible equity must be calculated on a weekly basis while smaller institutions may use the quarter-end balance. The base assessment rate for insured institutions in Risk Category I range from 5 to 9 basis points and for institutions in Risk Categories II, III, and IV, the base assessment rate is 14, 23 and 35 basis points, respectively. An institution's assessment rate is reduced based on the amount of its outstanding unsecured long-term debt and for institutions in Risk Categories II, III and IV may be increased based on their brokered deposits.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the Federal Savings and Loan Insurance Corporation. The FICO assessment rates, which are determined quarterly, averaged 0.62 basis points of insured deposits on an annualized basis in fiscal year 2014. These assessments will continue until the FICO bonds mature in 2017.

Regulatory Capital Requirements. Federal Deposit Insurance Corporation capital regulations require savings institutions to meet three minimum capital standards: (1) tangible capital equal to 1.5% of total adjusted assets, (2) "Tier 1" or "core" capital equal to at least 4% (3% if the institution has received the highest possible rating on its most recent examination) of total adjusted assets, and (3) risk-based capital equal to 8% of total risk-weighted assets. At June 30, 2014, the Bank was in compliance with the minimum capital standards and qualified as "well capitalized." For the Bank's compliance with these regulatory capital standards, see Note 14 to the consolidated financial statements. In assessing an institution's capital adequacy, the Federal Deposit Insurance Corporation takes into consideration not

only these numeric factors but also qualitative factors, and has the authority to establish higher capital requirements for individual institutions where necessary.

The Federal Deposit Insurance Corporation may require any savings institution that has a risk-based capital ratio of less than 8%, a ratio of Tier 1 capital to risk-weighted assets of less than 4% or a ratio of Tier 1 capital to total adjusted assets of less than 4% (3% if the institution has received the highest rating on its most recent examination) to take certain action to increase its capital ratios. If the savings institution's capital is significantly below the minimum required levels of capital or if it is unsuccessful in increasing its capital ratios, the institution's activities may be restricted.

For purposes of the capital regulations, tangible capital is defined as core capital less all intangible assets except for certain mortgage servicing rights. Tier 1 or core capital is defined as common stockholders' equity, non-cumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of consolidated subsidiaries, and certain non-withdrawable accounts and pledged deposits of mutual Banks. The Bank does not have any non-withdrawable accounts or pledged deposits. Tier 1 and core capital are reduced by an institution's intangible assets, with limited exceptions for certain mortgage and non-mortgage servicing rights and purchased credit card relationships. Both core and tangible capital are further reduced by an amount equal to the savings institution's debt and equity investments in "non-includable" subsidiaries engaged in activities not permissible for national banks other than subsidiaries engaged in activities undertaken as agent for customers or in mortgage banking activities and subsidiary depository institutions or their holding companies.

The risk-based capital standard for savings institutions requires the maintenance of total capital of 8% of risk-weighted assets. Total capital equals the sum of core and supplementary capital. The components of supplementary capital include, among other items, cumulative perpetual preferred stock, perpetual subordinated debt, mandatory convertible subordinated debt, intermediate-term preferred stock, the portion of the allowance for loan losses not designated for specific loan losses and up to 45% of unrealized gains on equity securities. The portion of the allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, supplementary capital is limited to 100% of core capital. For purposes of determining total capital, a savings institution's assets are reduced by the amount of capital instruments held by other depository institutions pursuant to reciprocal arrangements and by the amount of the institution's equity investments (other than those deducted from core and tangible capital) and its high loan-to-value ratio land loans and non-residential construction loans.

A savings institution's risk-based capital requirement is measured against risk-weighted assets, which equal the sum of each on-balance-sheet asset and the credit-equivalent amount of each off-balance-sheet item after being multiplied by an assigned risk weight. These risk weights range from 0% for cash to 100% for delinquent loans, property acquired through foreclosure, commercial loans, and certain other assets.

Qualified Thrift Lender Test. Savings institutions must meet a qualified thrift lender test or they become subject to the business activity restrictions and branching rules applicable to national banks. To qualify as a qualified thrift lender, a savings institution must either (i) be deemed a "domestic building and loan association" under the Internal Revenue Code by maintaining at least 60% of its total assets in specified types of assets, including cash, certain government securities, loans secured by and other assets related to residential real property, educational loans and investments in premises of the institution or (ii) satisfy the statutory qualified thrift lender test set forth in the Home Owners' Loan Act by maintaining at least 65% of its portfolio assets in qualified thrift investments (defined to include residential mortgages and related equity investments, certain mortgage-related securities, small business loans, student loans and credit card loans). For purposes of the statutory qualified thrift lender test, portfolio assets are defined

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as total assets minus goodwill and other intangible assets, the value of property used by the institution in conducting its business, and specified liquid assets up to 20% of total assets. A savings institution must maintain its status as a qualified thrift lender on a monthly basis in at least nine out of every twelve months. The Bank met the qualified thrift lender test as of June 30, 2014 and in each of the last twelve months and, therefore, qualifies as a qualified thrift lender.

A bank that fails the qualified thrift lender test and does not convert to a bank charter generally will be prohibited from: (1) engaging in any new activity not permissible for a national bank, (2) paying dividends not permissible under national bank regulations, and (3) establishing any new branch office in a location not permissible for a national bank in the institution’s home state. In addition, if the institution does not requalify under the qualified thrift lender test within three years after failing the test, the institution would be prohibited from engaging in any activity not permissible for a national bank and would have to repay any outstanding advances from the Federal Home Loan Bank as promptly as possible.

Community Reinvestment Act. Under the Community Reinvestment Act, every insured depository institution, including the Bank, has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The Community Reinvestment Act does not establish specific lending requirements or programs for financial institutions nor does it limit an institution’s discretion to develop the types of products and services that it believes are best suited to its particular community. The Community Reinvestment Act requires the depository institution’s record of meeting the credit needs of its community to be assessed and taken into account in the evaluation of certain applications by such institution, such as a merger or the establishment of a branch office by the Bank. An unsatisfactory Community Reinvestment Act examination rating may be used as the basis for the denial of an application. The Bank received a “satisfactory” rating in its most recent Community Reinvestment Act examination.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank of New York, which is one of twelve regional federal home loan banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by financial institutions and proceeds derived from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members pursuant to policies and procedures established by its board of directors.

As a member, the Bank is required to purchase and maintain stock in the Federal Home Loan Bank of New York in an amount equal to the greater of 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year or 5% of its outstanding Federal Home Loan Bank advances. The FHLB imposes various limitations on advances such as limiting the amount of certain types of real estate related collateral to 30% of a member’s capital and limiting total advances to a member.

The Federal Home Loan Banks are required to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of Federal Home Loan Bank dividends paid and could continue to do so in the future. In addition, these requirements could result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members.

Changes to Regulatory Capital Requirements

In July 2013, the federal banking agencies approved amendments to their regulatory capital rules to conform them with the international regulatory standards agreed to by the Basel Committee on Banking Supervision in the accord often referred to as “Basel III”. The revisions establish new higher capital ratio requirements, tighten the definitions of capital, impose new operating restrictions on banking organizations with insufficient capital buffers and increase the risk weighting of certain assets including residential mortgages. The new capital requirements apply to all banks and savings associations, bank holding companies with more than $500 million in assets and all savings and loan holding companies regardless of asset size. The rules became effective for institutions with over $250 billion in assets and internationally active institutions starting in January 2014 and will become effective for all other institutions beginning in January 2015. The following discussion summarizes the changes that are most likely to affect the Company and the Bank.

New and Higher Capital Requirements. The regulations establish a new capital measure called “Common Equity Tier 1 Capital” which will consist of common stock instruments and related surplus (net of treasury stock), retained earnings, accumulated other comprehensive income and, subject to certain adjustments, minority common equity interests in subsidiaries. Unlike the current rules which exclude unrealized gains and losses on available-for-sale debt securities from regulatory capital, the rules would generally require accumulated other comprehensive income to flow through to regulatory capital. Depository institutions and their holding companies would be required to maintain Common Equity Tier 1 Capital equal to 4.5% of risk-weighted assets by 2015.

The regulations increase the required ratio of Tier 1 Capital to risk-weighted assets from the current 4% to 6% by 2015. Tier 1 Capital would consist of Common Equity Tier 1 Capital plus Additional Tier 1 Capital elements which would include non-cumulative perpetual preferred stock. Cumulative preferred stock (other than cumulative preferred stock issued to the U.S. Treasury under the TARP Capital Purchase Program or the Small Business Lending Fund) will no longer qualify as Additional Tier 1 Capital. Trust preferred securities and other non-qualifying capital instruments issued prior to May 19, 2010 by bank and savings and loan holding companies with less than $15 billion in assets as of December 31, 2009, or by mutual holding companies may continue to be included in Tier 1 Capital but will be phased out over 10 years beginning in 2016 for all other banking organizations. These elements, however, could be included in Tier 2 Capital which could also include qualifying subordinated debt. The regulations also require a minimum Tier 1 leverage ratio of 4% for all institutions eliminating the 3% option for institutions with the highest supervisory ratings. The minimum required ratio of total capital to risk-weighted assets would remain at 8%.

Capital Buffer Requirement. In addition to higher capital requirements, depository institutions and their holding companies will be required to maintain a capital buffer of at least 2.5% of risk-weighted assets over and above the minimum risk-based capital requirements. Institutions that do not maintain the required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital buffer requirement will be phased in over four years beginning in 2016. The capital buffer requirement effectively raises the minimum required risk-based capital ratios to 7% Common Equity Tier 1 Capital, 8.5% Tier 1 Capital and 10.5% Total Capital on a fully phased-in basis.

Changes to Prompt Corrective Action Capital Categories. The Prompt Corrective Action rules have been amended to incorporate a Common Equity Tier 1 Capital requirement and to raise the capital requirements for certain capital categories. In order to be adequately capitalized for purposes of the prompt corrective action rules, a banking organization will be required to have at least an 8% Total Risk-

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Based Capital Ratio, a 6% Tier 1 Risk-Based Capital Ratio, a 4.5% Common Equity Tier 1 Risk Based Capital Ratio and a 4% Tier 1 Leverage Ratio. To be well capitalized, a banking organization will be required to have at least a 10% Total Risk-Based Capital Ratio, an 8% Tier 1 Risk-Based Capital Ratio, a 6.5% Common Equity Tier 1 Risk Based Capital Ratio and a 5% Tier 1 Leverage Ratio.

Additional Deductions from Capital. Banking organizations will be required to deduct goodwill and other intangible assets (other than certain mortgage servicing assets), net of associated deferred tax liabilities, from Common Equity Tier 1 Capital. Deferred tax assets arising from temporary timing differences that could not be realized through net operating loss carrybacks would continue to be deducted but deferred tax assets that could be realized through NOL carrybacks would not be deducted but would be subject to 100% risk weighting. Defined benefit pension fund assets, net of any associated deferred tax liability, will be deducted from Common Equity Tier 1 Capital unless the banking organization has unrestricted and unfettered access to such assets. Reciprocal cross-holdings of capital instruments in any other financial institutions will now be deducted from capital, not just holdings in other depository institutions. For this purpose, financial institutions are broadly defined to include securities and commodities firms, hedge and private equity funds and non-depository lenders. Banking organizations will also be required to deduct non-significant investments (less than 10% of outstanding stock) in other financial institutions to the extent these exceed 10% of Common Equity Tier 1 Capital subject to a 15% of Common Equity Tier 1 Capital cap. Greater than 10% investments must be deducted if they exceed 10% of Common Equity Tier 1 Capital. If the aggregate amount of certain items excluded from capital deduction due to a 10% threshold exceeds 17.65% of Common Equity Tier 1 Capital, the excess must be deducted. Savings associations will continue to be required to deduct investments in subsidiaries engaged in activities not permitted for national banks.

Changes in Risk-Weightings. The federal banking agencies did not adopt a proposed regulation that would have significantly changed the risk-weighting for residential mortgages. However, the regulations do apply a 250% risk-weighting to mortgage servicing rights, deferred tax assets that cannot be realized through NOL carrybacks and significant (greater than 10%) investments in other financial institutions. The regulations also create a new 150% risk-weighting category for “high volatility commercial real estate loans” which are credit facilities for the acquisition, construction or development of real property other than one- to four-family residential properties or commercial real projects where: (i) the loan-to-value ratio is not in excess of interagency real estate lending standards; and (ii) the borrower has contributed capital equal to not less than 15% of the real estate’s “as completed” value before the loan was made.

Item 1A. Risk Factors

Not applicable as the Company is a “smaller reporting company.”

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

At June 30, 2014, our investment in property and equipment, net of depreciation and amortization, totaled $8.5 million, including leasehold improvements and construction in progress. The following table lists our offices.

Office Location	Year Facility Opened	Leased or Owned
Millington Main Office 1902 Long Hill Road Millington, NJ	1994(1)	Owned
Dewy Meadow Branch Office 415 King George Road Basking Ridge, NJ	2002	Leased
RiverWalk Branch Office 675 Martinsville Road Basking Ridge, NJ	2005(2)	Leased
Martinsville Branch Office 1924 Washington Valley Road Martinsville, NJ	2006	Leased
Bernardsville Branch Office 122 Morristown Road Bernardsville, NJ	2008	Owned

(1) The Bank’s main office opened in 1911 in Millington, New Jersey. The Bank moved into its current main office in 1994.
(2) The Bank’s first branch office opened in 1998 in Liberty Corner, New Jersey. This office was relocated in 2005.

Item 3. Legal Proceedings

The Bank, from time to time, is a party to routine litigation which arises in the normal course of business, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans, and other issues incident to our business. There were no lawsuits pending or known to be contemplated against the Company or the Bank at June 30, 2014 that would have a material effect on operations or income.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Purchases of Equity Securities

(a) Market Information. The Company's common stock trades on the NASDAQ Stock Market under the symbol "MSBF". The table below shows the reported high and low closing prices of common stock reported by NASDAQ and dividends declared during the periods indicated.

	High	Low	Dividends
2013			
Quarter ended September 30, 2012	$6.09	$5.25	$-
Quarter ended December 31, 2012	$7.34	$4.26	$-
Quarter ended March 31, 2013	$7.72	$6.50	$-
Quarter ended June 30, 2013	$7.88	$6.06	$-
2014			
Quarter ended September 30, 2013	$7.86	$7.01	$-
Quarter ended December 31, 2013	$8.82	$7.01	$-
Quarter ended March 31, 2014	$9.10	$7.00	$-
Quarter ended June 30, 2014	$8.30	$7.87	$-

Dividends. Declarations of dividends by the Board of Directors depend on a number of factors, including investment opportunities, growth objectives, financial condition, profitability, tax considerations, minimum capital requirements, regulatory limitations, and general economic as well as stock market conditions. The timing, frequency and amount of dividends are determined by the Board of Directors.

Stockholders. As of September 19, 2014, there were approximately 528 shareholders of record of the Company's common stock. This number does not include brokerage firms, banks and registered clearing agents acting as nominees for an indeterminate number of beneficial ("street name") owners.

(b) Use of Proceeds.

Not applicable.

(c) Issuer Purchases of Equity Securities.

Treasury stock repurchases during the fourth quarter of fiscal year 2014 for the Company were as follows:

Period	Total number of shares purchased	Average price paid per share	Total number of shares Purchased as part of Publicly announced plans or programs	Maximum number of Shares that may be Purchased under the plans or programs
April, 2014	-	$ -	-	59,837
May, 2014	-	-	-	59,837
June, 2014	-	-	-	59,837
		-		
Total	-	$ -	-	

Item 6. Selected Financial Data

Not applicable as the Company is a smaller reporting company.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis reflects the Company's consolidated financial statements and other relevant statistical data and is intended to enhance your understanding of our financial condition and results of operations. You should read the information in this section in conjunction with the Company's consolidated financial statements and accompanying notes thereto beginning on page F-1 following Item 15 of this Form 10-K.

Overview

Our primary business is attracting retail deposits from the general public and using those deposits, together with funds generated from operations, principal repayments on securities and loans and borrowed funds, for our lending and investing activities. Our loan portfolio consists of one-to-four-family residential real estate mortgages, commercial real estate mortgages, construction loans, commercial and industrial loans, home equity loans and lines of credit, and other consumer loans. We also invest in U.S. Government obligations and mortgage-backed securities and, to a lesser extent, corporate bonds.

We reported net income of $988,000 for the fiscal year ended June 30, 2014 as compared to a net loss of $1.4 million for fiscal 2013.

Net interest income for fiscal 2014 was up approximately $259,000 or 2.8% as compared to fiscal 2013. Non-interest expense decreased by $131,000 or 1.6%, while non-interest income increased by $74,000 or 11.4% for the same comparative period. The net interest rate spread decreased in fiscal 2014 to 2.86%, compared to 2.90% for fiscal 2013, mainly as a result of a lower interest rate environment. For the year ended June 30, 2014, interest income decreased by $40,000 or 0.3% while interest expense decreased by $299,000 or 11.0% as compared to fiscal 2013.

Total assets were $345.2 million at June 30, 2014, a 2.1% decrease compared to $352.6 million at June 30, 2013. The decrease in assets occurred primarily as the result of a $17.4 million decrease in cash and cash equivalent balances, offset in part by a $7.0 million increase in loans receivable, net and a $4.0 million increase in securities held to maturity. Deposits were $263.4 million at June 30, 2014, compared to $280.5 million at June 30, 2013. FHLB advances were $38.0 million at June 30, 2014 compared to $30.0 million at June 30, 2013.

Stockholders' equity at June 30, 2014 was $40.8 million compared to our stockholders' equity at the prior fiscal year-end of $39.5 million. The Company had net income of $988,000 for the fiscal year ended June 30, 2014. The increase in paid in capital of $143,000 was related primarily to the recognition of stock based compensation expense, while the unallocated common stock held by ESOP decreased by $168,000. The accumulated other comprehensive loss balance increased by $2,000 for the year ended June 30, 2014, while treasury stock remained unchanged for both comparative fiscal year end dates. Our return on average equity for fiscal 2014 was 2.46% compared to (3.45%) for fiscal 2013.

The Company experienced a reduction in deposits during the year ended June 30, 2014, primarily due to an extended low interest rate environment. Cash and cash equivalents decreased by $17.4 million or 70.5% and deposits decreased by $17.1 million or 6.1%, while loans receivable, net, and investment securities held to maturity increased by $7.0 million or 3.1% and $4.0 million or 5.0%, respectively. The Company's borrowings increased by $8.0 million or 26.7% as of June 30, 2014 compared to June 30, 2013.

Critical Accounting Policies

Our accounting policies are integral to understanding the results reported and are described in Note 2 to our consolidated financial statements beginning on page F-1. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated statements of financial condition and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates. A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses.

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level by management which represents the evaluation of known and inherent risks in the loan portfolio at the consolidated balance sheet date that are both probable and reasonable to estimate. Management's periodic evaluation of the adequacy of the allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examinations.

The allowance calculation methodology includes segregation of the total loan portfolio into segments. The Company's loans receivable portfolio is comprised of the following segments: residential mortgage, commercial real estate, construction, consumer and, commercial and industrial. Some segments of the Company's loan receivable portfolio are further disaggregated into classes which allows management to better monitor risk and performance.

The residential mortgage loan segment is disaggregated into two classes: one-to four-family loans, which are primarily first liens, and home equity loans, which consist of first and second liens. The commercial real estate loan segment consists of both owner and non-owner occupied loans which have medium risk due to historical activity on these type loans. The construction loan segment is further disaggregated into two classes: one-to four-family owner occupied, which includes land loans, whereby the owner is known and there is less risk, and other, whereby the property is generally under development and tends to have more risk than the one-to four-family owner occupied loans. The commercial and industrial loan segment consists of loans made for the purpose of financing the activities of commercial customers. The majority of commercial and industrial loans are secured by real estate and thus carry a lower risk than traditional commercial and industrial loans. The consumer loan segment consists primarily of installment loans (direct and indirect) and overdraft lines of credit connected with customer deposit accounts.

The allowance consists of specific, general and unallocated components. The specific component is related to loans that are classified as impaired. For loans classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class and is based on historical loss experience adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability, and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans as well as and other loan modifications.
6. Quality of the Company’s loan review system, and the degree of oversight by the Company’s Board of Directors.
7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management’s best judgment using relevant information available at the time of the evaluation.

The unallocated component is maintained to cover uncertainties that could affect management’s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Management evaluates individual loans in all of the loan segments (including loans in residential mortgage and consumer segments) for possible impairment if the loan is either in nonaccrual status or is risk rated Substandard or worse or has been modified in a troubled debt restructuring. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

Loans the terms of which are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a reduction in interest rate below market rate given the associated credit risk, or an extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired until they are ultimately repaid in full or foreclosed and sold.

Once the determination has been made that a loan is impaired, impairment is measured by comparing the recorded investment in the loan to one of the following:(a) present value of expected cash flows (discounted at the loan's effective interest rate), (b) loan's observable market price or (c) fair value of collateral adjusted for expected selling costs. The method is selected on a loan by loan basis with management primarily utilizing the fair value of collateral method.

The estimated fair values of the real estate collateral are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

The estimated fair values of the non-real estate collateral, such as accounts receivable, inventory and equipment, are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The evaluation of the need and amount of the allowance for impaired loans and whether a loan can be removed from impairment status is made on a quarterly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

Comparison of Financial Condition at June 30, 2014 and 2013

General. Total assets were $345.2 million at June 30, 2014, compared to $352.6 million at June 30, 2013. The Company experienced a $17.4 million or 70.5% decrease in cash and cash equivalent balances and a $1.1 million or 25.5% decrease in other asset balances, while loans receivable, net, and securities held to maturity balances increased by $7.0 million and $4.0 million or 3.1% and 5.0%, respectively. Deposits decreased $17.1 million or 6.1%, while advances from the Federal Home Loan Bank of New York increased by $8.0 million of 26.7%. The decrease in cash and cash equivalent balances was primarily due to the decrease in deposit balances, while the increase in loans receivable, net and securities held to maturity balances was primarily achieved through increases in borrowings from the Federal Home Loan Bank of New York during this period.

Total assets decreased by $7.3 million or 2.1% between years, as did total liabilities by $8.6 million or 2.8%, and the ratio of average interest-earning assets to average-interest bearing liabilities increased to 114.09% for fiscal 2014 as compared to 109.33% for fiscal 2013. Stockholders' equity increased $1.3 million or 3.3% to $40.8 million at June 30, 2014 compared to $39.5 million at June 30, 2013.

Loans. Loans receivable, net, increased $7.0 million, or 3.1% from $223.3 million at June 30, 2013 to $230.3 million at June 30, 2014. As a percentage of assets, loans increased to 66.7% from 63.3%. The Company's one-to-four family and construction loans grew by $6.6 million and $3.6 million or 4.8% and 40.7%, respectively, as did commercial and industrial and personal loans by $399,000 and $4,000, or 4.3% and 12.5%, respectively. Correspondingly, home equity and commercial real estate loans decreased by $2.2 million and $135,000 or 5.4% and 0.4%, respectively, as did automobile, overdraft protection and deposit account loans decreased by $78,000, $14,000 and $9,000 or 70.3%, 8.0% and 1.5%, respectively, between June 30, 2013 and June 30, 2014.

Securities. Our portfolio of securities held to maturity was at $84.9 million at June 30, 2014 as compared to $80.9 million at June 30, 2013. Maturities, calls and principal repayments during the year totaled $4.3 million as compared to $41.6 million during the prior year. We purchased $8.4 million of new securities during the year ended June 30, 2014 compared to $71.8 million during the year ended June 30, 2013.

Deposits. Total deposits at June 30, 2014 were $263.4 million, a $17.1 million decrease as compared to $280.5 million at June 30, 2013. Demand deposits, in aggregate, increased by $4.5 million, and certificates of deposit accounts decreased by $11.4 million, while savings and club accounts decreased by $10.1 million.

Borrowings. Total borrowings were $38.0 million at June 30, 2014 compared to $30.0 million at June 30, 2013. The Company borrowed $8.0 million in overnight funds at June 30, 2014 from the Federal Home Loan Bank of New York and did not have any short-term borrowings at June 30, 2013. The Company did not repay any long term borrowings during the fiscal year ended June 30, 2014.

Equity. Stockholders' equity was $40.8 million at June 30, 2014 compared to $39.5 million at June 30, 2013, an increase of $1.3 million or 3.3%. The Company had net income of $988,000 for the fiscal year ended June 30, 2014. The increase in paid-in capital of $143,000 related primarily to recognition of stock based compensation expense, while the unallocated common stock held by ESOP decreased by $168,000. The accumulated other comprehensive loss balance increased by $2,000 at June 30, 2014 compared to June 30, 2013, while treasury stock remained unchanged for the same comparative period end dates.

Comparison of Operating Results for the Two Years Ended June 30, 2014

General. Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets and the interest we pay on our interest-bearing liabilities. It is a function of the average balances of loans and investments versus deposits and borrowed funds outstanding in any one period and the yields earned on those loans and investments and the cost of those deposits and borrowed funds. Our results of operations are also affected by our provision for loan losses, non-interest income and non-interest expense. Non-interest income includes service fees and charges, and income on bank owned life insurance. Non-interest expense includes salaries and employee benefits, occupancy and equipment expense and other general and administrative expenses such as service bureau fees and advertising costs.

The Company reported net income of $988,000 for the year ended June 30, 2014 compared to a net loss of $1.4 million for the year ended June 30, 2013, representing a $2.4 million or 171.3% increase. This increase was primarily due to a decrease in the provision for loan losses, an increase in net interest income and non-interest income and, a decrease in non-interest expenses offset by an increase in income taxes for the year ended June 30, 2014, compared to the year ended June 30, 2013.

Net Interest Income. Net interest income for the year ended June 30, 2014 amounted to $9.6 million, 2.8% higher than net interest income for the year ended June 30, 2013 of $9.3 million. Interest income decreased by $40,000, or 0.3%, and interest expense decreased by $299,000 or 11.0% for the year ended June 30, 2014.

Average earning assets increased by $9.3 million or 3.0% for the year ended June 30, 2014, compared to the year ended June 30, 2013, while the average rate on earning assets decreased by 13 basis points to 3.72% for the year ended June 30, 2014, resulting in a decrease of $40,000 or 0.3% in total interest income compared to the year ended June 30, 2013. Interest income on loans decreased by $402,000 or 3.9% for the year ended June 30, 2014, compared to the year ended June 30, 2013, as a result of decreases in both the average yield on loans receivable and the average balance of loans outstanding. The average yield decreased by 7 basis points to 4.32%. Average loans receivable balances decreased $5.6 million or 2.4% to $232.1 million for the year ended June 30, 2014, compared to $237.8 million for the year ended June 30, 2013. Interest income on securities held to maturity increased by $366,000 or 24.3% for the year ended June 30, 2014, compared to the year ended June 30, 2013. Average securities held to maturity balances increased $16.6 million or 24.0% for the year ended June 30, 2014, compared to the year ended June 30, 2013 and, the yield increased 1 basis point to 2.19% for the year ended June 30, 2014, compared to the year ended June 30, 2013. Interest income on other interest-earning assets decreased by $4,000 or 4.3% for the year ended June 30, 2014, compared to the year ended June 30, 2013 due to a $1.7 million or 28.3% decrease in average balance, offset by a 52 basis point increase in yield to 2.08%.

Total interest expense decreased $299,000 or 11.0% for the year ended June 30, 2014, compared to the year ended June 30, 2013. Average interest-bearing liabilities decreased $3.8 million or 1.3%, from $286.0 million for the year ended June 30, 2013, to $282.2 million for the year ended June 30, 2014, and the average rate on interest-bearing liabilities decreased by 9 basis points to 0.86 % for the year ended June 30, 2014, resulting in a decrease of $299,000 or 11.0% in total interest expense compared to the year ended June 30, 2013. Interest expense on deposits decreased $352,000 or 17.5% for the year ended June 30, 2014, compared to the year ended June 30, 2013, as a result of a 10 basis point reduction to 0.66% in the average rate on interest-bearing deposits, and a $13.6 million or 5.2% decrease in average balance of interest-bearing deposits. The average balance of NOW, super NOW and money market demand account balances increased $2.4 million or 6.6%, while the average balance of savings balances decreased $3.0 million or 2.7%, and the average balance of certificates of deposit decreased by $13.1 million or 11.4% for the year ended June 30, 2014 compared to the same period ended June 30, 2013. The average rate on savings and club deposits, NOW, super NOW and money market demand accounts and certificates of deposit decreased by 1 basis point, 1 basis point, and 13 basis points, respectively, for the year ended June 30, 2014 compared to the year ended June 30, 2013. Total interest expense on FHLB advances was $767,000 for the year ended June 30, 2014 compared to $714,000 for the year ended June 30, 2013. Average FHLB advances were $33.1 million for the year ended June 30, 2014 compared to $23.3 million for the year ended June 30, 2013, an increase of $9.8 million or 41.9%. The average rate on FHLB advances decreased by 74 basis points to 2.32% for the year ended June 30, 2014 compared to the year ended June 30, 2013.

Our net interest rate spread was 2.86% for the year ended June 30, 2014 compared to 2.90% for the year ended June 30, 2013. The spread decreased during the year ended June 30, 2014 as our average

yield on interest-earning assets decreased by 13 basis points to 3.72% from 3.85%, offset in part by a decrease in the cost of interest-bearing liabilities of 9 basis points to 0.86% from 0.95%, compared to the same period ended June 30, 2013.

Provision for Loan Losses. The loan loss provision for the year ended June 30, 2014 was $600,000 compared to $4.0 million for the year ended June 30, 2013. The provision for loan losses for the year ended June 30, 2013 included an additional provision of $2.0 million deemed necessary to support the Company's planned asset disposition strategy approved by the Company's Board of Directors during the quarter ended December 31, 2012, the goal of which was to rapidly reduce (through strategies such as short sales, cash for keys, deeds in lieu of foreclosure and/or bulk sales) the dollar amount of non-performing loans in the Company's loan portfolio and thereby reduce the costs associated with the foreclosure process. The Company's management reviews the level of the allowance for loan losses on a quarterly basis based on a variety of factors including, but not limited to, (1) the risk characteristics of the loan portfolio, (2) current economic conditions, (3) actual losses previously experienced, (4) the Company's level of loan growth and (5) the existing level of reserves for loan losses that are probable and estimable. This analysis resulted in a lower provision for loan loss being required for the year ended June 30, 2014. The reduction in the level of provision for loan loss primarily reflects lower levels of specific reserves related to non-performing loans individually evaluated for impairment which continued to decrease as a result of various above mentioned disposition activities. Also, there was a stabilization of the quantitative and qualitative factors during the twelve months ended June 30, 2014 compared to-upward-trending factors during the twelve period ended June 30, 2013, thus further reducing the need for additional provisions as of June 30, 2014. The Company had $1.2 million in charge-offs and $57,000 in recoveries for the year ended June 30, 2014 compared to $2.9 million in charge-offs and $56,000 in recoveries for the year ended June 30, 2013. The Company had $8.3 million in non-performing loans as of June 30, 2014, compared to $14.1 million as of June 30, 2013. The allowance for loan losses as a percentage of total loans was 1.56% at June 30, 2014, compared to 1.87% at June 30, 2013, while the allowance for loan losses as a percentage of non-performing loans ratio increased from 30.30% at June 30, 2013 to 44.34% at June 30, 2014, due to decreases in total non-performing loans at June 30, 2014 compared to June 30, 2013. Non-performing loans to total loans and net charge-offs to average loans outstanding ratios were 3.51% and 0.51%, respectively, at and for the year ended June, 30, 2014 compared to 6.16% and 1.19% at and for the year ended June 30, 2013.

Non-Interest Income. This category includes fees derived from checking accounts, ATM transactions, debit card use and mortgage related fees. It also includes increases in the cash-surrender value of our bank owned life insurance. Overall, non-interest income was $724,000 for the year ended June 30, 2014 compared to $650,000 for the year ended June 30, 2013, an increase of $74,000 or 11.4%.

Income from fees and service charges totaled $407,000 for the year ended June 30, 2014 compared to $329,000 for the year ended June 30, 2013, an increase of $78,000 or 23.7%. The increase was due in part to an increase in certificate of deposit and demand deposit account services fees, an increase in ATM fees, and a $22,000 penalty fee received on the early prepayment of a mortgage-backed security that the Bank had held in its held to maturity investment portfolio.

The unrealized loss on the Bank's trading security portfolio was $1,000 for the year ended June 30, 2013. The Bank had liquidated its trading security portfolio during the year ended June 30, 2013.

Income on bank owned life insurance was $217,000 in each of the years ended June 30, 2014 and 2013.

Other non-interest income was $100,000 and $103,000 for the years ended June 30, 2014 and 2013, respectively. The decrease was primarily attributable to a decrease in miscellaneous operating

income, offset by an increase in income from late charges.

Non-Interest Expenses. Total non-interest expenses decreased by $131,000 or 1.6% during the year ended June 30, 2014 and amounted to $8.2 million as compared to $8.3 million for the year ended June 30, 2013.

Other non-interest expense totaled $860,000 for the year ended June 30, 2014, compared to $983,000 for the year ended June 30, 2013, a decrease of $123,000 or 12.5%. The decrease in other non-interest expense was primarily attributable to decreases in other real estate and non-operating expenses. Salaries and employee benefits expense decreased by $75,000 or 1.9% to $3.8 million for the year ended June 30, 2014 compared to $3.9 million for the year ended June 30, 2013. The decrease in salaries and employee benefits expense was primarily due a decrease in stock based compensation expense. Occupancy and equipment expense decreased by $60,000 or 4.3% to $1.3 for the year ended June 30, 2014 compared to $1.4 million for the year ended June 30, 2013. The decrease in occupancy and equipment expense was primarily due to a decrease in depreciation expense. Directors' compensation expense totaled $444,000 for the year ended June 30, 2014 compared to $495,000 for the year ended June 30, 2013, representing a reduction of $51,000 or 10.3%. The decrease in directors' compensation expense was primarily due a decrease in stock based compensation expense. Advertising expense totaled $144,000 for the year ended June 30, 2014 compared to $162,000 for the year ended June 30, 2013, representing a reduction of $18,000 or 11.1%. The decrease in advertising expense was attributable to a reduction in spending. FDIC assessment expense totaled $410,000 for the year ended June 30, 2014 compared to $291,000 for the year ended June 30, 2013, an increase of $119,000 or 40.9%. The increase in FDIC assessment expense related to the increase in factors used in calculation of the assessment. Service bureau fees increased by $73,000 or 13.2% to $626,000 for the year ended June 30, 2014 compared to $553,000 for the year ended June 30, 2013. The increase in service bureau fees was related to the expansion of services. Professional services expense increased slightly by $4,000 or 0.7% to $547,000 for the year ended June 30, 2014 compared to $543,000 for the year ended June 30, 2013.

Income Taxes. The income tax expense for the year ended June 30, 2014 was $548,000 or 35.7% of income before taxes as compared to a tax benefit of $987,000 or 41.6% of the reported loss before income taxes for the year ended June 30, 2013.

Average Balance Sheet. The following tables set forth certain information for the years ended June 30, 2014, 2013 and 2012. The average yields and costs are derived by dividing interest income and expense by the average daily balance of assets and liabilities, respectively, for the periods presented.

	Year Ended June 30,								
	2014			2013			2012		
	Average Balance	Interest Earned/ Paid	Average Yield/ Cost	Average Balance	Interest Earned/ Paid	Average Yield/ Cost	Average Balance	Interest Earned/ Paid	Average Yield/ Cost
	(Dollars in thousands)								
Interest-earning assets:									
Loans receivable(1)	$232,148	$10,033	4.32%	$237,776	$10,435	4.39%	$248,124	$11,783	4.75%
Securities	85,561	1,870	2.19%	68,978	1,504	2.18%	60,710	1,929	3.18%
Other interest-earning assets(2)	4,276	89	2.08%	5,963	93	1.56%	6,572	89	1.35%
Total interest-earning assets	321,985	11,992	3.72%	312,717	12,032	3.85%	315,406	13,801	4.38%
Non-interest-earning assets	24,258			33,567			32,443		
Total assets	$346,243			$346,284			$347,849		
Interest-bearing liabilities:									
NOW, super NOW & money market demand	$39,356	50	0.13%	$36,918	51	0.14%	$34,012	60	0.18%
Savings and club deposits	107,960	234	0.22%	110,916	251	0.23%	112,901	417	0.37%
Certificates of deposit	101,801	1,371	1.35%	114,876	1,705	1.48%	121,858	2,175	1.78%
Total interest-bearing deposits	249,117	1,655	0.66%	262,710	2,007	0.76%	268,771	2,652	0.99%
Federal Home Loan Bank of New York advances	33,108	767	2.32%	23,329	714	3.06%	20,000	684	3.42%
Total interest-bearing liabilities	282,225	2,422	0.86%	286,039	2,721	0.95%	288,771	3,336	1.16%
Non-interest-bearing deposits	21,598			18,691			16,094		
Other non-interest-bearing liabilities	2,198			1,438			1,964		
Total liabilities	306,021			306,168			306,829		
Stockholders' equity	40,222			40,116			41,020		
	$346,243			$346,284			$347,849		

Total liabilities and stockholders’ equity									
Net interest income/net interest rate spread(3)		$9,570	2.86%		$9.311	2.90%		$10,465	3.22%
Net interest margin(4)			2.97%			2.98%			3.32%
Ratio of interest-earning assets to interest-bearing liabilities	114.09 %			109.33 %			109.22 %		

(1) Non-accruing loans have been included, and the effect of such inclusion was not material. The allowance for loan losses is excluded, while construction loans in process and deferred fees are included.
(2) Includes Federal Home Loan Bank of New York stock at cost and term deposits with other financial institutions.
(3) Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(4) Net interest margin represents net interest income as a percentage of average interest-earning assets.

Rate/Volume Analysis. The following table reflects the sensitivity of our interest income and interest expense to changes in volume and in prevailing interest rates during the periods indicated. Each category reflects the: (1) changes in volume (changes in volume multiplied by past rate); (2) changes in rate (changes in rate multiplied by past volume); and (3) net change. The net change attributable to the combined impact of volume and rate has been allocated proportionally to the absolute dollar amounts of change in each.

	Year Ended June 30, 2014 vs. 2013 Increase (Decrease) Due to			Year Ended June 30, 2013 vs. 2012 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)					
Interest and dividend income:						
Loans receivable	$ (240)	$ (162)	$ (402)	$ (478)	$ (870)	$ (1,348)
Securities	359	7	366	238	(663)	(425)
Other interest-earning assets	(30)	26	(4)	(9)	13	4
Increase (decrease) in total interest income	89	(129)	(40)	(249)	(1,520)	(1,769)
Interest expense:						
NOW and money market accounts	3	(4)	(1)	5	(14)	(9)
Savings and club	(6)	(11)	(17)	(7)	(159)	(166)
Certificates of deposit	(189)	(145)	(334)	(119)	(351)	(470)
Total interest-bearing deposits	(192)	(160)	(352)	(121)	(524)	(645)
Federal Home Loan Bank of New York advances	253	(200)	53	107	(77)	30
Increase in total interest expense	61	(360)	(299)	(14)	(601)	(615)
Change in net interest income	$ 28	$ 231	$ 259	$ (235)	$ (919)	$ (1,154)

Liquidity, Commitments and Capital Resources

The Bank must be capable of meeting its customer obligations at all times. Potential liquidity demands include funding loan commitments, cash withdrawals from deposit accounts and other funding needs as they present themselves. Accordingly, liquidity is measured by our ability to have sufficient cash reserves on hand, at a reasonable cost and/or with minimum losses.

Senior management is responsible for managing our overall liquidity position and risk and is responsible for ensuring that our liquidity needs are being met on both a daily and long term basis. The Financial Review Committee, comprised of senior management and chaired by President and Chief Executive Officer is responsible for establishing and reviewing our liquidity procedures, guidelines, and strategy on a periodic basis.

Our approach to managing day-to-day liquidity is measured through our daily calculation of investable funds and/or borrowing needs to ensure adequate liquidity. In addition, senior management constantly evaluates our short-term and long-term liquidity risk and strategy based on current market conditions, outside investment and/or borrowing opportunities, short and long-term economic trends, and anticipated short and long-term liquidity requirements. The Bank’s loan and deposit rates may be adjusted as another means of managing short and long-term liquidity needs. We do not at present participate in derivatives or other types of hedging instruments to meet liquidity demands, as we take a conservative approach in managing liquidity.

At June 30, 2014, the Bank had outstanding commitments to originate loans of $2.1 million, unused lines of credit of $20.1 million (including $16.8 million for home equity lines of credit), and standby letters of credit of $247,000. Certificates of deposit scheduled to mature in one year or less at June 30, 2014, totaled $62.1 million.

The Bank had contractual obligations related to the long-term operating leases for the three branch locations that it leases (Dewy Meadow, RiverWalk and Martinsville). For additional information regarding the Bank's lease commitments as of June 30, 2014, see Note 10 to our consolidated financial statements beginning on page F-1.

The Bank has access to cash through borrowings from the Federal Home Loan Bank, as needed, to meet its day-to-day funding obligations. At June 30, 2014, its total loans to deposits ratio was 87.4%. At June 30, 2014, the Bank's collateralized borrowing limit with the Federal Home Loan Bank was $69.5 million, of which $30.0 million was outstanding. As of June 30, 2014, the Bank also had a $20.0 million line of credit with a financial institution for reverse repurchase agreements (which is a form of borrowing) that it could access if necessary.

Consistent with its goals to operate a sound and profitable financial organization, the Bank actively seeks to maintain its status as a well-capitalized institution in accordance with regulatory standards. As of June 30, 2014, the Bank exceeded all applicable regulatory capital requirements. See Note 14 to our consolidated financial statements beginning at page F-1 for more information about the Bank's regulatory capital compliance.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance-sheet risk in the normal course of our business of investing in loans and securities as well as in the normal course of maintaining and improving the Bank facilities. These financial instruments include significant purchase commitments such as commitments to purchase investment securities or mortgage-backed securities and commitments to extend credit to meet the financing needs of our customers. At June 30, 2014, our significant off-balance sheet commitments consisted of commitments to originate loans of $2.1 million, construction loans in process of $2.5 million, unused lines of credit of $20.1 million (including $16.8 million for home equity lines of credit) and standby letters of credit of $247,000.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments. Since a number of commitments typically expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. For additional information regarding our outstanding lending commitments at June 30, 2014, see Note 15 to our consolidated financial statements beginning on page F-1.

Impact of Inflation

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

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

The principal effect of inflation on earnings, as distinct from levels of interest rates, is in the area of non-interest expense. Expense items such as employee compensation, employee benefits and occupancy and equipment costs may be subject to increases as a result of inflation. An additional effect of inflation is the possible increase in the dollar value of the collateral securing loans that we have made. We are unable to determine the extent, if any, to which properties securing our loans have appreciated in dollar value due to inflation.

Recent Accounting Pronouncements

Note 20 to the consolidated financial statements is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Management of Interest Rate Risk and Market Risk

Qualitative Analysis. Because the majority of our assets and liabilities are sensitive to changes in interest rates, a significant form of market risk for us is interest rate risk, or changes in interest rates.

We derive our income mainly from the difference or "spread" between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. In general, the larger the spread, the more we earn. When market rates of interest change, the interest we receive on our assets and the interest we pay on our liabilities will fluctuate. This can cause decreases in our spread and can adversely affect our income.

Several years ago market interest rates were at historically low levels. Beginning in June 2004 through June 2007, the U.S. Federal Reserve increased its target federal funds rate, raising it 17 times, from 1.00% to 5.25% during this period. The Federal Reserve subsequently reduced its target federal fund rate 3 times during the fiscal year ended June 30, 2009 from 0 to 1/4%. A normalization of the prior year's inverted yield occurred during that year as a result of the Federal Reserves policy. The Federal Reserve did not make any further changes to it federal funds rate during the fiscal year-ended June 30, 2014. The federal funds rate and other short-term market interest rates, which we use as a guide to our deposit pricing, have decreased, while intermediate-and long-term market interest rates have remained stable, which we use as a guide to our loan pricing, have not decreased nor increased proportionately. The Bank has begun to realize a reduction in its deposit portfolio average rate more recently.

Quantitative Analysis. The following table presents the Bank's net portfolio value as of June 30, 2014. The Bank outsources its interest rate risk modeling and the net portfolio values in this table were calculated by an outside consultant, based on information provided by the Bank.

		At June 30, 2014			
	Net Portfolio Value			Net Portfolio Value as % of Present Value of Assets	
Changes in Rates	$ Amount	$ Change	% Change	Net Portfolio Value Ratio	Basis Point Change
	(In thousands)				
+500 bp	___	(48,299)	-100.00	0.00	(1,389 bp)
+400 bp	16,574	(31,725)	-65.68	5.59	(830 bp)
+300 bp	25,350	(22,949)	-47.52	8.18	(571 bp)
+200 bp	35,611	(12,688)	-26.27	11.00	(289 bp)
+100 bp	43,558	(4,741)	-9.82	12.94	(95 bp)
0 bp	48,299	N/A	N/A	13.89	N/A

(1) The -100bp and -200bp scenarios are not disclosed due to the low prevailing interest rate environment

Future interest rates or their effect on net portfolio value or net interest income are not predictable. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, prepayments, and deposit run-offs, and should not be relied upon as indicative of actual results. Certain shortcomings are inherent in this type of computation. Although certain assets and liabilities may have similar maturity or periods of repricing, they may react at different times and in different degrees to changes in the market interest rates. The interest rate on certain types of assets and liabilities, such as demand deposits and savings accounts, may fluctuate in advance of changes in market interest rates, while rates on other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as adjustable rate mortgages, generally have features that restrict changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayments and early withdrawal levels could deviate significantly from those assumed in making calculations set forth above. Additionally, an increased credit risk may result as the ability of many borrowers to service their debt may decrease in the event of an interest rate increase.

Notwithstanding the discussion above, the quantitative interest rate analysis presented above indicates that a rapid increase or decrease in interest rates would adversely affect our net interest margin and earnings.

Item 8. Financial Statements and Supplementary Data

The Company’s consolidated financial statements are contained in this Annual Report on Form 10-K immediately following Item 15.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On July 2, 2013, the Company dismissed ParenteBeard LLC (“ParenteBeard”), as the Company’s auditors and, with the approval of the Audit Committee of the Company’s Board of Directors, on July 2, 2013, appointed BDO USA, LLP (“BDO”) as its independent registered public accounting firm.

The report of ParenteBeard on the Company’s consolidated financial statements as of and for the fiscal year ended June 30, 2012 and 2011 did not contain any adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company’s two most recent fiscal years and during the interim period from the end of the most recently completed fiscal year through the date of their dismissal, there were (i) no disagreements with ParenteBeard on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of

ParenteBeard would have caused it to make reference to such disagreement in its reports on the Company’s financial statements; and (ii) no “reportable events” (as such term is defined in Item 304(a)(2)(v) of Regulation S-K).

Item 9A. Controls and Procedures

(a) Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company’s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rule l3a-l5(e) promulgated under the Securities Exchange Act of 1934, as amended) as of June 30, 2014. Based on such evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures are effective as of June 30, 2014.

(b) Internal Control Over Financial Reporting

1. Management's Annual Report on Internal Control Over Financial Reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a- 15(f). The Company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of the changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Under supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control-Integrated Framework, management concluded that our internal control over financial reporting was effective as of June 30, 2014.

/s/ Michael A. Shriner	/s/ Jeffrey E. Smith
Michael A. Shriner	Jeffrey E. Smith
President and Chief Executive Officer	Vice President and Chief Financial Officer

2. Report of Independent Registered Public Accounting Firm

Not applicable as the Company is a smaller reporting company.

3. Changes in Internal Control over Financial Reporting

No change in the Company's internal controls over financial reporting (as defined in Rule l3a-l5(f) promulgated under the Securities Exchange Act of 1934, as amended) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information that appears under the headings "Proposal I – Election of Directors," "Section 16(a) Beneficial Reporting Compliance" and "Corporate Governance" in the Registrant's definitive proxy statement for the Registrant's 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission (the "Proxy Statement") is incorporated herein by reference.

The Company has adopted a Code of Ethics that applies to its CEO and CFO/Chief Accounting Officer. A copy of the Code of Ethics is posted on the Company's website at www.millingtonsb.com/about-us/investor-relations.

Item 11. Executive Compensation

The information that appears under the headings "Executive Compensation" and "Director Compensation" in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) Security Ownership of Certain Beneficial Owners. Information required by this item is incorporated herein by reference to the section captioned "Principal Holders of our Common Stock" in the Proxy Statement.

(b) Security Ownership of Management. Information required by this item is incorporated herein by reference to the section captioned "Principal Holders of our Common Stock" and "Proposal I – Election of Directors" in the Proxy Statement.

(c) Changes in Control. Management of the Company knows of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.

(d) Securities Authorized for Issuance Under Equity Compensation Plans. Set forth below is information as of June 30, 2014 with respect to compensation plans under which equity securities of the Registrant are authorized for issuance.

Equity Compensation Plan Information

	(A) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(B) Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	(C) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A))
Equity compensation plans approved by shareholders:			
2008 Stock Compensation and Incentive Plan (1)	385,574	$ 10.75	0
Total	385,574	$ 10.75	0

(1) Includes 110,164 shares of restricted stock awards approved on November 9, 2009 by the Company’s stockholders which were granted on December 14, 2009 with a weighted average grant price of $8.15. All shares were granted as of December 14, 2009.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this item is incorporated by reference to the information contained under the sections captioned “Corporate Governance-Director Independence” and “Related Party Transactions “ in the Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information relating to this item is incorporated herein by reference to the information contained under the section captioned “Proposal II – Ratification of the Appointment of the Independent Registered Public Accounting Firm” in the Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(1) The following financial statements and the reports of independent registered public accounting firms appear in this Annual Report on Form 10-K immediately after this Item 15:

Consolidated Statements of Financial Condition as of June 30, 2014 and 2013
Consolidated Statements of Comprehensive Income (Loss) For the Years Ended June 30, 2014 and 2013

Consolidated Statements of Changes in Stockholders' Equity for
the Years Ended June 30, 2014 and 2013
Consolidated Statements of Cash Flows for the Years Ended
June 30, 2014 and 2013
Notes to Consolidated Financial Statements

(2) All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) The following exhibits are filed as part of this report:

3.1	Charter of MSB Financial Corp. *
3.2	Bylaws of MSB Financial Corp. *
4	Stock Certificate of MSB Financial Corp.*
10.1	Employment Agreement with Michael A. Shriner, As Amended and Restated
10.2	Employment Agreement with Jeffrey E. Smith, As Amended and Restated
10.3	Employment Agreement with Nancy E. Schmitz, As Amended and Restated
10.4	Form of Executive Life Insurance Agreement*
10.5	Millington Savings Bank Executive Incentive Retirement Plan Agreement for the Benefit of Senior Officers*
10.6	Millington Savings Bank Directors Consultation and Retirement Plan*
10.7	MSB Financial Corp. 2008 Stock Compensation and Incentive Plan, As Amended and Restated**
16	Letter of concurrence from ParenteBeard, LLC ***
21	Subsidiaries of the Registrant
23.1	Consent of BDO USA, LLP
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document ****
101.SCH	XBRL Schema Document ****
101.CAL	XBRL Calculation Linkbase Document ****
101.LAB	XBRL Labels Linkbase Document ****
101.PRE	XBRL Presentation Linkbase Document ****

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* Incorporated by reference to the Registrant’s Form S-1 Registration Statement File No. 333-137294)

** Incorporated by reference to the Registrant’s Form S-8 Registration Statement File No. 333-164264)

*** Incorporated by reference to the exhibit to the Registrant’s Current Report on Form 8-K filed on July 8, 2013. (File No. 001-33246).

**** Submitted as Exhibits 101 to this Form 10-K are documents formatted in XBRL (Extensible Business Reporting Language).

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
MSB Financial Corp.
Millington, New Jersey

We have audited the accompanying consolidated statement of financial condition of MSB Financial Corp. and Subsidiaries (collectively the "Company") as of June 30, 2014 and 2013 and the related consolidated statements of comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MSB Financial Corp. and Subsidiaries at June 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

New York, New York
September 26, 2014

MSB Financial Corp. and Subsidiaries

Consolidated Statements of Financial Condition

	June 30, 2014	June 30, 2013
	(Dollars in thousands)	
Cash and due from banks	$ 6,432	$ 19,941
Interest-earning demand deposits with banks	876	4,814
Cash and Cash Equivalents	7,308	24,755
Securities held to maturity (fair value of $83,636 and $78,367, respectively)	84,932	80,912
Loans receivable, net of allowance for loan losses of $3,686 and $4,270, respectively	230,275	223,256
Other real estate owned	409	530
Premises and equipment	8,486	8,882
Federal Home Loan Bank of New York stock, at cost	2,190	1,827
Bank owned life insurance	7,136	6,919
Accrued interest receivable	1,318	1,229
Other assets	3,192	4,282
Total Assets	$ 345,246	$ 352,592
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 22,206	$ 18,559
Interest bearing	241,183	261,908
Total Deposits	263,389	280,467
Advances from Federal Home Loan Bank of New York	38,000	30,000
Advance payments by borrowers for taxes and insurance	494	132
Other liabilities	2,553	2,480
Total Liabilities	304,436	313,079
Commitments and Contingencies	—	—
Stockholders' Equity		
Common stock, par value $0.10; 10,000,000 shares authorized; 5,620,625 issued; 5,010,437 and 5,010,437 shares outstanding	562	562
Paid-in capital	24,616	24,473
Retained earnings	21,670	20,682
Unallocated common stock held by ESOP (75,878 and 92,740 shares, respectively)	(759)	(927)

Treasury stock, at cost, 610,188 and 610,188 shares, respectively	(5,244)	(5,244)
Accumulated other comprehensive loss	(35)	(33)
Total Stockholders' Equity	40,810	39,513
Total Liabilities and Stockholders' Equity	$ 345,246	$ 352,592

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

	Years Ended June 30, 2014	2013
	(Dollars in thousands)	
Interest Income		
Loans receivable, including fees	$ 10,033	$ 10,435
Securities held to maturity	1,870	1,504
Other	89	93
Total Interest Income	11,992	12,032
Interest Expense		
Deposits	1,655	2,007
Borrowings	767	714
Total Interest Expense	2,422	2,721
Net Interest Income	9,570	9,311
Provision for Loan Losses	600	4,044
Net Interest Income after Provision for Loan Losses	8,970	5,267
Non-Interest Income		
Fees and service charges	407	329
Income from bank owned life insurance	217	217
Unrealized gain on trading securities	-	1
Other	100	103
Total Non-Interest Income	724	650
Non-Interest Expenses		
Salaries and employee benefits	3,784	3,859
Directors compensation	444	495
Occupancy and equipment	1,343	1,403
Service bureau fees	626	553
Advertising	144	162
FDIC assessment	410	291
Professional services	547	543
Other	860	983
Total Non-Interest Expenses	8,158	8,289
Income (Loss) before Income Taxes	1,536	(2,372)
Income Tax Expense (Benefit)	548	(987)
Net Income (Loss)	$ 988	$ (1,385)

Weighted average number of shares of common stock outstanding-basic and diluted		4,926		4,933
Earnings (Loss) per common share-basic and diluted	$	0.20	$	(0.28)

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss) – (Continued)

	Years Ended June 30, 2014	
	2014	2013
	(Dollars in thousands)	
Other comprehensive (loss) income, net of tax		
Defined benefit pension plans:		
Actuarial loss arising during period, net of tax of $1 and $36, respectively	$ 2	$ 50
Reclassification adjustment for prior service cost included in net income, net of tax of $2 and $4, respectively	2	7
Reclassification adjustment for net actuarial (gain) loss included in net income, net of tax ($5) and $6, respectively	(6)	11
Other comprehensive (loss) income	(2)	68
Comprehensive income (loss)	$ 986	$ (1,317)

See notes to consolidated financial statements.

MSB Financial Corp. and Subsidiaries

Consolidated Statements of Changes in Stockholders’ Equity

	Common Stock	Paid-In Capital	Retained Earnings	Unallocated Common Stock Held by ESOP	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	(Dollars in thousands)						
Balance - June 30, 2012	$ 562	$ 24,214	$ 22,067	$ (1,096)	$ (4,768)	$ (101)	$ 40,878
Net loss			(1,385)				(1,385)
Other comprehensive income, net of tax						68	68
Allocation of ESOP stock		(58)		169			111
Treasury stock repurchased (74,855 Shares)					(476)		(476)
Amortization of restricted stock plan shares (22,023 Shares)		180					180
Stock-based compensation		137					137
Balance - June 30, 2013	$ 562	$ 24,473	$ 20,682	$ (927)	$ (5,244)	$ (33)	$ 39,513
Net income			988				988
Other comprehensive loss, net of tax						(2)	(2)
Allocation of ESOP stock		(37)		168			131
Amortization of restricted stock plan shares (21,584 Shares)		180					180
Balance - June 30, 2014	$ 562	$ 24,616	$ 21,670	$ (759)	$ (5,244)	$ (35)	$ 40,810

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended June 30, 2014	2013
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income (loss)	$988	$(1,385)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net accretion of securities discounts and deferred loan fees and costs	(13)	(263)
Depreciation and amortization of premises and equipment	496	567
Stock based compensation and allocation of ESOP stock	311	428
Provision for loan losses	600	4,044
Loss on impairment of other real estate owned	—	64
Gain on sale of other real estate owned	(142)	(62)
Decrease (increase) in net deferred tax asset	448	(494)
Income from bank owned life insurance	(217)	(217)
Unrealized gain on trading securities	—	(1)
(Increase) decrease in accrued interest receivable	(89)	112
Decrease in other assets	644	257
Increase in other liabilities	69	77
Net Cash Provided by Operating Activities	3,095	3,127
Cash Flows from Investing Activities		
Activity in held to maturity securities:		
Purchases	(8,380)	(71,755)
Maturities, calls and principal repayments	4,262	41,622
(Increase) decrease in loans receivable	(9,203)	10,674
Purchase of bank premises and equipment	(100)	(49)
Purchase of bank owned life insurance	—	(588)
Purchase of Federal Home Loan Bank of New York stock	(565)	(462)
Redemption of Federal Home Loan Bank of New York stock	202	—
Capitalized improvements of other real estate owned	(87)	(72)
Proceeds from the sale of other real estate owned	2,045	2,276
Proceeds from sale of trading securities	—	53
Net Cash Used in Investing Activities	(11,826)	(18,301)
Cash Flows from Financing Activities		
Net decrease in deposits	(17,078)	(3,331)
Advances from Federal Home Loan Bank of New York	11,500	10,000
Repayment of advances from Federal Home Loan Bank of New York	(3,500)	—
Increase in advance payments by borrowers for taxes and insurance	362	35
Cash dividends paid to minority shareholders	—	(56)
Purchase of treasury stock	—	(476)

Net Cash (Used in) Provided by Financing Activities	(8,716)	6,172
Net Decrease in Cash and Cash Equivalents	(17,447)	(9,002)
Cash and Cash Equivalents – Beginning	24,755	33,757
Cash and Cash Equivalents – Ending	$7,308	$24,755

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows (Continued)

	Years Ended June 30,	
	2014	2013
	(Dollars in thousands)	
Supplementary Cash Flows Information		
Interest paid	$2,425	$2,723
Income taxes paid	$1	$239
Loan receivable transferred to other real estate	$1,695	$2,736

See notes to consolidated financial statements.

Note 1 – Organization and Business

MSB Financial Corp. (the “Company”) is a federally-chartered corporation organized in 2004 for the purpose of acquiring all of the capital stock that Millington Savings Bank (the “Bank”) issued in its mutual holding company reorganization. The Company’s principal business is the ownership and operation of the Bank.

MSB Financial, MHC (the “MHC”) is a federally-chartered mutual holding company that was formed in 2004 in connection with the mutual holding company reorganization. The MHC has not engaged in any significant business other than its ownership interest in the Company since its formation. So long as the MHC is in existence, it will at all times own a majority of the outstanding stock of the Company. At June 30, 2014, the MHC owned 61.7% of the Company’s outstanding common shares.

The Bank is a New Jersey chartered stock savings bank and its deposits are insured by the Federal Deposit Insurance Corporation (the “FDIC”). The primary business of the Bank is attracting retail deposits from the general public and using those deposits together with funds generated from operations, principal repayments on securities and loans and borrowed funds, for its lending and investing activities. The Bank’s loan portfolio primarily consists of one-to-four family and home equity residential loans, commercial loans, and construction loans. It also invests in U.S. government obligations and mortgage-backed securities. The Bank is regulated by the New Jersey Department of Banking and Insurance and the FDIC. The Board of Governors of the Federal Reserve System (the “Federal Reserve”) regulates the MHC and the Company as savings and loan holding companies.

The primary business of Millington Savings Service Corp (the “Service Corp”) was the ownership and operation of a single commercial rental property, which was sold during the year ended June 30, 2007. Currently the Service Corp is inactive.

Note 2 - Summary of Significant Accounting Policies

Basis of Consolidated Financial Statement Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, the Bank and the Bank’s wholly owned subsidiary, the Service Corp. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated statements of financial condition and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates.

A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses. Management believes that the allowance for loan losses is adequate. While management uses all available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions in the Bank’s market area. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank’s allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examinations.

The Company has evaluated events and transactions occurring subsequent to the consolidated statement of financial condition date of June 30, 2014 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash and amounts due from depository institutions and interest-bearing deposits with banks with original maturities of three months or less.

Securities

Investments in debt securities that the Company has the positive intent and ability to hold to maturity are classified as held to maturity securities and reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of being sold in the near term are classified as trading securities and reported at fair value, with unrealized holding gains and losses included in earnings. Debt and equity securities not classified as trading securities or as held to maturity securities are classified as available for sale securities and reported at fair value, with unrealized holding gains or losses, net of applicable income taxes, reported in a separate component of stockholders' equity. The Company had no trading or available for sale securities as of June 30, 2014 and 2013.

Individual securities are considered impaired when their fair value is less than amortized cost. Management evaluates all securities with unrealized losses quarterly to determine if such impairments are "temporary" or "other-than-temporary" in accordance with applicable accounting guidance. Accordingly, the Company accounts for temporary impairments based upon a security's classification as trading, available for sale or held to maturity. Temporary impairments on available for sale securities are recognized, on a tax-effected basis, through other comprehensive income (loss) with offsetting entries adjusting the carrying value of the security and the balance of deferred taxes. Temporary impairments of held to maturity securities are not recognized in the consolidated financial statements; however, information concerning the amount and duration of impairments on held to maturity securities is disclosed in the notes to the consolidated financial statements. The carrying value of securities held in the trading portfolio is adjusted to fair value through earnings on a monthly basis.

Other-than-temporary impairments on securities that the Company has decided to sell or will more likely than not be required to sell prior to the full recovery of their fair value to a level equal to or exceeding amortized cost are recognized in earnings. Otherwise, the other-than-temporary impairment is bifurcated into credit-related and noncredit-related components. The credit-related impairment generally represents the amount by which the present value of the cash flows expected to be collected on a debt security falls below its amortized cost. The noncredit-related component represents the remaining portion of the impairment not otherwise designated as credit-related. Credit-related other-than-temporary impairments are recognized in earnings while noncredit-related other-than-temporary impairments are recognized, net of deferred taxes, in other comprehensive income (loss).

The Company reviews its investment portfolio on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value of a security has been lower than the cost, and the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer. The Company also assesses its intent with regard to selling or holding each security as well as any conditions which may require the sale of security prior to the recovery of fair value to a level which equals or exceeds amortized cost.

Discounts and premiums on securities are accreted/amortized to maturity by use of the level-yield method. Gain or loss on sales of securities is based on the specific identification method.

Note 2 - Summary of Significant Accounting Policies (Continued)

Concentration of Risk

The Bank's lending activities are concentrated in loans secured by real estate located in the State of New Jersey.

Loans Receivable

Loans are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Company is generally amortizing these amounts over the contractual life of the loan.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or when management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. Certain loans may remain on accrual status if they are in the process of collection and are either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Credit Losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the statement of financial condition date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities, when required, on the consolidated statement of financial condition. The allowance for credit losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. All, or part, of the principal balance of loans receivable that are deemed uncollectible are charged against the allowance for loan losses when management determines that the repayment of that amount is highly unlikely. Any subsequent recoveries are credited to the allowance for loan losses. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, the composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examinations.

The allowance calculation methodology includes segregation of the total loan portfolio into segments. The Company's loans receivable portfolio is comprised of the following segments: residential mortgage, commercial real estate, construction, commercial and industrial and consumer. Some segments of the

Note 2 - Summary of Significant Accounting Policies (Continued)

Company's loan receivable portfolio are further disaggregated into classes which allow management to more accurately monitor risk and performance.

The residential mortgage loan segment is disaggregated into two classes: one-to-four family loans, which are primarily first liens, and home equity loans, which consist of first and second liens. The commercial real estate loan segment includes owner and non-owner occupied loans which have medium risk based on historical experience with these type of loans. The construction loan segment is further disaggregated into two classes: one-to-four family owner-occupied, which includes land loans, whereby the owner is known and there is less risk, and other, whereby the property is generally under development and tends to have more risk than the one-to-four family owner-occupied loans. The commercial and industrial loan segment consists of loans made for the purpose of financing the activities of commercial customers. The majority of commercial and industrial loans are secured by real estate and thus carry a lower risk than traditional commercial and industrial loans. The consumer loan segment consists primarily of installment loans and overdraft lines of credit connected with customer deposit accounts.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these classes of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability, and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans as well as and other loan modifications.
6. Quality of the Company's loan review system, and the degree of oversight by the Company's Board of Directors.
7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Impaired Loans

Management evaluates individual loans in all of the loan segments (including loans in the residential mortgage and consumer segments) for possible impairment if the recorded investment in the loan is greater than $200,000 and if the loan is either in nonaccrual status or is risk rated Substandard or worse or has been modified in a troubled debt restructuring. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment

Note 2 - Summary of Significant Accounting Policies (Continued)

delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

Loans whose terms are modified are classified as a troubled debt restructuring ("TDR") if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a TDR generally involve a reduction in interest rate below market rate given the associated credit risk, or an extension of a loan's stated maturity date or capitalization of interest and/or escrow. Nonaccrual TDRs are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as TDRs are designated as impaired until they are ultimately repaid in full or foreclosed and sold. The nature and extent of impairment of TDRs, including those which experienced a subsequent default, is considered in the determination of an appropriate level of allowance for loan losses.

Once the determination has been made that a loan is impaired, impairment is measured by comparing the recorded investment in the loan to one of the following: (a) the present value of expected cash flows (discounted at the loan's effective interest rate), (b) the loan's observable market price or (c) the fair value of collateral adjusted for expected selling costs. The method is selected on a loan by loan basis with management primarily utilizing the fair value of collateral method.

The estimated fair values of the real estate collateral are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

The estimated fair values of the non-real estate collateral, such as accounts receivable, inventory and equipment, are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The evaluation of the need and amount of the allowance for impaired loans and whether a loan can be removed from impairment status is made on a quarterly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

Other Real Estate Owned

Other real estate owned represents real estate acquired through formal foreclosure or by taking possession of the real estate and is initially recorded at the lower of cost or fair value, less estimated selling costs establishing a new cost basis. Write-downs required at the time of acquisition are charged to the allowance for loan losses establishing a new cost basis. Thereafter, the Company maintains an allowance for decreases in the properties' estimated fair value, through charges to earnings. Such charges are included in other non-interest expense along with any additional property maintenance.

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Note 2 - Summary of Significant Accounting Policies (Continued)

Premises and Equipment

Premises and equipment are comprised of land, at cost, and buildings, building improvements, furnishings and equipment and leasehold improvements, at cost, less accumulated depreciation and amortization. Depreciation and amortization charges are computed on the straight-line method over the following estimated useful lives:

	Years
Building and improvements	5 - 50
Furnishings and equipment	3 – 7
Leasehold improvements	Shorter of useful life or term of lease

Significant renewals and betterments are capitalized to the premises and equipment account. Maintenance and repairs are charged to operations in the year incurred. Rental income is netted against occupancy costs in the consolidated statements of income.

Federal Home Loan Bank Stock

Federal law requires a member institution of the Federal Home Loan Bank (“FHLB”) system to hold restricted stock of its district’s FHLB according to a predetermined formula based on advances available and outstanding. The restricted stock is carried at cost. Management’s determination of whether these shares are impaired is based on an assessment of the ultimate recoverability of its cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge was necessary related to the FHLB restricted stock during fiscal years 2014 or 2013.

Bank Owned Life Insurance

Bank owned life insurance is carried at net cash surrender value. The change in the net cash surrender value is recorded as a component of non-interest income.

Defined Benefit Plans

In accordance with applicable guidance prescribed in FASB ASC 715, “Compensation – Retirement Benefits”, the Company recognizes the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in the consolidated statement of financial condition, with changes in the funded status recorded through other comprehensive income (loss) in the year in which those changes occur. The funded status of the plan is calculated using actuarial concepts which involve making assumptions regarding discount rate, mortality, expected rate of compensation increases and others.

Stock-based Compensation Plans

In accordance with FASB ASC 718, “Compensation – Stock Compensation”, the Company recognizes compensation expense for the total of the fair value of all share-based compensation awards granted over the requisite service periods. In addition, ASC 718 requires that cash flow activity be reported on a financing

Note 2 - Summary of Significant Accounting Policies (Continued)

rather than an operating cash flow basis for the benefits, if any, of realized tax deductions in excess of previously recognized tax benefits on compensation expense.

Advertising

The Company expenses advertising and marketing costs as incurred.

Income Taxes Expense (Benefit)

The Company and its subsidiaries file a consolidated federal income tax return with the MHC. Federal income taxes are allocated based on the contribution of their respective income or loss to the consolidated income tax return. Separate state income tax returns are filed.

Federal and state income taxes have been provided in these consolidated financial statements on the basis of reported income (loss). The amounts reflected on the income tax returns differ from these provisions due principally to temporary differences in the reporting of certain items of income and expense for financial reporting and income tax reporting purposes. Deferred income taxes are recorded to recognize such temporary differences.

The Company follows the provisions of FASB ASC 740, “Income Taxes”, formerly FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes (“FIN48”). ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognizing, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the Company’s evaluation under ASC 740, no significant income tax uncertainties have been identified. Therefore, the Company recognized no adjustment for unrecognized income tax benefits for the years ended June 30, 2014 and 2013. The Company’s policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the consolidated statement of income (loss). The Company did not recognize any interest and penalties for the years ended June 30, 2014 and 2013. The tax years subject to examination by the taxing authorities are the years ended June 30, 2013, 2012, and 2011.

Off-Balance Sheet Credit-Related Financial Instruments

In the ordinary course of business, the Company enters into commitments to extend credit, including commitments under lines of credit. Such financial instruments are recorded when they are funded.

Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding, exclusive of the Employee Stock Ownership Plan (“ESOP”) shares not yet committed to be released. Diluted earnings per share is calculated by adjusting the weighted average number of shares of common stock outstanding to include the effect of contracts or securities exercisable (such as stock options) or which could be converted into common stock, if dilutive, using the treasury stock method. Diluted earnings (loss) per share did not differ from basic earnings (loss) per share for the years ended June 30, 2014 and 2013, as the 275,410 weighted average number of outstanding stock options for the years ended June 30, 2014 and 2013, were all anti-dilutive and the Company incurred a net loss during 2013.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes benefit plans amounts recognized under ASC 715, "Compensation-Retirement Benefits". This item of other comprehensive income (loss) reflects, net of tax, prior service costs and unrealized net losses that had not been recognized in the consolidated financial statements prior to the implementation of ASC 715 along with actuarial losses arising during the current period.

Note 2 - Summary of Significant Accounting Policies (Continued)

Interest Rate Risk

The Bank is principally engaged in the business of attracting deposits from the general public and using these deposits, together with other funds, to purchase securities and to make loans primarily secured by real estate. The potential for interest-rate risk exists as a result of the generally shorter duration of the Bank's interest-sensitive liabilities compared to the generally longer duration of its interest-sensitive assets. In a rising rate environment, liabilities will generally reprice faster than assets, thereby reducing net interest income. For this reason, management regularly monitors the maturity structure of the Bank's assets and liabilities in order to measure its level of interest-rate risk and to plan for future volatility.

Note 3 - Stock Offering and Stock Repurchase Program

A Registration Statement on Form S-1 (File No. 333-137294), as amended, was filed by the Company with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, relating to the offer for sale of up to 2,199,375 shares (subject to increase to 2,529,281 shares) of its common stock at $10.00 per share. The offering closed on January 4, 2007 and 2,529,281 shares were sold for gross proceeds of $25,292,810, including 202,342 shares sold to the Bank's newly established ESOP. Net proceeds of the offering totaled approximately $24.5 million. Concurrent with the closing of the offering, the MHC received 3,091,344 shares of Company common stock in exchange for the 10,000 shares previously owned. At June 30, 2014, the MHC is the majority stockholder of the Company owning 61.7% of the Company's outstanding common stock. Prior to January 4, 2007, the MHC owned 100% of the Company's outstanding 10,000 shares of common stock.

Since the first repurchase program authorized by the Company's Board of Directors on January 29, 2008, the Company has repurchased 610,188 shares of the Company's common stock through several repurchase programs. The Company did not repurchase any shares during the year ended June 30, 2014.

The Company did not declare or pay any cash dividends during the years ended June 30, 2014 and 2013.

Note 4 - Securities Held to Maturity

The amortized cost of securities held to maturity and their fair values are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
June 30, 2014:				
U.S. Government agencies	$ 49,177	$ 49	$ 1,551	$ 47,675
Mortgage-backed securities	26,089	464	338	26,215
Corporate bonds	4,630	56	5	4,681
Certificates of deposits	5,036	30	1	5,065
	$ 84,932	$ 599	$ 1,895	$ 83,636
June 30, 2013:				
U.S. Government agencies	$ 46,194	$ 84	$ 2,131	$ 44,147
Mortgage-backed securities	24,768	297	754	24,311
Corporate bonds	4,669	15	72	4,612
Certificates of deposits	5,281	17	1	5,297
	$ 80,912	$ 413	$ 2,958	$ 78,367

All mortgage-backed securities at June 30, 2014 and 2013 have been issued by FNMA, FHLMC or GNMA and are secured by 1-4 family residential real estate.

The amortized cost and fair value of securities held to maturity at June 30, 2014, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In thousands)	
U.S. Government agencies:		
Due after one year through five years	$ 23,000	$ 22,497
Due after five years through ten years	12,177	11,835
Due thereafter	14,000	13,343
	49,177	47,675
Mortgage-backed securities	26,089	26,215
Corporate Bonds		
Due after one year through five years	4,630	4,681
Certificates of Deposits		
Due within one year	1,425	1,427

Due after one year through five years	3,611	3,638
	5,036	5,065
	$ 84,932	$ 83,636

Note 4 - Securities Held to Maturity (Continued)

There were no sales of securities held to maturity during the years ended June 30, 2014 and 2013. At June 30, 2014 and 2013 securities held to maturity with a fair value of approximately $764,000 and $782,000, respectively, were pledged to secure public funds on deposit.

The following table provides the gross unrealized losses and fair value of securities in an unrealized loss position, by the length of time that such securities have been in a continuous unrealized loss position:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(In thousands)			
June 30, 2014:						
U.S. Government agencies	$36,339	$1,341	$6,290	$210	$42,629	$1,551
Mortgage-backed securities	17,022	325	816	13	17,838	338
Corporate bonds	1,031	5	—	—	1,031	5
Certificates of deposits	489	1	—	—	489	1
	$54,881	$1,672	$7,106	$223	$61,987	$1,895
June 30, 2013:						
U.S. Government agencies	$42,048	$2,131	$—	$—	$42,048	$2,131
Mortgage-backed securities	18,401	754	—	—	18,401	754
Corporate bonds	2,980	72	—	—	2,980	72
Certificates of deposits	246	1	—	—	246	1
	$63,675	$2,958	$—	$—	$63,675	$2,958

At June 30, 2014, management concluded that the unrealized losses above (which related to thirty-one U.S. Government agency bonds, twenty-two mortgage-backed securities, two corporate bonds and two certificate of deposit compared to thirty-one U.S. Government agency bonds, fourteen mortgage-backed securities, five corporate bonds and one certificate of deposit, as of June 30, 2013) were temporary in nature since they were not related to the underlying credit quality of the issuer. The Company does not intend to sell these securities and it is not more-likely-than-not that the Company would be required to sell these securities prior to the full recovery of fair value to a level which equals or exceeds amortized cost. The losses above are primarily related to market conditions and are considered noncredit related and temporary.

Note 5 - Loans Receivable and Allowance for Loan Losses

The composition of total loans receivable at June 30, 2014 and 2013 was as follows:

	2014	2013
	(In thousands)	
Residential mortgage:		
One-to-four family	$ 143,283	$ 136,704
Home equity	38,484	40,682
	181,767	177,386
Commercial real estate	32,036	32,171
Construction	12,517	8,895
Commercial and industrial	9,666	9,267
	54,219	50,333
Consumer:		
Deposit accounts	602	611
Automobile	33	111
Personal	36	32
Overdraft protection	161	175
	832	929
Total Loans Receivable	236,818	228,648
Loans in process	(2,491)	(745)
Deferred loan fees	(366)	(377)
	$ 233,961	$ 227,526

Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)

The following tables present impaired loans by class, segregated by those for which a related allowance was required and those for which a related allowance was not necessary as of June 30, 2014 and 2013.

	June 30, 2014			Year Ended June 30, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In thousands)		
With no related allowance recorded:					
Residential mortgage					
One-to-four family	$15,975	$16,667	$-	$14,982	$620
Home equity	1,740	1,756	-	2,019	41
Commercial real estate	1,973	2,431	-	1,404	76
Construction					
One-to-four family owner-occupied	1,707	1,936	-	1,365	97
Other	750	750	-	920	36
Commercial and industrial	648	1,187	-	813	36
	22,793	24,727	-	21,503	906
With an allowance recorded:					
Residential mortgage					
One-to-four family	-	-	-	632	-
Home equity	-	-	-	294	-
Commercial real estate	-	-	-	752	-
Construction					
One-to-four family owner-occupied	-	-	-	341	-
Other	137	138	73	110	3
Commercial and industrial	-	-	-	-	-
	137	138	73	2,129	3
Total:					
Residential mortgage					
One-to-four family	15,975	16,667	-	15,614	620
Home equity	1,740	1,756	-	2,313	41
Commercial real estate	1,973	2,431	-	2,156	76
Construction					
One-to-four family owner-occupied	1,707	1,936	-	1,706	97
Other	887	888	73	1,030	39
Commercial and industrial	648	1,187	-	813	36
	$22,930	$24,865	$73	$23,632	$909

(1) As of June 30, 2014, impaired loans listed above include $16.7 million of loans previously modified in TDRs and as such are considered impaired under GAAP. As of June 30, 2014, $13.4 million of these loans have been

performing in accordance with their modified terms for an extended period of time and as such were removed from non-accrual status and considered performing.

Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)

	June 30, 2013			Year Ended June 30, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In thousands)		
With no related allowance recorded:					
Residential mortgage					
One-to-four family	$13,817	$14,747	$-	$11,978	$437
Home equity	3,376	3,406	-	3,399	127
Commercial real estate	1,796	1,867	-	1,742	65
Construction					
One-to-four family occupied	-	-	-	387	-
Other	1,601	1,510		671	16
Commercial and industrial	750	1,103	-	536	29
	21,340	22,633	-	18,713	674
With an allowance recorded:					
Residential mortgage					
One-to-four family	1,469	1,720	58	3,219	34
Home equity	891	1,214	233	737	7
Commercial real estate	1,444	1,804	88	1,512	17
Construction					
One-to-four family occupied	1,707	1,936	23	1,230	87
Other	-	-	-	646	-
Commercial and industrial	150	100	31	449	5
	5,661	6,774	433	7,793	150
Total:					
Residential mortgage					
One-to-four family	15,286	16,467	58	15,197	471
Home equity	4,267	4,620	233	4,136	134
Commercial real estate	3,240	3,671	88	3,254	82
Construction					
One-to-four family occupied	1,707	1,936	23	1,617	87
Other	1,601	1,510	-	1,317	16
Commercial and industrial	900	1,203	31	985	34
	$27,001	$29,407	$433	$26,506	$824

(1) As of June 30, 2013, impaired loans listed above included $18.1 million of loans previously modified in TDRs and as such are considered impaired under GAAP. As of June 30, 2013, $11.8 million of these loans have been performing in accordance with their modified terms for an extended period of time and as such were removed from nonaccrual status and considered performing.

Credit Quality Indicators

Management uses an eight point internal risk rating system to monitor the credit quality of the loans in the Company's commercial real estate, construction and commercial and industrial loan segments. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually or when credit deficiencies, such as delinquent loan payments, arise. The criticized rating categories utilized by management generally follow bank regulatory definitions. The first six risk rating categories are considered not criticized, and are aggregated as “Pass” rated. The “Special Mention” category includes assets that are currently protected, but are potentially weak, resulting in increased credit risk and deserving management’s close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified “Substandard” have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified “Doubtful” have all the weaknesses inherent in loans classified “Substandard” with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a “Loss” are considered uncollectible and subsequently charged off.

Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table presents the classes of the loans receivable portfolio summarized by the aggregate "Pass" and the criticized categories of "Special Mention", "Substandard", "Doubtful" and "Loss" within the internal risk rating system as of June 30, 2014 and 2013:

As of June 30, 2014	Pass	Special Mention