Magyar Bancorp, Inc.
Form 10-Q
May 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

Commission File Number **000-51726**

Magyar Bancorp, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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

(732) 342-7600

(Issuer's Telephone Number including area code)

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

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

Yes þ No o

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

Yes þ No o

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

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

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

Yes o No þ

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

Class	Outstanding at May 1, 2013
Common Stock, $0.01 Par Value	5,807,344

MAGYAR BANCORP, INC.

Form 10-Q Quarterly Report

Table of Contents

PART I. FINANCIAL INFORMATION

		Page Number
Item 1.	Financial Statements	1
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	36
Item 4.	Controls and Procedures	36

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	38
Item 1a.	Risk Factors	38
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	38
Item 3.	Defaults Upon Senior Securities	38
Item 4.	Mine Safety Disclosures	38
Item 5.	Other Information	38
Item 6.	Exhibits	38

Signature Pages 40

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

(In Thousands, Except Share and Per Share Data)

	March 31, 2013 (Unaudited)	September 30, 2012
Assets		
Cash	$979	$ 930
Interest earning deposits with banks	11,294	9,114
Total cash and cash equivalents	12,273	10,044
Investment securities - available for sale, at fair value	18,525	16,786
Investment securities - held to maturity, at amortized cost (fair value of $44,851 and $42,130 at March 31, 2013 and September 30, 2012, respectively)	43,936	41,068
Federal Home Loan Bank of New York stock, at cost	2,468	2,385
Loans receivable, net of allowance for loan losses of $3,184 and $3,858 at March 31, 2013 and September 30, 2012, respectively)	387,445	385,270
Bank owned life insurance	10,176	10,010
Accrued interest receivable	1,853	1,894
Premises and equipment, net	21,232	21,541
Other real estate owned ("OREO")	15,932	13,381
Other assets	6,479	6,467
Total assets	$520,319	$ 508,846
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$426,722	$ 416,518
Escrowed funds	525	769
Federal Home Loan Bank of New York advances	38,340	36,503
Securities sold under agreements to repurchase	5,000	5,000
Accrued interest payable	189	196
Accounts payable and other liabilities	4,732	4,855
Total liabilities	475,508	463,841

Stockholders' equity		
Preferred stock: $.01 Par Value, 1,000,000 shares authorized; none issued	—	—
Common stock: $.01 Par Value, 8,000,000 shares authorized; 5,923,742 issued; 5,807,344 shares outstanding	59	59
Additional paid-in capital	26,348	26,367
Treasury stock: 116,398 shares, at cost	(1,301)	(1,301)
Unearned Employee Stock Ownership Plan shares	(1,058)	(1,116)
Retained earnings	21,539	21,600
Accumulated other comprehensive loss	(776)	(604)
Total stockholders' equity	44,811	45,005
Total liabilities and stockholders' equity	$520,319	$ 508,846

The accompanying notes are an integral part of these statements.

1

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations

(In Thousands, Except Per Share Data)

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2013	2012	2013	2012
	(Unaudited)			
Interest and dividend income				
Loans, including fees	$4,474	$4,692	$ 9,020	$ 9,398
Investment securities				
Taxable	381	521	760	1,061
Tax-exempt	—	1	1	2
Federal Home Loan Bank of New York stock	29	29	57	53
Total interest and dividend income	4,884	5,243	9,838	10,514
Interest expense				
Deposits	775	1,016	1,591	2,118
Borrowings	349	497	707	1,001
Total interest expense	1,124	1,513	2,298	3,119
Net interest and dividend income	3,760	3,730	7,540	7,395
Provision for loan losses	1,000	323	1,441	693
Net interest and dividend income after provision for loan losses	2,760	3,407	6,099	6,702
Other income				
Service charges	215	235	446	502
Income on bank owned life insurance	83	91	166	175
Other operating income	29	14	47	42
Gains on sales of loans	82	143	346	260
Gains on sales of investment securities (Note F)	—	64	63	148
Total other income	409	547	1,068	1,127
Other expenses				
Compensation and employee benefits	1,842	1,871	3,640	3,726
Occupancy expenses	723	726	1,421	1,455
Professional fees	274	332	499	565
Data processing expenses	154	135	294	257
OREO expenses	179	260	320	519
FDIC deposit insurance premiums	174	181	348	357

Loan servicing expenses	63	87	115	183
Insurance expense	59	62	115	124
Other expenses	319	332	621	638
Total other expenses	3,787	3,986	7,373	7,824
Income (loss) before income tax benefit	(618)	(32)	(206)	5
Income tax benefit (Note F)	(275)	(42)	(145)	(35)
Net income (loss)	$(343)	$10	$(61)	$40
Net income (loss) per share-basic	$(0.06)	$0.00	$(0.01)	$0.01

The accompanying notes are an integral part of these statements.

2

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Loss

(In Thousands)

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2013	2012	2013	2012
	(Unaudited)			
Net income (loss)	$(343)	$10	$ (61)	$ 40
Other comprehensive loss:				
Net unrealized (loss) gain on securities available for sale	(42)	42	(172)	116
Realized gains on sales of securities available for sale	—	(64)	(64)	(148)
Unrealized loss on derivatives	(18)	(22)	(38)	(45)
	(60)	(44)	(274)	(77)
Deferred income tax effect	22	15	102	25
Total other comprehensive loss	(38)	(29)	(172)	(52)
Total comprehensive loss	$(381)	$(19)	$ (233)	$ (12)

The accompanying notes are an integral part of these statements.

3

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders' Equity

For the Six Months Ended March 31, 2013

(In Thousands, Except for Share Amounts)

(Unaudited)

	Common Stock Shares Outstanding	Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, September 30, 2012	5,807,344	$59	$26,367	$(1,301)	$(1,116)	$21,600	$ (604)	$45,005
Net loss	—	—	—	—	—	(61)	—	(61)
Other comprehensive loss	—	—	—	—	—	—	(172)	(172)
ESOP shares allocated	—	—	(28)	—	58	—	—	30
Stock-based compensation expense	—	—	9	—	—	—	—	9
Balance, March 31, 2013	5,807,344	$59	$26,348	$(1,301)	$(1,058)	$21,539	$ (776)	$44,811

The accompanying notes are an integral part of these statements.

4

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(In Thousands)

	For the Six Months Ended March 31,	
	2013	2012
	(Unaudited)	
Operating activities		
Net income (loss)	$ (61)	$ 40
Adjustment to reconcile net income (loss) to net cash provided by operating activities		
Depreciation expense	460	490
Premium amortization on investment securities, net	104	129
Provision for loan losses	1,441	693
Provision for loss on other real estate owned	—	77
Proceeds from the sales of loans	3,982	4,930
Gains on sale of loans	(346)	(260)
Gains on sales of investment securities	(64)	(148)
Losses on the sales of other real estate owned	45	42
ESOP compensation expense	30	23
Stock-based compensation expense	9	172
Deferred income tax benefit	(31)	(38)
Decrease in accrued interest receivable	41	54
Increase in surrender value bank owned life insurance	(166)	(176)
Decrease (increase) in other assets	83	(146)
Decrease in accrued interest payable	(7)	(20)
Increase (decrease) in accounts payable and other liabilities	(123)	765
Net cash provided by operating activities	5,397	6,627
Investing activities		
Net increase in loans receivable	(10,368)	(6,341)
Purchases of investment securities held to maturity	(9,200)	(8,057)
Purchases of investment securities available for sale	(5,040)	(10,156)
Sales of investment securities held to maturity	—	—
Sales of investment securities available for sale	1,064	5,584
Principal repayments on investment securities held to maturity	6,266	7,499
Principal repayments on investment securities available for sale	2,028	2,967
Purchases of premises and equipment	(151)	(103)
Investment in other real estate owned	(264)	(269)
Proceeds from the sale of other real estate owned	783	3,417
(Purchase) redemption of Federal Home Loan Bank stock	(83)	100
Net cash used by investing activities	(14,965)	(5,359)
Financing activities		

Net increase (decrease) in deposits	10,204	(2,420)
Stock compensation tax benefit	—	—
Net (decrease) increase in escrowed funds	(244)	20
Proceeds from long-term advances	4,692	—
Repayments of long-term advances	(1,455)	(2,228)
Net change in short-term advances	(1,400)	—
Purchase of treasury stock	—	(32)
Net cash provided (used) by financing activities	11,797	(4,660)
Net increase (decrease) in cash and cash equivalents	2,229	(3,392)
Cash and cash equivalents, beginning of period	10,044	15,034
Cash and cash equivalents, end of period	$ 12,273	$ 11,642
Supplemental disclosures of cash flow information		
Cash paid for		
Interest	$ 2,305	$ 3,139
Income taxes	$ 54	$ 6
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	$ 3,116	$ 1,373

The accompanying notes are an integral part of these statements.

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Unaudited)

NOTE A – BASIS OF PRESENTATION

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

Operating results for the three and six months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending September 30, 2013. The September 30, 2012 information has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by US GAAP for complete financial statements.

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

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2013 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

NOTE B- RECENT ACCOUNTING PRONOUNCEMENTS

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

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

Table of Contents

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

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 (LOSS) PER SHARE

Basic and diluted earnings (loss) per share for the three and six months ended March 31, 2013 and 2012 were calculated by dividing net income (loss) by the weighted-average number of shares outstanding for the period. All stock options and restricted stock awards were anti-dilutive for the three and six months ended March 31, 2013 and the three and six months ended March 31, 2012. The following table shows the Company's earnings (loss) per share for the periods presented:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2013	2012	2013	2012
	(In thousands except for per share data)			

Income applicable to common shares	$ (343)	$ 10	$ (61)	$ 40
Weighted average number of common shares outstanding - basic	5,810	5,810	5,810	5,802
Stock options and restricted stock	—	—	—	—
Weighted average number of common shares and common share equivalents - diluted	5,810	5,810	5,810	5,802
Basic earnings per share	$ (0.06)	$ 0.002	$ (0.01)	$ 0.01
Diluted earnings per share	N/A	$ 0.002	N/A	$ 0.01

Options to purchase 188,276 shares of common stock at a weighted average price of $14.61 and 9,352 shares of restricted shares at a weighted average price of $4.43 were outstanding and not included in the computation of diluted earnings per share for the three and six months ended March 31, 2013 because the grant (or option strike) price was greater than the average market price of the common shares during the periods. Options to purchase 188,276 shares of common stock at an average price of $14.61 and 13,402 restricted shares at a weighted average price of $4.43 were outstanding and not included in the computation of diluted earnings per share for the three and six months ended March 31, 2012 because the grant (or option strike) price was greater than the average market price of the common shares during the periods. Calculations of dilution are not applicable in loss periods.

NOTE E – STOCK-BASED COMPENSATION AND STOCK REPURCHASE PROGRAM

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

Table of Contents

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

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

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

The following is a summary of the status of the Company’s stock option activity and related information for its option plan for the six months ended March 31, 2013:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at September 30, 2012	188,276	$ 14.61		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Balance at March 31, 2013	188,276	$ 14.61	3.9 years	$ —
Exercisable at March 31, 2013	188,276	$ 14.61	3.9 years	$ —

The following is a summary of the Company's non-vested stock awards as of March 31, 2013 and changes during the six months ended March 31, 2013:

	Number of Stock Awards	Weighted Average Grant Date Fair Value
Balance at September 30, 2012	13,402	$ 4.43
Granted	—	—
Vested	—	—
Forfeited	—	—
Balance at March 31, 2013	13,402	$ 4.43

Stock option and stock award expenses included with compensation expense were $0 and $9,000, respectively, for the six months ended March 31, 2013.

The Company announced in November 2007 its second stock repurchase program of up to 5% of its publicly-held outstanding shares of common stock, or 129,924 shares. Through March 31, 2013, the Company had repurchased a total of 81,000 shares of its common stock at an average cost of $8.33 per share under this program. No shares were repurchased during the six months ended March 31, 2013. Under the stock repurchase program, 48,924 shares of the 129,924 shares authorized remained available for repurchase as of March 31, 2013. The Company's intended use of the repurchased shares is for general corporate purposes, including the funding of awards granted under the 2006 Equity Incentive Plan.

Table of Contents

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

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

At March 31, 2013, shares allocated to participants totaled 116,692. Unallocated ESOP shares held in suspense totaled 101,171 at March 31, 2013 and had a fair market value of $531,148. The Company's contribution expense for the ESOP was $30,000 and $23,000 for the six months ended March 31, 2013 and 2012, respectively.

NOTE F – OTHER COMPREHENSIVE LOSS

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

	Three Months Ended March 31,					
	2013			2012		
	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(Dollars in thousands)					
Unrealized holding gain (loss) arising during period on:						
Available-for-sale investments	$(42)	$ 15	$ (27)	$42	$ (20)	$ 22
Less reclassification adjustment for gains realized in net income (A)	—	—	—	(64)	26	(38)
Interest rate derivatives	(18)	7	(11)	(22)	9	(13)

Other comprehensive loss, net	$(60)	$ 22	$ (38)	$(44)	$ 15	$ (29)

9

Table of Contents

	Six Months Ended March 31,					
	2013			2012		
	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(Dollars in thousands)					
Unrealized holding gain (loss) arising during period on:						
Available-for-sale investments	$(172)	$ 61	$ (111)	$116	$ (52)	$ 64
Less reclassification adjustment for gains realized in net income (A)	(64)	26	(38)	(148)	59	(89)
Interest rate derivatives	(38)	15	(23)	(45)	18	(27)
Other comprehensive loss, net	$(274)	$ 102	$ (172)	$(77)	$ 25	$ (52)

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

NOTE G – FAIR VALUE DISCLOSURES

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

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

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

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

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

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

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

Securities available-for-sale

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

Table of Contents

Derivative financial instruments

The Company uses interest rate floors to manage its interest rate risk. The interest rate floors have been designated as cash flow hedging instruments. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities.

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

	Fair Value at March 31, 2013			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage backed securities - residential	$ 1,690	$ —	$ 1,690	$ —
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	11,843	—	11,843	—
Mortgage backed securities-commercial	4,118	—	4,118	—
Private label mortgage-backed securities-residential	874	—	874	—
Total securities available for sale	$ 18,525	$ —	$ 18,525	$ —

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

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

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.

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 this method for loans from which repayment is expected to be provided solely by the underlying collateral. Our impaired loans are generally collateral dependent and, as such, are carried at the estimated fair value of the collateral less estimated selling costs. Fair value is estimated through current appraisals, and adjusted as necessary, by management, to reflect current market conditions and, as such, are generally classified as Level 3.

Table of Contents

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

Other Real Estate Owned

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

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a non-recurring basis at March 31, 2013 and September 30, 2012.

	Fair Value at March 31, 2013			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 5,422	$ —	$ —	$ 5,422
Other real estate owned	257	—	—	257
	$ 5,679	$ —	$ —	$ 5,679

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

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

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

March 31, 2013	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$5,422	Appraisal of collateral (1)	Liquidation expenses (2)	-7.39% to -25.20% (-17.66%)
Other real estate owned	$257	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	-8.76% to -8.76% (-8.76%)

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

12

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments carried at cost or amortized cost as of March 31, 2013 and September 30, 2012. This table excludes financial instruments for which the carrying amount approximates level 1 fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as interest-bearing demand, NOW, and money market savings deposits, the carrying amount is a reasonable estimate of fair value due to these products being payable on demand and having no stated maturity.

Table of Contents

	Carrying Value	Fair Value	Fair Value Measurement Placement (Level 1)	(Level 2)	(Level 3)
	(Dollars in thousands)				
March 31, 2013					
Financial instruments - assets					
Investment securities held-to-maturity	$43,936	$44,851	$ —	$ 44,851	$ —
Loans	387,445	396,699	—	—	396,699
Financial instruments - liabilities					
Certificate of deposit	162,725	165,023	—	165,023	—
Borrowings	43,340	45,265	—	45,265	—
September 30, 2012					
Financial instruments - assets					
Investment securities held-to-maturity	$41,068	$42,130	$ —	$ 42,130	$ —
Loans	385,270	396,111	—	—	396,111
Financial instruments - liabilities					
Certificate of deposit	158,461	160,753	—	160,753	—
Borrowings	41,503	43,898	—	43,898	—

NOTE H - INVESTMENT SECURITIES

The following tables summarize the amortized cost and fair values of securities available for sale at March 31, 2013 and September 30, 2012:

	At March 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage backed securities - residential	$1,671	$ 19	$ —	$1,690
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	11,733	122	(12)	11,843
Mortgage backed securities-commercial	4,007	111	—	4,118
Private label mortgage-backed securities-residential	865	10	(1)	874
Total securities available for sale	$18,276	$ 262	$ (13)	$18,525

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

Table of Contents

The maturities of the debt securities and mortgage-backed securities available-for-sale at March 31, 2013 are summarized in the following table:

	At March 31, 2013	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within 1 year	$ —	$ —
Due after 1 but within 5 years	—	—
Due after 5 but within 10 years	—	—
Due after 10 years	—	—
Total debt securities	—	—
Mortgage-backed securities:		
Residential	14,269	14,407
Commercial	4,007	4,118
Total	$ 18,276	$ 18,525

The following tables summarize the amortized cost and fair values of securities held to maturity at March 31, 2013 and September 30, 2012:

	At March 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities held to maturity:				
Obligations of U.S. government agencies:				
Mortgage-backed securities-residential	$10,950	$ 318	$ (25)	$11,243
Mortgage-backed securities-commercial	1,485	9	—	1,494
Obligations of U.S. government-sponsored enterprises:				
Mortgage backed securities-residential	21,476	606	(32)	22,050
Debt securities	6,001	4	(16)	5,989
Private label mortgage-backed securities-residential	1,013	51	—	1,064
Obligations of state and political subdivisions	11	—	—	11
Corporate securities	3,000	—	—	3,000
Total securities held to maturity	$43,936	$ 988	$ (73)	$44,851

Table of Contents

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

The maturities of the debt securities and the mortgage backed securities held to maturity at March 31, 2013 are summarized in the following table:

	At March 31, 2013	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within 1 year	$ 11	$ 11
Due after 1 but within 5 years	3,000	3,000
Due after 5 but within 10 years	1,000	998
Due after 10 years	5,001	4,991
Total debt securities	9,012	9,000
Mortgage-backed securities:		
Residential	33,439	34,357
Commercial	1,485	1,494
Total	$ 43,936	$ 44,851

NOTE I – IMPAIRMENT OF INVESTMENT SECURITIES

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

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

Investment securities with fair values less than their amortized cost contain unrealized losses. The following tables present the gross unrealized losses and fair value at March 31, 2013 and September 30, 2012 for both available for sale and held to maturity securities by investment category and time frame for which the loss has been outstanding:

Table of Contents

	March 31, 2013						
		Less Than 12 Months		12 Months Or Greater		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Dollars in thousands)					
Obligations of U.S. government agencies:							
Mortgage-backed securities - residential	4	$5,629	$(13)	$1,411	$(24)	$7,040	$(37)
Obligations of U.S. government-sponsored enterprises							
Mortgage backed securities - residential	3	4,428	(32)	—	—	4,428	(32)
Debt securities	2	1,983	(16)	—	—	1,983	(16)
Private label mortgage-backed securities residential	1	—	—	25	(1)	25	(1)
Corporate securities	1	—	—	3,000	0	3,000	—
Total	11	$12,040	$(61)	$4,436	$(25)	$16,476	$(86)

	September 30, 2012						
		Less Than 12 Months		12 Months Or Greater		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Dollars in thousands)					
Obligations of U.S. government agencies:							
Mortgage-backed securities - residential	1	$—	$—	$1,729	$(8)	$1,729	$(8)
Obligations of U.S. government-sponsored enterprises							
Mortgage backed securities - residential	1	1,143	(5)	—	—	1,143	(5)
Private label mortgage-backed securities residential	3	—	—	26	(1)	26	(1)
Corporate securities	1	—	—	2,891	(109)	2,891	(109)
Total	6	$1,143	$(5)	$4,646	$(118)	$5,789	$(123)

The investment securities listed above currently have fair values less than amortized cost and therefore contain unrealized losses. The Company evaluated these securities and determined that the decline in value was primarily related to fluctuations in the interest rate environment and were not related to any company or industry specific event. At March 31, 2013 and September 30, 2012, there were eight and six, respectively, investment securities with unrealized losses.

The Company anticipates full recovery of amortized costs with respect to these securities. The Company does not intend to sell these securities and has determined that it is not more likely than not that the Company would be required to sell these securities prior to maturity or market price recovery. Management has considered factors regarding other than temporarily impaired securities and determined that there are no securities with impairment that is other than temporary as of March 31, 2013 and September 30, 2012.

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

Loans receivable, net were comprised of the following:

17

Table of Contents

	March 31, 2013	September 30, 2012
	(Dollars in thousands)	
One-to four-family residential	$ 155,426	$ 157,536
Commercial real estate	148,693	148,806
Construction	23,104	17,952
Home equity lines of credit	21,699	23,435
Commercial business	32,612	29,930
Other	8,663	11,265
Total loans receivable	390,197	388,924
Net deferred loan costs	432	204
Allowance for loan losses	(3,184)	(3,858)
Total loans receivable, net	$ 387,445	$ 385,270

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

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

Once the determination has been made that a loan is impaired, the recorded investment in the loan is compared to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the

loan’s effective interest rate; (b) the loan’s observable market price; or (c) the fair value of the collateral securing the loan, less anticipated selling and disposition costs. The method is selected on a loan-by loan basis, with management primarily utilizing the fair value of collateral method. If there is a shortfall between the fair value of the loan and the recorded investment in the loan, the Company charges the difference to the allowance for loan loss as a charge-off and carries the impaired loan on its books at fair value. It is the Company’s policy to evaluate impaired loans on an annual basis to ensure the recorded investment in a loan does not exceed its fair value.

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

18

Table of Contents

At and for the six months ended March 31, 2013	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)				
One-to four-family residential	$1,584	$ 216	$ 9,544	$ 11,128	$ 12,332
Commercial real estate	1,726	253	4,976	6,702	7,860
Construction	1,644	141	2,418	4,062	5,698
Home equity lines of credit	—	—	975	975	1,203
Commercial business	665	333	204	869	890
Other	—	—	—	—	—
Total impaired loans	$5,619	$ 943	$ 18,117	$ 23,736	$ 27,983

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

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

	Three Months Ended March 31, 2013	Six Months Ended March 31, 2013
	(Dollars in thousands)	

One-to four-family residential	$ 9,145	$ 8,471
Commercial real estate	6,482	6,462
Construction	4,602	4,781
Home equity lines of credit	1,648	1,867
Commercial business	796	549
Other	2	4
Average investment in impaired loans	$ 22,673	$ 22,134
Interest income recognized on an accrual basis on impaired loans	$ —	$ —
Interest income recognized on a cash basis on impaired loans	$ —	$ —

19

	Three Months Ended March 31, 2012	Six Months Ended March 31, 2012
	(Dollars in thousands)	
One-to four-family residential	$ 4,601	$ 4,242
Commercial real estate	7,064	7,094
Construction	11,431	12,806
Home equity lines of credit	1,377	1,181
Commercial business	231	239
Average investment in impaired loans	$ 24,704	$ 25,562
Interest income recognized on an accrual basis on impaired loans	$ —	$ —
Interest income recognized on a cash basis on impaired loans	$ —	$ —

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

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

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

	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
March 31, 2013					
One-to four-family residential	$146,814	$1,087	$ 7,525	$ —	$155,426
Commercial real estate	139,684	6,179	2,830	—	148,693
Construction	14,115	4,927	4,062	—	23,104
Home equity lines of credit	18,765	1,958	976	—	21,699
Commercial business	29,700	2,113	134	665	32,612
Other	8,663	—	—	—	8,663
Total	$357,741	$16,264	$ 15,527	$ 665	$390,197

Table of Contents

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

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

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days + Past Due	Total Past Due	Non-Accrual	Total Loans
	(Dollars in thousands)						
March 31, 2013							
One-to four-family residential	$146,442	$ 445	$ 1,918	$ 6,622	$8,984	$6,622	$155,426
Commercial real estate	144,928	319	—	3,446	3,765	3,446	148,693
Construction	19,132	—	—	3,972	3,972	3,972	23,104
Home equity lines of credit	20,631	248	—	820	1,068	820	21,699
Commercial business	31,745	—	68	799	867	799	32,612
Other	8,663	—	—	—	—	—	8,663
Total	$371,541	$ 1,012	$ 1,986	$ 15,659	$18,656	$15,659	$390,197

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

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

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

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.

Table of Contents

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. A 5 year history is currently utilized for all loan segments except for construction loans, where the highest single year loss percentage of the most recent five years is used in place of a 5 year average.

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

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

The following table summarizes the ALL by loan category and the related activity for the six months ended March 31, 2013:

	One-to Four-Family Residential	Commercial Real Estate	Construction	Home Equity Lines of Credit	Commercial Business	Other	Unallocated	Total
	(Dollars in thousands)							
Balance-September 30, 2012	$610	$ 1,929	$ 640	$ 232	$ 383	$23	$ 41	$3,858
Charge-offs	(192)	—	—	—	—	(13)	—	(205)
Recoveries	—	—	—	—	—	—	—	—
Provision	251	(85)	(169)	1	406	8	29	441
Balance- December 31, 2012	$668	$ 1,844	$ 471	$ 233	$ 789	$18	$ 70	$4,094
Charge-offs	(221)	(576)	(1,057)	—	(75)	—	—	(1,929)
Recoveries	—	20	—	—	—	—	—	20
Provision	95	(268)	1,197	(56)	80	(8)	(40)	$1,000
Balance- March 31, 2013	$542	$ 1,020	$ 611	$ 177	$ 794	$10	$ 30	$3,184

The following table summarizes the ALL by loan category and related activity for the six months ended March 31, 2012:

	One-to Four-Family Residential	Commercial Real Estate	Construction	Home Equity Lines of Credit	Commercial Business	Other	Unallocated	Total
	(Dollars in thousands)							
Balance- September 30, 2011	$734	$ 1,266	$ 1,043	$ 101	$ 551	$ 13	$ 104	$3,812
Charge-offs	—	—	(184)	(81)	(69)	—		(334)
Recoveries	—	—	—	—	—	—		—
Provision	(148)	245	90	58	135	(7)	(3)	370
Balance- December 31, 2011	$586	$ 1,511	$ 949	$ 78	$ 617	$ 6	$ 101	$3,848
Charge-offs	(20)	—	(143)	—	—	—		(163)
Recoveries	—	—	—	—	—	—		—
Provision	245	192	(60)	150	(212)	4	4	323
Balance-March 31, 2012	$811	$ 1,703	$ 746	$ 228	$ 405	$ 10	$ 105	$4,008

22

Table of Contents

The following table summarizes the ALL by loan category, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of March 31, 2013 and September 30, 2012:

	One-to Four-Family Residential	Commercial Real Estate	Construction	Home Equity Lines of Credit	Commercial Business	Other	Unallocated	Total
	(Dollars in thousands)							
Allowance for Loan Losses:								
Balance- March 31, 2013	$542	$1,020	$611	$177	$794	$10	$30	$3,184
Individually evaluated for impairment	216	253	141	—	333	—	—	943
Collectively evaluated for impairment	326	767	470	177	461	10	30	2,241
Loans receivable:								
Balance- March 31, 2013	$155,426	$148,693	$23,104	$21,699	$32,612	$8,663		$390,197
Individually evaluated for impairment	11,128	6,702	4,062	975	869	—		23,736
Collectively evaluated for impairment	144,298	141,991	19,042	20,724	31,743	8,663		366,461

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

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

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

There were seven TDRs during the three months ended March 31, 2013 and eight TDRs during the six months ended March 31, 2013. These were classified as TDRs due to financial difficulty of the borrowers and lower than market interest rates. The following table summarizes the TDRs during the three and six month period ended March 31, 2013 and 2012.

Table of Contents

	Three Months Ended March 31, 2013		
	Number of Loans	Investment Before TDR Modification	Investment After TDR Modification
	(Dollars in thousands)		
One-to four-family residential	7	$ 1,202	$ 1,202
Total	7	$ 1,202	$ 1,202

	Six Months Ended March 31, 2013		
	Number of Loans	Investment Before TDR Modification	Investment After TDR Modification
	(Dollars in thousands)		
One-to four-family residential	7	$ 1,202	$ 1,202
Construction	1	67	67
Total	8	$ 1,269	$ 1,269

	ThreeMonths Ended March 31, 2012		
	Number of Loans	**Investment Before TDR Modification**	**Investment After TDR Modification**
	(Dollars in thousands)		
One-to four-family residential	—	$ —	$ —
Commercial real estate	—	—	—
Total	—	$ —	$ —

	Six Months Ended March 31, 2012		
	Number of Loans	Investment Before TDR Modification	Investment After TDR Modification
	(Dollars in thousands)		
One-to four-family residential	1	$ 1,749	$ 1,749
Commercial real estate	1	249	249
Total	2	$ 1,998	$ 1,998

A default on a troubled debt restructured loan for purposes of this disclosure occurs when a borrower is 90 days past due or a foreclosure or repossession of the applicable collateral has occurred. During the three and six months ended March 31, 2013, no defaults occurred on troubled debt restructured loans that were modified as a TDR within the previous 12 months.

NOTE K - DEPOSITS

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

	March 31, 2013	September 30, 2012
	(Dollars in thousands)	
Demand accounts	$57,902	$ 50,897
Savings accounts	54,108	55,293
NOW accounts	42,986	44,312
Money market accounts	109,001	107,555
Certificates of deposit	135,000	129,716
Retirement certificates	27,725	28,745
	$426,722	$ 416,518

24

Table of Contents

NOTE L – INCOME TAXES

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

Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The valuation allowance is assessed by management on a quarterly basis and adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant. In assessing whether it is more likely than not that some portion or all of the deferred tax assets will not be realized, management considers projections of future taxable income, the projected periods in which current temporary differences will be deductible, the availability of carry forwards, feasible and permissible tax planning strategies and existing tax laws and regulations. Due to the uncertainty of the Company's ability to realize the benefit of certain deferred tax assets within statutory time limits, the net deferred tax assets are partially offset by a valuation allowance at March 31, 2013, the amount of which has not materially changed from that in place at September 30, 2012.

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

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Income tax (benefit) expense at 34% statutory federal tax rate	$(210)	$(11)	$(70)	$2
Change in valuation allowance related to deferred income tax assets	—	(7)	—	9
State tax expense	(33)	3	(9)	11
Other	(32)	(27)	(66)	(57)
Income tax benefit	$(275)	$(42)	$(145)	$(35)

NOTE M - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

As of March 31, 2013 and September 30, 2012, the Company did not hold any interest rate floors or collars.

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

Table of Contents

	March 31, 2013	September 30, 2012
	(Dollars in thousands)	
Financial instruments whose contract amounts represent credit risk		
Letters of credit	$ 1,450	$ 1,450
Unused lines of credit	48,118	41,162
Fixed rate loan commitments	2,052	1,988
Variable rate loan commitments	4,149	14,112
	$ 55,769	$ 58,712

Table of Contents

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

Forward-Looking Statements

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

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

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

Critical Accounting Policies

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

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

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

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

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

Table of Contents

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

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

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

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

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

Comparison of Financial Condition at March 31, 2013 and September 30, 2012

Total assets increased $11.5 million, or 2.3%, to $520.3 million at March 31, 2013 from $508.8 million at September 30, 2012. The increase was attributable to higher balances in investment securities, OREO, cash and cash equivalents, and loans receivable.

Cash and interest bearing deposits with banks increased $2.2 million, or 22.2%, to $12.3 million at March 31, 2013 from $ 10.0 million at September 30, 2012 due to deposit inflows during the six months period that exceeded loan origination and investment security purchases.

Total loans receivable increased $1.3 million during the six months ended March 31, 2013 to $390.2 million and were comprised of $155.4 million (39.8%) one-to-four family residential mortgage loans, $148.7 million (38.1%) commercial real estate loans, $32.6 million (8.4%) commercial business loans, $23.1 million (5.9%) construction loans, $21.7 million (5.6%) home equity lines of credit and $8.7 million (2.2%) other loans. Expansion of the portfolio during the six months ended March 31, 2013 occurred primarily in construction loans, which increased $5.2 million, followed by commercial business loans, which increased $2.7 million.

Total non-performing loans decreased by $4.4 million to $15.7 million at March 31, 2013 from $20.1 million at September 30, 2012. The ratio of non-performing loans to total loans decreased to 4.0% at March 31, 2013 from 5.2% at September 30, 2012.

Included in the non-performing loan totals were twenty residential mortgage loans totaling $6.6 million, six construction loans totaling $4.0 million, seven commercial real estate loans totaling $3.4 million, seven home equity lines of credit totaling $820,000, and four commercial business loan totaling $799,000.

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

Table of Contents

At March 31, 2013, non-performing construction loans consisted of six loans totaling $4.0 million for the development of single family homes. These loans were used for land acquisition and construction in various locations in New Jersey and Pennsylvania. Magyar Bank is pursing foreclosure of the collateral securing the loans. Year-to-date, the Bank had charged off $1.1 million in construction loans through a reduction of its allowance for loan loss.

Construction loans may contain interest reserves on which the interest is capitalized to the loan. At March 31, 2013, there were two performing construction loan with an interest reserves representing an outstanding balance of $3.7 million, original interest reserves of $360,000, advanced interest reserves of $23,000, and a remaining interest reserve balance of $337,000. At September 30, 2012, there were two performing construction loans with interest reserves representing outstanding balances of $893,000, an original interest reserve of $169,000, an advanced interest reserve of $9,000, and a remaining interest reserve balance of $160,000.

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

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

NPLs secured by one-to four-family residential properties including home equity lines of credit decreased $1.0 million to $7.4 million at March 31, 2013 from $8.4 million at September 30, 2012. There were twenty seven NPLs secured by one-to four-family residential properties in varying stages of foreclosure at March 31, 2013. The Company has not and does not intend to originate or purchase sub-prime loans or option-ARM loans. Fiscal year-to-date, the Bank had charged off $413,000 in residential and home equity line of credit loans through a reduction of its allowance for loan loss.

Non-performing commercial real estate loans decreased $3.0 million to $3.4 million at March 31, 2013 from $6.4 million at September 30, 2012. The seven non-accrual loans were in various stages of foreclosure and collection at March 31, 2013. Fiscal year-to-date, the Bank had charged off $576,000 in commercial real estate loans through a reduction of its allowance for loan loss.

Non-performing commercial business loans increased $742,000 to $799,000 at March 31, 2013 from $57,000 at September 30, 2012. Fiscal year-to-date, the Bank had charged off $75,000 in non-performing commercial business loans through a reduction of its allowance for loan loss.

During the six months ended March 31, 2013, the allowance for loan losses decreased $674,000 to $3.2 million from $3.9 at March 31, 2012. The decrease in the allowance for loan loss was primarily the result of higher levels of loan charge-offs.

The allowance for loan losses as a percentage of non-performing loans increased to 20.3% at March 31, 2013 compared with 19.2% at September 30, 2012. At March 31, 2013, the Company’s allowance for loan losses as a percentage of total loans was 0.82% compared with 0.99% at September 30, 2012. Future increases in the allowance for loan losses may be necessary based on the growth of the loan portfolio, the change in composition of the loan portfolio, possible future increases in non-performing loans and charge-offs, and the possible continuation of the current adverse economic environment.

Table of Contents

The allowance for loan loss does not typically include a specific reserve for NPLs as all such loans are reported at the lower of amortized cost or fair value, based upon updated independent appraisals of collateral or the discounted value of expected loan repayments. Valuations of such loans are performed at least annually with charge-offs recorded when appraised values, net of estimated selling and disposition costs, are less than the loan balances. Specific reserves may be used on occasions where an updated valuation is unavailable. At March 31, 2013, the Bank held specific reserves totaling $943,000.

Investment securities increased $4.6 million to $62.5 million at March 31, 2013 from $57.9 million at September 30, 2012. The increase was due to purchases of U.S. Government-sponsored enterprise obligations totaling $14.2 million, which exceeded repayments received totaling $8.3 million and securities sold totaling $1.1 million, during the six months ended March 31, 2013. Investment securities at March 31, 2013 consisted of $51.6 million in mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises, $6.0 million in U.S. government-sponsored enterprise debt securities, $3.0 million in corporate notes, $1.9 million in “private-label” mortgage-backed securities, and $11,000 in state municipal bonds. There were no other-than-temporary-impairment charges for the Company’s investment securities for the six months ended March 31, 2013.

Other real estate owned increased $2.5 million to $15.9 million at March 31, 2013 from $13.4 million at September 30, 2012. During the six months ended March 31, 2013, the Bank sold four properties totaling $783,000 for a loss of $45,000 and added five properties totaling $3.1 million resulting from foreclosure of collateral securing non-performing loans. The Bank is determining the proper course of action for its other real estate owned, which may include holding the properties until the real estate market improves, selling the properties to a developer and completing partially completed homes for either rental or sale.

Total deposits increased $10.2 million, or 2.4%, to $426.7 million during the six months ended March 31, 2013. The increase in deposits occurred in non-interest bearing checking accounts, which increased $7.0 million, or 13.8%, to $57.9 million and certificates of deposit (including individual retirement accounts), which increased $4.3 million, or 2.7%, to $162.7 million and money market accounts, which increased $1.4 million, or 1.3% to $109.0 million. Offsetting the increase were decreases in interest-bearing checking accounts, which decreased $1.3 million, or 3.0%, to $43.0 million, and savings accounts, which decreased $1.2 million, or 2.1%, to $54.1 million.

Included with the total deposits at March 31, 2013 were $7.0 million in brokered certificates of deposit. At September 30, 2012 brokered certificates of deposit were $7.5 million.

Federal Home Loan Bank of New York advances increased $1.8 million, or 5.0%, to $38.3 million at March 31, 2013 from $36.5 million at September 30, 2012, while securities sold under agreements to repurchase were unchanged at $5.0 million at March 31, 2013.

Stockholders' equity decreased $194,000, or 0.4%, to $44.8 million at March 31, 2013 from $45.0 million at September 30, 2012. The decrease was due to the Company's results from operations, and the changes in the Company's accumulated other comprehensive loss during the six month period.

The Company did not repurchase any shares during the six months ended March 31, 2013. Through March 31, 2013, the Company had repurchased 81,000 shares at an average price of $8.33 pursuant to the second stock repurchase plan, which has reduced outstanding shares to 5,807,344.

The Company's book value per share decreased to $7.72 at March 31, 2013 from $7.75 at September 30, 2012. The decrease was due to the Company's results of operations for the six months ended March 31, 2013.

Average Balance Sheets for the Three and Six Months Ended March 31, 2013 and 2012

The tables on the following pages present certain information regarding the Company's financial condition and net interest income for the three and six months ended March 31, 2013 and 2012. The tables present the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. We derived average balances from daily balances over the periods indicated. Interest income includes fees that we consider adjustments to yields.

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Comparative Average Balance Sheets

(Dollars In Thousands)

	For the Three Months Ended March 31,					
	2013			2012		
	Average Balance	Interest Income/ Expense	Yield/Cost (Annualized)	Average Balance	Interest Income/ Expense	Yield/Cost (Annualized)
	(Dollars In Thousands)					
Interest-earning assets:						
Interest-earning deposits	$10,608	$7	0.29%	$9,814	$7	0.28%
Loans receivable, net	389,998	4,474	4.65%	384,489	4,692	4.89%
Securities						
Taxable	58,430	374	2.59%	72,307	514	2.85%
Tax-exempt [1]	11	—	9.09%	47	1	7.91%
FHLB of NY stock	2,539	29	4.60%	2,301	29	5.05%
Total interest-earning assets	461,586	4,884	4.29%	468,958	5,243	4.48%
Noninterest-earning assets	54,324			54,474		
Total assets	$515,910			$523,432		
Interest-bearing liabilities:						
Savings accounts [2]	$53,789	33	0.25%	$58,201	57	0.39%
NOW accounts [3]	150,805	131	0.35%	145,052	162	0.45%
Time deposits [4]	158,161	611	1.57%	168,425	797	1.90%
Total interest-bearing deposits	362,755	775	0.87%	371,678	1,016	1.10%
Borrowings	44,883	349	3.15%	49,972	497	3.99%
Total interest-bearing liabilities	407,638	1,124	1.12%	421,650	1,513	1.44%
Noninterest-bearing liabilities	63,737			57,105		
Total liabilities	471,375			478,755		
Retained earnings	44,535			44,677		
Total liabilities and retained earnings	$515,910			$523,432		
Tax-equivalent basis adjustment		—			—	
Net interest and dividend income		$3,760			$3,730	
Interest rate spread			3.17%			3.04%
Net interest-earning assets	$53,948			$47,308		
Net interest margin [5]			3.30%			3.19%
Average interest-earning assets to average interest-bearing liabilities	113.23%			111.22%		

(1) Calculated using 34% tax rate.

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

(3) Includes interest-bearing checking and money market accounts.
(4) Includes certificates of deposits and individual retirement accounts.
(5) Calculated as annualized net interest income divided by average total interest-earning assets.

31

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY
Comparative Average Balance Sheets
(Dollars In Thousands)

	For the Six Months Ended March 31,					
	2013			2012		
	Average Balance	Interest Income/ Expense	Yield/Cost (Annualized)	Average Balance	Interest Income/ Expense	Yield/Cost (Annualized)
	(Dollars In Thousands)					
Interest-earning assets:						
Interest-earning deposits	$10,333	$14	0.28%	$12,424	$19	0.30%
Loans receivable, net	388,388	9,020	4.66%	383,268	9,398	4.89%
Securities						
Taxable	58,181	746	2.57%	72,671	1,042	2.86%
Tax-exempt (1)	26	1	4.52%	60	3	4.31%
FHLB of NY stock	2,543	57	4.47%	2,300	53	4.58%
Total interest-earning assets	459,471	9,838	4.29%	470,723	10,515	4.46%
Noninterest-earning assets	53,883			54,883		
Total assets	$513,354			$525,606		
Interest-bearing liabilities:						
Savings accounts (2)	$54,128	$70	0.26%	$59,046	$131	0.44%
NOW accounts (3)	148,727	267	0.36%	143,604	323	0.45%
Time deposits (4)	158,384	1,254	1.59%	171,076	1,664	1.94%
Total interest-bearing deposits	361,239	1,591	0.88%	373,726	2,118	1.13%
Borrowings	44,726	707	3.17%	49,943	1,001	4.00%
Total interest-bearing liabilities	405,965	2,298	1.14%	423,669	3,119	1.47%
Noninterest-bearing liabilities	62,530			56,908		
Total liabilities	468,495			480,577		
Retained earnings	44,859			44,589		
Total liabilities and retained earnings	$513,354			$525,166		
Tax-equivalent basis adjustment		—			(1)	
Net interest and dividend income		$7,540			$7,395	
Interest rate spread			3.15%			2.99%
Net interest-earning assets	$53,506			$47,054		
Net interest margin (5)			3.29%			3.13%
Average interest-earning assets to average interest-bearing liabilities	113.18%			111.11%		

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

32

Table of Contents

Comparison of Operating Results for the Three Months Ended March 31, 2013 and 2012

Net Income (Loss). Net income (loss) decreased $353,000 during the three-month period ended March 31, 2013 compared with the three-month period ended March 31, 2012 due to higher provisions for loan loss, which increased $677,000. In addition, non-interest income decreased $138,000, or 25.2%, to $409,000 due to lower gains from the sales of loans and investment securities. Partially offsetting the higher provisions for loan loss and lower non-interest income were lower non-interest expenses. Non-interest expenses decreased $199,000, or 5.0%, to $3.8 million due to lower OREO expenses and lower professional fees.

Net Interest and Dividend Income. Net interest and dividend income increased $30,000 to $3.8 million for the three months ended March 31, 2013 from $3.7 million for the three months ended March 31, 2012. The Company’s net interest margin increased by 11 basis points to 3.30% for the quarter ended March 31, 2013 compared to 3.19% for the quarter ended March 31, 2012. The yield on interest-earning assets fell 19 basis points to 4.29% for the three months ended March 31, 2013 from 4.48% for the three months ended March 31, 2012 primarily due to the lower interest rate environment. The cost of interest-bearing liabilities fell 32 basis points to 1.12% for the three months ended March 31, 2013 from 1.44% for the three months ended March 31, 2012. The decrease in the cost of interest-bearing liabilities was attributable to the lower rate environment and a more favorable funding composition comprised of a larger percentage of lower-cost deposit account balances.

Interest and Dividend Income. Interest and dividend income decreased $359,000, or 6.8%, to $4.9 million for the three months ended March 31, 2013 from $5.2 million for the three months ended March 31, 2012. The decrease was attributable to a $7.4 million, or 1.6%, decrease in the average balance of interest-earning assets and a 19 basis point decrease in the yield on such assets to 4.29% for the quarter ended March 31, 2013 compared with the prior year period.

Interest earned on loans decreased $218,000, or 4.6%, to $4.5 million for the three months ended March 31, 2013 compared with the prior year period due primarily to a 24 basis point decrease in the average yield on such loans to 4.65% from 4.89%. The decrease in yield between the two periods was due primarily to the lower market interest rate environment.

Interest earned on our investment securities, including interest earning deposits and excluding Federal Home Loan Bank of New York stock, decreased $141,000, or 27.0%, due to a $13.1 million, or 16.0%, decrease in the average balance of such securities to $69.0 million for the three months ended March 31, 2013. The average yield on investment securities decreased 31 basis points to 2.24% for the three months ended March 31, 2013 from 2.55% for the three months ended March 31, 2012. The decrease in yield was due to the lower overall interest rate market.

Interest Expense. Interest expense decreased $389,000, or 25.7%, to $1.1 million for the three months ended March 31, 2013 from $1.5 million for the three months ended March 31, 2012. The average balance of interest-bearing

liabilities decreased $14.0 million, or 3.3%, between the two periods, while the cost on such liabilities fell 32 basis points to 1.12% for the quarter ended March 31, 2013 compared with the prior year period.

The average balance of interest bearing deposits decreased $8.9 million to $362.8 million from $371.7 million while the average cost of such deposits decreased 23 basis points to 0.87% from 1.10% in the lower market interest rate environment. As a result, average interest paid on interest-bearing deposits decreased $241,000 to $775,000 for the three months ended March 31, 2013 from $1.0 million for the three months ended March 31, 2012.

Interest paid on advances and securities sold under agreements to repurchase decreased $148,000, or 29.8%, to $349,000 for the three months ended March 31, 2013 from $497,000 for the prior year period due to a decrease in the average balance of such borrowings to $44.9 million from $50.0 million. The average cost of advances and securities sold under agreements to repurchase decreased 84 basis points to 3.15% for the three months ended March 31, 2013 from 3.99% for the same period of March 31, 2012, reflecting the lower market interest rate environment.

Provision for Loan Losses. We establish provisions for loan losses, which are charged to earnings, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events occur. After an evaluation of these factors, management recorded a provision of $1.0 million for the three months ended March 31, 2013 compared to a provision of $323,000 for the prior year period. The provision for loan losses increased during the current period compared with the prior year period due to higher levels of loan charge-offs. Net charge-offs were $1.9 million for the three months ended March 31, 2013 compared to $163,000 for the three months ended March 31, 2012. Of the $1.9 million in net charge-offs, $795,000 represented specific reserves previously held in the allowance for loan loss.

Table of Contents

The loan charge-offs during the three months ended March 31, 2013 resulted from write-downs of fourteen impaired loans. Ten non-performing loans secured by real estate were written down by $1.8 million based on updated appraisals of the real estate collateralizing the loans, four commercial loans totaling $75,000 were written off, and the Bank accepted a short-sale payoff of a $284,000 loan that resulted in a $10,000 loss. There was one partial recovery totaling $20,000 received during the quarter.

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

Other Income. Non-interest income decreased $138,000, or 25.2%, to $409,000 during the three months ended March 31, 2013 compared to $547,000 for the three months ended March 31, 2012. The decrease was attributable to lower gains on the sales of assets. The Company recorded gains totaling $82,000 from the sale of loans during the three months ended March 31, 2013, which decreased $61,000 from the prior year period. In addition, there were no gains from the sale of available-for-sale investment securities during the three months ended March 31, 2013 compared to gains of $64,000 for the three months ended March 31, 2012.

Other Expenses. During the three months ended March 31, 2013, non-interest expenses decreased $199,000 to $3.8 million from $4.0 million for the three months ended March 31, 2012 primarily due to lower OREO expenses, which fell $81,000, or 31.2%, and lower professional fees, which fell $58,000, or 17.5%, from the prior year period. In addition, compensation and benefit expenses decreased $29,000, or 1.5%, due to lower stock-based compensation and employee medical benefit expense.

Income Tax Benefit. The Company recorded a tax benefit of $275,000 for the three months ended March 31, 2013, compared to a tax benefit of $42,000 for the three months ended March 31, 2012.

Comparison of Operating Results for the Six Months Ended March 31, 2013 and 2012

Net Income (Loss). Net income (loss) decreased $101,000 to a net loss of $61,000 during the six-month period ended March 31, 2013 compared with net income of $40,000 at the six-month period ended March 31, 2012 due primarily to higher provisions for loan loss, which increased $748,000. Offsetting the higher provisions for loan loss were lower non-interest expenses, which decreased $451,000, or 5.8%, to $7.4 million due primarily to lower OREO expenses, compensation and employee benefits expenses, loan servicing expenses and professional fees. Partially offsetting the lower non-interest expenses was lower non-interest income. Non-interest income decreased $59,000, or 5.2%, to $1.07 million at March 31, 2013 from $1.13 million at March 31, 2012 due to lower service charges and gains from the sales of investment securities.

Net Interest and Dividend Income. Net interest and dividend income increased $145,000, or 2.0%, to $7.5 million for the six month period ended March 31, 2013 compared with $7.4 million for the six month period ended March 31, 2012.

The Company's net interest margin increased by 16 basis points to 3.29% for the six months ended March 31, 2013 compared to 3.13% for the six months ended March 31, 2012. The yield on interest-earning assets fell 17 basis points to 4.29% for the six months ended March 31, 2013 from 4.46% for the six months ended March 31, 2012 primarily due to the lower rate environment. The cost of interest-bearing liabilities fell 33 basis points to 1.14% for the six months ended March 31, 2013 from 1.47% for the six months ended March 31, 2012. The decrease in the cost of interest-bearing liabilities was attributable to the lower rate environment and a more favorable funding composition comprised of a larger percentage of lower-cost deposit account balances.

Interest and Dividend Income Interest and dividend income decreased $676,000, or 6.4%, to $9.8 million for the six months ended March 31, 2013 from $10.5 million for the six months ended March 31, 2012. The average balance of interest-earning assets decreased $11.2 million, or 2.4%, to $459.5 from $470.7 the same period last year, while the yield on assets decreased 17 basis points to 4.29% for the six months ended March 31, 2013 from 4.46% at March 31, 2012.

Interest earned on our investment securities, including interest earning deposits and excluding Federal Home Loan Bank of New York stock, decreased $303,000, or 28.5%, due to a $16.6 million, or 19.5%, decrease in the average balance of such securities to $68.5 million for the six months ended March 31, 2013. The average yield on investment securities decreased 26 basis points to 2.23% for the three months ended March 31, 2013 from 2.49% for the three months ended March 31, 2012. The decrease in yield was due to the lower overall interest rate market.

Table of Contents

Interest Expense. Interest expense decreased $821,000, or 26.3%, to $2.3 million for the six months ended March 31, 2013 from $3.1 million for the six months ended March 31, 2012. The decrease in interest expense was primarily due to the average balance of interest-bearing liabilities decreased $17.7 million, or 4.2%, to $406.0 million from $423.7 between the two periods, while the cost on such liabilities fell 33 basis points to 1.14% for the six months ended March 31, 2013 compared with the prior year period.

The average balance of interest bearing deposits decreased $12.5 million to $361.2 million from $373.7 million while the average cost of such deposits decreased 25 basis points to 0.88% from 1.13% in the lower market interest rate environment. As a result, interest paid on deposits decreased $527,000 to $1.6 million for the six months ended March 31, 2013 from $2.1 million for the six months ended March 31, 2012.

Interest paid on advances and securities sold under agreements to repurchase decreased $294,000, or 29.4%, to $707,000 for the six months ended March 31, 2013 from $1.0 million for the prior year period due to a decrease in the average balance of such borrowings to $44.7 million from $49.9 million. The average cost of advances and securities sold under agreements to repurchase decreased 83 basis points to 3.17% for the three months ended March 31, 2013 from 4.00% for the same period of March 31, 2012, reflecting the lower market interest rate environment.

Provision for Loan Losses. We establish provisions for loan losses, which are charged to earnings, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events occur. After an evaluation of these factors, management recorded a provision of $1.4 million for the six months ended March 31, 2013 compared to $693,000 for the six months ended March 31, 2012. The increase in the provision for loan loss was due primarily to higher levels of loan charge-offs. Net charge-offs were $2.1 million for the six months ended March 31, 2013 compared to $497,000 for the six months ended March 31, 2012.

The loan charge-offs during the six months ended March 31, 2013 resulted primarily from additional write-downs of loans previously deemed impaired. Thirteen non-performing loans totaling $8.2 million were written down by $2.0 million for the six months based on updated valuations of the real estate securing the loans. Of these thirteen loans, three totaling $2.9 million at September 30, 2012 were transferred to other real estate owned. In addition, the Company wrote down four commercial loans by $75,000 and one personal consumer loan totaling $12,000 during the six months ended March 31, 2013. There was one partial recovery totaling $20,000 received during the six months period.

Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Management reviews the level of the allowance on a quarterly basis, and establishes the provision for loan losses based on the

factors set forth in the preceding paragraph. As management evaluates the allowance for loan losses, the increased risk associated with larger non-homogenous construction, commercial real estate and commercial business loans may result in larger additions to the allowance for loan losses in future periods.

Other Income. Non-interest income decreased $59,000, or 5.2%, to $1.1 million for the six months ended March 31, 2013 compared to the prior year period. The decrease was attributable to lower net gains on the sales of assets and lower service charge income. Gains on the sale of available-for-sale investment securities decreased $85,000 to $63,000 for the six months ended March 31, 2013 from $148,000 for the six months ended March 31, 2012. In addition, service charge income decreased $56,000, or 11.2%, to $446,000 due to lower late charge income on loans and lower minimum balance fees from deposit accounts. Partially offsetting the decrease were higher net gains from the sales of loans, which increased $86,000 to $346,000 for the six months ended March 31, 2013 compared with $260,000 for the six months ended March 31, 2012.

Other Expenses. Non-interest expenses decreased $451,000, or 5.8%, to $7.4 million during the six months ended March 31, 2013 from $7.8 million for the six months ended March 31, 2012. With the exception of data processing expenses, which were temporarily higher due to the Bank’s core systems conversion in 2012, all other categories of non-interest expenses have decreased. OREO expenses decreased $199,000, or 38.3%, compensation and benefit expenses decreased $86,000, or 2.3%, loan servicing expenses decreased $68,000, or 37.2%, professional fees decreased $66,000, or 11.7% and other expenses decreased $69,000.

Table of Contents

Income Tax Benefit. The Company recorded a tax benefit of $145,000 for the six months ended March 31, 2013, compared to a tax benefit of $35,000 for the six months ended March 31, 2012

Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The valuation allowance is assessed by management on a quarterly basis and adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant. In assessing whether it is more likely than not that some portion or all of the deferred tax assets will not be realized, management considers projections of future taxable income, the projected periods in which current temporary differences will deductible, the availability of carry forwards, and existing tax laws and regulations. The valuation allowance in place on deferred tax assets at March 31, 2013, did not materially change from that in place on September 30, 2012.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The Company’s liquidity is a measure of its ability to fund loans, pay withdrawals of deposits, and other cash outflows in an efficient, cost-effective manner. The Company’s short-term sources of liquidity include maturity, repayment and sales of assets, excess cash and cash equivalents, new deposits, other borrowings, and new advances from the Federal Home Loan Bank. There has been no material adverse change during the six months ended March 31, 2013 in the ability of the Company and its subsidiaries to fund their operations.

At March 31, 2013, the Company had commitments outstanding under letters of credit of $1.5 million, commitments to originate loans of $6.2 million, and commitments to fund undisbursed balances of closed loans and unused lines of credit of $48.1 million. There has been no material change during the six months ended March 31, 2013 in any of the Company’s other contractual obligations or commitments to make future payments.

Capital Requirements

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

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

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

At March 31, 2013, the Bank’s Tier 1 capital as a percentage of the Bank's total assets was 8.44%, and total qualifying capital as a percentage of risk-weighted assets was 13.03%.

Item 3- Quantitative and Qualitative Disclosures about Market Risk

Not applicable to smaller reporting companies.

Item 4 – Controls and Procedures

36

Table of Contents

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that Magyar Bancorp, Inc. files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

There has been no change in the Company's internal control over financial reporting during its six months ended March 31, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal proceedings
On December 14, 2011, Elizabeth E. Hance, the former President and Chief Executive Officer of the Company and the Bank, filed a lawsuit against the Company and its directors in the Superior Court of New Jersey, Middlesex County. The lawsuit alleges, among other things, breach of contract and employment discrimination in connection with Ms. Hance's December 2009 separation from employment and seeks severance that she claims she was entitled to, as well as other compensatory and punitive damages. The Company believes that the failure to pay Ms. Hance severance was the result of applicable regulatory prohibitions, and intends to defend the suit vigorously.

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

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

a.) Not applicable.

b.) Not applicable.

c.) The Company did not repurchase shares of its common stock during the six months ended March 31, 2013. Through March 31, 2013, the Company had repurchased 81,000 shares at an average price of $8.33 pursuant to the second stock repurchase plan, which has reduced outstanding shares to 5,807,344.

Item 3. Defaults Upon Senior Securities
None

Item 4. Mine Safety Disclosures
Not applicable.

Item 5. Other Information

a.) Not applicable.

b.) None.

Item 6. Exhibits
Exhibits

31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

38

Table of Contents

101	Interactive data file containing the following financial statements formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets at March 31, 2013 and September 30, 2012; (ii) the Consolidated Statements of Operations for the three and six months ended March 31, 2013 and 2012; (iii) the Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended March 31, 2013 and 2012; (iv) the Consolidated Statements of Changes in Stockholders' Equity for the six months ended March 31, 2013; (v) the Consolidated Statements of Cash Flows for the six months ended March 31, 2013; and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text. As provided in Rule 406T of Regulation S-T, this interactive data file shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed "filed" or part of any registration statement or prospectus for purposes of Section 11 or 12 under the Securities Act of 1933, or otherwise subject to liability under those sections.

Table of Contents

Signatures

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

MAGYAR BANCORP, INC.
(Registrant)

Date: May 14, 2013
/s/ John S. Fitzgerald
John S. Fitzgerald
President and Chief Executive Officer

Date: May 14, 2013 /s/ Jon R. Ansari
Jon R. Ansari
Executive Vice President and Chief Financial Officer