

Magyar Bancorp, Inc.  
Form 10-Q  
August 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

Commission File Number **000-51726**

**Magyar Bancorp, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation or Organization)

**20-4154978**

(I.R.S. Employer Identification Number)

**400 Somerset Street, New Brunswick, New Jersey**

(Address of Principal Executive Office)

**08901**

(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

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

Yes  No

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

Yes  No

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

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

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

Yes  No

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

Class	Outstanding at August 1, 2018
Common Stock, \$0.01 Par Value	5,820,746

MAGYAR BANCORP, INC.

Form 10-Q Quarterly Report

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## MAGYAR BANCORP, INC. AND SUBSIDIARY

## Consolidated Balance Sheets

(In Thousands, Except Share and Per Share Data)

	June 30, 2018 (Unaudited)	September 30, 2017
Assets		
Cash	\$ 937	\$ 871
Interest earning deposits with banks	12,557	21,463
Total cash and cash equivalents	13,494	22,334
Investment securities - available for sale, at fair value	23,111	11,815
Investment securities - held to maturity, at amortized cost (fair value of \$32,905 and \$51,241 at June 30, 2018 and September 30, 2017, respectively)	34,342	51,368
Federal Home Loan Bank of New York stock, at cost	2,760	2,002
Loans receivable, net of allowance for loan losses of \$3,985 and \$3,475 at June 30, 2018 and September 30, 2017, respectively	498,818	470,693
Bank owned life insurance	11,768	11,550
Accrued interest receivable	2,014	1,929
Premises and equipment, net	17,198	17,567
Other real estate owned ("OREO")	10,040	11,056
Other assets	2,599	2,730
Total assets	\$ 616,144	\$ 603,044
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	\$ 507,984	\$ 515,201
Escrowed funds	2,478	1,937
Federal Home Loan Bank of New York advances	48,764	31,905
Accrued interest payable	160	105
Accounts payable and other liabilities	6,201	4,439
Total liabilities	565,587	553,587
Stockholders' equity		

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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 June 30, 2018 and September 30, 2017	59	59
Additional paid-in capital	26,305	26,289
Treasury stock: 102,996 shares at June 30, 2018 and September 30, 2017, at cost	(1,152 )	(1,152 )
Unearned Employee Stock Ownership Plan shares	(390 )	(492 )
Retained earnings	27,269	25,757
Accumulated other comprehensive loss	(1,534 )	(1,004 )
Total stockholders' equity	50,557	49,457
Total liabilities and stockholders' equity	\$ 616,144	\$ 603,044

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

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## MAGYAR BANCORP, INC. AND SUBSIDIARY

## Consolidated Statements of Operations

(In Thousands, Except Per Share Data)

	For the Three Months Ended June 30, 2018 2017		For the Nine Months Ended June 30, 2018 2017	
	(Unaudited)			
Interest and dividend income				
Loans, including fees	\$5,736	\$5,042	\$16,579	\$15,050
Investment securities				
Taxable	399	378	1,236	1,150
Federal Home Loan Bank of New York stock	33	27	97	88
Total interest and dividend income	6,168	5,447	17,912	16,288
Interest expense				
Deposits	981	748	2,746	2,195
Borrowings	185	180	512	558
Total interest expense	1,166	928	3,258	2,753
Net interest and dividend income	5,002	4,519	14,654	13,535
Provision for loan losses	276	315	782	1,048
Net interest and dividend income after provision for loan losses	4,726	4,204	13,872	12,487
Other income				
Service charges	268	279	749	867
Income on bank owned life insurance	73	71	218	214
Other operating income	34	25	101	88
Gains on sales of loans	146	72	362	183
Gains on sales of investment securities	—	—	107	—
Total other income	521	447	1,537	1,352
Other expenses				
Compensation and employee benefits	2,496	2,272	7,297	6,764
Occupancy expenses	718	697	2,190	2,092
Professional fees	284	251	768	770
Data processing expenses	143	129	424	385
OREO expenses	63	169	462	423

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FDIC deposit insurance premiums	114	125	319	384
Loan servicing expenses	73	62	231	179
Insurance expense	50	58	152	174
Other expenses	418	390	1,207	1,063
Total other expenses	4,359	4,153	13,050	12,234
Income before income tax expense	888	498	2,359	1,605
Income tax expense	289	210	1,035	670
Net income	\$599	\$288	\$1,324	\$935
Net income per share-basic and diluted	\$0.10	\$0.05	\$0.23	\$0.16

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

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## MAGYAR BANCORP, INC. AND SUBSIDIARY

## Consolidated Statements of Comprehensive Income

(In Thousands)

	For the Three Months Ended June 30, 2018		For the Nine Months Ended June 30, 2017	
	(Unaudited)			
Net income	\$599	\$288	\$1,324	\$935
Other comprehensive income (loss)				
Unrealized gain (loss) on securities available for sale	(223)	44	(469 )	(237)
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	(223)	44	(472 )	(237)
Deferred income tax effect	115	(16 )	130	86
Total other comprehensive income (loss)	(108)	28	(342 )	(151)
Total comprehensive income	\$491	\$316	\$982	\$784

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



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## MAGYAR BANCORP, INC. AND SUBSIDIARY

## Consolidated Statements of Changes in Stockholders' Equity

For the Nine Months Ended June 30, 2018 and 2017

(In Thousands, Except for Share Amounts)

	Common Stock Shares Outstanding (Unaudited)	Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, September 30, 2017	5,820,746	\$ 59	\$ 26,289	\$(1,152 )	\$( 492 )	\$ 25,757	\$ (1,004 )	\$ 49,457
Net income	—	—	—	—	—	1,324	—	1,324
Other comprehensive loss	—	—	—	—	—	—	(342 )	(342 )
Reclassification of the stranded tax effect related to deferred taxes for:								
Defined benefit pension plan <sup>(1)</sup>	—	—	—	—	—	177	(177 )	—
Securities available-for-sale <sup>(1)</sup>	—	—	—	—	—	11	(11 )	—
ESOP shares allocated	—	—	16	—	102	—	—	118
Balance, June 30, 2018	5,820,746	\$ 59	\$ 26,305	\$(1,152 )	\$( 390 )	\$ 27,269	\$ (1,534 )	\$ 50,557

(1) In January 2018, the Company adopted ASU 2018-02, as a result, the Company made a policy election to release income tax effects, as a result of the Tax Act, from AOCI to retained earnings.

	Common Stock Shares Outstanding (Unaudited)	Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, September 30, 2016	5,820,746	\$ 59	\$ 26,270	\$(1,152 )	\$( 627 )	\$ 24,334	\$ (1,159 )	\$ 47,725
Net income	—	—	—	—	—	935	—	935
Other comprehensive loss	—	—	—	—	—	—	(151 )	(151 )
ESOP shares allocated	—	—	14	—	102	—	—	116
Balance, June 30, 2017	5,820,746	\$ 59	\$ 26,284	\$(1,152 )	\$( 525 )	\$ 25,269	\$ (1,310 )	\$ 48,625

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

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## MAGYAR BANCORP, INC. AND SUBSIDIARY

## Consolidated Statements of Cash Flows

(In Thousands)

	For the Nine Months Ended June 30, 2018      2017 (Unaudited)	
Operating activities		
Net income	\$1,324	\$935
Adjustment to reconcile net income to net cash provided by operating activities		
Depreciation expense	612	606
Premium amortization on investment securities, net	104	143
Provision for loan losses	782	1,048
Provision for loss on other real estate owned	308	218
Originations of loans held for sale	(6,255 )	(2,651 )
Proceeds from the sales of loans receivable	6,617	2,834
Gains on sale of loans receivable	(362 )	(183 )
Gains on sales of investment securities	(107 )	—
Gains on the sales of other real estate owned	(66 )	(5 )
ESOP compensation expense	118	116
Deferred income tax expense	638	689
Increase in accrued interest receivable	(85 )	(95 )
Increase in surrender value bank owned life insurance	(218 )	(214 )
Increase in other assets	(377 )	(121 )
Increase in accrued interest payable	55	17
Increase (decrease) in accounts payable and other liabilities	1,762	(1,174 )
Net cash provided by operating activities	4,850	2,163
Investing activities		
Net (increase) decrease in loans receivable	(28,166)	371
Purchases of loans receivable	(4,463 )	(12,626)
Proceeds from the sale of loans receivable	3,399	—
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	4,542	5,716
Principal repayments on investment securities available for sale	2,246	809
Purchases of premises and equipment	(243 )	(202 )
Investment in other real estate owned	(182 )	(34 )
Proceeds from other real estate owned	1,279	1,225
(Purchases) redemptions of Federal Home Loan Bank stock	(758 )	123
Net cash used by investing activities	(23,873)	(14,671)

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Financing activities		
Net (decrease) increase in deposits	(7,217 )	7,122
Net increase in escrowed funds	541	460
Proceeds from long-term advances	4,059	865
Repayments of long-term advances	(2,000 )	(5,000 )
Net change in short-term advances	14,800	—
Net cash provided by financing activities	10,183	3,447
Net decrease in cash and cash equivalents	(8,840 )	(9,061 )
Cash and cash equivalents, beginning of period	22,334	21,806
Cash and cash equivalents, end of period	\$13,494	\$12,745
Supplemental disclosures of cash flow information		
Cash paid for		
Interest	\$3,204	\$2,736
Income taxes	\$964	\$36
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	\$—	\$1,161
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.

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**MAGYAR BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

(Unaudited)

**NOTE A – BASIS OF PRESENTATION**

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

Operating results for the three and nine months ended June 30, 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 June 30, 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.

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In January 2016, FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income; (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. In addition, the amendments in this ASU require an entity to disclose the fair value of its financial instruments using the exit price notion. Exit price is 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. For public entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company has updated the fair value disclosure on Note G Fair Value Disclosures in this report to reflect adoption of this standard, to include using the exit price notion in the fair value disclosure of financial instruments. The Company's adoption of the ASU did not have a significant impact on the Company's consolidated financial statements.

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.



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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 update are optional and are effective for fiscal years 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 June 30, 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.

NOTE C - CONTINGENCIES

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

NOTE D - EARNINGS PER SHARE

Basic and diluted earnings per share for the three and nine months ended June 30, 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	For the Nine Months
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	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
	(In thousands except for per share data)			
Income applicable to common shares	\$ 599	\$ 288	\$ 1,324	\$ 935
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	\$0.10	\$0.05	\$0.23	\$0.16
Diluted earnings per share	\$0.10	\$0.05	\$0.23	\$0.16

There were no outstanding options to purchase common stock at June 30, 2018 and 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.

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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 June 30, 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 nine months ended June 30, 2017.

	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 June 30, 2017	—	\$ —	—	\$ —
Exercisable at June 30, 2017	—	\$ —	—	\$ —

There were no grants, vested shares or forfeitures of non-vested restricted stock awards as of or during the nine months ended June 30, 2018 and 2017.

There were no stock option and stock award expenses included with compensation expense for the nine months ended June 30, 2018 and 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 June 30, 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 nine months ended June 30, 2018 and 2017, respectively. Under the stock repurchase program, 48,924 shares of the 129,924 shares authorized remained available for repurchase as of June 30, 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 June 30, 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 1<sup>st</sup> 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 June 30, 2018, shares allocated to participants totaled 165,771. Unallocated ESOP shares held in suspense totaled 52,092 at June 30, 2018 and had a fair market value of \$670,945. The Company's contribution expense for the ESOP was \$118,000 and \$116,000 for the nine months ended June 30, 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:

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	Three Months Ended June 30, 2018			2017		
	Before Tax Amount (Dollars in thousands)	Tax Benefit (Expense) Amount	Net of Tax Amount	Before Tax Amount (Expense) Amount	Tax Benefit (Expense) Amount	Net of Tax Amount
Unrealized holding gain (loss) arising during period on:						
Available-for-sale investments	\$(223)	\$ 115	\$ (108 )	\$ 44	\$ (16 )	\$ 28
Other comprehensive (loss) income, net	\$(223)	\$ 115	\$ (108 )	\$ 44	\$ (16 )	\$ 28
	Nine Months Ended June 30, 2018			2017		
	Before Tax Amount (Dollars in thousands)	Tax Benefit (Expense) Amount	Net of Tax Amount	Before Tax Amount (Expense) Amount	Tax Benefit (Expense) Amount	Net of Tax Amount
Unrealized holding gain (loss) arising during period on:						
Available-for-sale investments	\$(469)	\$ 129	\$ (340 )	\$(237)	\$ 86	\$ (151 )
Less reclassification adjustments for:						
Net unrealized gains on securities reclassified available for sale	104	(32 )	72	—	—	—
Net gains realized on securities available for sale <sup>(a)</sup> <sup>(b)</sup>	(107)	33	(74 )	—	—	—
Other comprehensive (loss) income, net	\$(472)	\$ 130	\$ (342 )	\$(237)	\$ 86	\$ (151 )

<sup>(a)</sup> Realized gains on securities transactions included in gains on sales of investment securities in the accompanying Consolidated Statements of Operations.

<sup>(b)</sup> 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.

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**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.

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 June 30, 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	\$1,543	\$ —	\$1,543	\$ —
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	19,194	—	19,194	—
Debt securities	2,371	—	2,371	—
Private label mortgage-backed securities-residential	3	—	3	—
Total securities available for sale	\$23,111	\$ —	\$23,111	\$ —

Fair Value at September 30,  
2017

Total	Level 1	Level 2	Level 3
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(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.

Mortgage Servicing Rights, net

Mortgage Servicing Rights (“MSRs”) are carried at the lower of cost or estimated fair value. The estimated fair value of MSR is determined through a calculation of future cash flows, incorporating estimates of assumptions market participants would use in determining fair value including market discount rates, prepayment speeds, servicing income, servicing costs, default rates and other market driven data, including the market’s perception of future interest rate movements and, as such, are classified as Level 3. The Company had MSRs totaling \$49,000 and \$69,000 at June 30, 2018 and September 30, 2017, respectively.



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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 June 30, 2018 and September 30, 2017.

Fair Value at June 30, 2018			
Total	Level 1	Level 2	Level 3

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(Dollars in thousands)

Impaired loans	\$—	\$	—\$	—\$—
Other real estate owned	10,040		—	— 10,040
	\$10,040	\$	—\$	—\$10,040

Fair Value at September 30,  
2017

Total	Level 1	Level 2	Level 3
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(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:

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## Quantitative Information about Level 3 Fair Value Measurements

(Dollars in thousands)

June 30, 2018	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	\$—	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	
Other real estate owned	\$ 10,040	Appraisal of collateral <sup>(1)</sup>	Liquidation expenses <sup>(2)</sup>	-3.1% to -42.2% (-14.4%)

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

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

Appraisals may be adjusted downward by management for qualitative factors such as economic conditions and <sup>(2)</sup>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.

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

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments carried at cost or amortized cost as of June 30, 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 Value	Fair Value	Fair Value Measurement Placement		
			(Level 1)	(Level 2)	(Level 3)
(Dollars in thousands)					
June 30, 2018					
Financial instruments - assets					
Investment securities held to maturity	\$34,342	\$32,905	\$—	\$32,905	\$—
Loans	498,818	495,929	—	—	495,929
Financial instruments - liabilities					
Certificates of deposit including retirement certificates	123,206	123,628	—	123,628	—
Borrowings	48,764	48,230	—	48,230	—
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 nine months ended June 30, 2018.

## NOTE H - INVESTMENT SECURITIES

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

	June 30, 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	\$1,491	\$ 54	\$ (2 )	\$1,543
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	19,756	20	(582 )	19,194
Debt securities	2,500	—	(129 )	2,371
Private label mortgage-backed securities-residential	3	—	—	3
Total securities available for sale	\$23,750	\$ 74	\$ (713 )	\$23,111

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	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 June 30, 2018 are summarized in the following table:

	June 30, 2018	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within 1 year	\$—	\$—
Due after 1 but within 5 years	1,500	1,411
Due after 5 but within 10 years	1,000	960
Due after 10 years	—	—
Total debt securities	2,500	2,371
Mortgage-backed securities:		
Residential	21,250	20,740
Commercial	—	—
Total	\$23,750	\$23,111

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

	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			

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Securities held to maturity:

Obligations of U.S. government agencies:

Mortgage-backed securities - residential	\$588	\$	—	\$ (94	)	\$494
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Mortgage-backed securities - commercial	920		—	(10	)	910
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Obligations of U.S. government-sponsored enterprises:

Mortgage-backed-securities - residential	26,959		4	(806	)	26,157
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Debt securities	2,464		—	(108	)	2,356
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Private label mortgage-backed securities - residential	411		1	(1	)	411
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Corporate securities	3,000		—	(423	)	2,577
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Total securities held to maturity	\$34,342	\$	5	\$ (1,442	)	\$32,905
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	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 June 30, 2018 are summarized in the following table:

	June 30, 2018	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within 1 year	\$—	\$—
Due after 1 but within 5 years	1,499	1,460
Due after 5 but within 10 years	3,000	2,577
Due after 10 years	965	896
Total debt securities	5,464	4,933
Mortgage-backed securities:		
Residential	27,958	27,062
Commercial	920	910
Total	\$34,342	\$32,905

## 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 June 30, 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:

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	Number of Securities	June 30, 2018		12 Months Or		Total	
		Less Than 12 Months		Greater			
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in thousands)							
Obligations of U.S. government agencies:							
Mortgage-backed securities - residential	3	\$561	\$ (2 )	\$494	\$ (94 )	\$1,055	\$ (96 )
Mortgage-backed securities - commercial	1	—	—	910	(10 )	910	(10 )
Obligations of U.S. government-sponsored enterprises							
Mortgage-backed securities - residential	32	16,316	(377 )	26,266	(1,011 )	42,582	(1,388 )
Debt securities	4	—	—	4,726	(237 )	4,726	(237 )
Private label mortgage-backed securities residential	2	—	—	122	(1 )	122	(1 )
Corporate securities	1	—	—	2,577	(423 )	2,577	(423 )
Total	43	\$16,877	\$ (379 )	\$35,095	\$ (1,776 )	\$51,972	\$ (2,155 )

	Number of Securities	September 30, 2017		12 Months Or		Total	
		Less Than 12 Months		Greater			
		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 June 30, 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 June 30, 2018 and September 30, 2017.

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

Loans receivable, net of allowance for loan losses, were comprised of the following:

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	June 30, 2018	September 30, 2017
	(Dollars in thousands)	
One-to four-family residential	\$ 181,024	\$ 178,336
Commercial real estate	216,058	207,118
Construction	29,663	22,622
Home equity lines of credit	19,232	18,536
Commercial business	51,188	41,113
Other	5,493	6,266
Total loans receivable	502,658	473,991
Net deferred loan costs	145	177
Allowance for loan losses	(3,985 )	(3,475 )
Total loans receivable, net	\$498,818	\$470,693

The segments of the Bank's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The residential mortgage loan segment is further disaggregated into two classes: amortizing term loans, which are primarily first liens, and home equity lines of credit, which are generally second liens. The commercial real estate loan segment is further disaggregated into three classes: loans secured by multifamily structures, owner-occupied commercial structures, and non-owner occupied nonresidential properties. The construction loan segment consists primarily of loans to developers or investors for the purpose of acquiring, developing and constructing residential or commercial structures and to a lesser extent one-to-four family residential construction loans made to individuals for the acquisition of and/or construction on a lot or lots on which a residential dwelling is to be built. Construction loans to developers and investors have a higher risk profile because the ultimate buyer, once development is completed, is generally not known at the time of the loan. The commercial business loan segment consists of loans made for the purpose of financing the activities of commercial customers and consists primarily of revolving lines of credit. The 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 nine months ended June 30, 2018 and September 30, 2017:

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	Impaired Loans with Specific Allowance	Impaired Loans with No Specific Allowance	Total Impaired Loans	Unpaid Principal Balance
At June 30, 2018	Recorded Investment (Dollars in thousands)	Recorded Investment (Dollars in thousands)	Recorded Investment	Recorded Investment
One-to four-family residential	\$—	\$ 1,253	\$1,253	\$ 1,253
Commercial real estate	—	3,680	3,680	3,680
Home equity lines of credit	—	58	58	58
Commercial business	—	359	359	449
Total impaired loans	\$—	\$ 5,350	\$5,350	\$ 5,440

	Impaired Loans with Specific Allowance	Impaired Loans with No Specific Allowance	Total Impaired Loans	Unpaid Principal Balance
At September 30, 2017	Recorded Investment (Dollars in thousands)	Recorded Investment (Dollars in thousands)	Recorded Investment	Recorded Investment
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 nine months ended June 30, 2018 and 2017. There was no interest income recognized on impaired loans during the nine months ended June 30, 2018.

Three	Nine
Months	Months
Ended	Ended
June	June 30,
30,	2018
2018	

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(Dollars in thousands)

One-to four-family residential	\$1,878	\$2,360
Commercial real estate	3,661	3,771
Home equity lines of credit	29	15
Commercial business	361	332
Average investment in impaired loans	\$5,929	\$6,478

Three Months Ended June 30, 2017  
 Nine Months Ended June 30, 2017

(Dollars in thousands)

One-to four-family residential	\$3,051	\$3,307
Commercial real estate	5,274	4,783
Home equity lines of credit	243	171
Commercial business	560	732
Other	12	12
Average investment in impaired loans	\$9,140	\$9,005



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Management uses a ten point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized, and are aggregated as “Pass” rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. Loans classified Doubtful have all the weaknesses inherent in loans classified Substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. All loans greater than three months past due are considered Substandard. Any portion of a loan that has been charged off is placed in the Loss category.

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

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

	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
June 30, 2018					
One-to four-family residential	\$ 180,486	\$ —	\$ 538	\$ —	\$ 181,024
Commercial real estate	212,692	1,068	2,298	—	216,058
Construction	27,275	—	2,388	—	29,663
Home equity lines of credit	19,174	—	58	—	19,232
Commercial business	50,708	357	123	—	51,188
Other	5,493	—	—	—	5,493
Total	\$495,828	\$ 1,425	\$ 5,405	\$ —	\$502,658

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	Pass	Special Mention	Substandard	Doubtful	Total
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(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:

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		30-59	60-89	90	Total	Non-	Total
		Days	Days	Days		Accrual	Loans
	Current	Past Due	Past Due	Past Due +	Past Due		
	(Dollars in thousands)						
June 30, 2018							
One-to four-family residential	\$ 180,774	\$—	\$—	\$ 250	\$ 250	\$ 250	\$ 181,024
Commercial real estate	214,842	—	759	457	1,216	148	216,058
Construction	29,663	—	—	—	—	—	29,663
Home equity lines of credit	19,181	—	—	51	51	51	19,232
Commercial business	50,561	147	357	123	627	123	51,188
Other	5,483	—	10	—	10	—	5,493
Total	\$ 500,504	\$ 147	\$ 1,126	\$ 881	\$ 2,154	\$ 572	\$ 502,658

		30-59	60-89	90	Total	Non-	Total
		Days	Days	Days +		Accrual	Loans
	Current	Past Due	Past Due	Past Due +	Past Due		
	(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.

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The following table summarizes the ALL by loan category and the related activity for the nine months ended June 30, 2018:

	One-to-Four			Home Equity Lines of Credit	Commercial			Unallocated	Total
	Family Residential	Commercial Real Estate	Construction		Business	Other			
	(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)	256	
Balance- March 31, 2018	\$533	\$ 1,418	\$ 442	\$ 112	\$ 1,158	\$ 4	\$ 102	\$3,769	
Charge-offs	(61)	—	—	—	—	(3)	—	(64)	
Recoveries	4	—	—	—	—	—	—	4	
Provision	58	70	70	4	19	3	52	276	
Balance- June 30, 2018	\$534	\$ 1,488	\$ 512	\$ 116	\$ 1,177	\$ 4	\$ 154	\$3,985	

The following table summarizes the ALL by loan category and the related activity for the nine months ended June 30, 2017:

	One-to Four-			Home Equity Lines of Credit	Commercial			Unallocated	Total
	Family Residential	Commercial Real Estate	Construction		Business	Other			
	(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	

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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
Charge-offs	(39 )	—	—	—	(209 )	—	—	(248 )
Recoveries	—	—	3	—	2	—	—	5
Provision	(49 )	65	—	(11 )	219	(7 )	98	315
Balance- June 30, 2017	\$559	\$ 1,173	\$ 371	\$ 56	\$ 1,024	\$ 6	\$ 196	\$3,385

The following table summarizes the ALL by loan category, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of June 30, 2018 and September 30, 2017:

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	One-to-Four			Home				
	Family	Commercial		Equity	Commercial			
	Residential	Real Estate	Construction	Lines of	Business	Other	Unallocated	Total
	(Dollars in thousands)							
Allowance for Loan								
Losses:								
Balance - June 30, 2018	\$534	\$ 1,488	\$ 512	\$116	\$ 1,177	\$4	\$ 154	\$3,985
Individually evaluated for impairment	—	—	—	—	—	—	—	—
Collectively evaluated for impairment	534	1,488	512	116	1,177	4	154	3,985
Loans receivable:								
Balance - June 30, 2018	\$181,024	\$ 216,058	\$ 29,663	\$19,232	\$ 51,188	\$5,493	\$ —	\$502,658
Individually evaluated for impairment	1,253	3,680	—	58	359	—	—	5,350
Collectively evaluated for impairment	179,771	212,378	29,663	19,174	50,829	5,493	—	497,308

	One-to-Four			Home				
	Family	Commercial		Equity	Commercial			
	Residential	Real Estate	Construction	Lines of	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.

A Troubled Debt Restructuring ('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 nine months ended June 30, 2018 and there was one TDR for the nine months ended June 30, 2017.



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	Nine Months Ended June 30, 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 \$3.2 million foreclosed residential real estate loans for the nine month ended June 30, 2018. There were \$301,000 of consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure at the nine months ended June 30, 2018.

## NOTE K - DEPOSITS

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

	2018 June 30	2017 September 30
	(Dollars in thousands)	
Demand accounts	\$ 105,688	\$ 98,728
Savings accounts	88,259	107,362
NOW accounts	47,925	43,556
Money market accounts	142,906	137,527
Certificates of deposit	105,024	108,740
Retirement certificates	18,182	19,288
	\$ 507,984	\$ 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 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%.

In addition, we recognized a tax expense in our tax provision for the period ended June 30, 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 nine months ended June 30, 2018 was adjusted to reflect the effects of the change in the tax law and resulted in an increase in income tax expense of \$99,000. 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 \$207,000 in income tax expense for the nine months ended June 30, 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.

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 June 30, 2018 or September 30, 2017.

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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 June 30, 2018		For the Nine Months Ended June 30, 2017	
	2018	2017	2018	2017
	(Dollars in thousands)			
Income tax expense at the statutory federal tax rate of 24% for the three and nine months ended June 30, 2018 and 34% for the three and nine months ended June 30, 2017	\$213	\$169	\$565	\$546
State tax expense	61	30	161	94
Reduction of deferred tax asset from tax legislation	—	—	306	—
Other	15	11	3	30
Income tax expense	\$289	\$210	\$1,035	\$670

NOTE M - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

As of June 30, 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
June 30	September 30
(Dollars in thousands)	

Financial instruments whose contract amounts represent credit risk

Letters of credit	\$1,929	\$ 633
Unused lines of credit	50,702	64,220
Fixed rate loan commitments	3,779	2,429
Variable rate loan commitments	21,929	3,952
	\$78,339	\$ 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.

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

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

## **Critical Accounting Policies**

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

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

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

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

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

determine the amount of the general component of the allowance for loan losses.

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

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

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

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

In accordance with ASC 820, Fair Value Measurements and Disclosures, we group our assets and liabilities at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

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

### **Comparison of Financial Condition at June 30, 2018 and September 30, 2017**

Total assets increased \$13.1 million, or 2.2%, to \$616.1 million during the nine months ended June 30, 2018 from \$603.0 million at September 30, 2017. The increase was primarily attributable to a \$28.1 million, or 6.0%, increase in net loans receivable, offset by an \$8.8 million decrease in cash and cash equivalent balances and a \$5.7 million decrease in investment securities.



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Cash and interest bearing deposits with banks decreased \$8.8 million, or 39.6%, to \$13.5 million at June 30, 2018 from \$22.3 million at September 30, 2017 as interest bearing balances with the Federal Reserve Bank were used to fund loan originations and deposit outflows.

At June 30, 2018, investment securities totaled \$57.5 million, reflecting a decrease of \$5.7 million, or 9.1%, from \$63.2 million at September 30, 2017. The Company purchased \$4.9 million of U.S. Government-sponsored enterprise obligations, sold securities totaling \$3.3 million, received calls and principal repayments totaling \$6.9 million, and experienced a reduction of \$472,000 in the mark-to-market value of its available-for-sale investment securities.

Investment securities at June 30, 2018 consisted of \$49.2 million in mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises, \$4.8 million in U.S. government agencies and U.S. government-sponsored enterprise debt securities, \$3.0 million in corporate notes, and \$414,000 in "private-label" mortgage-backed securities. There were no other-than-temporary-impairment charges for the Company's investment securities for the nine months ended June 30, 2018.

Total loans receivable increased \$28.7 million, or 6.1%, to \$502.7 million during the nine months ended June 30, 2018 compared with \$474.0 million at September 30, 2017. Total loans receivable were comprised of \$216.1 million (43.0%) commercial real estate loans, \$181.0 million (36.0%) one-to-four family residential mortgage loans, \$51.2 million (10.2%) commercial business loans, \$29.7 million (5.9%) construction loans, \$19.2 million (3.8%) home equity lines of credit and \$5.5 million (1.1%) other loans.

Total non-performing loans decreased \$1.5 million to \$881,000 at June 30, 2018 from \$2.4 million at September 30, 2017. The ratio of non-performing loans to total loans decreased to 0.18% at June 30, 2018 from 0.50% at September 30, 2017.

Included in the non-performing loan totals were two residential mortgage loans totaling \$250,000, one commercial business loan totaling \$123,000, three commercial real estate loans totaling \$457,000, and two home equity lines of credit totaling \$51,000.

Non-performing loans secured by one-to four-family residential properties, including home equity lines of credit and other consumer loans, decreased \$1.4 million to \$301,000 at June 30, 2018 from \$1.7 million at September 30, 2017. These loans remained in varying stages of foreclosure at June 30, 2018. Year-to-date, the Company charged off \$213,000 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 \$87,000 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 \$25,000 to \$457,000 at June 30, 2018 from \$482,000 at September 30, 2017. The three non-accrual loans were in various stages of collection at June 30, 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 nine months period ended June 30, 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 nine months or at June 30, 2018. Year-to-date, there were no charge offs in the construction loan portfolio while the Company received recoveries totaling \$3,000 from a previously charged-off non-performing construction loan.

During the nine months ended June 30, 2018, the allowance for loan losses increased \$510,000 to \$4.0 million. The allowance for loan losses as a percentage of non-performing loans increased to 452.3% at June 30, 2018 compared with 147.4% at September 30, 2017. At June 30, 2018 the Company's allowance for loan losses as a percentage of total loans was 0.79% compared with 0.73% at September 30, 2017.

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. At June 30, 2018, the Company did not hold any specific reserves.

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Other real estate owned decreased \$1.0 million to \$10.0 million at June 30, 2018 from \$11.0 million at September 30, 2017. The decrease was due to the sale of 6 properties totaling \$1.2 million and valuation allowances totaling \$308,000. Offsetting this decrease was the addition of one property totaling \$323,000 resulting from foreclosure of collateral securing a non-performing loan and \$182,000 in repairs to existing properties.

Total deposits decreased \$7.2 million, or 1.4%, to \$508.0 million during the nine months ended June 30, 2018 compared with \$515.2 million at September 30, 2017. The decrease in deposits occurred in savings accounts, which decreased \$19.1 million, or 17.8%, to \$88.3 million, and certificates of deposit (including individual retirement accounts), which decreased \$4.8 million, or 3.8%, to \$123.2 million. Offsetting these decreases were increases in non-interest bearing checking accounts, which increased \$7.0 million, or 7.0%, to \$105.7 million, money market accounts, which increased \$5.4 million, or 3.9%, to \$142.9 million, and interest-bearing checking accounts, which increased \$4.3 million, or 10.0%, to \$47.9 million.

Included with the total deposits were brokered certificates of deposit totaling \$14.8 million at June 30, 2018 and \$10.3 million at September 30, 2017.

Federal Home Loan Bank of New York advances increased \$16.9 million to \$48.8 million at June 30, 2018 from \$31.9 million at September 30, 2017. Long-term advances increased \$2.1 million while overnight borrowings increased \$14.8 million to replace seasonal deposit outflows.

The Company's book value per share increased to \$8.69 at June 30, 2018 from \$8.50 at September 30, 2017. The increase was due to the Company's results of operations for the nine months ended June 30, 2018, partially offset by higher accumulated other comprehensive losses related to the valuation of the Company's available-for-sale investment portfolio.

**Average Balance Sheet for the Three and Nine Months Ended June 30, 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 nine months ended June 30, 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.



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	For the Three Months Ended June 30,					
	2018			2017		
	Average Balance	Interest Income/ Expense	Yield/Cost (Annualized)	Average Balance	Interest Income/ Expense	Yield/Cost (Annualized)
	(Dollars In Thousands)					
<b>Interest-earning assets:</b>						
Interest-earning deposits	\$ 13,500	\$ 53	1.59%	\$ 9,113	\$ 30	1.32%
Loans receivable, net	493,170	5,736	4.67%	463,709	5,042	4.36%
Securities						
Taxable	58,530	346	2.37%	62,366	348	2.24%
FHLB of NY stock	2,200	33	5.98%	2,312	27	4.62%
Total interest-earning assets	567,400	6,168	4.36%	537,500	5,447	4.06%
Noninterest-earning assets	45,427			47,807		
Total assets	\$ 612,827			\$ 585,307		
<b>Interest-bearing liabilities:</b>						
Savings accounts <sup>(1)</sup>	\$ 92,982	152	0.66%	\$ 113,655	207	0.73%
NOW accounts <sup>(2)</sup>	195,813	389	0.80%	154,293	148	0.38%
Time deposits <sup>(3)</sup>	120,827	440	1.46%	130,545	393	1.21%
Total interest-bearing deposits	409,622	981	0.96%	398,493	748	0.75%
Borrowings	36,353	185	2.04%	36,629	180	1.98%
Total interest-bearing liabilities	445,975	1,166	1.05%	435,122	928	0.86%
Noninterest-bearing liabilities	116,975			102,232		
Total liabilities	562,950			537,354		
Retained earnings	49,877			47,953		
Total liabilities and retained earnings	\$ 612,827			\$ 585,307		
Net interest and dividend income		\$ 5,002			\$ 4,519	
Interest rate spread			3.31%			3.20%
Net interest-earning assets	\$ 121,425			\$ 102,378		
Net interest margin <sup>(4)</sup>			3.54%			3.37%
Average interest-earning assets to average interest-bearing liabilities	127.23%			123.53%		

(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.



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	For the Nine Months Ended June 30, 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	\$17,274	\$186	1.44%	\$13,633	\$110	1.08%
Loans receivable, net	481,502	16,579	4.60%	460,880	15,050	4.37%
Securities						
Taxable	60,444	1,050	2.32%	62,085	1,040	2.24%
FHLB of NY stock	2,083	97	6.19%	2,227	88	5.27%
Total interest-earning assets	561,303	17,912	4.27%	538,825	16,288	4.04%
Noninterest-earning assets	45,716			48,224		
Total assets	\$607,019			\$587,049		
Interest-bearing liabilities:						
Savings accounts (1)	\$99,507	\$519	0.70%	\$109,814	\$601	0.73%
NOW accounts (2)	188,346	1,011	0.72%	158,835	431	0.36%
Time deposits (3)	122,253	1,216	1.33%	131,112	1,163	1.19%
Total interest-bearing deposits	410,106	2,746	0.90%	399,761	2,195	0.73%
Borrowings	33,717	512	2.03%	35,410	558	2.11%
Total interest-bearing liabilities	443,823	3,258	0.98%	435,171	2,753	0.85%
Noninterest-bearing liabilities	112,483			103,307		
Total liabilities	556,306			538,478		
Retained earnings	50,713			48,571		
Total liabilities and retained earnings	\$607,019			\$587,049		
Net interest and dividend income		\$14,654			\$13,535	
Interest rate spread			3.29%			3.19%
Net interest-earning assets	\$117,480			\$103,654		
Net interest margin (4)			3.49%			3.36%
Average interest-earning assets to average interest-bearing liabilities	126.47%			123.82%		

(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 June 30, 2018 and 2017**

**Net Income.** Net income increased \$311,000, or 108.0%, to \$599,000 during the three-month period ended June 30, 2018 compared with the three-month period ended June 30, 2017 primarily due to higher net interest and dividend income, and higher gains from sales of loans.

**Net Interest and Dividend Income.** The net interest and dividend income increased \$483,000, or 10.7%, to \$5.0 million for the three months ended June 30, 2018 from \$4.5 million for the three months ended June 30, 2017. The Company's net interest margin increased 17 basis points to 3.54% for the three months ended June 30, 2018 compared to 3.37% for the three months ended June 30, 2017.



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The yield on the Company's interest-earning assets increased 30 basis points to 4.36% for the three months ended June 30, 2018 from 4.06% for the three months ended June 30, 2017 primarily due to higher average balances of loans receivable, net of allowance for loan losses, which increased \$29.5 million, investment securities and interest earning deposits, which increased \$551,000, as well as the higher market interest rate environment between periods. The yield on loans receivable increased 31 basis points to 4.67% for the three months ended June 30, 2018 from 4.36% for the three months ended June 30, 2017. The cost of interest-bearing liabilities increased 19 basis points to 1.05% for the three months ended June 30, 2018 from 0.86% for the three months ended June 30, 2017. The increase in the cost of interest-bearing liabilities was attributable to the higher market interest rate environment.

**Interest and Dividend Income.** Interest and dividend income increased \$721,000, or 13.2%, to \$6.2 million for the three months ended June 30, 2018 from \$5.4 million for the three months ended June 30, 2017. The increase was attributable to a \$29.9 million, or 5.6%, increase in the average balance of interest-earning assets in addition to a 30 basis point increase in the yield on such assets to 4.36% for the three months ended June 30, 2018 compared with the prior year period.

Interest earned on loans increased \$694,000, or 13.8%, to \$5.7 million for the three months ended June 30, 2018 compared with \$5.0 million the same period prior year due to a \$29.5 million increase in the average balance in net loans receivable and higher market interest rates.

Interest earned on our investment securities, including interest earning deposits and excluding FHLB stock, increased \$21,000, or 5.6%, to \$399,000 at June 30, 2018 from \$378,000 at June 30, 2017. The average yield on investment securities and interest earning deposits increased 10 basis points to 2.22% for the three months ended June 30, 2018 from 2.12% for the three months ended June 30, 2017.

**Interest Expense.** Interest expense increased \$238,000, or 25.6%, to \$1.2 million for the three months ended June 30, 2018 from \$928,000 for the three months ended June 30, 2017. The average balance of interest-bearing liabilities increased \$10.8 million, or 2.5%, between the two periods, while the cost on such liabilities increased 19 basis points to 1.05% for the three months ended June 30, 2018 from 0.86% compared with the prior year period.

The average balance of interest bearing deposits increased \$11.1 million to \$409.6 million at June 30, 2018 from \$398.5 million at June 30, 2017, while the average cost of such deposits increased 21 basis points to 0.96% from 0.75% between the two periods. As a result, interest paid on interest-bearing deposits increased \$233,000 to \$981,000 for the three months ended June 30, 2018 from \$748,000 for the three months ended June 30, 2017.

Interest paid on advances and securities sold under agreements to repurchase increased \$5,000, or 2.8%, to \$185,000 for the three months ended June 30, 2018 from \$180,000 for the same period in the prior year, while the average balance of such borrowings decreased \$276,000 to \$36.4 million at June 30, 2018 from \$36.6 million at June 30,

2017. The average cost of advances and securities sold under agreements to repurchase increased 6 basis points to 2.04% for the three months ended June 30, 2018 from 1.98% for the same period of June 30, 2017, reflecting the higher 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 \$276,000 for the three months ended June 30, 2018 compared to a provision of \$315,000 for the three months ended June 30, 2017. The provision for loan losses decreased during the current period compared with the prior year period due to lower net charge-offs, which decreased \$183,000 to \$60,000 for the three months ended June 30, 2018 compared to \$243,000 for the three months ended June 30, 2017.

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.

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**Other Income.** Non-interest income increased to \$74,000, or 16.6%, to \$521,000 during the three months ended June 30, 2018 compared to \$447,000 for the three months ended June 30, 2017. The increase was attributable to higher gains from the sale of the guaranteed portion of Small Business Administration 7(a) loans.

**Other Expenses.** Non-interest expenses increased \$206,000, or 5.0%, to \$4.4 million during the three months ended June 30, 2018 from \$4.2 million for the three months ended June 30, 2017. Compensation and benefit expense increased \$224,000, or 9.9%, 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 and data processing expenses between periods. Partially offsetting the increase in compensation and benefit expense were lower expenses from other real estate owned "OREO".

**Income Tax Expense.** The Company recorded tax expense of \$289,000 on income of \$888,000 for the three months ended June 30, 2018, compared to tax expense of \$210,000 on income of \$498,000 for the three months ended June 30, 2017. The increase was the result of higher income from operations, partially offset by the lower corporate tax rate resulting from the Tax Cuts and Jobs Act that was signed into law December 22, 2017. The effective tax rate for the three months ended June 30, 2018 was 32.5% compared with 42.2% for the three months ended June 30, 2017.

**Comparison of Operating Results for the Nine Months Ended June 30, 2018 and 2017**

**Net Income.** Net income increased \$389,000, or 41.6%, to \$1.3 million during the nine month period ended June 30, 2018 compared with \$935,000 for the nine month period ended June 30, 2017 due to higher net interest and dividend income and higher other income, partially offset by higher other expenses.

The net interest margin increased by 13 basis points to 3.49% for the nine months ended June 30, 2018 compared to 3.36% for the nine months ended June 30, 2017. The yield on interest-earning assets increased 23 basis points to 4.27% for the nine months ended June 30, 2018 from 4.04% for the nine months ended June 30, 2017 primarily due to higher average balances of interest earning assets as well as the higher market interest rate environment between the two periods. The cost of interest-bearing liabilities increased 13 basis points to 0.98% for the nine months ended June 30, 2018 from 0.85% for the nine months ended June 30, 2017. The increase in the cost of interest-bearing liabilities was attributable to the higher interest rate environment.

**Net Interest and Dividend Income.** The Company's net interest and dividend income increased \$1.1 million, or 8.3%, to \$14.6 million for the nine month period ended June 30, 2018 from \$13.5 million for the nine months ended June 30,

2017.

**Interest and Dividend Income.** Interest and dividend income increased \$1.6 million, or 10.0%, to \$17.9 million for the nine months ended June 30, 2018 compared to \$16.3 million for the nine months ended June 30, 2017. The average balance of interest-earning assets increased \$22.5 million, or 4.2%, to \$561.3 million for the nine months ended June 30, 2018 from \$538.8 million for the nine months ended June 30, 2017, while the yield on such assets increased 23 basis points to 4.27% for the nine months ended June 30, 2018 compared with 4.04% for the nine months ended June 30, 2017.

Interest earned on our investment securities, including interest earning deposits and excluding FHLB stock, increased \$86,000, or 7.5%, to \$1.2 million for the nine months ended June 30, 2018 compared with \$1.1 million for the same period last year. The increase was due to a \$2.0 million, or 2.6%, increase in the average balance of such securities and deposits to \$77.7 million for the nine months ended June 30, 2018 from \$75.7 million at June 30, 2017. The average yield on investment securities and interest earning deposits increased 9 basis points to 2.12% for the nine months ended June 30, 2018 from 2.03% for the nine months ended June 30, 2017.

**Interest Expense.** Interest expense increased \$505,000, or 18.3%, to \$3.3 million for the nine months ended June 30, 2018 from \$2.8 million for the nine months ended June 30, 2017. The average balance of interest-bearing liabilities increased \$8.7 million, or 2.0%, between the two periods while the cost on such liabilities increased 13 basis points to 0.98% from 0.85% for the nine months ended June 30, 2017 due to the higher market interest rate environment.

The average balance of interest bearing deposits increased \$10.3 million, or 2.6%, to \$410.1 million at June 30, 2018 from \$399.8 million at June 30, 2017, while the average cost of such deposits increased 17 basis points to 0.90% for the nine months ended June 30, 2018 from 0.73% for the nine months ended June 30, 2017. Interest paid on deposits increased \$551,000, or 25.1%, to \$2.7 million for the nine months ended June 30, 2018 from \$2.2 million for the nine months ended June 30, 2017.

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Interest paid on advances and securities sold under agreements to repurchase decreased \$46,000, or 8.2%, to \$512,000 for the nine months ended June 30, 2018 compared with \$558,000 for the same period prior year. The average balance of such borrowings decreased \$1.7 million to \$33.7 million from \$35.4 million. The average cost of advances and securities sold under agreements to repurchase decreased 8 basis points to 2.03% for the nine months ended June 30, 2018 from 2.11% for the same period of June 30, 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 \$782,000 for the nine months ended June 30, 2018 compared to \$1.0 million for the nine months ended June 30, 2017. The provision for loan losses decreased due to lower net charge-offs, which decreased \$447,000 to \$272,000 for the nine months ended June 30, 2018 compared to \$719,000 for the nine months ended June 30, 2017.

The loan charge-offs during the nine months ended June 30, 2018 resulted from write-downs of six impaired loans. Five non-performing loans totaling \$1.1 million were written down by \$383,000 for the nine months based on updated valuations of the loans. Of these five loans, one loan totaling \$208,000 was paid current at June 30, 2018, one loan totaling \$384,000 was transferred to OREO, and three loans totaling \$123,000 were in the process of foreclosure. In addition, there was one unsecured consumer loan for \$3,000 written off. The Bank received loan recoveries totaling \$114,000 during the nine month period.

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

**Other Income.** Non-interest income increased \$185,000, or 13.7%, to \$1.5 million for the nine months ended June 30, 2018 compared to the prior year period. The increase was attributable to higher gains on the sale of investment securities and the guaranteed portion of Small Business Administration 7(a) loans, which increased \$286,000 to \$469,000 for the nine months ended June 30, 2018 from \$183,000 for the nine months ended June 30, 2017. Partially offsetting this increase was an \$118,000 decrease in service charge income due to lower loan prepayment fees and late charges.

**Other Expenses.** Non-interest expenses increased \$816,000, or 6.7%, to \$13.0 million during the nine months ended June 30, 2018 from \$12.2 million for the nine months ended June 30, 2017. Compensation and benefit expenses increased \$533,000, or 7.9%, from the prior year period due to the opening of the Bank's seventh retail branch location in June 2017, as well as annual merit increases for employees. In addition, occupancy expenses and other expenses increased \$98,000 and \$144,000, respectively, due to the opening and operation of the new branch location.

**Income Tax Expense.** The Company recorded income tax expense of \$1.0 million on income of \$2.4 million for the nine months ended June 30, 2018, compared to tax expense of \$670,000 on income of \$1.6 million for the nine months ended June 30, 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 nine months ended June 30, 2018 was 30.9% compared with 41.7% for the nine months ended June 30, 2017.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Liquidity**

The Company's liquidity is a measure of its ability to fund loans, pay withdrawals of deposits, and other cash outflows in an efficient, cost-effective manner. The Company's short-term sources of liquidity include maturity, repayment and sales of assets, excess cash and cash equivalents, new deposits, other borrowings, and new advances from the Federal Home Loan Bank. There has been no material adverse change during the nine months ended June 30, 2018 in the ability of the Company and its subsidiaries to fund their operations.

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At June 30, 2018, the Company had commitments outstanding under letters of credit of \$1.9 million, commitments to originate loans of \$25.7 million, and commitments to fund undisbursed balances of closed loans and unused lines of credit of \$50.7 million. There has been no material change during the nine months ended June 30, 2018 in any of the Company's other contractual obligations or commitments to make future payments.

**Capital Requirements**

At June 30, 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 12.42%.

**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 nine months ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

None. Item 1. Legal Proceedings

Not applicable to smaller reporting companies. Item 1A. Risk Factors

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

a.) Not applicable.

b.) Not applicable.

c.) The Company did not repurchase shares of its common stock during the nine months ended June 30, 2018. Through June 30, 2018, the Company had repurchased 81,000 shares at an average price of \$8.33.

None Item 3. Defaults Upon Senior Securities

Not applicable. Item 4. Mine Safety Disclosures

Item 5. Other Information  
a.) Not applicable.

b.) None.

Exhibits Item 6. 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.



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Interactive data file containing the following financial statements formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets at June 30, 2018 and September 30, 2017; (ii) the Consolidated Statements of Operations for the three and nine months ended June 30, 2018 and 2017; (iii) the 101 Consolidated Statements of Comprehensive Income for the three and nine months ended June 30, 2018 and 2017; (iv) the Consolidated Statements of Changes in Stockholders' Equity for the nine months ended June 30, 2018 and 2017; (v) the Consolidated Statements of Cash Flows for the nine months ended June 30, 2018 and 2017; and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text.

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Signatures

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

MAGYAR BANCORP, INC.  
(Registrant)

Date: August 14, 2018      /s/ John S. Fitzgerald  
John S. Fitzgerald  
President and Chief Executive Officer

Date: August 14, 2018      /s/ Jon R. Ansari  
Jon R. Ansari  
Executive Vice President and Chief Financial  
Officer