Magyar Bancorp, Inc.
Form 10-Q
August 12, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

Commission File Number **000-51726**

Magyar Bancorp, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-4154978**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
400 Somerset Street, New Brunswick, New Jersey	**08901**
(Address of Principal Executive Office)	(Zip Code)

(732) 342-7600

(Issuer's Telephone Number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No o

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	Smaller reporting company	þ
(Do not check if a smaller reporting company)			

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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

Class	Outstanding at August 1, 2013
Common Stock, $0.01 Par Value	5,811,394

MAGYAR BANCORP, INC.

Form 10-Q Quarterly Report

Table of Contents

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

(In Thousands, Except Share and Per Share Data)

	June 30, 2013 (Unaudited)	September 30, 2012
Assets		
Cash	$1,220	$ 930
Interest earning deposits with banks	12,546	9,114
Total cash and cash equivalents	13,766	10,044
Investment securities - available for sale, at fair value	16,307	16,786
Investment securities - held to maturity, at amortized cost (fair value of $53,984 and $42,130 at June 30, 2013 and September 30, 2012, respectively)	54,487	41,068
Federal Home Loan Bank of New York stock, at cost	2,217	2,385
Loans receivable, net of allowance for loan losses of $3,600 and $3,858 at June 30, 2013 and September 30, 2012, respectively	391,916	385,270
Bank owned life insurance	10,259	10,010
Accrued interest receivable	1,911	1,894
Premises and equipment, net	21,094	21,541
Other real estate owned ("OREO")	14,658	13,381
Other assets	5,846	6,467
Total assets	$532,461	$ 508,846
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$444,026	$ 416,518
Escrowed funds	1,105	769
Federal Home Loan Bank of New York advances	32,333	36,503
Securities sold under agreements to repurchase	5,000	5,000
Accrued interest payable	197	196
Accounts payable and other liabilities	5,040	4,855
Total liabilities	487,701	463,841
Stockholders' equity		
Preferred stock: $.01 Par Value, 1,000,000 shares authorized; none issued	—	—

Common stock: $.01 Par Value, 8,000,000 shares authorized; 5,923,742 issued; 5,811,394 and 5,807,344 shares outstanding at June 30, 2013 and September 30, 2012, respectively	59	59
Additional paid-in capital	26,324	26,367
Treasury stock: 112,348 and 116,398 shares at June 30, 2013 and September 30, 2012, respectively, at cost	(1,256)	(1,301)
Unearned Employee Stock Ownership Plan shares	(1,030)	(1,116)
Retained earnings	21,706	21,600
Accumulated other comprehensive loss	(1,043)	(604)
Total stockholders' equity	44,760	45,005
Total liabilities and stockholders' equity	$532,461	$ 508,846

The accompanying notes are an integral part of these statements.

1

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations

(In Thousands, Except Per Share Data)

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)			
Interest and dividend income				
Loans, including fees	$4,540	$4,670	$ 13,560	$ 14,058
Investment securities				
Taxable	393	483	1,153	1,545
Tax-exempt	—	1	1	2
Federal Home Loan Bank of New York stock	25	26	82	79
Total interest and dividend income	4,958	5,180	14,796	15,684
Interest expense				
Deposits	754	969	2,346	3,086
Borrowings	323	475	1,030	1,467
Total interest expense	1,077	1,444	3,376	4,553
Net interest and dividend income	3,881	3,736	11,420	11,131
Provision for loan losses	254	340	1,695	1,033
Net interest and dividend income after provision for loan losses	3,627	3,396	9,725	10,098
Other income				
Service charges	226	259	671	761
Income on bank owned life insurance	83	87	249	263
Other operating income	18	12	66	54
Gains on sales of loans	9	—	355	260
Gains on sales of investment securities (Note F)	57	138	121	286
		—		—
Total other income	393	496	1,462	1,624
Other expenses				
Compensation and employee benefits	1,900	1,784	5,540	5,511
Occupancy expenses	708	691	2,128	2,147
Professional fees	218	204	717	768
Data processing expenses	144	150	438	407
OREO expenses	155	181	475	699

FDIC deposit insurance premiums	173	178	521	535
Loan servicing expenses	96	85	211	268
Insurance expense	59	59	174	183
Other expenses	296	318	917	956
Total other expenses	3,749	3,650	11,121	11,474
Income before income tax benefit	271	242	66	248
Income tax expense (benefit)	78	69	(67)	34
Net income	$193	$173	$133	$214
Net income per share-basic and diluted	$0.03	$0.03	$0.02	$0.04

The accompanying notes are an integral part of these statements.

2

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

(In Thousands)

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)			
Net income	$193	$173	$ 133	$ 214
Other comprehensive loss				
Net unrealized (loss) gain on securities available for sale	(352)	69	(523)	184
Realized gains on sales of securities available for sale	(57)	(138)	(121)	(286)
Unrealized loss on derivatives	(17)	(22)	(54)	(67)
	(426)	(91)	(698)	(169)
Deferred income tax effect	159	34	259	60
Total other comprehensive loss	(267)	(57)	(439)	(109)
Total comprehensive income (loss)	$(74)	$116	$ (306)	$ 105

The accompanying notes are an integral part of these statements.

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders' Equity

For the Nine Months Ended June 30, 2013 and 2012

(In Thousands, Except for Share Amounts)

(Unaudited)

	Common Stock Shares Outstanding	Common Stock Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, September 30, 2012	5,807,344	$59	$26,367	$(1,301)	$(1,116)	$21,600	$(604)	$45,005
Net income	—	—	—	—	—	133	—	133
Other comprehensive income	—	—	—	—	—	—	(439)	(439)
Treasury stock used for restricted stock plan	4,050	—	(18)	45	—	(27)	—	—
ESOP shares allocated	—	—	(38)	—	86	—	—	48
Stock-based compensation expense	—	—	13	—	—	—	—	13
Balance, June 30, 2013	5,811,394	$59	$26,324	$(1,256)	$(1,030)	$21,706	$(1,043)	$44,760

	Common Stock Shares Outstanding	Common Stock Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, September 30, 2011	5,801,631	$59	$26,496	$(1,480)	$(1,228)	$21,069	$(407)	$44,509
Net income	—	—	—	—	—	214	—	214
Other comprehensive loss	—	—	—	—	—	—	(109)	(109)
Purchase of treasury stock	(13,370)	—	—	(43)	—	—	—	(43)
Treasury stock used for restricted stock plan	19,743	—	(247)	225	—	22	—	—
ESOP shares allocated	—	—	(49)	—	85	—	—	36
Stock-based compensation expense	—	—	176	—	—	—	—	176
Balance, June 30, 2012	5,808,004	$59	$26,376	$(1,298)	$(1,143)	$21,305	$(516)	$44,783

The accompanying notes are an integral part of these statements.

4

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(In Thousands)

	For the Nine Months Ended June 30,	
	2013 (Unaudited)	2012
Operating activities		
Net income	$ 133	$ 214
Adjustment to reconcile net income to net cash provided by operating activities		
Depreciation expense	693	709
Premium amortization on investment securities, net	163	177
Provision for loan losses	1,695	1,033
Provision for loss on other real estate owned	—	77
Proceeds from the sales of loans	4,226	4,930
Gains on sale of loans	(355)	(260)
Gains on sales of investment securities	(121)	(286)
Losses on the sales of other real estate owned	64	76
ESOP compensation expense	48	36
Stock-based compensation expense	13	176
(Increase) decrease in accrued interest receivable	(17)	104
Increase in surrender value bank owned life insurance	(249)	(263)
Decrease (increase) in other assets	827	(584)
Increase in accrued interest payable	1	6
Increase in accounts payable and other liabilities	185	1,119
Net cash provided by operating activities	7,306	7,264
Investing activities		
Net increase in loans receivable	(15,328)	(6,694)
Purchases of investment securities held to maturity	(23,777)	(17,210)
Purchases of investment securities available for sale	(7,075)	(10,156)
Sales of investment securities available for sale	4,307	14,164
Principal repayments on investment securities held to maturity	10,254	15,338
Principal repayments on investment securities available for sale	2,665	3,895
Purchases of premises and equipment	(246)	(218)
Investment in other real estate owned	(264)	(905)
Proceeds from the sale of other real estate owned	2,038	4,012
Redemption (purchase) of Federal Home Loan Bank stock	168	(49)
Net cash (used) provided by investing activities	(27,258)	2,177
Financing activities		
Net increase in deposits	27,508	1,738
Stock compensation tax benefit	—	—

Net increase (decrease) in escrowed funds	336	(126)
Proceeds from long-term advances	4,692	3,000
Repayments of long-term advances	(7,462)	(2,228)
Net change in short-term advances	(1,400)	—
Purchase of treasury stock	—	(43)
Net cash provided by financing activities	23,674	2,341
Net increase in cash and cash equivalents	3,722	11,782
Cash and cash equivalents, beginning of period	10,044	15,034
Cash and cash equivalents, end of period	$ 13,766	$ 26,816
Supplemental disclosures of cash flow information		
Cash paid for		
Interest	$ 3,375	$ 4,548
Income taxes	$ 54	$ 6
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	$ 3,116	$ 4,623
OREO transferred to premises and equipment	$ —	$ 1,588

The accompanying notes are an integral part of these statements.

5

MAGYAR BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Unaudited)

NOTE A – BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Magyar Bancorp, Inc. (the "Company"), its wholly owned subsidiary, Magyar Bank (the "Bank"), and the Bank's wholly owned subsidiaries Magyar Service Corporation, Hungaria Urban Renewal, LLC, and MagBank Investment Company. All material intercompany transactions and balances have been eliminated. The Company prepares its financial statements on the accrual basis and in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). The unaudited information furnished herein reflects all adjustments (consisting of normal recurring accruals) that are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented.

Operating results for the three and nine months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending September 30, 2013. The September 30, 2012 information has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by US GAAP for complete financial statements.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of other real estate owned, and the assessment of realizability of deferred income tax assets.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2013 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

NOTE B- RECENT ACCOUNTING PRONOUNCEMENTS

In connection with the preparation of quarterly and annual reports in accordance with the Securities and Exchange Commission's (SEC) Securities Exchange Act of 1934, SEC Staff Accounting Bulletin Topic 11.M requires the disclosure of the impact that recently issued accounting standards will have on financial statements when they are adopted in the future.

In December 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-11, *"Disclosures About Offsetting Assets and Liabilities"* The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial condition as well as instruments and transactions subject to an agreement similar to a master netting arrangement. ASU No. 2011-11 also requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. In January 2013, the FASB issued ASU No. 2013-01, *"Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities."* The provisions of ASU No. 2013-01 limit the scope of the new balance sheet offsetting disclosures to the following financial instruments, to the extent they are offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the statement of financial condition: 1) derivative financial instruments; 2) repurchase agreements and reverse repurchase agreements; and 3) securities borrowing and securities lending transactions. The Corporation will be required to adopt the provisions of ASU No. 2011-11 and ASU No. 2013-01 effective October 1, 2013. As the provisions of ASU No. 2011-11 and ASU No. 2013-01 only impact the disclosure requirements related to the offsetting of assets and liabilities and information about instruments and transactions eligible for offset in the statement of financial condition, the adoption is expected to have no impact on the Corporations' consolidated statements of income and condition.

In February 2013, the FASB issued ASU No. 2013-02, *"Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income,"* to improve the transparency of reporting these reclassifications. ASU No. 2013-02 does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. ASU No. 2013-02 requires an entity to disaggregate the total change of each component of other comprehensive income and separately present reclassification adjustments and current period other comprehensive income. The provisions of ASU No. 2013-02 also require that entities present in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line item affected by the reclassification. If a component is not required to be reclassified to net income in its entirety, entities would instead cross-reference to the related note to the financial statements for additional information. The Corporation adopted the provisions of ASU No. 2013-02 effective January 1, 2013. As the Corporation provided these required disclosures in the notes to the Consolidated Financial Statements, the adoption of ASU No. 2013-02 had no impact on the Corporation's consolidated statements of income and condition. See Note F to the Consolidated Financial Statements for the disclosures required by ASU No. 2013-02.

Table of Contents

NOTE C - CONTINGENCIES

The Company, from time to time, is a party to routine litigation that arises in the normal course of business. In the opinion of management, the resolution of this litigation, if any, would not have a material adverse effect on the Company’s consolidated financial position or results of operations.

NOTE D - EARNINGS PER SHARE

Basic and diluted earnings per share for the three and nine months ended June 30, 2013 and 2012 were calculated by dividing net income by the weighted-average number of shares outstanding for the period. All stock options and restricted stock awards were anti-dilutive for the three and nine months ended June 30, 2012. The following table shows the Company’s earnings per share for the periods presented:

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands except for per share data)			
Income applicable to common shares	$ 193	$ 173	$ 133	$ 214
Weighted average number of common shares outstanding - basic	5,811	5,809	5,810	5,811
Stock options and restricted stock	1	—	1	—
Weighted average number of common shares and common share equivalents - diluted	5,812	5,809	5,811	5,811
Basic earnings per share	$ 0.03	$ 0.003	$ 0.02	$ 0.04
Diluted earnings per share	$ 0.03	$ 0.003	$ 0.02	$ 0.04

Options to purchase 188,276 shares of common stock at a weighted average price of $14.61 were outstanding and not included in the computation of diluted earnings per share for the three and nine months ended June 30, 2013 because the grant (or option strike) price was greater than the average market price of the common shares during the periods. Options to purchase 188,276 shares of common stock at an average price of $14.61 and 12,390 restricted shares at a weighted average price of $4.43 were outstanding and not included in the computation of diluted earnings per share for the three and nine months ended June 30, 2012 because the grant (or option strike) price was greater than the average market price of the common shares during the periods.

NOTE E – STOCK-BASED COMPENSATION AND STOCK REPURCHASE PROGRAM

The Company follows FASB Accounting Standards Codification ("ASC") Section 718, Compensation-Stock Compensation, which covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. ASC 718 requires that compensation cost relating to share-based payment transactions be recognized in financial statements. The cost is measured based on the fair value of the equity or liability instruments issued.

Table of Contents

ASC 718 also requires the Company to realize as a financing cash flow rather than an operating cash flow, as previously required, the benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense. In accordance with SEC Staff Accounting Bulletin ("SAB") No. 107, the Company classified share-based compensation for employees and outside directors within "compensation and employee benefits" in the consolidated statement of operations to correspond with the same line item as the cash compensation paid.

Stock options generally vest over a five-year service period and expire ten years from issuance. Management recognizes compensation expense for all option grants over the awards' respective requisite service periods. The fair values of all option grants were estimated using the Black-Scholes option-pricing model. Since there was limited historical information on the volatility of the Company's stock, management also considered the average volatilities of similar entities for an appropriate period in determining the assumed volatility rate used in the estimation of fair value. Management estimated the expected life of the options using the simplified method allowed under SAB No. 107. The 7-year Treasury yield in effect at the time of the grant provided the risk-free rate for periods within the contractual life of the option. Management recognizes compensation expense for the fair values of these awards, which have graded vesting, on a straight-line basis over the requisite service period of the awards. Once vested, these awards are irrevocable. Shares will be obtained from either the open market or treasury stock upon share option exercise.

Restricted shares generally vest over a five-year service period on the anniversary of the grant date. Once vested, these awards are irrevocable. The product of the number of shares granted and the grant date market price of the Company's common stock determine the fair value of restricted shares under the Company's restricted stock plans. Management recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the requisite service period.

The following is a summary of the status of the Company's stock option activity and related information for its option plan for the nine months ended June 30, 2013:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at September 30, 2012	188,276	$ 14.61		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Balance at June 30, 2013	188,276	$ 14.61	3.7 years	$ —
Exercisable at June 30, 2013	188,276	$ 14.61	3.7 years	$ —

The following is a summary of the Company’s non-vested stock awards as of June 30, 2013 and changes during the nine months ended June 30, 2013:

	Number of Stock Awards	Weighted Average Grant Date Fair Value
Balance at September 30, 2012	13,402	$ 4.43
Granted	—	—
Vested	(4,050)	4.44
Forfeited	—	—
Balance at June 30, 2013	9,352	$ 4.43

Stock option and stock award expenses included with compensation expense were $0 and $13,000, respectively, for the nine months ended June 30, 2013 and $67,000 and $109,000, respectively, for the nine months ended June 30, 2012.

The Company announced in November 2007 its second stock repurchase program of up to 5% of its publicly-held outstanding shares of common stock, or 129,924 shares. Through June 30, 2013, the Company had repurchased a total of 81,000 shares of its common stock at an average cost of $8.33 per share under this program. No shares were repurchased during the nine months ended June 30, 2013. Under the stock repurchase program, 48,924 shares of the 129,924 shares authorized remained available for repurchase as of June 30, 2013. The Company’s intended use of the repurchased shares is for general corporate purposes, including the funding of awards granted under the 2006 Equity Incentive Plan.

Table of Contents

The Company has an Employee Stock Ownership Plan ("ESOP") for the benefit of employees of the Company and the Bank who meets the eligibility requirements as defined in the plan. The ESOP trust purchased 217,863 shares of common stock in the open market using proceeds of a loan from the Company. The total cost of shares purchased by the ESOP trust was $2.3 million, reflecting an average cost per share of $10.58. The Bank will make cash contributions to the ESOP on an annual basis sufficient to enable the ESOP to make the required loan payments to the Company. The loan bears a variable interest rate that adjusts annually every January 1st to the then published Prime Rate (3.25% at January 1, 2013) with principal and interest payable annually in equal installments over thirty years. The loan is secured by shares of the Company’s stock.

As the debt is repaid, shares are released as collateral and allocated to qualified employees. Accordingly, the shares pledged as collateral are reported as unearned ESOP shares in the Consolidated Balance Sheet. As shares are released from collateral, the Company reports compensation expense equal to the then current market price of the shares, and the shares become outstanding for earnings per share computations.

At June 30, 2013, shares allocated to participants totaled 115,990. Unallocated ESOP shares held in suspense totaled 101,873 at June 30, 2013 and had a fair market value of $611,238. The Company's contribution expense for the ESOP was $48,000 and $36,000 for the nine months ended June 30, 2013 and 2012, respectively.

NOTE F – OTHER COMPREHENSIVE LOSS

The components of other comprehensive loss and the related income tax effects are as follows:

	Three Months Ended June 30,					
	2013			2012		
	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(Dollars in thousands)					
Unrealized holding gain (loss) arising during period on:						
Available-for-sale investments	$(352)	$ 129	$ (223)	$69	$ (30)	$ 39
Less reclassification adjustment for gains realized in net income (A)	(57)	23	(34)	(138)	55	(83)
Interest rate derivatives	(17)	7	(10)	(22)	9	(13)

Other comprehensive loss, net	$(426)	$ 159	$ (267)	$(91)	$ 34	$ (57)

	Nine Months Ended June 30, 2013			2012		
	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(Dollars in thousands)					
Unrealized holding gain (loss) arising during period on:						
Available-for-sale investments	$(523)	$ 189	$ (334)	$184	$ (81)	$ 103
Less reclassification adjustment for gains realized in net income (A)	(121)	48	(73)	(286)	114	(172)
Interest rate derivatives	(54)	22	(32)	(67)	27	(40)
Other comprehensive loss, net	$(698)	$ 259	$ (439)	$(169)	$ 60	$ (109)

9

(A) The gross realized gains on securities sales and the related tax effect are reflected in the consolidated statements of operations in gains on sales of investment of securities and income tax benefit, respectively.

NOTE G – FAIR VALUE DISCLOSURES

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Our securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets or liabilities on a non-recurring basis, such as held-to-maturity securities, mortgage servicing rights, loans receivable and other real estate owned, or OREO. These non-recurring fair value adjustments involve the application of lower-of-cost-or-market accounting or write-downs of individual assets.

In accordance with ASC 820, we group our assets and liabilities at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The following is a description of valuation methodologies used for assets measured at fair value on a recurring basis.

Securities available-for-sale

Our available-for-sale portfolio is carried at estimated fair value on a recurring basis, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders' equity. Our securities available-for-sale portfolio consists of U.S government and government-sponsored enterprise obligations, municipal bonds, and mortgage-backed securities. The fair values of these securities are obtained from an independent nationally recognized pricing service. Our independent pricing service provides us with prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available for the securities in our portfolio. Various modeling techniques are used to determine pricing for our mortgage-backed securities, including option pricing and discounted cash flow models. The inputs to these models include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a recurring basis.

Table of Contents

	Fair Value at June 30, 2013			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage backed securities - residential	$ 1,620	$ —	$ 1,620	$ —
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	9,782	—	9,782	—
Mortgage backed securities-commercial	4,061	—	4,061	—
Private label mortgage-backed securities-residential	844	—	844	—
Total securities available for sale	$ 16,307	$ —	$ 16,307	$ —

	Fair Value at September 30, 2012			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage backed securities - residential	$ 1,861	$ —	$ 1,861	$ —
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	8,575	—	8,575	—
Mortgage backed securities-commercial	4,228	—	4,228	—
Debt securities	1,067	—	1,067	—
Private label mortgage-backed securities-residential	1,055	—	1,055	—
Total securities available for sale	$ 16,786	$ —	$ 16,786	$ —

The following is a description of valuation methodologies used for assets measured at fair value on a non-recurring basis.

Impaired Loans

Loans which meet certain criteria are evaluated individually for impairment. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. All amounts due according to the contractual terms means that both the contractual interest and principal payments of a loan will be collected as scheduled in the loan agreement. Three impairment measurement methods are used, depending upon the collateral securing the asset: 1) the present value of expected future cash flows discounted at the loan's effective interest rate (the rate of return implicit in the loan); 2) the asset's observable market price; or 3) the fair value of the collateral, less anticipated selling and disposition costs, if the asset is collateral dependent. The regulatory agencies require the lost method for loans from which repayment is expected to be provided solely by the underlying collateral. Our impaired loans are generally collateral dependent and, as such, are carried at the estimated fair value of the collateral less estimated selling costs. Fair value is estimated through current appraisals, and adjusted as necessary, by management, to reflect current market conditions and, as such, are generally classified as Level 3.

Appraisals of collateral securing impaired loans are conducted by approved, qualified, and independent third-party appraisers. Such appraisals are ordered via the Bank's credit administration department, independent from the lender who originated the loan, once the loan is deemed impaired, as described in the previous paragraph. Impaired loans are generally re-evaluated with an updated appraisal within one year of the last appraisal. However, the Company also obtains updated appraisals on performing construction loans that are approaching their maturity date to determine whether or not the fair value of the collateral securing the loan remains sufficient to cover the loan amount prior to considering an extension. The Company discounts the appraised "as is" value of the collateral for estimated selling and disposition costs and compares the resulting fair value of collateral to the outstanding loan amount. If the outstanding loan amount is greater than the discounted fair value, the Company requires a reduction in the outstanding loan balance or additional collateral before considering an extension to the loan. If the borrower is unwilling or unable to reduce the loan balance or increase the collateral securing the loan, it is deemed impaired and the difference between the loan amount and the fair value of collateral, net of estimated selling and disposition costs, is charged off through a reduction of the allowance for loan loss.

Table of Contents

Other Real Estate Owned

The fair value of other real estate owned is determined through current appraisals, and adjusted as necessary, by management, to reflect current market conditions. As such, other real estate owned is generally classified as Level 3.

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a non-recurring basis at June 30, 2013 and September 30, 2012.

	Fair Value at June 30, 2013			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 8,125	$ —	$ —	$ 8,125
Other real estate owned	—	—	—	—
	$ 8,125	$ —	$ —	$ 8,125

	Fair Value at September 30, 2012			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 5,984	$ —	$ —	$ 5,984
Other real estate owned	464	—	—	464
	$ 6,448	$ —	$ —	$ 6,448

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which Company has utilized Level 3 inputs to determine fair value:

Quantitative Information about Level 3 Fair Value Measurements
(Dollars in thousands)

June 30, 2013	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$8,125	Appraisal of collateral (1)	Liquidation expenses (2)	-7.39% to -12.96% (-9.52%)
Other real estate owned	$—	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	NA

(1) Fair value is generally determined through independent appraisals for the underlying collateral, which generally include various level 3 inputs which are not identifiable.

(2)

Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

(3) Includes qualitative adjustments by management and estimated liquidation expenses.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments not already disclosed above for which it is practicable to estimate fair value:

Cash and interest earning deposits with banks: The carrying amounts are a reasonable estimate of fair value.

Held to maturity securities: The fair values of our held to maturity securities are obtained from an independent nationally recognized pricing service. Our independent pricing service provides us with prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available for the securities in our portfolio.

12

Table of Contents

Loans: Fair value for the loan portfolio, excluding impaired loans with specific loss allowances, is estimated based on discounted cash flow analysis using interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

Federal Home Loan Bank of New York ("FHLB") stock: The carrying amount of FHLB stock approximates fair value and considers the limited marketability of the investment.

Bank-owned life insurance: The carrying amounts are based on the cash surrender values of the individual policies, which is a reasonable estimate of fair value.

Deposits: The fair value of deposits with no stated maturity, such as money market deposit accounts, interest-bearing checking accounts and savings accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is equivalent to current market rates for deposits of similar size, type and maturity.

Accrued interest receivable and payable: For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Federal Home Loan Bank of New York advances and securities sold under reverse repurchase agreements: The fair value of borrowings is based on the discounted value of contractual cash flows. The discount rate is equivalent to the rate currently offered by the Federal Home Loan Bank of New York for borrowings of similar maturity and terms.

The fair value of commitments to extend credit is estimated based on the amount of unamortized deferred loan commitment fees. The fair value of letters of credit is based on the amount of unearned fees plus the estimated cost to terminate the letters of credit. Fair values of unrecognized financial instruments including commitments to extend credit and the fair value of letters of credit are considered immaterial.

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments carried at cost or amortized cost as of June 30, 2013 and September 30, 2012. This table excludes financial instruments for which the carrying amount approximates level 1 fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as interest-bearing demand, NOW, and money market savings deposits, the carrying amount is a reasonable estimate of fair value due to these products being payable on demand and having no stated maturity.

	Carrying	Fair	Fair Value Measurement Placement		
	Value	Value	(Level 1)	(Level 2)	(Level 3)
	(Dollars in thousands)				
June 30, 2013					
Financial instruments - assets					
Investment securities held-to-maturity	$54,487	$53,984	$—	$53,984	$—
Loans	391,916	396,403	—	—	396,403
Financial instruments - liabilities					
Certificate of deposit	161,998	163,808	—	163,808	—
Borrowings	37,333	38,708	—	38,708	—
September 30, 2012					
Financial instruments - assets					
Investment securities held-to-maturity	$41,068	$42,130	$—	$42,130	$—
Loans	385,270	396,111	—	—	396,111
Financial instruments - liabilities					
Certificate of deposit	158,461	160,753	—	160,753	—
Borrowings	41,503	43,898	—	43,898	—

Table of Contents

There were no transfers between fair value measurement placements for the three and nine months ended June 30, 2013.

NOTE H - INVESTMENT SECURITIES

The following tables summarize the amortized cost and fair values of securities available for sale at June 30, 2013 and September 30, 2012:

	At June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage backed securities - residential	$1,609	$ 11	$ —	$1,620
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	10,037	8	(263)	9,782
Mortgage backed securities-commercial	3,985	76	—	4,061
Private label mortgage-backed securities-residential	836	10	(2)	844
Total securities available for sale	$16,467	$ 105	$ (265)	$16,307

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage backed securities - residential	$1,850	$ 11	$ —	$1,861
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	8,368	207	—	8,575
Mortgage backed securities-commercial	4,053	175	—	4,228
Debt securities	1,000	67	—	1,067
Private label mortgage-backed securities-residential	1,031	25	(1)	1,055
Total securities available for sale	$16,302	$ 485	$ (1)	$16,786

The maturities of the debt securities and mortgage-backed securities available-for-sale at June 30, 2013 are summarized in the following table:

	At June 30, 2013	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within 1 year	$ —	$ —
Due after 1 but within 5 years	—	—
Due after 5 but within 10 years	—	—
Due after 10 years	—	—
Total debt securities	—	—
Mortgage-backed securities:		
Residential	12,482	12,246
Commercial	3,985	4,061
Total	$ 16,467	$ 16,307

14

Table of Contents

The following tables summarize the amortized cost and fair values of securities held to maturity at June 30, 2013 and September 30, 2012:

	At June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities held to maturity:				
Obligations of U.S. government agencies:				
Mortgage-backed securities-residential	$10,214	$ 232	$ (133)	$10,313
Mortgage-backed securities-commercial	1,450	7	—	1,457
Obligations of U.S. government-sponsored enterprises:				
Mortgage backed securities-residential	34,903	395	(819)	34,479
Debt securities	4,000	—	(206)	3,794
Private label mortgage-backed securities-residential	909	27	(6)	930
Obligations of state and political subdivisions	11	—	—	11
Corporate securities	3,000	—	—	3,000
Total securities held to maturity	$54,487	$ 661	$ (1,164)	$53,984

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities held to maturity:				
Obligations of U.S. government agencies:				
Mortgage-backed securities - residential	$10,790	$ 414	$ (8)	$11,196
Mortgage-backed securities - commercial	1,522	14	—	1,536
Obligations of U.S. government-sponsored enterprises:				
Mortgage backed securities - residential	18,578	722	(5)	19,295
Debt securities	5,770	6	—	5,776
Private label mortgage-backed securities - residential	1,367	27	—	1,394
Obligations of state and political subdivisions	41	1	—	42
Corporate securities	3,000	—	(109)	2,891
Total securities held to maturity	$41,068	$ 1,184	$ (122)	$42,130

The maturities of the debt securities and the mortgage backed securities held to maturity at June 30, 2013 are summarized in the following table:

	At June 30, 2013	
	Amortized Cost	Fair Value

	(Dollars in	thousands)
Due within 1 year	$ 11	$ 11
Due after 1 but within 5 years	3,000	3,000
Due after 5 but within 10 years	1,000	938
Due after 10 years	3,000	2,856
Total debt securities	7,011	6,805
Mortgage-backed securities:		
Residential	46,026	45,722
Commercial	1,450	1,457
Total	$ 54,487	$ 53,984

15

Table of Contents

NOTE I – IMPAIRMENT OF INVESTMENT SECURITIES

The Company recognizes credit-related other-than-temporary impairment on debt securities in earnings while noncredit-related other-than-temporary impairment on debt securities not expected to be sold are recognized in other comprehensive income ("OCI").

We review our 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 has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and the intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market. We evaluate our intent and ability to hold debt securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position. In addition, the risk of future other-than-temporary impairment may be influenced by prolonged recession in the U.S. economy, changes in real estate values and interest deferrals.

Investment securities with fair values less than their amortized cost contain unrealized losses. The following tables present the gross unrealized losses and fair value at June 30, 2013 and September 30, 2012 for both available for sale and held to maturity securities by investment category and time frame for which the loss has been outstanding:

		June 30, 2013					
		Less Than 12 Months		12 Months Or Greater		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Dollars in thousands)					
Obligations of U.S. government agencies:							
Mortgage-backed securities - residential	3	$1,980	$(92)	$1,248	$(41)	$3,228	$(133)
Obligations of U.S. government-sponsored enterprises							
Mortgage backed securities - residential	22	33,106	(1,062)	722	(20)	33,828	(1,082)
Debt securities	4	3,793	(206)	—	—	3,793	(206)
Private label mortgage-backed securities residential	2	397	(6)	24	(2)	421	(8)
Total	31	$39,276	$(1,366)	$1,994	$(63)	$41,270	$(1,429)

		September 30, 2012					
		Less Than 12 Months		12 Months Or Greater		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

		(Dollars in thousands)					
Obligations of U.S. government agencies:							
Mortgage-backed securities - residential	1	$—	$ —	$ 1,729	$ (8)	$1,729	$ (8)
Obligations of U.S. government-sponsored enterprises							
Mortgage backed securities - residential	1	1,143	(5)	—	—	1,143	(5)
Private label mortgage-backed securities residential	3	—	—	26	(1)	26	(1)
Corporate securities	1	—	—	2,891	(109)	2,891	(109)
Total	6	$1,143	$ (5)	$ 4,646	$ (118)	$5,789	$ (123)

The investment securities listed above currently have fair values less than amortized cost and therefore contain unrealized losses. The Company evaluated these securities and determined that the decline in value was primarily related to fluctuations in the interest rate environment and were not related to any company or industry specific event. At June 30, 2013 and September 30, 2012, there were thirty one and six, respectively, investment securities with unrealized losses.

The Company anticipates full recovery of amortized costs with respect to these securities. The Company does not intend to sell these securities and has determined that it is not more likely than not that the Company would be required to sell these securities prior to maturity or market price recovery. Management has considered factors regarding other than temporarily impaired securities and determined that there are no securities with impairment that is other than temporary as of June 30, 2013 and September 30, 2012.

Table of Contents

NOTE J – LOANS RECEIVABLE, NET AND RELATED ALLOWANCE FOR LOAN LOSSES

Loans receivable, net were comprised of the following:

	June 30, 2013	September 30, 2012
	(Dollars in thousands)	
One-to four-family residential	$155,198	$ 157,536
Commercial real estate	154,596	148,806
Construction	23,168	17,952
Home equity lines of credit	21,101	23,435
Commercial business	32,464	29,930
Other	8,346	11,265
Total loans receivable	394,873	388,924
Net deferred loan costs	643	204
Allowance for loan losses	(3,600)	(3,858)
Total loans receivable, net	$391,916	$ 385,270

The segments of the Bank's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The residential mortgage loan segment is further disaggregated into two classes: amortizing term loans, which are primarily first liens, and home equity lines of credit, which are generally second liens. The commercial real estate loan segment is further disaggregated into three classes. Commercial real estate loans include loans secured by multifamily structures, owner-occupied commercial structures, and non-owner occupied nonresidential properties. The construction loan segment consists primarily of loans to developers or investors for the purpose of acquiring, developing and constructing residential or commercial structures and to a lesser extent one-to-four family residential construction loans made to individuals for the acquisition of and/or construction on a lot or lots on which a residential dwelling is to be built. Construction loans to developers and investors have a higher risk profile because the ultimate buyer, once development is completed, is generally not known at the time of the loan. The commercial business loan segment consists of loans made for the purpose of financing the activities of commercial customers and consists primarily of revolving lines of credit. The consumer loan segment consists primarily of stock-secured installment loans, but also includes unsecured personal loans and overdraft lines of credit connected with customer deposit accounts.

Management evaluates individual loans in all segments for possible impairment if the loan either is in nonaccrual status, or is risk rated Substandard and is greater than 90 days past due. Loans are considered to be 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 evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. 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.

Once the determination has been made that a loan is impaired, the recorded investment in the loan is compared to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral securing the loan, less anticipated selling and disposition costs. The method is selected on a loan-by loan basis, with management primarily utilizing the fair value of collateral method. If there is a shortfall between the fair value of the loan and the recorded investment in the loan, the Company charges the difference to the allowance for loan loss as a charge-off and carries the impaired loan on its books at fair value. It is the Company's policy to evaluate impaired loans on an annual basis to ensure the recorded investment in a loan does not exceed its fair value.

Table of Contents

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and charged-off and those for which a specific allowance was not necessary at the dates presented:

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
At June 30, 2013	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)				
One-to four-family residential	$4,421	$ 498	$ 6,418	$ 10,839	$ 12,041
Commercial real estate	425	11	5,613	6,038	7,197
Construction	3,823	193	442	4,265	5,925
Home equity lines of credit	—	—	1,041	1,041	1,270
Commercial business	643	485	85	728	749
Total impaired loans	$9,312	$ 1,187	$ 13,599	$ 22,911	$ 27,182

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
At September 30, 2012	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)				
One-to four-family residential	$—	$ —	$ 7,124	$ 7,124	$ 7,594
Commercial real estate	3,999	798	2,425	6,424	7,204
Construction	—	—	5,141	5,141	6,927
Home equity lines of credit	1,340	122	967	2,307	2,475
Commercial business	—	—	57	57	57
Other	12	12	—	12	12
Total impaired loans	$5,351	$ 932	$ 15,714	$ 21,065	$ 24,269

The following table presents the average recorded investment in impaired loans for the periods indicated. There was no interest income recognized on impaired loans during the periods presented.

	Three Months	Nine Months

	Ended June 30, 2013	Ended June 30, 2013
	(Dollars in thousands)	
One-to four-family residential	$ 10,984	$ 9,709
Commercial real estate	6,370	6,333
Construction	4,164	4,489
Home equity lines of credit	1,008	1,445
Commercial business	799	773
Average investment in impaired loans	$ 23,324	$ 22,750
Interest income recognized on an accrual basis on impaired loans	$ —	$ —
Interest income recognized on a cash basis on impaired loans	$ —	$ —

18

Table of Contents

	Three Months Ended June 30, 2012	Nine Months Ended June 30, 2012
	(Dollars in thousands)	
One-to four-family residential	$ 6,109	$ 4,897
Commercial real estate	7,667	7,262
Construction	8,418	10,974
Home equity lines of credit	2,047	1,397
Commercial business	268	257
Average investment in impaired loans	$ 24,508	$ 24,786
Interest income recognized on an accrual basis on impaired loans	$ —	$ —
Interest income recognized on a cash basis on impaired loans	$ —	$ —

Management uses a ten point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized, and are aggregated as “Pass” rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined 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. All loans greater than three months past due are considered Substandard. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as severe delinquency, bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Bank’s Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. The Asset Review Committee performs monthly reviews of all commercial relationships internally rated 6 (“Watch”) or worse. Confirmation of the appropriate risk grade is performed by an external Loan Review Company that semi-annually reviews and assesses loans within the portfolio. Generally, the external consultant reviews commercial relationships greater than $500,000 and/or criticized relationships greater than $250,000. Detailed reviews, including plans for resolution, are performed on loans classified as Substandard on a monthly basis.

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the Bank’s internal risk rating system at the dates presented:

	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
June 30, 2013					
One-to four-family residential	$144,086	$349	$10,763	$—	$155,198
Commercial real estate	147,708	1,148	5,740	—	154,596
Construction	13,893	592	8,683	—	23,168
Home equity lines of credit	17,892	833	2,376	—	21,101
Commercial business	30,468	1,296	68	632	32,464
Other	8,346	—	—	—	8,346
Total	$362,393	$4,218	$27,630	$632	$394,873

Table of Contents

	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
September 30, 2012					
One-to four-family residential	$146,487	$3,925	$ 7,124	$ —	$157,536
Commercial real estate	137,616	3,063	6,448	1,679	148,806
Construction	8,274	4,537	5,141	—	17,952
Home equity lines of credit	20,295	833	967	1,340	23,435
Commercial business	26,057	3,151	722	—	29,930
Other	11,253	—	12	—	11,265
Total	$349,982	$15,509	$ 20,414	$ 3,019	$388,924

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans at the dates presented:

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days + Past Due	Total Past Due	Non-Accrual	Total Loans
	(Dollars in thousands)						
June 30, 2013							
One-to four-family residential	$146,295	$ 46	$ 769	$ 8,087	$8,903	$8,087	$155,198
Commercial real estate	151,424	—	423	2,749	3,172	2,749	154,596
Construction	18,903	—	—	4,265	4,265	4,265	23,168
Home equity lines of credit	20,242	—	—	859	859	859	21,101
Commercial business	31,747	59	—	658	717	658	32,464
Other	8,346	—	—	—	—	—	8,346
Total	$376,957	$ 105	$ 1,192	$ 16,618	$17,916	$16,618	$394,873

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days + Past Due	Total Past Due	Non-Accrual	Total Loans
	(Dollars in thousands)						
September 30, 2012							
One-to four-family residential	$147,749	$ 621	$ 1,589	$ 7,577	$9,787	$7,577	$157,536
Commercial real estate	141,674	—	708	6,424	7,132	6,424	148,806
Construction	12,811	—	—	5,141	5,141	5,141	17,952
Home equity lines of credit	22,353	160	59	863	1,082	863	23,435
Commercial business	29,761	10	102	57	169	57	29,930
Other	11,253	—	—	12	12	12	11,265
Total	$365,601	$ 791	$ 2,458	$ 20,074	$23,323	$20,074	$388,924

An allowance for loan losses (“ALL”) is maintained to absorb losses from the loan portfolio. The ALL is based on management’s continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of NPLs.

The Bank’s methodology for determining the ALL is based on the requirements of ASC Section 310-10-35 for loans individually evaluated for impairment (discussed above) and ASC Subtopic 450-20 for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance.

Table of Contents

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative and economic factors.

The loans are segmented into classes based on their inherent varying degrees of risk, as described above. Management tracks the historical net charge-off activity by segment and utilizes this figure, as a percentage of the segment, as the general reserve percentage for pooled, homogenous loans that have not been deemed impaired. Typically, an average of losses incurred over a defined number of consecutive historical years is used.

Non-impaired credits are segregated for the application of qualitative factors. Management has identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are: national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; trends in volumes and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; value of underlying collateral; and concentrations of credit from a loan type, industry and/or geographic standpoint.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL. Since loans individually evaluated for impairment are promptly written down to their fair value, typically there is no portion of the ALL for loans individually evaluated for impairment.

The following table summarizes the ALL by loan category and the related activity for the nine months ended June 30, 2013:

	One-to Four-Family Residential	Commercial Real Estate	Construction	Home Equity Lines of Credit	Commercial Business	Other	Unallocated	Total
	(Dollars in thousands)							
Balance-September 30, 2012	$610	$ 1,929	$ 640	$ 232	$ 383	$23	$ 41	$3,858
Charge-offs	(192)	—	—	—	—	(13)	—	(205)
Recoveries	—	—	—	—	—	—	—	—
Provision	251	(85)	(169)	1	406	8	29	441
Balance- December 31, 2012	$668	$ 1,844	$ 471	$ 233	$ 789	$18	$ 70	$4,094

Charge-offs	(221)	(576)	(1,057)	—	(75)	—	—	(1,929)
Recoveries	—	20	—	—	—	—	—	20
Provision	95	(268)	1,197	(56)	80	(8)	(40)	$1,000
Balance- March 31, 2013	$542	$ 1,020	$ 611	$ 177	$ 794	$10	$ 30	$3,184
Charge-offs	—	—	(23)	—	(99)	—	—	(122)
Recoveries	—	—	284	—	—	—	—	284
Provision	226	(177)	(126)	15	272	(2)	46	$254
Balance- June 30, 2013	$768	$ 843	$ 746	$ 192	$ 967	$8	$ 76	$3,600

The following table summarizes the ALL by loan category and the related activity for the nine months ended June 30, 2012:

21

Table of Contents

	One-to Four-Family Residential	Commercial Real Estate	Construction	Home Equity Lines of Credit	Commercial Business	Other	Unallocated	Total
	(Dollars in thousands)							
Balance- September 30, 2011	$734	$ 1,266	$ 1,043	$ 101	$ 551	$ 13	$ 104	$3,812
Charge-offs	—	—	(184)	(81)	(69)	—		(334)
Recoveries	—	—	—	—	—	—		—
Provision	(148)	245	90	58	135	(7)	(3)	370
Balance- December 31, 2011	$586	$ 1,511	$ 949	$ 78	$ 617	$ 6	$ 101	$3,848
Charge-offs	(20)	—	(143)	—	—	—		(163)
Recoveries	—	—	—	—	—	—		—
Provision	244	192	(60)	150	(212)	4	4	323
Balance-March 31, 2012	$810	$ 1,703	$ 746	$ 228	$ 405	$ 10	$ 105	$4,008
Charge-offs	(104)	—	(443)	—	—	—		(547)
Recoveries	—	—	—	—	—	—		—
Provision	(106)	160	280	8	53	2	(57)	340
Balance-June 30, 2012	$600	$ 1,863	$ 583	$ 237	$ 458	$ 12	$ 48	$3,801

The following table summarizes the ALL by loan category, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of June 30, 2013 and September 30, 2012:

	One-to Four-Family Residential	Commercial Real Estate	Construction	Home Equity Lines of Credit	Commercial Business	Other	Unallocated	Total
	(Dollars in thousands)							
Allowance for Loan Losses:								
Balance - June 30, 2013	$768	$843	$746	$192	$967	$8	$ 76	$3,600
Individually evaluated for impairment	498	11	193	—	485	—	—	1,187
Collectively evaluated for impairment	270	832	553	192	482	8	76	2,413
Loans receivable:								
Balance - June 30, 2013	$155,198	$154,596	$23,168	$21,101	$32,464	$8,346		$394,873
Individually evaluated for impairment	10,839	6,038	4,265	1,041	728	—		22,911
Collectively evaluated for impairment	144,359	148,558	18,903	20,060	31,736	8,346		371,962

Table of Contents

	One-to Four-Family Residential	Commercial Real Estate	Construction	Home Equity Lines of Credit	Commercial Business	Other	Unallocated	Total
	(Dollars in thousands)							
Allowance for Loan Losses:								
Balance- September 30, 2012	$610	$1,929	$640	$232	$383	$23	$ 41	$3,858
Individually evaluated for impairment	—	798	—	122	—	12	—	932
Collectively evaluated for impairment	610	1,131	640	110	383	11	41	2,926
Loans receivable:								
Balance-September 30, 2012	$157,536	$148,806	$17,952	$23,435	$29,930	$11,265		$388,924
Individually evaluated for impairment	7,124	6,424	5,141	2,307	57	12		21,065
Collectively evaluated for impairment	150,412	142,382	12,811	21,128	29,873	11,253		367,859

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the segmentation of the loan portfolio into homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date.

The Bank has adopted FASB ASU No. 2011-02 on the determination of whether a loan restructuring is considered to be a Troubled Debt Restructuring (“TDR”). A TDR is a loan that has been modified whereby the Bank has agreed to make certain concessions to a borrower to meet the needs of both the borrower and the Bank to maximize the ultimate recovery of a loan. TDR occurs when a borrower is experiencing, or is expected to experience, financial difficulties and the loan is modified using a modification that would otherwise not be granted to the borrower. The types of concessions granted generally include, but not limited to, interest rate reductions, limitations on the accrued interest charged, term extensions, and deferment of principal.

There was one TDRs during the three months ended June 30, 2013 and nine TDRs during the nine months ended June 30, 2013. These were classified as TDRs due to financial difficulty of the borrowers and lower than market interest rates. The following table summarizes the TDRs during the three and nine month period ended June 30, 2013 and 2012.

Three Months Ended June 30, 2013		
Number of Loans	Investment Before TDR Modification	Investment After TDR Modification

	(Dollars in thousands)				
Commercial real estate	1	$	693	$	999
Total	1	$	693	$	999

	Nine Months Ended June 30, 2013				
	Number of Loans	Investment Before TDR Modification		Investment After TDR Modification	
	(Dollars in thousands)				
One-to four-family residential	7	$	1,199	$	1,199
Commercial real estate	1		693		999
Construction	1		67		67
Total	9	$	1,959	$	2,265

23

Table of Contents

	Three Months Ended June 30, 2012		
	Number of Loans	Investment Before TDR Modification	Investment After TDR Modification
	(Dollars in thousands)		
One-to four-family residential	5	$ 604	$ 604
Total	5	$ 604	$ 604

	Nine Months Ended June 30, 2012		
	Number of Loans	Investment Before TDR Modification	Investment After TDR Modification
	(Dollars in thousands)		
One-to four-family residential	6	$ 2,343	$ 2,343
Commercial real estate	1	246	246
Total	7	$ 2,589	$ 2,589

A default on a troubled debt restructured loan for purposes of this disclosure occurs when a borrower is 90 days past due or a foreclosure or repossession of the applicable collateral has occurred. During the three and nine months ended June 30, 2013, no defaults occurred on troubled debt restructured loans that were modified as a TDR within the previous 12 months.

NOTE K - DEPOSITS

A summary of deposits by type of account are summarized as follows:

	June 30, 2013	September 30, 2012
	(Dollars in thousands)	
Demand accounts	$ 84,544	$ 50,897
Savings accounts	55,267	55,293
NOW accounts	34,377	44,312
Money market accounts	107,840	107,555
Certificates of deposit	133,802	129,716
Retirement certificates	28,196	28,745

$444,026	$ 416,518

NOTE L – INCOME TAXES

The Company records income taxes using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled.

Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The valuation allowance is assessed by management on a quarterly basis and adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant. In assessing whether it is more likely than not that some portion or all of the deferred tax assets will not be realized, management considers projections of future taxable income, the projected periods in which current temporary differences will be deductible, the availability of carry forwards, feasible and permissible tax planning strategies and existing tax laws and regulations. Due to the uncertainty of the Company's ability to realize the benefit of certain deferred tax assets within statutory time limits, the net deferred tax assets are partially offset by a valuation allowance at June 30, 2013, the amount of which has not materially changed from that in place at September 30, 2012.

A reconciliation of income tax between the amounts calculated based upon pre-tax income at the Company’s federal statutory rate and the amounts reflected in the consolidated statements of operations are as follows:

Table of Contents

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Income tax expense at 34% statutory federal tax rate	$92	$82	$ 22	$ 84
Change in valuation allowance related to deferred income tax assets		10		19
State tax expense	18	11	9	22
Other	(32)	(34)	(98)	(91)
Income tax expense (benefit)	$78	$69	$ (67)	$ 34

NOTE M - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company uses derivative financial instruments, such as interest rate floors and collars, as part of its interest rate risk management. Interest rate caps and floors are agreements whereby one party agrees to pay or receive a floating rate of interest on a notional principal amount for a predetermined period of time if certain market interest rate thresholds are met. The Company considers the credit risk inherent in these contracts to be negligible.

As of June 30, 2013 and September 30, 2012, the Company did not hold any interest rate floors or collars.

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheets.

	June 30, 2013	September 30, 2012
	(Dollars in thousands)	
Financial instruments whose contract amounts represent credit risk		
Letters of credit	$ 1,450	$ 1,450
Unused lines of credit	37,401	41,162

Fixed rate loan commitments	6,191	1,988
Variable rate loan commitments	9,794	14,112
	$ 54,836	$ 58,712

25

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

When used in this filing and in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases, "anticipate," "would be," "will allow," "intends to," "will likely result "are expected to," "will continue," "is anticipated," "estimated," "projected," "believes", or similar expressions are intended to identify "forward looking statements." Forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those risks previously disclosed in the Company's filings with the SEC, general economic conditions, changes in interest rates, regulatory considerations, competition, technological developments, retention and recruitment of qualified personnel, and market acceptance of the Company's pricing, products and services, and with respect to the loans extended by the Bank and real estate owned, the following: risks related to the economic environment in the market areas in which the Bank operates, particularly with respect to the real estate market in New Jersey; the risk that the value of the real estate securing these loans may decline in value; and the risk that significant expense may be incurred by the Company in connection with the resolution of these loans.

The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and advises readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investing activities, and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. Critical accounting policies may involve complex subjective decisions or assessments. We consider the following to be our critical accounting policies.

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to cover credit losses in the loan portfolio both probable and reasonably estimable at the balance sheet date. The allowance is established through the provision for loan losses which is charged against income. In determining the allowance for loan losses, management makes significant estimates and has identified this policy as one of our most critical. Due to the high degree of judgment involved, the subjectivity of the assumptions utilized and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses, the methodology for determining the allowance for loan losses is considered a critical accounting policy by management.

As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans and discounted cash flow valuations of properties are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisals and discounted cash flow valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals and discounted cash flow valuations are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. We consider a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews and other relevant factors. This evaluation is inherently subjective as it requires material estimates by management that may be susceptible to significant change based on changes in economic and real estate market conditions.

The evaluation has a specific and general component. The specific component relates to loans that are delinquent or otherwise identified as impaired through the application of our loan review process and our loan grading system. All such loans are evaluated individually, with principal consideration given to the value of the collateral securing the loan and discounted cash flows. Specific impairment allowances are established as required by this analysis. The general component is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions and geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general component of the allowance for loan losses.

Table of Contents

Actual loan losses may be significantly greater than the allowances we have established, which could have a material negative effect on our financial results.

Other Real Estate Owned. Real estate acquired through foreclosure, or a deed-in-lieu of foreclosure, is recorded at fair value less estimated selling costs at the date of acquisition or transfer, and subsequently at the lower of its new cost or fair value less estimated selling costs. Adjustments to the carrying value at the date of acquisition or transfer are charged to the allowance for loan losses. The carrying value of the individual properties is subsequently adjusted to the extent it exceeds estimated fair value less estimated selling costs, at which time a provision for losses on such real estate is charged to operations.

Appraisals are critical in determining the fair value of the other real estate owned amount. Assumptions for appraisals are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property. The assumptions supporting such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable.

Deferred Income Taxes. The Company records income taxes using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled.

Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period of enactment. The valuation allowance is adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant.

Comparison of Financial Condition at June 30, 2013 and September 30, 2012

Total assets increased $23.6 million, or 4.6%, to $532.5 million at June 30, 2013 from $508.8 million at September 30, 2012. The increase was attributable to higher balances of investment securities, loans receivable, and cash and cash equivalents.

Cash and interest bearing deposits with banks increased $3.7 million, or 37.1%, to $13.8 million at June 30, 2013 from $ 10.0 million at September 30, 2012. The increase was attributable to strong deposit inflows in non-interest bearing checking account balances.

Total loans receivable increased $5.9 million during the nine months ended June 30, 2013 to $394.9 million and were comprised of $155.2 million (39.3%) one-to-four family residential mortgage loans, $154.6 million (39.2%) commercial real estate loans, $32.5 million (8.2%) commercial business loans, $23.2 million (5.9%) construction loans, $21.1 million (5.3%) home equity lines of credit and $8.3 million (2.1%) other loans. Expansion of the portfolio during the nine months ended June 30, 2013 occurred primarily in commercial real estate and construction loans, which increased $5.8 million and $5.2 million, respectively.

Total non-performing loans (“NPLs”) decreased by $3.5 million to $16.6 million at June 30, 2013 from $20.1 million at September 30, 2012. The ratio of non-performing loans to total loans decreased to 4.2% at June 30, 2013 from 5.2% at September 30, 2012.

Included in the non-performing loan totals were twenty nine residential mortgage loans totaling $8.1 million, six construction loans totaling $4.3 million, six commercial real estate loans totaling $2.7 million, seven home equity lines of credit totaling $859,000, and three commercial business loan totaling $658,000.

Adverse economic conditions have led to high levels of non-performing loans, particularly in the Company’s one-to four-family residential, commercial real estate and construction loan portfolios. The repayment of construction loans is typically dependent upon the sale of the collateral securing the loan, which has been negatively impacted by rapid deterioration in the housing market and decreased buyer demand. As a result, construction projects have slowed and reached their maturity dates. In order for the Company to extend the loans beyond the original maturity date, the value of the collateral securing the loan must be assessed, which is typically done by obtaining an updated third-party appraisal. Given the deterioration in the economy and, specifically, the housing market, updated valuations of the collateral reflect depreciation from earlier assessments. To the extent that an updated valuation of the collateral is insufficient to cover a collateral-dependent loan, the Company reduces the balance of the loan via a charge to the allowance for loan loss.

Table of Contents

At June 30, 2013, non-performing construction loans consisted of six loans totaling $4.3 million for the development of single family homes. These loans were used for land acquisition and construction in various locations in New Jersey and Pennsylvania. Magyar Bank is pursing foreclosure of the collateral securing the loans. Year-to-date, the Bank had charged off $1.1 million in construction loans through a reduction of its allowance for loan loss.

Construction loans may contain interest reserves on which the interest is capitalized to the loan. At June 30, 2013, there were two performing construction loan with an interest reserves representing an outstanding balance of $6.0 million, original interest reserves of $360,000, advanced interest reserves of $75,000, and a remaining interest reserve balance of $285,000. At September 30, 2012, there were two performing construction loans with interest reserves representing outstanding balances of $893,000, an original interest reserve of $169,000, an advanced interest reserve of $9,000, and a remaining interest reserve balance of $160,000.

Underwriting for construction loans with and without interest reserves has followed a uniform process. Construction loan progress is monitored on a monthly basis by management as well as by the Board of Directors. Each time an advance is requested, an inspection is made of the project by an outside engineer or appraiser, depending on the size and complexity of the project, to determine the amount of work completed and if the costs to date are supported adequately. The Bank’s construction loan operations personnel compare the advance request with the original budget and remaining loan funds available to ensure the project is in balance and that at all times the amount remaining on the loan is sufficient to complete the project.

A number of the Bank’s construction loans have been extended due to slower sales as a result of economic conditions. In cases where updated appraisals reflect collateral values insufficient to cover the loan, additional collateral and/or a principal reduction is required to extend the loan. Some of the Bank’s loans that originally had interest reserves are non-performing. The Bank does not currently have any NPLs with active interest reserves. Once a loan is deemed impaired, any interest reserve is frozen and the loan is placed on non-accrual so that no future interest income is recorded on these loans.

NPLs secured by one-to four-family residential properties including home equity lines of credit increased $507,000 to $8.9 million at June 30, 2013 from $8.4 million at September 30, 2012. There were thirty-six NPLs secured by one-to four-family residential properties in varying stages of foreclosure at June 30, 2013. The Company has not and does not intend to originate or purchase sub-prime loans or option-ARM loans. Fiscal year-to-date, the Bank had charged off $413,000 in residential and home equity line of credit loans through a reduction of its allowance for loan loss.

Non-performing commercial real estate loans decreased $3.6 million to $2.8 million at June 30, 2013 from $6.4 million at September 30, 2012. The five non-accrual loans were in various stages of foreclosure and collection at June 30, 2013. Fiscal year-to-date, the Bank had charged off $576,000 in commercial real estate loans through a reduction of its allowance for loan loss.

Non-performing commercial business loans increased $601,000 to $658,000 at June 30, 2013 from $57,000 at September 30, 2012. Fiscal year-to-date, the Bank had charged off $174,000 in non-performing commercial business loans through a reduction of its allowance for loan loss.

During the nine months ended June 30, 2013, the allowance for loan losses decreased $258,000 to $3.6 million from $3.9 at March 31, 2012. The decrease in the allowance for loan loss was primarily the result of higher levels of loan charge-offs.

The allowance for loan losses as a percentage of non-performing loans increased to 21.7% at June 30, 2013 compared with 19.2% at September 30, 2012. At June 30, 2013, the Company's allowance for loan losses as a percentage of total loans was 0.91% compared with 0.99% at September 30, 2012. Future increases in the allowance for loan losses may be necessary based on the growth of the loan portfolio, the change in composition of the loan portfolio, possible future increases in non-performing loans and charge-offs, and the possible continuation of the current adverse economic environment.

Table of Contents

The allowance for loan loss includes a specific reserve for NPLs. Loans are reported at the lower of amortized cost or fair value, based upon updated independent appraisals of collateral or the discounted value of expected loan repayments. Valuations of such loans are performed at least annually with charge-offs recorded when appraised values, net of estimated selling and disposition costs, are less than the loan balances. Specific reserves may be used on occasions where an updated valuation is unavailable or repayment is expected in a timely basis. At June 30, 2013, the Bank held specific reserves totaling $1.2 million.

Investment securities increased $12.9 million to $70.8 million at June 30, 2013 from $57.9 million at September 30, 2012. The increase was due to purchases of U.S. Government-sponsored enterprise obligations totaling $30.9 million, which exceeded repayments received totaling $12.9 million and securities sold totaling $4.2 million, during the nine months ended June 30, 2013. Investment securities at June 30, 2013 consisted of $62.0 million in mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises, $4.0 million in U.S. government-sponsored enterprise debt securities, $3.0 million in corporate notes, $1.8 million in “private-label” mortgage-backed securities, and $11,000 in state municipal bonds. There were no other-than-temporary-impairment charges for the Company’s investment securities for the nine months ended June 30, 2013.

Other real estate owned increased $1.3 million to $14.7 million at June 30, 2013 from $13.4 million at September 30, 2012. During the nine months ended June 30, 2013, the Bank sold ten properties totaling $2.0 million for a loss of $76,000 and added five properties totaling $3.1 million resulting from foreclosure of collateral securing non-performing loans. The Bank is determining the proper course of action for its other real estate owned, which may include holding the properties until the real estate market improves, selling the properties to a developer and completing partially completed homes for either rental or sale.

Total deposits increased $27.5 million, or 6.6%, to $444.0 million during the nine months ended June 30, 2013. The increase in deposits occurred in non-interest bearing checking accounts, which increased $33.6 million, or 66.1%, to $84.5 million and certificates of deposit (including individual retirement accounts), which increased $3.5 million, or 2.2%, to $162.0 million and money market accounts, which increased $285,000, or 0.3% to $107.8 million. Offsetting these increases were decreases in interest-bearing checking accounts, which decreased $9.9 million, or 22.4%, to $34.4 million, and savings accounts, which decreased $26,000, or 0.1%, to $55.3 million. The Company’s ability to fund its loan and investment activity with checking account balances contributed to the increase in its net interest margin.

Included with the total deposits at June 30, 2013 were $7.0 million in brokered certificates of deposit. At September 30, 2012 brokered certificates of deposit were $7.5 million.

Federal Home Loan Bank of New York advances decreased $4.2 million, or 11.4%, to $32.3 million at June 30, 2013 from $36.5 million at September 30, 2012, while securities sold under agreements to repurchase were unchanged at $5.0 million at June 30, 2013.

Stockholders' equity decreased $245,000, or 0.5%, to $44.8 million at June 30, 2013 from $45.0 million at September 30, 2012. The decrease was due to the Company's results from operations, and the changes in the Company's accumulated other comprehensive loss during the nine month period.

The Company did not repurchase any shares during the nine months ended June 30, 2013. Through June 30, 2013, the Company had repurchased 81,000 shares at an average price of $8.33 pursuant to the second stock repurchase plan, which has reduced outstanding shares to 5,811,394.

The Company's book value per share decreased to $7.70 at June 30, 2013 from $7.75 at September 30, 2012. The decrease was due to the Company's results of operations for the nine months ended June 30, 2013.

Average Balance Sheets for the Three and Nine Months Ended June 30, 2013 and 2012

The tables on the following pages present certain information regarding the Company's financial condition and net interest income for the three and nine months ended June 30, 2013 and 2012. The tables present the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. We derived average balances from daily balances over the periods indicated. Interest income includes fees that we consider adjustments to yields.

Table of Contents

	For the Three Months Ended June 30, 2013			2012		
	Average **Balance**	Interest Income/ **Expense**	Yield/Cost **(Annualized)**	Average **Balance**	Interest Income/ **Expense**	Yield/Cost **(Annualized)**
	(Dollars In Thousands)					
Interest-earning assets:						
Interest-earning deposits	$19,959	$ 14	0.28%	$16,198	$ 10	0.27%
Loans receivable, net	389,467	4,540	4.68%	382,921	4,670	4.89%
Securities						
Taxable	59,288	379	2.56%	67,879	473	2.80%
Tax-exempt (1)	11	—	9.09%	41	1	9.09%
FHLB of NY stock	2,366	25	4.24%	2,299	26	4.49%
Total interest-earning assets	471,091	4,958	4.22%	469,338	5,180	4.43%
Noninterest-earning assets	56,535			54,818		
Total assets	$527,626			$524,156		
Interest-bearing liabilities:						
Savings accounts (2)	$55,283	32	0.23%	$57,768	50	0.35%
NOW accounts (3)	147,101	110	0.30%	145,440	159	0.44%
Time deposits (4)	162,510	612	1.51%	167,484	760	1.82%
Total interest-bearing deposits	364,894	754	0.83%	370,692	969	1.05%
Borrowings	40,662	323	3.18%	49,599	475	3.84%
Total interest-bearing liabilities	405,556	1,077	1.07%	420,291	1,444	1.38%
Noninterest-bearing liabilities	77,064			59,099		
Total liabilities	482,620			479,390		
Retained earnings	45,006			44,766		
Total liabilities and retained earnings	$527,626			$524,156		
Tax-equivalent basis adjustment		—			—	
Net interest and dividend income		$ 3,881			$ 3,736	
Interest rate spread			3.15%			3.05%
Net interest-earning assets	$65,535			$49,047		
Net interest margin (5)			3.30%			3.19%
Average interest-earning assets to average interest-bearing liabilities	116.16%			111.67%		

(1) Calculated using 34% tax rate.
(2) Includes passbook savings, money market passbook and club accounts.
(3) Includes interest-bearing checking and money market accounts.
(4) Includes certificates of deposits and individual retirement accounts.
(5) Calculated as annualized net interest income divided by average total interest-earning assets.

Table of Contents

	For the Nine Months Ended June 30,					
	2013			2012		
	Average **Balance**	Interest Income/ **Expense**	Yield/Cost **(Annualized)**	Average **Balance**	Interest Income/ **Expense**	Yield/Cost **(Annualized)**
	(Dollars In Thousands)					
Interest-earning assets:						
Interest-earning deposits	$13,542	$28	0.28%	$13,677	$29	0.28%
Loans receivable, net	388,867	13,560	4.66%	383,128	14,058	4.89%
Securities						
Taxable	59,417	1,125	2.53%	70,891	1,516	2.85%
Tax-exempt (1)	21	1	6.78%	53	3	6.55%
FHLB of NY stock	2,484	82	4.40%	2,300	79	4.55%
Total interest-earning assets	464,331	14,796	4.26%	470,049	15,685	4.45%
Noninterest-earning assets	54,766			54,863		
Total assets	$519,097			$524,912		
Interest-bearing liabilities:						
Savings accounts (2)	$54,513	$102	0.25%	$58,621	$182	0.41%
NOW accounts (3)	148,185	377	0.34%	144,214	482	0.45%
Time deposits (4)	159,760	1,866	1.56%	169,883	2,422	1.90%
Total interest-bearing deposits	362,458	2,345	0.86%	372,718	3,086	1.10%
Borrowings	43,371	1,030	3.17%	49,829	1,467	3.92%
Total interest-bearing liabilities	405,829	3,375	1.11%	422,547	4,553	1.44%
Noninterest-bearing liabilities	68,251			57,587		
Total liabilities	474,080			480,134		
Retained earnings	45,017			44,778		
Total liabilities and retained earnings	$519,097			$524,912		
Tax-equivalent basis adjustment		—			(1)	
Net interest and dividend income		$11,421			$11,131	
Interest rate spread			3.15%			3.01%
Net interest-earning assets	$58,502			$47,502		
Net interest margin (5)			3.29%			3.15%
Average interest-earning assets to average interest-bearing liabilities	114.42%			111.24%		

(1) Calculated using 34% tax rate.
(2) Includes passbook savings, money market passbook and club accounts.
(3) Includes interest-bearing checking and money market accounts.
(4) Includes certificates of deposits and individual retirement accounts.
(5) Calculated as annualized net interest income divided by average total interest-earning assets.

31

Table of Contents

Comparison of Operating Results for the Three Months Ended June 30, 2013 and 2012

Net Income. Net income increased $20,000 during the three-month period ended June 30, 2013 compared with the three-month period ended June 30, 2012 due to higher net interest and dividend income, which increased $145,000, or 3.9%. Partially offsetting lower non-interest income and higher non-interest expenses were lower provisions for loan loss.

Net Interest and Dividend Income. Net interest and dividend income increased $145,000 to $3.9 million for the three months ended June 30, 2013 from $3.7 million for the three months ended June 30, 2012. The Company's net interest margin increased by 11 basis points to 3.30% for the quarter ended June 30, 2013 compared to 3.19% for the quarter ended June 30, 2012. The yield on interest-earning assets fell 21 basis points to 4.22% for the three months ended June 30, 2013 from 4.43% for the three months ended June 30, 2012 primarily due to the lower interest rate environment. The cost of interest-bearing liabilities fell 31 basis points to 1.07% for the three months ended June 30, 2013 from 1.38% for the three months ended June 30, 2012. The decrease in the cost of interest-bearing liabilities was attributable to the lower rate environment and a more favorable funding composition comprised of a larger percentage of lower-cost deposit account balances.

Interest and Dividend Income. Interest and dividend income decreased $222,000, or 4.3%, to $5.0 million for the three months ended June 30, 2013 from $5.2 million for the three months ended June 30, 2012. The decrease was attributable to a 21 basis point decrease in the yield on such assets to 4.22%, which more than offset a $1.8 million, or 0.40%, increase in the average balance of interest-earning assets for the quarter ended June 30, 2013 compared with the prior year period.

Interest earned on loans decreased $130,000, or 2.8%, to $4.5 million for the three months ended June 30, 2013 compared with the prior year period due primarily to a 21 basis point decrease in the average yield on such loans to 4.68% from 4.89%. The decrease in yield between the two periods was due primarily to the lower market interest rate environment.

Interest earned on our investment securities, including interest earning deposits and excluding Federal Home Loan Bank of New York stock, decreased $91,000, or 18.8%, due to a $4.8 million, or 5.8%, decrease in the average balance of such securities to $79.3 million for the three months ended June 30, 2013. The average yield on investment securities decreased 33 basis points to 1.99% for the three months ended June 30, 2013 from 2.32% for the three months ended June 30, 2012. The decrease in yield was due to the lower overall interest rate market.

Interest Expense. Interest expense decreased $367,000, or 25.4%, to $1.1 million for the three months ended June 30, 2013 from $1.4 million for the three months ended June 30, 2012. The average balance of interest-bearing liabilities decreased $14.7 million, or 3.5%, between the two periods, while the cost on such liabilities fell 31 basis points to

1.07% for the quarter ended June 30, 2013 compared with the prior year period.

The average balance of interest bearing deposits decreased $5.8 million to $364.9 million from $370.7 million while the average cost of such deposits decreased 22 basis points to 0.83% from 1.05% in the lower market interest rate environment. As a result, average interest paid on interest-bearing deposits decreased $215,000 to $754,000 for the three months ended June 30, 2013 from $969,000 for the three months ended June 30, 2012.

Interest paid on advances and securities sold under agreements to repurchase decreased $152,000, or 32.0%, to $323,000 for the three months ended June 30, 2013 from $475,000 for the prior year period due to a decrease in the average balance of such borrowings to $40.7 million from $49.6 million. The average cost of advances and securities sold under agreements to repurchase decreased 66 basis points to 3.18% for the three months ended June 30, 2013 from 3.84% for the same period of June 30, 2012, reflecting the lower market interest rate environment.

Provision for Loan Losses. We establish provisions for loan losses, which are charged to earnings, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events occur. After an evaluation of these factors, management recorded a provision of $254,000 for the three months ended June 30, 2013 compared to a provision of $340,000 for the prior year period. The provision for loan losses decreased during the current period compared with the prior year period due to lower levels of loan charge-offs. Net recoveries were $162,000 for the three months ended June 30, 2013 compared to net charge-offs of $547,000 for the three months ended June 30, 2012. The Company recorded charge-offs of $122,000 and recoveries of $284,000 during the three months ended June 30, 2013.

The loan charge-offs during the three months ended June 30, 2013 resulted from write-downs of two impaired loans. A $99,000 non-performing commercial loan secured by assets of the business was entirely charged off and $23,000 was charge-off from a $644,000 non-performing construction loan based on an updated appraisal of the collateral securing the loan. There were two partial recoveries totaling $284,000 recorded during the quarter from previously written down construction loans.

Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Management reviews the level of the allowance on a quarterly basis, and establishes the provision for loan losses based on the factors set forth in the preceding paragraph. As management evaluates the allowance for loan losses, the increased risk associated with larger non-homogenous construction, commercial real estate and commercial business loans may result in larger additions to the allowance for loan losses in future periods.

Other Income. Non-interest income decreased $103,000, or 20.8%, to $393,000 during the three months ended June 30, 2013 compared to $496,000 for the three months ended June 30, 2012. The decrease was attributable to lower gains on the sales of investment securities and lower service charge income. The Company recorded gains totaling $57,000 from the sale of investment securities during the three months ended June 30, 2013, which decreased $81,000, or 58.7%, from the prior year period. In addition, service charge income decreased $33,000, or 12.7%, to $226,000 due to lower loan fees and late charges recorded during the current year period.

Other Expenses. During the three months ended June 30, 2013, non-interest expenses increased $99,000 to $3.7 million from $3.6 million for the three months ended June 30, 2012 due to higher compensation and benefit expenses, which increased $116,000, or 6.5%, due to annual merit increases and higher employee medical benefit expenses.

Income Tax Benefit. The Company recorded tax expense of $78,000 for the three months ended June 30, 2013, compared to $69,000 for the three months ended June 30, 2012. The increase was due to higher income from operations between the two periods.

Comparison of Operating Results for the Nine Months Ended June 30, 2013 and 2012

Net Income. Net income decreased $81,000 to $133,000 during the nine month period ended June 30, 2013 compared with $214,000 during the nine month period ended June 30, 2012 due primarily to higher provisions for loan loss, which increased $662,000, or 64.1%, during the nine months ended June 30, 2013. Offsetting the higher provisions for loan loss was higher net interest and dividend income, which increased $289,000, or 2.6%, and lower non-interest expenses, which decreased $353,000, or 3.1%.

Net Interest and Dividend Income. Net interest and dividend income increased $289,000, or 2.6%, to $11.4 million for the nine month period ended June 30, 2013 compared with $11.1 million for the nine month period ended June 30, 2012.

The Company’s net interest margin increased by 14 basis points to 3.29% for the nine months ended June 30, 2013 compared to 3.15% for the nine months ended June 30, 2012. The yield on interest-earning assets fell 19 basis points to 4.26% for the nine months ended June 30, 2013 from 4.45% for the nine months ended June 30, 2012 primarily due to the lower rate environment. The cost of interest-bearing liabilities fell 33 basis points to 1.11% for the nine months ended June 30, 2013 from 1.44% for the nine months ended June 30, 2012. The decrease in the cost of interest-bearing liabilities was attributable to the lower rate environment and a more favorable funding composition comprised of a larger percentage of lower-cost deposit account balances.

Interest and Dividend Income. Interest and dividend income decreased $888,000, or 5.7%, to $14.8 million for the nine months ended June 30, 2013 from $15.7 million for the nine months ended June 30, 2012. The average balance of interest-earning assets decreased $5.7 million, or 1.2%, while the yield on assets decreased 19 basis points to 4.26% for the nine months ended June 30, 2013 compared with the prior year period.

Interest earned on loans decreased $498,000, or 3.5%, to $13.6 million for the nine months ended June 30, 2013 from $14.1 million for the prior year period while the average balance of loans between periods increased $5.7 million to $388.9 million and a 23 basis point decrease in the average yield on such loans to 4.66% from 4.89%. The decrease in yield between the two periods was due primarily to the lower market interest rate environment.

Interest earned on our investment securities, including interest earning deposits and excluding Federal Home Loan Bank of New York stock, decreased $394,000, or 25.5%, due to a $11.6 million, or 13.8%, decrease in the average balance of such securities to $73.0 million for the nine months ended June 30, 2013. The average yield on investment securities decreased 33 basis points to 2.11% for the nine months ended June 30, 2013 from 2.44% for the nine months ended June 30, 2012. The decrease in yield was due to the lower overall interest rate market.

Table of Contents

Interest Expense. Interest expense decreased $1.2 million, or 25.9%, to $3.4 million for the nine months ended June 30, 2013 from $4.6 million for the nine months ended June 30, 2012. The average balance of interest-bearing liabilities decreased $16.7 million, or 4.0%, between the two periods while the cost on such liabilities fell 33 basis points to 1.11% for the nine months ended June 30, 2013 compared with the prior year period.

The average balance of interest bearing deposits decreased $10.3 million to $362.5 million from $372.7 million while the average cost of such deposits decreased 24 basis points to 0.86% from 1.10% in the lower market interest rate environment. As a result, interest paid on deposits decreased $741,000 to $2.3 million for the nine months ended June 30, 2013 from $3.1 million for the nine months ended June 30, 2012.

Interest paid on advances and securities sold under agreements to repurchase decreased $437,000, or 29.8%, to $1.0 million for the nine months ended June 30, 2013 from $1.5 million for the prior year period due to a decrease in the average balance of such borrowings to $43.4 million from $49.8 million. The average cost of advances and securities sold under agreements to repurchase decreased 75 basis points to 3.17% for the nine months ended June 30, 2013 from 3.92% for the same period of June 30, 2012, reflecting the lower market interest rate environment.

Provision for Loan Losses. We establish provisions for loan losses, which are charged to earnings, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events occur. After an evaluation of these factors, management recorded a provision of $1.7 million for the nine months ended June 30, 2013 compared to $1.0 million for the nine months ended June 30, 2012. The increase in the provision for loan loss was due primarily to higher levels of loan charge-offs. Net charge-offs were $2.0 million for the nine months ended June 30, 2013 compared to $1.0 million for the nine months ended June 30, 2012.

The loan charge-offs during the nine months ended June 30, 2013 resulted primarily from additional write-downs of loans previously deemed impaired. Thirteen non-performing loans secured by real estate totaling $8.2 million were written down by $2.1 million for the nine months based on updated valuations of the real estate securing the loans. Of these thirteen loans, three totaling $2.9 million at September 30, 2012 were transferred to other real estate owned. In addition, the Company wrote down five commercial loans by $174,000 and one personal consumer loan totaling $12,000 during the nine months ended June 30, 2013. Offsetting the charge-offs were three partial recoveries totaling $304,000 received during the nine month period.

Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Management reviews the level of the allowance on a quarterly basis, and establishes the provision for loan losses based on the factors set forth in the preceding paragraph. As management evaluates the allowance for loan losses, the increased risk associated with larger non-homogenous construction, commercial real estate and commercial business loans may result in larger additions to the allowance for loan losses in future periods.

Other Income. Non-interest income decreased $162,000, or 10.0%, to $1.5 million for the nine months ended June 30, 2013 from $1.6 million for the nine months ended June 30, 2012. The decrease was attributable to lower gains on the sales of investment securities. Gains on the sale of available-for-sale investment securities decreased $166,000 to $120,000 for the nine months ended June 30, 2013 from $286,000 for the nine months ended June 30, 2012.

Other Expenses. Non-interest expenses decreased $353,000, or 3.1%, to $11.1 million during the nine months ended June 30, 2013 from $11.5 million for the nine months ended June 30, 2012. With the exception of data processing expenses, which increased $31,000, or 7.6%, due to the Bank's core systems conversion in June 2012, and compensation and benefits expense, which increased $29,000, or 0.5%, all other categories of non-interest expenses decreased during the current year period. OREO expenses decreased $224,000, or 32.0%, loan servicing expenses decreased $57,000, or 21.3%, professional fees decreased $51,000, or 6.6% and other expenses decreased $39,000, or 4.1%.

Income Tax Benefit. The Company recorded a tax benefit of $67,000 for the nine months ended June 30, 2013, compared to a tax expense of $34,000 for the nine months ended June 30, 2012. A federal deferred tax benefit of $44,000 plus a federal AMT credit of $34,000 was partially offset by current and deferred New Jersey State tax expense of $11,000 for the period ended June 30, 2013.

Table of Contents

Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The valuation allowance is assessed by management on a quarterly basis and adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant. In assessing whether it is more likely than not that some portion or all of the deferred tax assets will not be realized, management considers projections of future taxable income, the projected periods in which current temporary differences will deductible, the availability of carry forwards, and existing tax laws and regulations. The valuation allowance in place on deferred tax assets at June 30, 2013, did not materially change from that in place on September 30, 2012.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The Company's liquidity is a measure of its ability to fund loans, pay withdrawals of deposits, and other cash outflows in an efficient, cost-effective manner. The Company's short-term sources of liquidity include maturity, repayment and sales of assets, excess cash and cash equivalents, new deposits, other borrowings, and new advances from the Federal Home Loan Bank. There has been no material adverse change during the nine months ended June 30, 2013 in the ability of the Company and its subsidiaries to fund their operations.

At June 30, 2013, the Company had commitments outstanding under letters of credit of $1.5 million, commitments to originate loans of $8.0 million, and commitments to fund undisbursed balances of closed loans and unused lines of credit of $37.4 million. There has been no material change during the nine months ended June 30, 2013 in any of the Company's other contractual obligations or commitments to make future payments.

Capital Requirements

On April 22, 2010, Magyar Bank entered into agreements with the Federal Deposit Insurance Corporation ("FDIC"), its principal federal banking regulator, and the New Jersey Department of Banking and Insurance (the "Department"), which require the Bank to take certain measures to improve its safety and soundness. In connection with these agreements, the Bank stipulated to the issuance by the FDIC and the Department of consent orders against the Bank (the "Consent Orders") relating to certain findings from a recent examination of the Bank. The Consent Orders were filed with the Securities and Exchange Commission on Form 8-K as Exhibits 10.1 and 10.2 on April 23, 2010.

Among the corrective actions required were for the Bank to develop, within 30 days of the April 22, 2010 effective date of the Consent Orders, a written capital plan that details the manner in which the Bank will achieve a Tier 1 capital as a percentage of the Bank's total assets of at least 8%, and total qualifying capital as a percentage of risk-weighted assets of at least 12%. The Bank developed and filed a capital plan on a timely basis with the FDIC and the Department and the plan remains under review by those regulatory authorities.

On March 2, 2012 the Bank was informed in writing by the FDIC and the Department that the Consent Order entered into with the FDIC and the Department in April 2010 had been terminated. The FDIC and the Department cited the substantial compliance with the Order by the Bank as the reason for the termination of the Order. The Bank is required to maintain Tier 1 capital as a percentage of the Bank's total assets of at least 8%, and total qualifying capital as a percentage of risk-weighted assets of at least 12%.

At June 30, 2013, the Bank’s Tier 1 capital as a percentage of the Bank's total assets was 8.18%, and total qualifying capital as a percentage of risk-weighted assets was 12.78%.

In July 2013, the Federal Deposit Insurance Corporation and the other federal bank regulatory agencies issued a final rule that will revise their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4.0% to 6.0% of risk-weighted assets) and assigns a higher risk weighted (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain “available-for-sale” securities holdings to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. Additional constrains will also be imposed on the inclusion in regulatory capital of mortgage-servicing assets, defined tax assets and minority interest. The rule limits a banking organization’s capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule becomes effective for Magyar Bank on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective.

Table of Contents

Item 3- Quantitative and Qualitative Disclosures about Market Risk

Not applicable to smaller reporting companies.

Item 4 – Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

There has been no change in the Company's internal control over financial reporting during the nine months ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal proceedings

On December 14, 2011, Elizabeth E. Hance, the former President and Chief Executive Officer of the Company and the Bank, filed a lawsuit against the Company and its directors in the Superior Court of New Jersey, Middlesex County. The lawsuit alleges, among other things, breach of contract and employment discrimination in connection with Ms. Hance's December 2009 separation from employment and seeks severance that she claims she was entitled to, as well as other compensatory and punitive damages. The Company believes that the failure to pay Ms. Hance severance was the result of applicable regulatory prohibitions, and intends to defend the suit vigorously.

Item 1A. Risk Factors

Not applicable to smaller reporting companies.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

a.) Not applicable.

b.) Not applicable.

c.) The Company did not repurchase shares of its common stock during the nine months ended June 30, 2013. Through June 30, 2013, the Company had repurchased 81,000 shares at an average price of $8.33 pursuant to the second stock repurchase plan.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

a.) Not applicable.

b.) None.

Item 6. Exhibits

Exhibits

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)

31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data file containing the following financial statements formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets at June 30, 2013 and September 30, 2012; (ii) the Consolidated Statements of Operations for the three and nine months ended June 30, 2013 and 2012; (iii) the Consolidated Statements of Comprehensive Income for the three and nine months ended June 30, 2013 and 2012; (iv) the Consolidated Statements of Changes in Stockholders' Equity for the nine months ended June 30, 2013 and 2012; (v) the Consolidated Statements of Cash Flows for the nine months ended June 30, 2013 and 2012; and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text. As provided in Rule 406T of Regulation S-T, this interactive data file shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed "filed" or part of any registration statement or prospectus for purposes of Section 11 or 12 under the Securities Act of 1933, or otherwise subject to liability under those sections.

37

Table of Contents

Signatures

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

MAGYAR BANCORP, INC.
(Registrant)

Date: August 12, 2013	/s/ John S. Fitzgerald John S. Fitzgerald President and Chief Executive Officer
Date: August 12, 2013	/s/ Jon R. Ansari Jon R. Ansari Executive Vice President and Chief Financial Officer