Magyar Bancorp, Inc.
Form 10-Q
May 10, 2018

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 March 31, 2018

Commission File Number **000-51726**

Magyar Bancorp, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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

(732) 342-7600

(Issuer's Telephone Number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required

to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

Yes þ No o

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

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	þ
(Do not check if a smaller reporting company)		Emerging growth company	o

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

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 May 1, 2018
Common Stock, $0.01 Par Value	5,820,746

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	25
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	35
Item 4.	Controls and Procedures	35

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	36
Item 1A.	Risk Factors	36
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 3.	Defaults Upon Senior Securities	36
Item 4.	Mine Safety Disclosures	36
Item 5.	Other Information	36
Item 6.	Exhibits	36

Signature Pages 37

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)

Assets	March 31, 2018 (Unaudited)	September 30, 2017
Cash	$ 1,002	$ 871
Interest earning deposits with banks	16,349	21,463
Total cash and cash equivalents	17,351	22,334
Investment securities - available for sale, at fair value	23,708	11,815
Investment securities - held to maturity, at amortized cost (fair value of $35,851 and $51,241 at March 31, 2018 and September 30, 2017, respectively)	37,082	51,368
Federal Home Loan Bank of New York stock, at cost	2,092	2,002
Loans receivable, net of allowance for loan losses of $3,769 and $3,475 at March 31, 2018 and September 30, 2017, respectively	483,665	470,693
Bank owned life insurance	11,696	11,550
Accrued interest receivable	1,963	1,929
Premises and equipment, net	17,348	17,567
Other real estate owned ("OREO")	10,151	11,056
Other assets	2,831	2,730
Total assets	$ 607,887	$ 603,044
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 516,754	$ 515,201
Escrowed funds	2,164	1,937
Federal Home Loan Bank of New York advances	33,905	31,905
Accrued interest payable	117	105
Accounts payable and other liabilities	4,920	4,439
Total liabilities	557,860	553,587
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; 5,820,746 shares outstanding at March 31, 2018 and September 30, 2017	59	59
Additional paid-in capital	26,300	26,289
Treasury stock: 102,996 shares at March 31, 2018 and September 30, 2017, at cost	(1,152)	(1,152)
Unearned Employee Stock Ownership Plan shares	(424)	(492)
Retained earnings	26,670	25,757
Accumulated other comprehensive loss	(1,426)	(1,004)
Total stockholders' equity	50,027	49,457
Total liabilities and stockholders' equity	$ 607,887	$ 603,044

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 March 31,		For the Six Months Ended March 31,	
	2018	2017	2018	2017
	(Unaudited)			
Interest and dividend income				
Loans, including fees	$5,408	$5,010	$10,843	$10,008
Investment securities				
Taxable	416	392	837	771
Federal Home Loan Bank of New York stock	33	32	64	61
Total interest and dividend income	5,857	5,434	11,744	10,840
Interest expense				
Deposits	871	718	1,765	1,447
Borrowings	165	186	327	377
Total interest expense	1,036	904	2,092	1,824
Net interest and dividend income	4,821	4,530	9,652	9,016
Provision for loan losses	257	403	506	733
Net interest and dividend income after provision for loan losses	4,564	4,127	9,146	8,283
Other income				
Service charges	222	316	480	588
Income on bank owned life insurance	74	71	146	143
Other operating income	43	28	67	62
Gains on sales of loans	30	25	216	111
Gains on sales of investment securities	—	—	107	—
Total other income	369	440	1,016	904
Other expenses				
Compensation and employee benefits	2,443	2,270	4,801	4,492
Occupancy expenses	755	708	1,472	1,395
Professional fees	255	279	484	520
Data processing expenses	143	124	280	256

OREO expenses	168	76	400	255
FDIC deposit insurance premiums	95	128	205	258
Loan servicing expenses	78	68	158	116
Insurance expense	43	50	101	115
Other expenses	375	345	790	674
Total other expenses	4,355	4,048	8,691	8,081
Income before income tax expense	578	519	1,471	1,106
Income tax expense	182	219	746	458
Net income	$396	$300	$725	$648
Net income per share-basic and diluted	$0.07	$0.05	$0.12	$0.11

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 March 31,		For the Six Months Ended March 31,	
	2018	2017	2018	2017
	(Unaudited)			
Net income	$396	$300	$725	$648
Other comprehensive income (loss)				
Unrealized gain (loss) on securities available for sale	(352)	30	(319)	(281)
Less reclassification adjustments for:				
Net unrealized gains on securities reclassified available for sale	—	—	104	—
Net gains realized on securities available for sale	—	—	(107)	—
Other comprehensive income (loss), before tax	(352)	30	(322)	(281)
Deferred income tax effect	88	(11)	88	102
Total other comprehensive income (loss)	(264)	19	(234)	(179)
Total comprehensive income (loss)	$132	$319	$491	$469

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

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

For the Six Months Ended March 31, 2018 and 2017

(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, 2017	5,820,746	$ 59	$ 26,289	$ (1,152)	$ (492)	$ 25,757	$ (1,004)	$ 49,457
Net income	—	—	—	—	—	725	—	725
Other comprehensive loss	—	—	—	—	—	—	(234)	(234)
Reclassification of the stranded tax effect related to defferred taxes for:								
Defined benefit pension plan*	—	—	—	—	—	177	(177)	—
Securities available-for-sale*	—	—	—	—	—	11	(11)	—
ESOP shares allocated	—	—	11	—	68	—	—	79
Balance, March 31, 2018	5,820,746	$ 59	$ 26,300	$ (1,152)	$ (424)	$ 26,670	$ (1,426)	$ 50,027

* These reclassifications are the result of the Company's early adoption of FASB ASU 2018-02 *Income Statement-Reporting Comprehensive Income* (Topic 220). See Note B for additional information.

	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, 2016	5,820,746	$ 59	$ 26,270	$ (1,152)	$ (627)	$ 24,334	$ (1,159)	$ 47,725
Net income	—	—	—	—	—	648	—	648
Other comprehensive loss	—	—	—	—	—	—	(179)	(179)
ESOP shares allocated	—	—	7	—	68	—	—	75
Balance, March 31, 2017	5,820,746	$ 59	$ 26,277	$ (1,152)	$ (559)	$ 24,982	$ (1,338)	$ 48,269

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 Six Months Ended March 31,	
	2018	2017
	(Unaudited)	
Operating activities		
Net income	$ 725	$ 648
Adjustment to reconcile net income to net cash provided by operating activities		
Depreciation expense	424	403
Premium amortization on investment securities, net	76	94
Provision for loan losses	506	733
Provision for loss on other real estate owned	273	150
Originations of loans held for sale	(4,448)	(1,683)
Proceeds from the sales of loans receivable	4,664	1,794
Gains on sale of loans receivable	(216)	(111)
Gains on sales of investment securities	(107)	—
Gains on the sales of other real estate owned	(30)	(41)
ESOP compensation expense	79	75
Deferred income tax expense	107	495
Increase in accrued interest receivable	(34)	(239)
Increase in surrender value bank owned life insurance	(146)	(143)
Increase in other assets	(121)	(344)
Increase (decrease) in accrued interest payable	12	(4)
Increase (decrease) in accounts payable and other liabilities	481	(1,670)
Net cash provided by operating activities	2,245	157
Investing activities		
Net increase in loans receivable	(14,217)	(5,470)
Purchases of loans receivable	(461)	(1,450)
Proceeds from the sale of loans receivable	1,200	—
Purchases of investment securities held to maturity	(3,492)	(3,974)
Purchases of investment securities available for sale	(1,443)	(6,079)
Sales of investment securities held to maturity	3,408	—
Principal repayments on investment securities held to maturity	1,817	4,581
Principal repayments on investment securities available for sale	1,812	555
Purchases of premises and equipment	(205)	(89)
Investment in other real estate owned	(182)	(30)
Proceeds from other real estate owned	845	923
Redemptions (purchases) of Federal Home Loan Bank stock	(90)	90
Net cash used by investing activities	(11,008)	(10,943)

Financing activities		
Net increase in deposits	1,553	1,171
Net increase in escrowed funds	227	261
Proceeds (repayments) of long-term advances	2,000	(2,000)
Net cash provided (used) by financing activities	3,780	(568)
Net decrease in cash and cash equivalents	(4,983)	(11,354)
Cash and cash equivalents, beginning of period	22,334	21,806
Cash and cash equivalents, end of period	$ 17,351	$ 10,452
Supplemental disclosures of cash flow information		
Cash paid for		
Interest	$ 2,081	$ 1,827
Income taxes	$ 814	$ 36
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	$ —	$ 399
Investment securities transferred from held to maturity to available for sale	$ 12,619	$ —

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 and six months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending September 30, 2018. The September 30, 2017 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 consolidated 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 March 31, 2018 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, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (*Topic 606*), which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of 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. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 by one year. The new guidance is effective for public companies for periods beginning after December 15, 2017. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods.

Based on our evaluation under the current guidance, we estimated that substantially all of our interest income and non-interest income will not be impacted by the adoption of ASU 2014-09 because either the revenue from those contracts with customers is covered by other guidance in US GAAP or the revenue recognition outcomes anticipated with the adoption of ASU 2014-09 will likely be similar to our current revenue recognition practices. The Company evaluated certain noninterest revenue streams, including, deposit related fees, service and interchange fees, and merchant income to determine the potential impact of the guidance on the Company's consolidated financial statements. The Company expects additional financial statement disclosures of non-interest income revenue streams with the adoption of this ASU. In addition, we are reviewing our business processes, systems and controls to support recognition and disclosures under the new standard. The Company is expected to use the modified retrospective method for transition in which the cumulative effect will be recognized at the date of adoption with no restatement of comparative periods presented. The adoption of the ASU is not expected to have a material effect on the Company's consolidated financial statements.

Table of Contents

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will supersede the current lease requirements in Topic 840. The ASU requires lessees to recognize a right of use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of income. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new guidance will be effective for years beginning after December 15, 2018 for public companies. Once effective, the standard will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The Company is currently assessing the impacts this new standard will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*. ASU 2016-13 requires entities to report "expected" credit losses on financial instruments and other commitments to extend credit rather than the current "incurred loss" model. These expected credit losses for financial assets held at the reporting date are to be based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU will also require enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. For public business entities that are U.S. Securities and Exchange Commission filers, the amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements.

In August 2017, the FASB issued the ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The purpose of this guidance is to better align a company's financial reporting for hedging relationships with the company's risk management activities by expanding strategies that qualify for hedge accounting, modifying the presentation of certain hedging relationships in the financial statements and simplifying the application of hedge accounting in certain situations. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted in any interim or annual period before the effective date. ASU 2017-12 will be applied using a modified retrospective approach through a cumulative-effect adjustment related to the elimination of the separate measurement of ineffectiveness to the balance of accumulated other comprehensive income with a corresponding adjustment to retained earnings as of the beginning of the fiscal year in which the amendments in this update are adopted. The amended presentation and disclosure guidance is required only prospectively. Upon adoption, the ASU allows for the reclassification of debt securities eligible to be hedged under the ASU from held-to-maturity to available-for-sale. The Company adopted ASU 2017-12 during the quarter ended December 31, 2017 and reclassified ten mortgage-backed securities totaling $12.6 million from the held-to-maturity portfolio to the available-for-sale portfolio.

In February 2018, the FASB issued ASU 2018-02, *Income Statement- Reporting Comprehensive Income (Topic 220) – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* The amendments in this update affect any entity that is required to apply the provisions of Topic 220, Income Statement- Reporting Comprehensive Income. Deferred tax assets ("DTAs") related to defined pension benefit plans and securities available for sale that were revalued as of December 31, 2017 created "stranded tax effects" in Accumulated Other Comprehensive Income ("AOCI") due to the enactment of the Tax Cuts and Jobs Act (the "Tax Act"). Existing GAAP required recognition of the tax rate change effects on the DTA revaluation as an adjustment to income tax expense. As

a result the AOCI contained the stranded amounts from prior periods at the previous tax rate. ASU 2018-12 permits the reclassification of the stranded amounts from AOCI to retained earnings resulting from the Tax Act. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Act, the underlying GAAP guidance that requires the effect of a change in tax laws or rates to be included in income from continuing operations is not affected. The amendments in this updates are optional and are effective for fiscal year beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments is permitted, including adoption in any interim period.

The Company adopted the provisions of ASU 2018-02 effective March 31, 2018 and elected to record a reclassification adjustment of $188,000 from AOCI to retained earnings in the consolidated statements of stockholders' equity for stranded tax effects resulting from enactment of the Tax Act.

Table of Contents

NOTE C - CONTINGENCIES

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

NOTE D - EARNINGS PER SHARE

Basic and diluted earnings per share for the three and six months ended March 31, 2018 and 2017 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 diluted earnings per share calculations.

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2018	2017	2018	2017
	(In thousands except for per share data)			
Income applicable to common shares	$396	$300	$725	$648
Weighted average number of common shares outstanding - basic	5,821	5,821	5,821	5,821
Stock options and restricted stock	—	—	—	—
Weighted average number of common shares and common share equivalents - diluted	5,821	5,821	5,821	5,821
Basic earnings per share	$0.07	$0.05	$0.12	$0.11
Diluted earnings per share	$0.07	$0.05	$0.12	$0.11

There were no outstanding options to purchase common stock at March 31, 2018 and March 31, 2017.

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 consolidated financial statements. The cost is measured based on the fair value of the equity or liability instruments issued.

Stock options generally vest over a five-year service period and expire ten years from issuance. The fair values of all option grants were estimated using the Black-Scholes option-pricing model. Management recognizes compensation expense for the fair values of these awards, which have graded vesting, on a straight-line basis over the vesting period of the awards. Once vested, these awards are irrevocable.

There was no activity for the Company's stock option plan for the months ended March 31, 2018.

The following is a summary of the status of the Company's stock option activity and related information for its option plan for the six months ended March 31, 2017.

Table of Contents

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at September 30, 2016	188,276	$ 14.61	0.4 years	
Granted	—	—		
Exercised	—	—		
Expired	(188,276)	14.61		
Forfeited	—	—		
Balance at March 31, 2017	—	$ —	—	$ —
Exercisable at March 31, 2017	—	$ —	—	$ —

There were no grants, vested shares or forfeitures of non-vested restricted stock awards as of or during the six months ended March 31, 2018 and March 31, 2017.

There were no stock option and stock award expenses included with compensation expense for the six months ended March 31, 2018 and March 31, 2017.

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 March 31, 2018, 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 six months ended March 31, 2018 and 2017, respectively. Under the stock repurchase program, 48,924 shares of the 129,924 shares authorized remained available for repurchase as of March 31, 2018. The Company’s intended use of the repurchased shares is for general corporate purposes. The Company held 102,996 total treasury stock shares at March 31, 2018, of which 81,000 were from repurchases under this program.

The Company has an Employee Stock Ownership Plan ("ESOP") for the benefit of employees of the Company and the Bank who meet 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 (4.50% at January 1, 2018) 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 March 31, 2018, shares allocated to participants totaled 165,771. Unallocated ESOP shares held in suspense totaled 52,092 at March 31, 2018 and had a fair market value of $664,173. The Company's contribution expense for the ESOP was $78,000 and $75,000 for the six months ended March 31, 2018 and 2017, respectively.

NOTE F – OTHER COMPREHENSIVE INCOME (LOSS)

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

9

Table of Contents

	Three Months Ended March 31,					
	2018			2017		
	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(Dollars in thousands)					
Unrealized holding gain (loss) arising during period on:						
Available-for-sale investments	$(352)	$ 88	$ (264)	$30	$ (11)	$ 19
Other comprehensive (loss) income, net	$(352)	$ 88	$ (264)	$30	$ (11)	$ 19

	Six Months Ended March 31,					
	2018			2017		
	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(Dollars in thousands)					
Unrealized holding gain (loss) arising during period on:						
Available-for-sale investments	$(319)	$ 87	$ (232)	$(281)	$ 102	$ (179)
Less reclassification adjustments for:						
Net unrealized gains on securities reclassified available for sale	104	(32)	72	—	—	—
Net gains realized on securities available for sale [(a)] [(b)]	(107)	33	(74)	—	—	—
Other comprehensive (loss) income, net	$(322)	$ 88	$ (234)	$(281)	$ 102	$ (179)

(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, the Company 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 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.

Table of Contents

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 the Company's 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.

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

	Fair Value at March 31, 2018			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage-backed securities - residential	$ 1,573	$ —	$ 1,573	$ —
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	19,739	—	19,739	—
Debt securities	2,381	—	2,381	—
Private label mortgage-backed securities-residential	15	—	15	—
Total securities available for sale	$ 23,708	$ —	$ 23,708	$ —

	Fair Value at September 30, 2017			
	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	$ 9,326	$ —	$ 9,326	$ —

Debt securities	2,449		—	2,449		—
Private label mortgage-backed securities-residential	40		—	40		—
Total securities available for sale	$ 11,815	$	—	$ 11,815	$	—

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

<u>Mortgage Servicing Rights, net</u>

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 $53,000 and $69,000 at March 31, 2018 and September 30, 2017, respectively.

Table of Contents

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 last 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.

Other Real Estate Owned

The fair value of other real estate owned is determined through current appraisals, and adjusted as necessary, by management, to reflect current market conditions 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 the Company's assets measured at fair value on a non-recurring basis at March 31, 2018 and September 30, 2017.

Fair Value at March 31, 2018			
Total	Level 1	Level 2	Level 3
(Dollars in thousands)			

Impaired loans	$ 871	$ —	$ —	$ 871
Other real estate owned	10,151	—	—	10,151
	$ 11,022	$ —	$ —	$ 11,022

	Fair Value at September 30, 2017			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 909	$ —	$ —	$ 909
Other real estate owned	11,056	—	—	11,056
	$ 11,965	$ —	$ —	$ 11,965

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:

12

Table of Contents

Quantitative Information about Level 3 Fair Value Measurements

(Dollars in thousands)

March 31, 2018	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$871	Appraisal of collateral (1)	Appraisal adjustments (2)	0.0% to -22.6% (-11.3%)
Other real estate owned	$10,151	Appraisal of collateral (1)	Liquidation expenses (2)	-3.1% to -75.8% (-14.7%)

September 30, 2017	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$909	Appraisal of collateral (1)	Appraisal adjustments (2)	-7.9% to -35.2% (-22.3%)
Other real estate owned	$11,056	Appraisal of collateral (1)	Liquidation expenses (2)	-8.0% to -55.4% (-25.0%)

(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 downward 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 receivable: 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.

FHLB advances: 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 FHLB 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.

Table of Contents

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 March 31, 2018 and September 30, 2017. This table excludes financial instruments for which the carrying amount approximates level 1 fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as interest-bearing demand, NOW, and money market savings deposits, the carrying amount is a reasonable estimate of fair value due to these products being payable on demand and having no stated maturity.

	Carrying	Fair	Fair Value Measurement Placement		
	Value	Value	(Level 1)	(Level 2)	(Level 3)
	(Dollars in thousands)				
March 31, 2018					
Financial instruments - assets					
Investment securities held to maturity	$37,082	$35,851	$ —	$ 35,851	$ —
Loans	483,665	481,374	—	—	481,374
Financial instruments - liabilities					
Certificates of deposit including retirement certificates	118,139	118,635	—	118,635	—
Borrowings	33,905	33,407	—	33,407	—
September 30, 2017					
Financial instruments - assets					
Investment securities held to maturity	$51,368	$51,241	$ —	$ 51,241	$ —
Loans	470,693	473,538	—	—	473,538
Financial instruments - liabilities					
Certificates of deposit including retirement certificates	128,028	128,750	—	128,750	—
Borrowings	31,905	31,865	—	31,865	—

There were no transfers between fair value measurement placements during the six months ended March 31, 2018.

NOTE H - INVESTMENT SECURITIES

The following tables summarize the amortized cost and fair values of securities available for sale at March 31, 2018 and September 30, 2017:

March 31, 2018

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage-backed securities - residential	$1,519	$ 54	$ —	$1,573
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	20,163	29	(453)	19,739
Debt securities	2,500	—	(119)	2,381
Private label mortgage-backed securities-residential	15	—	—	15
Total securities available for sale	$24,197	$ 83	$ (572)	$23,708

Table of Contents

	September 30, 2017			
	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	$9,442	$ 9	$ (125)	$9,326
Debt securities	2,500	—	(51)	2,449
Private label mortgage-backed securities-residential	40	—	—	40
Total securities available for sale	$11,982	$ 9	$ (176)	$11,815

The maturities of the debt securities and mortgage-backed securities available for sale at March 31, 2018 are summarized in the following table:

	March 31, 2018	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within 1 year	$ —	$ —
Due after 1 but within 5 years	1,500	1,417
Due after 5 but within 10 years	1,000	964
Due after 10 years	—	—
Total debt securities	2,500	2,381
Mortgage-backed securities:		
Residential	21,697	21,327
Commercial	—	—
Total	$ 24,197	$ 23,708

The following tables summarize the amortized cost and fair values of securities held to maturity at March 31, 2018 and September 30, 2017:

	March 31, 2018			
	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	$610	$ —	$ (97)	$513
Mortgage-backed securities - commercial	936	—	(11)	925
Obligations of U.S. government-sponsored enterprises:				

Mortgage-backed-securities - residential	27,654	6	(692)	26,968
Debt securities	4,463	—	(83)	4,380
Private label mortgage-backed securities - residential	419	—	(1)	418
Corporate securities	3,000	—	(353)	2,647
Total securities held to maturity	$37,082	$ 6	$ (1,237)	$35,851

15

Table of Contents

	September 30, 2017			
	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	$3,466	$ 123	$ (96)	$3,493
Mortgage-backed securities - commercial	968	—	(10)	958
Obligations of U.S. government-sponsored enterprises:				
Mortgage backed securities - residential	39,016	349	(251)	39,114
Debt securities	4,461	—	(24)	4,437
Private label mortgage-backed securities - residential	457	—	(2)	455
Corporate securities	3,000	—	(216)	2,784
Total securities held to maturity	$51,368	$ 472	$ (599)	$51,241

The maturities of the debt securities and the mortgage backed securities held to maturity at March 31, 2018 are summarized in the following table:

	March 31, 2018	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within 1 year	$ 2,000	$ 1,999
Due after 1 but within 5 years	1,499	1,470
Due after 5 but within 10 years	3,000	2,647
Due after 10 years	964	911
Total debt securities	7,463	7,027
Mortgage-backed securities:		
Residential	28,683	27,899
Commercial	936	925
Total	$ 37,082	$ 35,851

NOTE I – IMPAIRMENT OF INVESTMENT SECURITIES

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

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 March 31, 2018 and September 30, 2017 for both available for sale and held to maturity securities by investment category and time frame for which the loss has been outstanding:

16

Table of Contents

	March 31, 2018						
		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	2	$—	$ —	$ 513	$ (97)	$ 513	$ (97)
Mortgage-backed securities - commercial	1	—	—	924	(11)	924	(11)
Obligations of U.S. government-sponsored enterprises		—	—	—	—		
Mortgage-backed securities - residential	32	21,349	(402)	22,461	(743)	43,810	(1,145)
Debt securities	5	—	—	6,762	(202)	6,762	(202)
Private label mortgage-backed securities residential	2	—	—	137	(1)	137	(1)
Corporate securities	1	—	—	2,647	(353)	2,647	(353)
Total	43	$ 21,349	$ (402)	$ 33,444	$ (1,407)	$ 54,793	$ (1,809)

	September 30, 2017						
		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	2	$—	$ —	$ 605	$ (96)	$ 605	$ (96)
Mortgage-backed securities - commercial	1	958	(10)	—	—	958	(10)
Obligations of U.S. government-sponsored enterprises							
Mortgage-backed securities - residential	20	6,582	(92)	21,713	(284)	28,295	(376)
Debt securities	5	4,890	(71)	1,996	(4)	6,886	(75)
Private label mortgage-backed securities residential	2	—	—	193	(2)	193	(2)
Corporate securities	1	—	—	2,784	(216)	2,784	(216)
Total	31	$ 12,430	$ (173)	$ 27,291	$ (602)	$ 39,721	$ (775)

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 March 31, 2018 and September 30, 2017, there were forty-three and thirty-one investment securities, respectively, with unrealized losses.

The Company anticipates full recovery of amortized costs with respect to these securities. The Company does not intend to sell these securities and has determined that it is not more likely than not that the Company would be required to sell these securities prior to maturity or market price recovery. Management has considered factors regarding other than temporarily impaired securities and determined that there are no securities with impairment that is other than temporary as of March 31, 2018 and September 30, 2017.

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

Loans receivable, net were comprised of the following:

	March 31, 2018	September 30, 2017
	(Dollars in thousands)	
One-to four-family residential	$ 176,483	$ 178,336
Commercial real estate	214,287	207,118
Construction	22,948	22,622
Home equity lines of credit	18,562	18,536
Commercial business	49,335	41,113
Other	5,657	6,266
Total loans receivable	487,272	473,991
Net deferred loan costs	162	177
Allowance for loan losses	(3,769)	(3,475)
Total loans receivable, net	$ 483,665	$ 470,693

Table of Contents

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

Management evaluates individual loans in all segments for possible impairment if the loan either is in nonaccrual status, or is risk rated Substandard and is greater than 90 days past due. Loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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

The following tables present 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 six months ended March 31, 2018 and September 30, 2017:

Impaired
Loans with
No Specific

At March 31, 2018	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)				
One-to four-family residential	$ —	$ —	$ 2,503	$ 2,503	$ 2,653
Commercial real estate	—	—	3,642	3,642	3,642
Commercial business	—	—	362	362	452
Total impaired loans	$ —	$ —	$ 6,507	$ 6,507	$ 6,747

18

Table of Contents

At September 30, 2017	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)				
One-to four-family residential	$—	$ —	$ 3,124	$ 3,124	$ 3,436
Commercial real estate	—	—	4,088	4,088	4,110
Commercial business	—	—	243	243	243
Total impaired loans	$—	$ —	$ 7,455	$ 7,455	$ 7,789

The following tables present the average recorded investment in impaired loans for the three and six months ended March 31, 2018 and 2017. There was no interest income recognized on impaired loans during the six months ended March 31, 2018.

	Three Months Ended March 31, 2018	Six Months Ended March 31, 2018
	(Dollars in thousands)	
One-to four-family residential	$ 2,531	$ 2,728
Commercial real estate	3,658	3,801
Commercial business	363	323
Average investment in impaired loans	$ 6,552	$ 6,852

	Three Months Ended March 31, 2017	Six Months Ended March 31, 2017
	(Dollars in thousands)	
One-to four-family residential	$ 3,563	$ 3,712

Commercial real estate	5,106	4,685
Home equity lines of credit	257	222
Commercial business	913	1,024
Other	12	8
Average investment in impaired loans	$ 9,851	$ 9,651

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.

Table of Contents

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

	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
March 31, 2018					
One-to four-family residential	$175,170	$ —	$ 1,313	$ —	$176,483
Commercial real estate	212,037	—	2,250	—	214,287
Construction	20,547	—	2,401	—	22,948
Home equity lines of credit	18,562	—	—	—	18,562
Commercial business	49,212	—	123	—	49,335
Other	5,657	—	—	—	5,657
Total	$481,185	$ —	$ 6,087	$ —	$487,272

	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
September 30, 2017					
One-to four-family residential	$176,285	$ 127	$ 1,924	$ —	$178,336
Commercial real estate	204,435	—	2,683	—	207,118
Construction	20,194	—	2,428	—	22,622
Home equity lines of credit	18,536	—	—	—	18,536
Commercial business	40,820	293	—	—	41,113
Other	6,266	—	—	—	6,266
Total	$466,536	$ 420	$ 7,035	$ —	$473,991

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)						
March 31, 2018							
One-to four-family residential	$167,674	$7,760	$ 32	$ 1,017	$8,809	$1,017	$176,483
Commercial real estate	207,762	6,440	—	85	6,525	85	214,287

Construction	21,495	1,453	—	—	1,453	—	22,948
Home equity lines of credit	18,504	19	—	39	58	39	18,562
Commercial business	48,868	344	—	123	467	123	49,335
Other	5,651	6	—	—	6	—	5,657
Total	$469,954	$16,022	$ 32	$ 1,264	$17,318	$1,264	$487,272

20

Table of Contents

	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, 2017							
One-to four-family residential	$176,546	$ —	$ 127	$ 1,663	$ 1,790	$ 1,663	$178,336
Commercial real estate	206,218	418	—	482	900	482	207,118
Construction	22,622	—	—	—	—	—	22,622
Home equity lines of credit	18,344	—	192	—	192	—	18,536
Commercial business	40,420	400	80	213	693	213	41,113
Other	6,266	—	—	—	—	—	6,266
Total	$470,416	$ 818	$ 399	$ 2,358	$ 3,575	$ 2,358	$473,991

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 non-performing loans (“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 six months ended March 31, 2018:

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, 2017	$587	$ 1,277	$ 490	$ 57	$ 956	$ 6	$ 102	$3,475
Charge-offs	(127)	—	—	—	(170)	—	—	(297)
Recoveries	82	23	3	—	1	—	—	109
Provision	21	(1)	(109)	74	265	(2)	2	250
Balance- December 31, 2017	$563	$ 1,299	$ 384	$ 131	$ 1,052	$ 4	$ 104	$3,537
Charge-offs	(25)	—	—	—	—	—	—	(25)
Recoveries	—	—	—	—	—	—	—	—
Provision	(5)	119	58	(19)	106	—	(2)	257
Balance- March 31, 2018	$533	$ 1,418	$ 442	$ 112	$ 1,158	$ 4	$ 102	$3,769

The following table summarizes the ALL by loan category and the related activity for the six months ended March 31, 2017:

	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, 2016	$542	$ 1,075	$ 361	$ 71	$ 976	$ 9	$ 22	$3,056
Charge-offs	(18)	—	—	—	(237)	—	—	(255)
Recoveries	35	—	3	—	1	—	—	39
Provision	(35)	77	4	—	174	(2)	112	330
Balance-December 31, 2016	$524	$ 1,152	$ 368	$ 71	$ 914	$ 7	$ 134	$3,170
Charge-offs	(52)	—	—	—	(226)	—	—	(278)
Recoveries	—	—	3	14	1	—	—	18
Provision	175	(44)	(3)	(18)	323	6	(36)	403
Balance- March 31, 2017	$647	$ 1,108	$ 368	$ 67	$ 1,012	$ 13	$ 98	$3,313

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 March 31, 2018 and September 30, 2017:

Table of Contents

	One-to-Four Family Residential	Commercial Real Estate	Construction	Home Equity Lines of Credit	Commercial Business	Other	Unallocated	Total
	(Dollars in thousands)							
Allowance for Loan Losses:								
Balance - March 31, 2018	$533	$1,418	$442	$112	$1,158	$4	$102	$3,769
Individually evaluated for impairment	—	—	—	—	—	—	—	—
Collectively evaluated for impairment	533	1,418	442	112	1,158	4	102	3,769
Loans receivable:								
Balance - March 31, 2018	$176,483	$214,287	$22,948	$18,562	$49,335	$5,657	$—	$487,272
Individually evaluated for impairment	2,503	3,642	—	—	362	—		6,507
Collectively evaluated for impairment	173,980	210,645	22,948	18,562	48,973	5,657		480,765

	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, 2017	$587	$1,277	$490	$57	$956	$6	$102	$3,475
Individually evaluated for impairment	—	—	—	—	—	—	—	—
Collectively evaluated for impairment	587	1,277	490	57	956	6	102	3,475
Loans receivable:								
Balance - September 30, 2017	$178,336	$207,118	$22,622	$18,536	$41,113	$6,266	$—	$473,991
Individually evaluated for impairment	3,124	4,088	—	—	243	—		7,455
Collectively evaluated for impairment	175,212	203,030	22,622	18,536	40,870	6,266		466,536

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.

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 and six months ended March 31, 2018 and there was one TDR for the three and six months ended March 31. 2017.

Table of Contents

	Three Months Ended March 31, 2017		
	Number of Loans	Investment Before TDR Modification	Investment After TDR Modification
	(Dollars in thousands)		
One-to four-family residential	1	$ 182	$ 182
Total	1	$ 182	$ 182

	Six Months Ended March 31, 2017		
	Number of Loans	Investment Before TDR Modification	Investment After TDR Modification
	(Dollars in thousands)		
One-to four-family residential	1	$ 182	$ 182
Total	1	$ 182	$ 182

There were no foreclosed residential real estate loans for the six month ended March 31, 2018. There were $1.1 million of consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure at the six months ended March 31, 2018.

NOTE K - DEPOSITS

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

	2018 March 31	2017 September 30
	(Dollars in thousands)	
Demand accounts	$ 105,992	$ 98,728
Savings accounts	97,810	107,362
NOW accounts	48,337	43,556
Money market accounts	146,476	137,527
Certificates of deposit	99,808	108,740
Retirement certificates	18,331	19,288
	$ 516,754	$ 515,201

NOTE L – INCOME TAXES

On December 22, 2017, the Company revised its estimated annual effective rate to reflect a change in the United States federal corporate tax rate for the Company from 34% to 21%. The rate change is administratively effective at the beginning of our fiscal year resulting in the use of a blended rate for the annual period. As a result, the blended statutory federal tax rate for the Company’s year ended September 30, 2018 is 24.0%.

In addition, we recognized a tax expense in our tax provision for the period ended March 31, 2018 related to the adjustment of our net deferred tax asset to reflect the new corporate tax rate. As a result, income tax expense reported for the six months ended March 31, 2018 was adjusted to reflect the effects of the change in the tax law and resulted in an increase in income tax expense of $182,000. This amount comprises an increase of $306,000 from the application of the newly enacted rates to deferred tax asset balances at the time of enactment and a decrease of $125,000 in income tax expense for the six months ended March 31, 2018 related to the lower federal income tax rate.

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.

Table of Contents

Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The valuation allowance is assessed by management on a quarterly basis and adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant. In assessing whether it is more likely than not that some portion or all of the deferred tax assets will not be realized, management considers projections of future taxable income, the projected periods in which current temporary differences will be deductible, the availability of carry forwards, feasible and permissible tax planning strategies and existing tax laws and regulations. The Company did not have a valuation allowance against its net deferred tax assets at March 31, 2018 or September 30, 2017.

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:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2018	2017	2018	2017
	(in thousands)			
Income tax expense at the statutory federal tax rate of 24% for the three and six months ended March 31, 2018 and 34% for the three and six months ended March 31, 2017	$ 138	$ 176	$ 352	$ 376
State tax expense	40	32	101	64
Reduction of deferred tax asset from tax legislation	—	—	306	—
Other	4	11	(13)	18
Income tax expense	$ 182	$ 219	$ 746	$ 458

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 March 31, 2018 and September 30, 2017, the Company did not hold any interest rate floors or collars.

In the normal course of business the Bank is a party to financial instruments with off-balance-sheet risk and in only 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 consolidated balance sheets.

	2018	2017
	March 31	September 30
	(Dollars in thousands)	
Financial instruments whose contract amounts represent credit risk		
Letters of credit	$ 1,193	$ 633
Unused lines of credit	53,207	64,220
Fixed rate loan commitments	6,718	2,429
Variable rate loan commitments	16,436	3,952
	$ 77,554	$ 71,234

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 may be supplemented by Quarterly Reports on Form 10-Q filed 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.

Table of Contents

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

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

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.

Table of Contents

Comparison of Financial Condition at March 31, 2018 and September 30, 2017

Total assets increased $4.9 million, or 0.8%, to $607.9 million during the six months ended March 31, 2018 from $603.0 million at September 30, 2017. The increase was primarily attributable to a $13.0 million increase in net loans receivable, offset by a $5.0 million decrease in cash and cash equivalent balances and a $2.4 million decrease in investment securities.

Cash and interest bearing deposits with banks decreased $5.0 million, or 22.3%, to $17.3 million at March 31, 2018 from $22.3 million at September 30, 2017 to fund loan originations during the six months ended March 31, 2018.

At March 31, 2018, investment securities totaled $60.8 million, reflecting a decrease of $2.4 million, or 3.8%, from $63.2 million at September 30, 2017. The Company purchased three U.S. government-sponsored enterprise mortgage-backed securities totaling $4.9 million for the six months ended March 31, 2018. The Company sold twenty-three U.S. government-sponsored enterprise mortgage-backed securities totaling $3.3 and received calls and principal repayments totaling $3.6 million during the six months ended March 31, 2018.

Investment securities at March 31, 2018 consisted of $50.6 million in mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises, $6.8 million in U.S. government agencies and U.S. government-sponsored enterprise debt securities, $3.0 million in corporate notes, and $434,000 in “private-label” mortgage-backed securities. There were no other-than-temporary-impairment charges for the Company’s investment securities for the six months ended March 31, 2018.

Total loans receivable increased $13.3 million, or 2.8%, to $487.3 million during the six months ended March 31, 2018 compared with $474.0 million at September 30, 2017. Total loans receivable were comprised of $214.3 million (44.0%) in commercial real estate loans, $176.5 million (36.2%) in one-to-four family residential mortgage loans, $49.3 million (10.1%) in commercial business loans, $22.9 million (4.7%) in construction loans, $18.6 million (3.8%) in home equity lines of credit, and $5.7 million (1.2%) in other loans. Expansion of the portfolio during the six months ended March 31, 2018 occurred primarily in commercial business loans, which increased $8.2 million, and commercial real estate loans, which increased $7.2 million.

Total non-performing loans decreased $1.1 million to $1.3 million at March 31, 2018 from $2.4 million at September 30, 2017. The ratio of non-performing loans to total loans decreased to 0.26% at March 31, 2018 from 0.50% at September 30, 2017.

Included in the non-performing loan totals were six residential mortgage loans totaling $1.0 million, one commercial business loan totaling $123,000, one commercial real estate loans totaling $85,000, and one home equity line of credit totaling $39,000.

Non-performing loans secured by one-to four-family residential properties, including home equity lines of credit and other consumer loans, decreased $607,000 to $1.1 million at March 31, 2018 from $1.7 million at September 30, 2017. These loans remained in varying stages of foreclosure at March 31, 2018. Year-to-date, The Company charged off $152,000 in non-performing residential and home equity lines of credit and other consumer loans through a reduction in its allowance for loan loss and received three recoveries totaling $83,000 from previously charged-off non-performing residential properties including home equity lines of credit and other consumer loans.

Non-performing commercial real estate loans decreased $397,000 to $85,000 at March 31, 2018 from $482,000 at September 30, 2017. The one non-accrual loan was in an early stage of collection at March 31, 2018. Year-to-date, there were no charge offs in the commercial real estate loan portfolio while the Company received one recovery totaling $23,000.

Non-performing commercial business loans decreased $90,000 to $123,000 during the six months period ended March 31, 2018 from $213,000 at September 30, 2017. Year-to-date, The Company charged off $170,000 in non-performing commercial business loans through a reduction in its allowance for loan loss and received one recovery totaling $1,000 from a previously charged-off non-performing commercial business loan.

There were no non-performing construction loans during the six months or at March 31, 2018. Year-to-date, the Company received recoveries totaling $3,000 from a previously charged-off non-performing construction loan.

During the six months ended March 31, 2018, the allowance for loan losses increased $294,000 to $3.8 million. The allowance for loan losses as a percentage of non-performing loans increased to 298% at March 31, 2018 compared with 147% at September 30, 2017. At March 31, 2018 the Company’s allowance for loan losses as a percentage of total loans was 0.77% compared with 0.73% at September 30, 2017.

Table of Contents

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.

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. March 31, 2018, The Company did not hold any specific reserves.

Other real estate owned decreased $905,000 to $10.2 million at March 31, 2018 from $11.1 million at September 30, 2017. The decrease was the result of four sales totaling $815,000 and valuation allowances totaling $273,000. Offsetting the decreases were improvements to properties totaling $181,000. The Company is determining the proper course of action for its other real estate owned, which may include holding the properties until the real estate market further improves, marketing the individual properties for sale, or selling multiple properties to a real estate investors.

Total deposits increased $1.6 million, or 0.3%, to $516.8 million during the six months ended March 31, 2018 compared with $515.2 million at September 30, 2017. The increase in deposits occurred in money market accounts, which increased $8.9 million, or 6.5%, to $146.5 million, non-interest bearing checking accounts, which increased $7.3 million, or 7.4%, to $106.0 million and in interest-bearing checking accounts, which increased $4.8 million, or 11.0%, to $48.3 million. Offsetting these increases were decreases in certificates of deposit (including individual retirement accounts) which decreased $9.9 million, or 7.7%, to $118.1 million, and in savings accounts, which decreased $9.6 million, or 8.9%, to $97.8 million.

Included with the total deposits at March 31, 2018 and September 30, 2017 were $10.3 million in brokered certificates of deposit.

Federal Home Loan Bank of New York advances increased $2.0 million to $33.9 million at March 31, 2018 from $31.9 million at September 30, 2017 to fund growth in total loans receivable.

The Company's book value per share increased to $8.59 at March 31, 2018 from $8.50 at September 30, 2017. The increase was due to the Company's results of operations for the six months ended March 31, 2018.

Average Balance Sheet for the Three and Six Months Ended March 31, 2018 and 2017

The tables on the following pages present certain information regarding the Company's financial condition and net interest income for the three and six months ended March 31, 2018 and 2017. The tables present the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. We derived average balances from daily balances over the periods indicated. Interest income includes fees that we consider adjustments to yields.

Table of Contents

	For the Three Months Ended March 31,					
	2018			2017		
	Average Balance	Interest Income/ Expense	Yield/Cost (Annualized)	Average Balance	Interest Income/ Expense	Yield/Cost (Annualized)
	(Dollars In Thousands)					
Interest-earning assets:						
Interest-earning deposits	$16,300	$ 62	1.53%	$15,082	$ 41	1.11%
Loans receivable, net	479,464	5,408	4.57%	460,344	5,010	4.41%
Securities						
Taxable	60,911	354	2.36%	62,581	351	2.27%
FHLB of NY stock	2,047	33	6.50%	2,158	32	5.89%
Total interest-earning assets	558,722	5,857	4.25%	540,165	5,434	4.08%
Noninterest-earning assets	45,734			48,006		
Total assets	$604,456			$588,171		
Interest-bearing liabilities:						
Savings accounts [1]	$100,675	175	0.71%	$110,975	200	0.73%
NOW accounts [2]	187,284	312	0.68%	160,282	140	0.36%
Time deposits [3]	120,772	384	1.29%	130,350	378	1.17%
Total interest-bearing deposits	408,731	871	0.86%	401,607	718	0.73%
Borrowings	32,905	165	2.03%	34,241	186	2.20%
Total interest-bearing liabilities	441,636	1,036	0.95%	435,848	904	0.84%
Noninterest-bearing liabilities	113,062			104,441		
Total liabilities	554,698			540,289		
Retained earnings	49,758			47,882		
Total liabilities and retained earnings	$604,456			$588,171		
Net interest and dividend income		$ 4,821			$ 4,530	
Interest rate spread			3.30%			3.24%
Net interest-earning assets	$117,086			$104,317		
Net interest margin [4]			3.50%			3.40%
Average interest-earning assets to average interest-bearing liabilities	126.51%			123.93%		

[1] Includes passbook savings, money market passbook and club accounts.

[2] Includes interest-bearing checking and money market accounts.

[3] Includes certificates of deposits and individual retirement accounts.

[4] Calculated as annualized net interest income divided by average total interest-earning assets.

Table of Contents

	For the Six Months Ended March 31,					
	2018			2017		
	Average **Balance**	Interest Income/ **Expense**	Yield/Cost **(Annualized)**	Average **Balance**	Interest Income/ **Expense**	Yield/Cost **(Annualized)**
	(Dollars In Thousands)					
Interest-earning assets:						
Interest-earning deposits	$19,162	$133	1.39%	$15,893	$80	1.01%
Loans receivable, net	475,742	10,843	4.57%	459,543	10,008	4.37%
Securities						
Taxable	61,402	704	2.30%	62,006	691	2.23%
FHLB of NY stock	2,025	64	6.31%	2,184	61	5.62%
Total interest-earning assets	558,331	11,744	4.22%	539,626	10,840	4.03%
Noninterest-earning assets	45,858			48,432		
Total assets	$604,189			$588,058		
Interest-bearing liabilities:						
Savings accounts (1)	$102,769	$366	0.71%	$107,893	$394	0.73%
NOW accounts (2)	184,612	621	0.67%	161,106	283	0.35%
Time deposits (3)	122,966	778	1.27%	131,396	770	1.18%
Total interest-bearing deposits	410,347	1,765	0.86%	400,395	1,447	0.72%
Borrowings	32,400	327	2.03%	34,801	377	2.17%
Total interest-bearing liabilities	442,747	2,092	0.95%	435,196	1,824	0.84%
Noninterest-bearing liabilities	111,309			104,595		
Total liabilities	554,056			539,791		
Retained earnings	50,133			48,267		
Total liabilities and retained earnings	$604,189			$588,058		
Net interest and dividend income		$9,652			$9,016	
Interest rate spread			3.27%			3.19%
Net interest-earning assets	$115,584			$104,430		
Net interest margin (4)			3.47%			3.35%
Average interest-earning assets to average interest-bearing liabilities	126.11%			124.00%		

(1) Includes passbook savings, money market passbook and club accounts.

(2) Includes interest-bearing checking and money market accounts.

(3) Includes certificates of deposits and individual retirement accounts.

(4) Calculated as annualized net interest income divided by average total interest-earning assets.

Comparison of Operating Results for the Three Months Ended March 31, 2018 and 2017

Net Income. Net income increased $96,000, or 32.0%, to $396,000 during the three-month period ended March 31, 2018 compared with the three-month period ended March 31, 2017 primarily due to higher net interest and dividend income, and a lower effective tax rate.

Net Interest and Dividend Income. The net interest and dividend income increased $291,000, or 6.4%, to $4.8 million for the three months ended March 31, 2018 from $4.5 million for the three months ended March 31, 2017. The Company's net interest margin increased 10 basis points to 3.50% for the three months ended March 31, 2018 compared to 3.40% for the three months ended March 31, 2017.

Table of Contents

The yield on the Company's interest-earning assets increased 17 basis points to 4.25% for the three months ended March 31, 2018 from 4.08% for the three months ended March 31, 2017 primarily due to higher average balances of loans receivable, net of allowance for loan losses, which increased $19.1 million, as well as higher market interest rates between periods. The yield on loans receivable increased 16 basis points to 4.57% for the three months ended March 31, 2018 from 4.41% for the three months ended March 31, 2017, due to higher average balances of loan receivable and higher market interest rates. The cost of interest-bearing liabilities increased 11 basis points to 0.95% for the three months ended March 31, 2018 from 0.84% for the three months ended March 31, 2017. The increase in the cost of interest-bearing liabilities was attributable to higher average balances in interest-bearing deposits and higher market interest rates.

Interest and Dividend Income. Interest and dividend income increased $423,000, or 7.8%, to $5.9 million for the three months ended March 31, 2018 from $5.4 million for the three months ended March 31, 2017. The increase was attributable to an $18.6 million, or 3.4%, increase in the average balance of interest-earning assets in addition to a 17 basis point increase in the yield on such assets to 4.25% for the quarter ended March 31, 2018 compared with the prior year period.

Interest earned on loans increased $398,000, or 7.9%, to $5.4 million for the three months ended March 31, 2018 compared with $5.0 million the same period prior year due to a $19.1 million increase in the average balance in the net loan receivable and higher market interest rates.

Interest earned on our investment securities, including interest earning deposits and excluding FHLB stock, increased $24,000, or 6.1%, to $416,000 at March 31, 2018 from $392,000 at March 31, 2017. The average yield on investment securities and interest earning deposits increased 14 basis points to 2.18% for the three months ended March 31, 2018 from 2.04% for the three months ended March 31, 2017, more than offsetting a $452,000 decrease in the average balance between periods.

Interest Expense. Interest expense increased $132,000, or 14.6%, to $1.0 million for the three months ended March 31, 2018 from $904,000 for the three months ended March 31, 2017. The average balance of interest-bearing liabilities increased $5.8 million, or 1.3%, between the two periods, while the cost on such liabilities increased 11 basis points to 0.95% for the three months ended March 31, 2018 from 0.84% compared with the prior year period.

The average balance of interest bearing deposits increased $7.1 million to $408.7 million at March 31, 2018 from $401.6 million at March 31, 2017, while the average cost of such deposits increased 13 basis points to 0.86% from 0.73% between the two periods. As a result, interest paid on interest-bearing deposits increased $153,000 to $871,000 for the three months ended March 31, 2018 from $718,000 for the three months ended March 31, 2017.

Interest paid on advances and securities sold under agreements to repurchase decreased $21,000, or 11.3%, to $165,000 for the three months ended March 31, 2018 from $186,000 for the same period prior year, while the average balance of such borrowings decreased $1.3 million to $32.9 million at March 31, 2018 from $34.2 million at March 31, 2017. The average cost of advances and securities sold under agreements to repurchase decreased 17 basis points to 2.03% for the three months ended March 31, 2018 from 2.20% for the same period of March 31, 2017, 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 $257,000 for the three months ended March 31, 2018 compared to a provision of $403,000 for the three months ended March 31, 2017. The provision for loan losses decreased during the current period compared with the prior year period due to lower net charge-offs, which were $25,000 for the three months ended March 31, 2018 compared to $260,000 for the three months ended March 31, 2017.

During the three months ended March 31, 2018, the Bank reduced the carrying balance on one loan totaling $208,000 by $25,000 to the appraised fair value of collateral, net of estimated disposition costs, securing the loans. Offsetting these charge-offs was one partial recovery of a loan previously charged-off totaling $336 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.

Table of Contents

Other Income. Non-interest income decreased to $369,000 during the three months ended March 31, 2018 compared to $440,000 for the three months ended March 31, 2017. The decrease was primarily attributable to lower service charge income, which decreased $94,000 from the prior year period due primarily to lower loan prepayment penalties. Partially offsetting the reduction were higher gains from loan sales and other operating income. The Company recorded gains totaling $30,000 from the sale of guaranteed portions of SBA loans during the three months ended March 31, 2018, compared with $25,000 for the prior year period. Other operating income increased $15,000 between periods from higher rental income.

Other Expenses. Non-interest expenses increased $307,000, or 7.6%, to $4.4 million from the three months ended March 31, 2017. Compensation and benefit expense increased $173,000, or 7.6%, from the prior year period due to the opening of the Bank's seventh branch location in June of 2017 as well as annual merit increases for employees. The opening of the Bank's Edison, NJ branch also contributed to an increase in occupancy and data processing expenses between periods. In addition, OREO expenses increased $92,000 to $168,000 for the three months ended March 31, 2018 from $76,000 for the prior year period due to higher valuation allowances resulting from updated real estate appraisals. Offsetting these increases were decreases in FDIC insurance premiums, which declined $33,000, and professional fees, which declined $24,000.

Income Tax Expense. The Company recorded tax expense of $182,000 on income of $578,000 for the three months ended March 31, 2018, compared to tax expense of $219,000 on income of $519,000 for the three months ended March 31, 2017. The decrease reflected the lower federal corporate tax rate resulting from the Tax Cuts and Jobs Act that was signed into law December 22, 2017. The Company's effective tax rate for the three months ended March 31, 2018 was 28.6% compared with 42.2% for the three months ended March 31, 2017.

Comparison of Operating Results for the Six Months Ended March 31, 2018 and 2017

Net Income. Net income increased $77,000, or 11.9%, to $725,000 during the six-month period ended March 31, 2018 compared with $648,000 for the six-month period ended March 31, 2017 due to higher net interest and dividend income.

The net interest margin increased by 12 basis points to 3.47% for the six months ended March 31, 2018 compared to 3.35% for the six months ended March 31, 2017. The yield on interest-earning assets increased 19 basis points to 4.22% for the six months ended March 31, 2018 from 4.03% for the six months ended March 31, 2017 primarily due to higher balances of loans receivable as well as higher market interest rates between the two periods. The cost of interest-bearing liabilities increased 11 basis points to 0.95% for the six months ended March 31, 2018 from 0.84% for the six months ended March 31, 2017.

Net Interest and Dividend Income. The Company's net interest and dividend income increased $636,000, or 7.1%, to $9.6 million for the six month period ended March 31, 2018 from $9.0 million for the six months ended March 31, 2017.

Interest and Dividend Income. Interest and dividend income increased $904,000, or 8.3%, to $11.7 million for the six months ended March 31, 2018 compared to $10.8 million for the six months ended March 31, 2017. The average balance of interest-earning assets increased $18.7 million, or 3.5%, while the yield on such assets increased 19 basis points to 4.22% for the six months ended March 31, 2018 compared with 4.03% for the six months ended March 31, 2017. Interest expense increased $268,000, or 14.7%, to $2.1 million for the six months ended March 31, 2018 from $1.8 million for the six months ended March 31, 2017. The average balance of interest-bearing liabilities increased $7.5 million, or 1.7%, between the two periods while the cost on such liabilities increased 11 basis points to 0.95% from 0.84%.

Interest earned on our investment securities, including interest earning deposits and excluding FHLB stock, increased $66,000, or 8.6%, to $837,000 for the six months ended March 31, 2018 compared with $771,000 for the same period last year. The increase was due to a $2.7 million, or 3.4%, increase in the average balance of such securities and deposits to $80.6 million for the six months ended March 31, 2018 from $77.9 million at March 31, 2017. The average yield on investment securities and interest earning deposits increased 10 basis points to 2.08% for the six months ended March 31, 2018 from 1.98% for the six months ended March 31, 2017.

Interest Expense. Interest expense increased $268,000, or 14.7%, to $2.1 million for the six months ended March 31, 2018 from $1.8 million for the six months ended March 31, 2017. The average balance of interest-bearing liabilities increased $7.5 million, or 1.7%, between the two periods while the cost on such liabilities increased 11 basis points to 0.95% for the six months ended March 31, 2018 from 0.84% for the six months ended March 31, 2017 due to higher market interest rates.

Table of Contents

The average balance of interest bearing deposits increased $10.0 million, or 2.5%, to $410.4 million at March 31, 2018 from $400.4 million at March 31, 2017, while the average cost of such deposits increased 14 basis points to 0.86% for the six months ended March 31, 2018 from 0.72% for the six months ended March 31, 2017. Interest paid on deposits increased $318,000, or 22.0%, to $1.8 million for the six months ended March 31, 2018 from $1.5 million for the six months ended March 31, 2017.

Interest paid on advances and securities sold under agreements to repurchase decreased $50,000, or 13.3%, to $327,000 for the six months ended March 31, 2018 compared with $377,000 for the same period prior year. The average balance of such borrowings decreased $2.4 million to $32.4 million from $34.8 million. The average cost of advances and securities sold under agreements to repurchase decreased 14 basis points to 2.03% for the six months ended March 31, 2018 from 2.17% for the same period of March 31, 2017.

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 $506,000 for the six months ended March 31, 2018 compared to $733,000 for the six months ended March 31, 2017. Net charge-offs were $213,000 for the six months ended March 31, 2018 compared to $476,000 for the six months ended March 31, 2017.

The loan charge-offs during the six months ended March 31, 2018 resulted from write-downs of loans deemed impaired during the period. Four non-performing loans totaling $628,000 were written down by $322,000 for the six months based on updated valuations of the loans. In addition, there were loan recoveries totaling $109,000 received during the six month period.

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

Other Income. Non-interest income increased $112,000, or 12.4%, to $1.0 million for the six months ended March 31, 2018 compared to the prior year period. The increase was primarily attributable to higher gains from the sale of

loans and investments, which increased $212,000 from the prior year period. The Company recorded gains totaling $216,000 from the sale of guaranteed portions of SBA loans and $107,000 from the sale of investment securities during the six months ended March 31, 2018, compared with $111,000 in loan gains for the prior year period. Offsetting these increases were lower service charges, which decreased $108,000 to $480,000 for the six months ended March 31, 2018 due to lower loan prepayment fees.

Other Expenses. Non-interest expenses increased $610,000, or 7.5%, to $8.7 million during the six months ended March 31, 2018 from the six months ended March 31, 2017. Compensation and benefit expense increased $309,000, or 6.9%, from the prior year period due to the opening of the Bank's seventh branch location in June of 2017 as well as annual merit increases for employees. The opening of the Bank's Edison, NJ branch also contributed to an increase in occupancy, data processing and other expenses between periods. In addition, OREO expenses increased $145,000 to $400,000 for the six months ended March 31, 2018 from $255,000 for the prior year period due to higher valuation allowances resulting from updated real estate appraisals. Offsetting these increases were decreases in FDIC insurance premiums, which declined $53,000, and professional fees, which declined $36,000.

Income Tax Expense. The Company recorded income tax expense of $746,000 on income of $1.5 million for the six months ended March 31, 2018, compared to tax expense of $458,000 on income of $1.1 million for the six months ended March 31, 2017. The increase was the result of higher income from operations and a $306,000 charge resulting from the write-down of deferred tax assets due to the enactment of the Tax Cuts and Jobs Act on December 22, 2017, which lowered the Company's federal income tax rate from 34% to 21%. The Company's effective tax rate for the six months ended March 31, 2018 was 28.6% compared with 41.4% for the six months ended March 31, 2017.

Table of Contents

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 six months ended March 31, 2018 in the ability of the Company and its subsidiaries to fund their operations.

At March 31, 2018, the Company had commitments outstanding under letters of credit of $1.2 million, commitments to originate loans of $23.2 million, and commitments to fund undisbursed balances of closed loans and unused lines of credit of $53.2 million. There has been no material change during the six months ended March 31, 2018 in any of the Company’s other contractual obligations or commitments to make future payments.

Capital Requirements

At March 31, 2018, the Bank’s Tier 1 capital as a percentage of the Bank's total assets was 8.56%, and total qualifying capital as a percentage of risk-weighted assets was 12.52%.

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 six months ended March 31, 2018 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 six months ended March 31, 2018. Through March 31, 2018, the Company had repurchased 81,000 shares at an average price of $8.33.

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 March 31, 2018 and September 30, 2017; (ii) the Consolidated Statements of Operations for the three and six months ended March 31, 2018 and 2017; (iii) the

Consolidated Statements of Comprehensive Income for the three and six months ended March 31, 2018 and 2017; (iv) the Consolidated Statements of Changes in Stockholders' Equity for the six months ended March 31, 2018 and 2017; (v) the Consolidated Statements of Cash Flows for the six months ended March 31, 2018 and 2017; and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text.

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: May 10, 2018 /s/John S. Fitzgerald
John S. Fitzgerald
President and Chief Executive Officer

Date: May 10, 2018 /s/Jon R. Ansari
Jon R. Ansari
Executive Vice President and Chief Financial Officer