Magyar Bancorp, Inc.
Form 10-Q
February 12, 2016

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 December 31, 2015

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

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

Yes 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 February 1, 2016
Common Stock, $0.01 Par Value	5,819,494

MAGYAR BANCORP, INC.

Form 10-Q Quarterly Report

Table of Contents

PART I. FINANCIAL INFORMATION

		Page Number
Item 1.	Financial Statements	1
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	32
Item 4.	Controls and Procedures	32
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	33
Item 1A.	Risk Factors	33
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3.	Defaults Upon Senior Securities	33
Item 4.	Mine Safety Disclosures	33
Item 5.	Other Information	33
Item 6.	Exhibits	33
Signature Pages		34

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)

	December 31, 2015 (Unaudited)	September 30, 2015
Assets		
Cash	$ 1,282	$ 1,081
Interest earning deposits with banks	36,133	17,027
Total cash and cash equivalents	37,415	18,108
Investment securities - available for sale, at fair value	10,105	6,064
Investment securities - held to maturity, at amortized cost (fair value of $54,711 and $53,248 at December 31, 2015 and September 30, 2015, respectively)	55,036	52,614
Federal Home Loan Bank of New York stock, at cost	2,025	2,025
Loans receivable, net of allowance for loan losses of $3,100 and $2,886 at December 31, 2015 and September 30, 2015, respectively	416,458	420,596
Bank owned life insurance	11,035	10,962
Accrued interest receivable	1,647	1,703
Premises and equipment, net	17,685	17,818
Other real estate owned ("OREO")	15,680	16,192
Other assets	4,427	4,483
Total assets	$ 571,513	$ 550,565
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 487,164	$ 466,269
Escrowed funds	1,367	1,301
Federal Home Loan Bank of New York advances	31,594	31,594
Accrued interest payable	139	102
Accounts payable and other liabilities	4,374	4,630
Total liabilities	524,638	503,896
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; 5,819,494 shares outstanding at December 31, 2015 and September 30, 2015	59	59
Additional paid-in capital	26,275	26,275
Treasury stock: 104,248 shares at December 31, 2015 and September 30, 2015, at cost	(1,166)	(1,166)
Unearned Employee Stock Ownership Plan shares	(721)	(752)
Retained earnings	23,561	23,252
Accumulated other comprehensive loss	(1,133)	(999)
Total stockholders' equity	46,875	46,669
Total liabilities and stockholders' equity	$ 571,513	$ 550,565

The accompanying notes are an integral part of these consolidated financial 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 December 31,	
	2015	2014
	(Unaudited)	
Interest and dividend income		
Loans, including fees	$ 4,586	$ 4,459
Investment securities		
Taxable	392	330
Federal Home Loan Bank of New York stock	24	23
Total interest and dividend income	5,002	4,812
Interest expense		
Deposits	701	602
Borrowings	191	219
Total interest expense	892	821
Net interest and dividend income	4,110	3,991
Provision for loan losses	178	420
Net interest and dividend income after provision for loan losses	3,932	3,571
Other income		
Service charges	308	199
Income on bank owned life insurance	73	77
Other operating income	30	23
Gains on sales of loans	171	233
Gains on sales of investment securities	39	30
Total other income	621	562
Other expenses		
Compensation and employee benefits	2,063	2,002
Occupancy expenses	638	703
Professional fees	236	292
Data processing expenses	121	146
OREO expenses	383	111
FDIC deposit insurance premiums	188	180

Loan servicing expenses	59	78
Insurance expense	58	57
Other expenses	305	308
Total other expenses	4,051	3,877
Income before income tax expense	502	256
Income tax expense	193	74
Net income	$ 309	$ 182
Net income per share-basic and diluted	$ 0.05	$ 0.03

The accompanying notes are an integral part of these consolidated financial statements.

2

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

(In Thousands)

	For the Three Months Ended December 31,	
	2015	2014
	(Unaudited)	
Net income	$309	$182
Other comprehensive (loss) income		
Net unrealized (loss) gain on securities available for sale	(171)	91
Less: reclassification for realized gains on sales of securities available for sale	(39)	(30)
Other comprehensive (loss) income, before tax	(210)	61
Deferred income tax effect	76	(22)
Total other comprehensive (loss) income	(134)	39
Total comprehensive income	$175	$221

The accompanying notes are an integral part of these consolidated financial statements.

3

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

For the Three Months Ended December 31, 2015 and 2014

(In Thousands, Except for Share Amounts)

	Common Stock Shares Outstanding	Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Unaudited)							
Balance, September 30, 2015	5,819,494	$59	$26,275	$(1,166)	$(752)	$23,252	$(999)	$46,669
Net income	—	—	—	—	—	309	—	309
Other comprehensive loss	—	—	—	—	—	—	(134)	(134)
Purchase of treasury stock	—	—	—	—	—	—	—	—
Treasury stock used for restricted stock plan	—	—	—	—	—	—	—	—
ESOP shares allocated	—	—	(1)	—	31	—	—	30
Stock-based compensation expense	—	—	1	—	—	—	—	1
Balance, December 31, 2015	5,819,494	$59	$26,275	$(1,166)	$(721)	$23,561	$(1,133)	$46,875

	Common Stock Shares Outstanding	Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Unaudited)							
Balance, September 30, 2014	5,815,444	$59	$26,295	$(1,211)	$(877)	$22,382	$(716)	$45,932
Net income	—	—	—	—	—	182	—	182
Other comprehensive income	—	—	—	—	—	—	39	39
Purchase of treasury stock	—	—	—	—	—	—	—	—
Treasury stock used for restricted stock plan	—	—	—	—	—	—	—	—
ESOP shares allocated	—	—	(3)	—	30	—	—	27
Stock-based compensation expense	—	—	4	—	—	—	—	4
Balance, December 31, 2014	5,815,444	$59	$26,296	$(1,211)	$(847)	$22,564	$(677)	$46,184

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(In Thousands)

	For the Three Months Ended December 31,	
	2015	2014
	(Unaudited)	
Operating activities		
Net income	$ 309	$ 182
Adjustment to reconcile net income to net cash provided by operating activities		
Depreciation expense	187	224
Premium amortization on investment securities, net	46	60
Provision for loan losses	178	420
Provision for loss on other real estate owned	271	25
Proceeds from the sales of loans	2,065	3,399
Gains on sale of loans	(171)	(233)
Gains on sales of investment securities	(39)	(30)
Losses (gains) on the sales of other real estate owned	9	(51)
ESOP compensation expense	30	27
Stock-based compensation expense	1	4
Deferred income tax expense	174	134
Decrease in accrued interest receivable	56	73
Increase in surrender value bank owned life insurance	(73)	(78)
(Increase) decrease in other assets	(44)	64
Increase (decrease) in accrued interest payable	37	(3)
Decrease in accounts payable and other liabilities	(256)	(780)
Net cash provided by operating activities	2,780	3,437
Investing activities		
Net decrease (increase) in loans receivable	8,362	(7,798)
Purchases of loans receivable	(6,444)	(674)
Purchases of investment securities held to maturity	(5,545)	—
Purchases of investment securities available for sale	(6,482)	—
Sales of investment securities available for sale	2,065	2,915
Principal repayments on investment securities held to maturity	3,084	1,426
Principal repayments on investment securities available for sale	198	225
Purchases of premises and equipment	(54)	(61)
Investment in other real estate owned	(48)	(232)
Proceeds from the sale of other real estate owned	430	3,824
Redemption of Federal Home Loan Bank stock	—	(102)
Net cash used by investing activities	(4,434)	(477)

Financing activities

Net increase (decrease) in deposits	20,895	(2,609)
Net increase in escrowed funds	66	4
Proceeds from long-term advances	—	5,701
Repayments of long-term advances	—	(3,500)
Net change in short-term advances	—	50
Repayments of securities sold under agreements to repurchase	—	(5,000)
Net cash provided (used) by financing activities	20,961	(5,354)
Net increase (decrease) in cash and cash equivalents	19,307	(2,394)
Cash and cash equivalents, beginning of period	18,108	10,258
Cash and cash equivalents, end of period	$ 37,415	$ 7,864
Supplemental disclosures of cash flow information		
Cash paid for		
Interest	$ 856	$ 823
Income taxes	$ 4	$ 14
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	$ 148	$ 1,308

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

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 months ended December 31, 2015 are not necessarily indicative of the results that may be expected for the year ending September 30, 2016. The September 30, 2015 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 consolidated 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 consolidated 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 December 31, 2015 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

NOTE B- RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, FASB issued ASU 2014-09 *Revenue from Contracts with Customers (Topic 606).* ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and intangible assets within the scope of Topic 350, Intangibles—Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For a public business entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted. The FASB has proposed a one year delay in the effective date of this amendment. The Company is currently analyzing the impact of the guidance on its financial statements.

Table of Contents

An entity should apply the amendments in this ASU using one of the following two methods:

Retrospectively to each prior reporting period presented and the entity may elect any of the following practical expedients:

- For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.
- For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
- For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

Retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. If an entity elects this transition method it also should provide the additional disclosures in reporting periods that include the date of initial application of:

- The amount by which each financial statement line item is affected in the current reporting period by the application of this ASU as compared to the guidance that was in effect before the change.
- An explanation of the reasons for significant changes.

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 months ended December 31, 2015 and 2014 were calculated by dividing net income by the weighted-average number of shares outstanding for the period considering the effect of dilutive equity options and stock awards for the dilutive earnings per share calculations.

	For the Three Months Ended December 31,					
	2015			2014		
		Weighted average	Per share		Weighted average	Per share

	Income	shares	Amount	Income	shares	Amount
	(In thousands, except per share data)					
Basic EPS						
Net income available to common shareholders	$309	5,820	$0.05	$182	5,817	$0.03
Effect of dilutive securities						
Options and grants	—	0	—	—	1	—
Diluted EPS						
Net income available to common shareholders plus assumed conversion	$309	5,820	$0.05	$182	5,818	$0.03

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 months ended December 31, 2015 and 2014 because the grant (or option strike) price was greater than the average market price of the common shares during the period and are thus anti-dilutive.

Table of Contents

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.

Management recognizes compensation expense for all option grants over the awards' respective vesting periods on a straight-line basis. The fair values of all option grants are estimated using the Black-Scholes option-pricing model. Once vested, these awards are irrevocable. Shares will be obtained from either the open market or treasury stock upon share option exercise.

As to restricted shares, the product of the number of shares granted and the grant date market price of the Company's common stock determines the fair value of restricted shares granted. Management recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the vesting period of the awards.

The following is a summary of the status of the Company's stock option activity and related information for its option plan for the three months ended December 31, 2015 and 2014, respectively:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at September 30, 2015	188,276	$ 14.61	1.4 years	$ —
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Balance at December 31, 2015	188,276	$ 14.61	1.2 years	$ —
Exercisable at December 31, 2015	188,276	$ 14.61	1.2 years	$ —

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value

Balance at September 30, 2014	188,276	$ 14.61		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Balance at December 31, 2014	188,276	$ 14.61	2.2 years	$ —
Exercisable at December 31, 2014	188,276	$ 14.61	2.2 years	$ —

Table of Contents

The following is a summary of the Company's non-vested restricted stock awards as of December 31, 2015 and 2014 and changes during the three months ended December 31, 2015 and 2014:

	Number of Stock Awards	Weighted Average Grant Date Fair Value
Balance at September 30, 2015	1,252	$ 4.30
Granted	—	—
Vested	—	—
Forfeited	—	—
Balance at December 31, 2015	1,252	$ 4.30

	Number of Stock Awards	Weighted Average Grant Date Fair Value
Balance at September 30, 2014	5,302	$ 4.41
Granted	—	—
Vested	—	—
Forfeited	—	—
Balance at December 31, 2014	5,302	$ 4.41

Stock option and stock award expenses included with compensation expense were $0 and $1,344, respectively, for the three months ended December 31, 2015.

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 December 31, 2015, 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 three months ended December 31, 2015 and 2014, respectively. Under the stock repurchase program, 48,924 shares of the 129,924 shares authorized remained available for repurchase as of December 31, 2015. 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.

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 (3.50% at January 1, 2016) 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 Sheets. 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 December 31, 2015, shares allocated to participants totaled 140,881. Unallocated ESOP shares held in suspense totaled 76,982 at December 31, 2015 and had a fair market value of $770,590. The Company's contribution expense for the ESOP was $30,000 and $27,000 for the three months ended December 31, 2015 and 2014, respectively.

Table of Contents

NOTE F – OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended December 31,					
	2015			2014		
	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 (loss) gain arising during period on:						
Available-for-sale investments	$(171)	$ 60	$ (111)	$91	$ (34)	$ 57
Less reclassification adjustment for net gains (losses) realized on available-for-sale investments (a) (b)	(39)	16	(23)	(30)	12	(18)
Other comprehensive (loss) income, net	$(210)	$ 76	$ (134)	$61	$ (22)	$ 39

(a) Realized gains on securities transactions included in gains on sales of investment securities in the accompanying Consolidated Statements of Operations
(b) Tax effect included in income tax expense in the accompanying Consolidated Statements of Operations

NOTE G – FAIR VALUE DISCLOSURES

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The 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, the Company groups its 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.

The Company based its 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 the Company 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

The securities 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. The securities available-for-sale portfolio consists of U.S government-sponsored mortgage-backed securities and private label mortgage-backed securities. The fair values of these securities are obtained from an independent nationally recognized pricing service. An independent pricing service provides the Company 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 Company's 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.

Table of Contents

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.

	Fair Value at December 31, 2015			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	$ 9,970	$ —	$ 9,970	$ —
Private label mortgage-backed securities-residential	135	—	135	—
Total securities available for sale	$ 10,105	$ —	$ 10,105	$ —

	Fair Value at September 30, 2015			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	$ 5,914	$ —	$ 5,914	$ —
Private label mortgage-backed securities-residential	150	—	150	—
Total securities available for sale	$ 6,064	$ —	$ 6,064	$ —

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

Mortgage Servicing Rights, net

Mortgage Servicing Rights (MSRs) are carried at the lower of cost or estimated fair value. The estimated fair value of MSR is determined through a calculation of future cash flows, incorporating estimates of assumptions market participants would use in determining fair value including market discount rates, prepayment speeds, servicing income, servicing costs, default rates and other market driven data, including the market’s perception of future interest rate movements and, as such, are classified as Level 3. The Company had MSRs totaling $124,000 and $132,000 at December 31, 2015 and September 30, 2015, respectively.

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. The Company's 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 Company'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, adjusted as necessary, by management, to reflect current market conditions and anticipated selling and disposition costs. 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 December 31, 2015 and September 30, 2015

	Fair Value at December 31, 2015			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 1,378	$ —	$ —	$ 1,378
Other real estate owned	15,680	—	—	15,680
	$ 17,058	$ —	$ —	$ 17,058

	Fair Value at September 30, 2015			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 1,489	$ —	$ —	$ 1,489
Other real estate owned	16,192	—	—	16,192
	$ 17,681	$ —	$ —	$ 17,681

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)

December 31, 2015	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 1,378	Appraisal of collateral (1)	Appraisal adjustments (2)	-7.0% to -13.0% (-2.4%)
Other real estate owned	$ 15,680	Appraisal of collateral (1)	Liquidation expenses (2)	-3.9% to -34.0% (-8.6%)

	Fair Value	Valuation

September 30, 2015	Estimate	Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 1,489	Appraisal of collateral (1)	Appraisal adjustments (2)	-16.0% to -40.0% (-8.0%)
Other real estate owned	$ 16,192	Appraisal of collateral (1)	Liquidation expenses (2)	0.0% to -41.2% (-15.1%)

12

Table of Contents

(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.

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 held to maturity securities are obtained from an independent nationally recognized pricing service. An independent pricing service provides the Company 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 Company's portfolio.

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 December 31, 2015 and September 30, 2015. 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.

13

Table of Contents

	Carrying Value	Fair Value	Fair Value Measurement Placement (Level 1)	(Level 2)	(Level 3)
	(Dollars in thousands)				
December 31, 2015					
Financial instruments - assets					
Investment securities held to maturity	$55,036	$54,711	$ —	$ 54,711	$ —
Loans	416,458	420,077	—	—	420,077
Financial instruments - liabilities					
Certificates of deposit including retirement certificates	143,859	145,053	—	145,053	—
Borrowings	31,594	31,914	—	31,914	—
September 30, 2015					
Financial instruments - assets					
Investment securities held to maturity	$52,614	$53,248	$ —	$ 53,248	$ —
Loans	420,596	425,890	—	—	425,890
Financial instruments - liabilities					
Certificates of deposit including retirement certificates	143,108	144,150	—	144,150	—
Borrowings	31,594	32,231	—	32,231	—

There were no transfers between fair value measurement placements for the three months ended December 31, 2015.

NOTE H - INVESTMENT SECURITIES

The following tables summarize the amortized cost and fair values of securities available for sale at December 31, 2015 and September 30, 2015:

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	$10,105	$ 18	$ (153)	$9,970
Private label mortgage-backed securities-residential	136	—	(1)	135
Total securities available for sale	$10,241	$ 18	$ (154)	$10,105

	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities available-for-sale:				
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	$5,839	$ 82	$ (7)	$5,914
Private label mortgage-backed securities-residential	151	—	(1)	150
Total securities available for sale	$5,990	$ 82	$ (8)	$6,064

The maturities of the debt securities and mortgage-backed securities available for sale at December 31, 2015 are summarized in the following table:

14

Table of Contents

	December 31, 2015	
	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	10,241	10,105
Commercial	—	—
Total	$ 10,241	$ 10,105

The following tables summarize the amortized cost and fair values of securities held to maturity at December 31, 2015 and September 30, 2015:

	December 31, 2015			
	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	$5,196	$ 146	$ (99)	$5,243
Mortgage-backed securities - commercial	1,084	—	(4)	1,080
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed-securities - residential	40,224	363	(357)	40,230
Debt securities	5,000	—	(119)	4,881
Private label mortgage-backed securities - residential	532	—	(2)	530
Corporate securities	3,000	—	(253)	2,747
Total securities held to maturity	$55,036	$ 509	$ (834)	$54,711

	September 30, 2015			
	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	$5,414	$ 156	$ (99)	$5,471
Mortgage-backed securities - commercial	1,101	—	(2)	1,099
Obligations of U.S. government-sponsored enterprises:				
Mortgage backed securities - residential	37,563	647	(67)	38,143

Debt securities	5,000	2	(25)	4,977
Private label mortgage-backed securities - residential	536	1	(1)	536
Corporate securities	3,000	22	—	3,022
Total securities held to maturity	$52,614	$ 828	$ (194)	$53,248

The maturities of the debt securities and the mortgage backed securities held to maturity at December 31, 2015 are summarized in the following table:

15

Table of Contents

	December 31, 2015	
	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	4,000	3,897
Due after 10 years	4,000	3,731
Total debt securities	8,000	7,628
Mortgage-backed securities:		
Residential	45,952	46,003
Commercial	1,084	1,080
Total	$ 55,036	$ 54,711

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 is recognized in other comprehensive income ("OCI").

The Company reviews its investment portfolio on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value 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. The Company evaluates its intent and ability to hold debt securities based upon its investment strategy for the particular type of security and its 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 December 31, 2015 and September 30, 2015 for both available for sale and held to maturity securities by investment category and time frame for which the loss has been outstanding:

December 31, 2015

Total

		Less Than 12 Months		12 Months Or Greater			
	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	$—	$—	$2,156	$(99)	$2,156	$(99)
Mortgage-backed securities - commercial	1	1,080	(4)	—	—	1,080	(4)
Obligations of U.S. government-sponsored enterprises							
Mortgage-backed securities - residential	20	25,495	(354)	8,447	(156)	33,942	(510)
Debt securities	4	2,939	(61)	1,942	(58)	4,881	(119)
Private label mortgage-backed securities residential	2	325	(2)	16	(1)	341	(3)
Corporate securities	1	2,747	(253)	—	—	2,747	(253)
Total	31	$32,586	$(674)	$12,561	$(314)	$45,147	$(988)

16

Table of Contents

		September 30, 2015					
		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	$—	$—	$2,254	$(99)	$2,254	$(99)
Mortgage-backed securities - commercial	1	1,099	(2)	—	—	1,099	(2)
Obligations of U.S. government-sponsored enterprises							
Mortgage-backed securities - residential	7	4,424	(34)	8,688	(40)	13,112	(74)
Debt securities	1	—	—	1,975	(25)	1,975	(25)
Private label mortgage-backed securities residential	2	—	—	223	(2)	223	(2)
Total	14	$5,523	$(36)	$13,140	$(166)	$18,663	$(202)

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 December 31, 2015 and September 30, 2015, there were thirty one and fourteen, 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 an impairment that is other than temporary as of December 31, 2015 and September 30, 2015.

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

Loans receivable, net were comprised of the following:

	December 31, 2015	September 30, 2015
	(Dollars in thousands)	
One-to four-family residential	$158,138	$ 169,781

Commercial real estate	175,611	173,864
Construction	12,671	6,679
Home equity lines of credit	21,917	21,176
Commercial business	40,911	41,485
Other	10,097	10,305
Total loans receivable	419,345	423,290
Net deferred loan costs	213	192
Allowance for loan losses	(3,100)	(2,886)
Total loans receivable, net	$416,458	$ 420,596

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: 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.

Table of Contents

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.

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 December 31, 2015	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)				
One-to four-family residential	$135	$ 1	$ 2,839	$ 2,974	$ 3,116
Commercial real estate	—	—	5,426	5,426	6,535
Home equity lines of credit	—	—	248	248	271
Commercial business	1,600	356	365	1,965	1,964
Total impaired loans	$1,735	$ 357	$ 8,878	$ 10,613	$ 11,886

	Impaired Loans with	Impaired Loans with No Specific

At September 30, 2015	Specific Allowance		Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)				
One-to four-family residential	$—	$ —	$ 3,017	$ 3,017	$ 3,134
Commercial real estate	—	—	5,447	5,447	6,556
Home equity lines of credit	—	—	417	417	521
Commercial business	1,690	201	66	1,756	1,756
Total impaired loans	$1,690	$ 201	$ 8,947	$ 10,637	$ 11,967

The following table presents the average recorded investment in impaired loans for the periods indicated.

Table of Contents

	Three Months Ended December 31, 2015 (Dollars in thousands)
One-to four-family residential	$ 2,996
Commercial real estate	5,437
Home equity lines of credit	333
Commercial business	1,861
Average investment in impaired loans	$ 10,627

	Three Months Ended December 31, 2014 (Dollars in thousands)
One-to four-family residential	$ 8,401
Commercial real estate	4,980
Construction	2,231
Home equity lines of credit	479
Commercial business	1,187
Average investment in impaired loans	$ 17,278

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. Loans classified Doubtful have all the weaknesses inherent in loans classified Substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. 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:

19

Table of Contents

	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
December 31, 2015					
One-to four-family residential	$153,597	$ —	$ 4,541	$ —	$158,138
Commercial real estate	171,447	—	4,164	—	175,611
Construction	10,192	—	2,479	—	12,671
Home equity lines of credit	20,992	—	925	—	21,917
Commercial business	38,429	—	2,482	—	40,911
Other	10,097	—	—	—	10,097
Total	$404,754	$ —	$ 14,591	$ —	$419,345

	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
September 30, 2015					
One-to four-family residential	$166,846	$ —	$ 2,935	$ —	$169,781
Commercial real estate	169,239	210	3,309	1,106	173,864
Construction	2,468	—	4,211	—	6,679
Home equity lines of credit	19,436	—	1,740	—	21,176
Commercial business	39,764	—	1,721	—	41,485
Other	10,305	—	—	—	10,305
Total	$408,058	$ 210	$ 13,916	$ 1,106	$423,290

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)						
December 31, 2015							
One-to four-family residential	$155,927	$ —	$ —	$ 2,211	$ 2,211	$ 2,211	$158,138
Commercial real estate	171,150	—	1,996	2,465	4,461	2,465	175,611
Construction	12,671	—	—	—	—	—	12,671
Home equity lines of credit	21,635	29	—	253	282	253	21,917
Commercial business	38,812	153	238	1,708	2,099	1,708	40,911
Other	10,097	—	—	—	—	—	10,097
Total	$410,292	$ 182	$ 2,234	$ 6,637	$ 9,053	$ 6,637	$419,345

	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, 2015							
One-to four-family residential	$166,993	$ —	$ 730	$ 2,058	$ 2,788	$ 2,058	$169,781
Commercial real estate	171,969	—	—	1,895	1,895	1,895	173,864
Construction	6,679	—	—	—	—	—	6,679
Home equity lines of credit	20,921	—	—	255	255	255	21,176
Commercial business	39,777	—	19	1,689	1,708	1,689	41,485
Other	10,305	—	—	—	—	—	10,305
Total	$416,644	$ —	$ 749	$ 5,897	$ 6,646	$ 5,897	$423,290

Table of Contents

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.

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 include: 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 three months ended December 31, 2015:

	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, 2015	$395	$ 931	$ 453	$ 53	$ 969	$ 6	$ 79	$2,886
Charge-offs	(45)	—	—	—	—	—	—	(45)
Recoveries	—	—	—	80	1	—	—	81
Provision	36	4	(71)	(78)	255	3	29	178
Balance- December 31, 2015	$386	$ 935	$ 382	$ 55	$ 1,225	$ 9	$ 108	$3,100

The following table summarizes the ALL by loan category and the related activity for the three months ended December 31, 2014:

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, 2014	$402	$ 826	$ 784	$ 62	$ 643	$ 9	$ 109	$2,835
Charge-offs	(12)	(193)	—	(147)	—	(1)	—	(353)
Recoveries	—	—	37	—	—	—	—	37
Provision	84	199	(73)	151	90	(2)	(29)	420
Balance- December 31, 2014	$474	$ 832	$ 748	$ 66	$ 733	$ 6	$ 80	$2,939

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 December 31, 2015 and September 30, 2015:

	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 - December 31, 2015	$386	$935	$382	$55	$1,225	$9	$ 108	$3,100
Individually evaluated for impairment	1	—	—	—	356	—	—	357
Collectively evaluated for impairment	385	935	382	55	869	9	108	2,743
Loans receivable:								
Balance - December 31, 2015	$158,138	$175,611	$12,671	$21,917	$40,911	$10,097	$ —	$419,345
Individually evaluated for impairment	2,974	5,426	—	248	1,965	—	—	10,613
Collectively evaluated for impairment	155,164	170,185	12,671	21,669	38,946	10,097	—	408,732

	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, 2015	$395	$931	$453	$53	$969	$6	$ 79	$2,886

Individually evaluated for impairment	—	—	—	—	201	—	—	201
Collectively evaluated for impairment	395	931	453	53	768	6	79	2,685
Loans receivable:								
Balance - September 30, 2015	$169,781	$173,864	$6,679	$21,176	$41,485	$10,305	$ —	$423,290
Individually evaluated for impairment	3,017	5,447	—	417	1,756	—	—	10,637
Collectively evaluated for impairment	166,764	168,417	6,679	20,759	39,729	10,305		412,653

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 are not limited to, interest rate reductions, limitations on the accrued interest charged, term extensions, and deferment of principal.

Table of Contents

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. There were no TDRs for the three months ended December 31, 2015 and 2014.

The Company foreclosed $148,000 of residential real estate loans for the three months ended December 31, 2015, and $2.5 million of consumer mortgage loans collateralized by residential real estate property are in the process of foreclosure at December 31, 2015.

NOTE K - DEPOSITS

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

	2015 December 31	September 30
	(Dollars in thousands)	
Demand accounts	$ 89,838	$ 87,915
Savings accounts	92,502	90,196
NOW accounts	44,783	41,457
Money market accounts	116,182	103,593
Certificates of deposit	123,130	122,088
Retirement certificates	20,729	21,020
	$ 487,164	$ 466,269

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 December 31, 2015, the amount of which has not materially changed from that in place at September 30, 2015.

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 December 31,	
	2015	2014
	(in thousands)	
Income tax expense at 34% statutory federal tax rate	$ 171	$ 87
State tax expense	45	11
Other	(23)	(24)
Income tax expense	$ 193	$ 74

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 December 31, 2015 and September 30, 2015, 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 are summarized in the below table. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheets.

	2015 December 31	September 30
	(Dollars in thousands)	
Financial instruments whose contract amounts represent credit risk		
Letters of credit	$ 694	$ 694
Unused lines of credit	45,753	45,039
Fixed rate loan commitments	2,008	1,597
Variable rate loan commitments	10,080	7,937
	$ 58,535	$ 55,267

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 by the Company in Item 1A of its Annual Report on Form 10-K as supplemented by quarterly reports on Form 10-Q 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.

Table of Contents

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.

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.

Table of Contents

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.

Investment Securities. If the fair value of a security is less than its amortized cost, the security is deemed to be impaired. Management evaluates all securities with unrealized losses quarterly to determine if such impairments are “temporary” or “other-than-temporary” in accordance with applicable accounting guidance. The Company accounts for temporary impairments based upon security classification as either available-for-sale, held-to-maturity, or trading. Temporary impairments on “available-for-sale” securities are recognized, on a tax-effected basis, through accumulated other comprehensive income (“AOCI”) with offsetting entries adjusting the carrying value of the security and the balance of deferred taxes. Conversely, the Company does not adjust the carrying value of “held-to-maturity” securities for temporary impairments, although information concerning the amount and duration of impairments on held to maturity securities is generally disclosed in periodic financial statements. The carrying value of securities held in a trading portfolio is adjusted to their fair value through earnings on a daily basis. However, the Company maintained no securities in trading portfolios at or during the periods presented in these financial statements.

The Company accounts for other-than-temporary impairments based upon several considerations. First, other-than-temporary impairments on securities that the Company has decided to sell as of the close of a fiscal period, or will, more likely than not, be required to sell prior to the full recovery of the their fair value to a level equal to or exceeding their amortized cost, are recognized in operations. If neither of these criteria apply, then the other-than-temporary impairment is separated into credit-related and noncredit-related components. The credit-related impairment generally represents the amount by which the present value of the cash flows that are expected to be collected on an other-than-temporarily impaired security fall below its amortized cost while the noncredit-related component represents the remaining portion of the impairment not otherwise designated as credit-related. The Company recognizes credit-related, other-than-temporary impairments in earnings, while noncredit-related, other-than-temporary impairments on debt securities are recognized, net of deferred taxes, in AOCI. Management did not account for any other-than-temporary impairments at or during the periods presented in these financial statements.

Fair Value. 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. 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, Fair Value Measurements and Disclosures, 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. 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.

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 December 31, 2015 and September 30, 2015

Total assets increased $20.9 million, or 3.8%, to $571.5 million during the three months ended December 31, 2015 from $550.5 million at September 30, 2015. The increase was attributable to higher cash and investment balances, which resulted from a $20.9 million increase in deposits.

Cash and interest earning deposits with banks increased $19.3 million, or 106.6%, to $37.4 million at December 31, 2015 from $18.1 million at September 30, 2015. The increase was attributable to growth in deposits.

Table of Contents

Investment securities increased $6.4 million, or 11.0%, to $65.1 million at December 31, 2015 from $58.7 million at September 30, 2015. The Company purchased five mortgage-backed securities totaling $9.9 million and one U.S. government-sponsored enterprise debt security totaling $2.0 million during the three months ended December 31, 2015. Offsetting the purchases was one available-for-sale investment security sale totaling $2.0 million for a gain of $39,000 and monthly repayments of mortgage-backed securities.

Investment securities at December 31, 2015 consisted of $56.5 million in mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises, $5.0 million in U.S. government-sponsored enterprise debt securities, $3.0 million in corporate notes, and $667,000 in "private-label" mortgage-backed securities. There were no other-than-temporary-impairment charges for the Bank's investment securities for the three months ended December 31, 2015.

Total loans receivable decreased $3.9 million during the three months ended December 31, 2015 to $419.3 million and were comprised of $175.6 million (41.9%) in commercial real estate loans, $158.1 million (37.7%) in one-to-four family residential mortgage loans, $40.9 million (9.8%) in commercial business loans, $21.9 million (5.2%) in home equity lines of credit, $12.7 million (3.0%) in construction loans, and $10.1 million (2.4%) in other loans. Contraction in the portfolio during the quarter ended December 31, 2015 occurred primarily in one-to-four family residential mortgage loans, which decreased $11.6 million, offset by growth in construction loans, which increased $6.0 million.

Total non-performing loans ("NPLs"), defined as loans 90 days or more delinquent, increased by $740,000, or 12.5%, to $6.6 million at December 31, 2015 from $5.9 million at September 30, 2015. The ratio of non-performing loans to total loans increased to 1.6% at December 31, 2015 from 1.4% at September 30, 2015.

Included in the non-performing loan at December 31, 2015 were 13 residential mortgage loans totaling $2.2 million, eight commercial loans totaling $4.2 million, and two home equity loans totaling $253,000.

Non-performing loans secured by one-to four-family residential properties including home equity lines of credit and other consumer loans, increased $151,000 to $2.4 million at December 31, 2015 from $2.3 million at September 30, 2015. The loans remained in varying stages of foreclosure at December 31, 2015. The Company has not and does not intend to originate or purchase sub-prime loans or option-ARM loans. Year-to-date, Magyar Bank charged off $46,000 in non-performing residential and home equity line of credit and other consumer loans through a reduction in its allowance for loan loss and received two recoveries totaling $81,000 from previously charged-off non-performing residential loans.

Non-performing commercial real estate loans increased $570,000 to $2.4 million at December 31, 2015 from $1.9 million at September 30, 2015. The six non-accrual loans were in various stages of foreclosure and collection at December 31, 2015. Year-to-date, there were no charge offs or recoveries in non-performing commercial real estate

loans.

Non-performing commercial business loans increased $18,000 to $1.7 million during the quarter ended December 31, 2015. Year-to-date, there were no charge offs in non-performing commercial business loans and there was one recovery totaling $900 from a previously charged-off non-performing commercial business loan.

During the three months ended December 31, 2015, the allowance for loan losses increased $214,000 to $3.1 million. The allowance for loan losses as a percentage of non-performing loans decreased to 46.7% at December 31, 2015 compared with 48.9% at September 30, 2015. At December 31, 2015, the Company’s allowance for loan losses as a percentage of total loans was 0.74% compared with 0.68% at September 30, 2015.

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 deterioration of the current economic environment. The Company determines the carrying value of loans secured by real estate by obtaining an updated third-party appraisal of the real estate collateral.

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. Specific reserves for loan loss may be established for estimated selling and disposition costs as well as portions of the loan expected to be recovered within a reasonable time period. At December 31, 2015, the Bank held specific reserves totaling $357,000.

Other real estate owned decreased $512,000, or 3.2%, to $15.7 million during the quarter ended December 31, 2015. The decrease was due to the sale of three properties totaling $416,000 for a loss of $9,000 and valuation allowances totaling $271,000. Offsetting the decrease in OREO was the foreclosure of one property totaling $148,000 and improvements totaling $48,000. 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 and completing partially completed homes for either rental or sale.

Table of Contents

Total deposits increased $20.9 million, or 4.5%, to $487.2 million at December 31, 2015. The inflow in deposits occurred in money market accounts, which increased $12.6 million, or 12.1%, to $116.2 million; interest-bearing checking accounts which increased $3.3 million, or 8.0%, to $44.8 million; savings accounts which increased $2.3 million, or 2.6%, to $92.5 million; non-interest checking accounts, which increased $1.9 million, or 2.2%, to $89.8 million; and certificates of deposit (including individual retirement accounts) which increased $751,000, or 0.5%, to $143.9 million.

Deposits at December 31, 2015 and September 30, 2015 include $11.5 million in brokered certificates of deposit.

Federal Home Loan Bank of New York advances were unchanged at $31.6 million at December 31, 2015 and September 30, 2015.

Stockholders’ equity increased $206,000, or 0.4%, to $46.9 million at December 31, 2015 from $46.7 million at September 30, 2015. The increase in stockholders’ equity was attributable to the Company’s results from operations.

The Company did not repurchase any shares during the three months ended December 31, 2015. Through December 31, 2015, 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 5,819,494. The Company’s book value per share increased to $8.05 at December 31, 2015 from $8.02 at September 30, 2015. The increase was due to the Company’s results of operations for the three months ended December 31, 2015.

Average Balance Sheet for the Three Months Ended December 31, 2015 and 2014

The table on the following page presents certain information regarding the Company’s financial condition and net interest income for the three months ended December 31, 2015 and 2014. The table presents 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 December 31,					
	2015			2014		
	Average Balance	Interest Income/ Expense	Yield/Cost (Annualized)	Average Balance	Interest Income/ Expense	Yie (An
	(Dollars In Thousands)					
Interest-earning assets:						
Interest-earning deposits	$31,968	$42	0.52%	$9,828	$12	0.4
Loans receivable, net	416,907	4,586	4.36%	405,358	4,459	4.3
Securities						
Taxable	60,970	350	2.28%	58,974	318	2.1
Tax-exempt [1]	—	—	0.00%	—	—	0.0
FHLB of NY stock	2,025	24	4.71%	1,772	23	5.2
Total interest-earning assets	511,870	5,002	3.88%	475,932	4,812	4.0
Noninterest-earning assets	51,504			53,580		
Total assets	$563,374			$529,512		
Interest-bearing liabilities:						
Savings accounts [2]	$91,037	160	0.70%	$72,580	104	0.5
NOW accounts [3]	150,231	118	0.31%	144,431	93	0.2
Time deposits [4]	144,220	423	1.17%	145,340	405	1.1
Total interest-bearing deposits	385,488	701	0.72%	362,351	602	0.6
Borrowings	31,594	191	2.40%	29,226	219	2.9
Total interest-bearing liabilities	417,082	892	0.85%	391,577	821	0.8
Noninterest-bearing liabilities	99,375			91,787		
Total liabilities	516,457			483,364		
Retained earnings	46,917			46,148		
Total liabilities and retained earnings	$563,374			$529,512		
Net interest and dividend income		$4,110			$3,991	
Interest rate spread			3.03%			3.1
Net interest-earning assets	$94,788			$84,355		
Net interest margin [5]			3.19%			3.3
Average interest-earning assets to average interest-bearing liabilities	122.73%			121.54%		

(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.

Comparison of Operating Results for the Three Months Ended December 31, 2015 and 2014

Net Income. Net income increased $127,000, or 69.8%, to $309,000 for the three-month period ended December 31, 2015 compared with net income $182,000 for the three-month period ended December 31, 2014 due to higher net interest and dividend income, which increased $119,000, higher other income, which increased $59,000 and lower provision for loan loss. Partially offsetting these items were higher other expenses and income tax expense.

Net Interest and Dividend Income. Net interest and dividend income increased $119,000 to $4.1 million for the three months ended December 31, 2015 from $4.0 million for the three months ended December 31, 2014. The Company's net interest margin decreased by 14 basis points to 3.19% for the quarter ended December 31, 2015 compared to 3.33% for the quarter ended December 31, 2014. The yield on the Company's interest-earning assets fell 13 basis points to 3.88% for the three months ended December 31, 2015 from 4.01% for the three months ended December 31, 2014 primarily due to the lower overall interest rate environment and higher balances of interest earning deposits, which yield significantly lower interest than the Company's other interest earning assets. The cost of interest-bearing liabilities increased 2 basis points to 0.85% for the three months ended December 31, 2015 from 0.83% for the three months ended December 31, 2014. The increase in the cost of interest-bearing liabilities was attributable to higher cost deposit balances.

Interest and Dividend Income. Interest and dividend income increased $190,000, or 3.9%, to $5.0 million for the three months ended December 31, 2015 from $4.8 million for the three months ended December 31, 2014. The increase was attributable to higher average balances of interest-earning assets, which increased $35.9 million, or 7.6%, offset by a lower yield on interest-earning assets, which declined 13 basis points to 3.88% for the quarter ended December 31, 2015 compared with the prior year period. The average balance of interest-bearing liabilities increased $25.5 million, or 6.5%, between the two periods, while the cost on such liabilities increased 2 basis points to 0.85% for the quarter ended December 31, 2015 compared with 0.83% the prior year period.

Interest earned on loans increased $127,000, or 2.8%, to $4.6 million for the three months ended December 31, 2015 compared with the prior year same period due to an $11.5 million increase in the average balance in the net loan receivables,

Interest earned on our investment securities, including interest earning deposits and excluding Federal Home Loan Bank of New York stock, increased $63,000, or 17.8%, due to a $24.1 million, or 35.1%, increase in the average balance of such securities and deposits to $92.9 million from $68.8 million for the three months ended December 31, 2015 compared to the three months ended December 31, 2014.

Interest Expense. Interest expense increased $71,000, or 8.6%, to $892,000 for the three months ended December 31, 2015 from $821,000 for the three months ended December 31, 2014. The average balance of interest-bearing

liabilities increased $25.5 million, or 6.5%, between the two periods, while the cost on such liabilities increased 2 basis points to 0.85% for the quarter ended December 31, 2015 from 0.83% compared with the prior year period.

The average balance of interest bearing deposits increased $23.1 million to $385.5 million from $362.4 million while the average cost of such deposits increased 6 basis points to 0.72% from 0.66% between the two periods. As a result, interest paid on interest-bearing deposits increased $99,000 to $701,000 for the three months ended December 31, 2015 from $602,000 for the three months ended December 31, 2014.

Interest paid on advances and securities sold under agreements to repurchase decreased $28,000, or 12.8%, to $191,000 for the three months ended December 31, 2015 from $219,000 for the same prior year period, while the average balance of such borrowings increased to $31.6 million from $29.2 million. The average cost of advances and securities sold under agreements to repurchase decreased 57 basis points to 2.40% for the three months ended December 31, 2015 from 2.97% for the same period of December 31, 2014, 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 $178,000 for the three months ended December 31, 2015 compared to a provision of $420,000 for the three months ended December 31, 2014. The provision for loan losses decreased due to a $4.1 million decrease in net loans receivable during the three months ended December 31, 2015 and net recoveries totaling $36,000 for the three months ended December 31, 2015 compared to net charge-offs of $316,000 for the three months ended December 31, 2014.

Table of Contents

During the three months ended December 31, 2015, the Bank reduced the carrying balance on two loans totaling $350,000 by $45,000 to the appraised fair value of collateral, net of estimated disposition costs, securing the loans. Offsetting these charge-offs were three partial recoveries of loans previously charged-off totaling $81,000 during the quarter.

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 increased $59,000, or 10.5%, to $621,000 for the three months ended December 31, 2015 compared to $562,000 for the three months ended December 31, 2014. The increase was primarily attributable to higher service charge income, which increased $109,000, or 54.8%, to $308,000 from $199,000 for the prior year period, due to higher prepayment penalties.

Other Expenses. **N**on-interest expenses increased $174,000, or 4.5%, to $4.1 million for the three months ended December 31, 2015 from $3.9 million for the three months ended December 31, 2014. Other real estate owned (“OREO”) expenses increased $272,000 due to valuation allowances established against the carrying values of three properties based on updated appraisals. Partially offsetting this decline were lower occupancy expenses, which decreased by $65,000 due to lower depreciation expense and warmer weather, as well as lower professional fees, which decreased $56,000 due to lower legal fees.

Income Tax Benefit. The Company recorded income tax expense of $193,000 on income of $502,000 for the three months ended December 31, 2015, compared to $74,000 on income of $256,000 for the three months ended December 31, 2014. The effective tax rate for the three months ended December 31, 2015 was 38.4% compared to 28.9% for the three months ended December 31, 2014.

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 three months ended December 31, 2015 in the ability of the Company and its subsidiaries to fund their operations.

At December 31, 2015, the Company had commitments outstanding under letters of credit of $694,000, commitments to originate loans of $12.1 million, and commitments to fund undisbursed balances of closed loans and unused lines of credit of $45.8 million. There has been no material change during the three months ended December 31, 2015 in any of the Company’s other contractual obligations or commitments to make future payments.

Capital Requirements

The Bank has committed to the Federal Deposit Insurance Corporation and the New Jersey Department of Banking and Insurance to maintain capital at or above well capitalized levels. At December 31, 2015, the Bank’s Tier 1 capital as a percentage of the Bank's total assets was 8.28%, and total qualifying capital as a percentage of risk-weighted assets was 12.74%, which was in excess of the well-capitalized levels.

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 Principal Executive Officer and Principal 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 Principal Executive Officer and Principal 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 three months ended December 31, 2015 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
None.

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 three months ended December 31, 2015.

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 December 31, 2015 and September 30, 2015; (ii) the Consolidated Statements of Operations for the three months ended December 31, 2015 and 2014; (iii) the Consolidated Statements of Comprehensive Income for the three months ended December 31, 2015 and 2014; (iv) the Consolidated Statements of Changes in Stockholders' Equity for the three months ended December 31, 2015 and 2014; (v) the Consolidated Statements of Cash Flows for the three months ended December 31, 2015 and 2014; and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text.

33

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: February 12, 2016 /s/ John S. Fitzgerald
John S. Fitzgerald
President and Chief Executive Officer

Date: February 12, 2016 /s/ Jon R. Ansari
Jon R. Ansari
Executive Vice President and Chief Financial Officer