Magyar Bancorp, Inc.
Form 10KSB
December 29, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

þ ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended September 30, 2008
OR
o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______________ to _______________

Commission File Number: 000-51726

Magyar Bancorp, Inc.
(Name of Small Business Issuer in its Charter)

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

(732) 342-7600
(Issuer's Telephone Number including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange On Which Registered
Common Stock, par value $0.01 per share	The NASDAQ Stock Market, LLC

Securities Registered Pursuant to Section 12(g) of the Act:

None
(Title of Class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. o

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past twelve months (or for such shorter period that the Registrant was required to file reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendments to this Form 10-KSB.

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

The Registrant's revenues for the fiscal year ended September 30, 2008 were $30.4 million.

The aggregate value of the voting stock held by non-affiliates of the Registrant, computed by reference to the closing price of the Common Stock as of December 18, 2008 was $15.8 million. As of December 18, 2008, there were 5,923,742 shares issued and 5,749,741 outstanding of the Registrant's Common Stock, including 3,200,450 shares owned by Magyar Bancorp, MHC, the Registrant's mutual holding company.

DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy Statement for the 2008 Annual Meeting of Stockholders (Part III)

Transitional Small Business Disclosure Format (check one):

Yes o No þ

Magyar Bancorp, Inc.
Annual Report On Form 10-KSB
For The Fiscal Year Ended
September 30, 2008

Table Of Contents

PART I

ITEM 1.	Description of Business	1
ITEM 2.	Description of Property	39
ITEM 3.	Legal Proceedings	39
ITEM 4.	Submission of Matters to a Vote of Security Holders	39

PART II

ITEM 5.	Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities	39
ITEM 6.	Management's Discussion and Analysis or Plan of Operation	41
ITEM 7.	Financial Statements	57
ITEM 8.	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	96
ITEM 8A.	Controls and Procedures	96
ITEM 8B.	Other Information	96

PART III

ITEM 9.	Directors, Executive Officers, Promoters, Control Persons, and Corporate Governance; Compliance with Section 16(a) of the Exchange Act	96
ITEM 10.	Executive Compensation	96
ITEM 11.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	96
ITEM 12.	Certain Relationships and Related Transactions, and Director Independence	97

ITEM 13.	Exhibits	97
ITEM 14.	Principal Accountant Fees and Services	97
	SIGNATURES	98

Table of Contents

PART I

ITEM 1. Description of Business

Forward Looking Statements

This Annual Report contains certain “forward-looking statements” which may be identified by the use of words such as “believe,” “expect,” “anticipate,” “should,” “planned,” “estimated” and “potential.” Examples of forward-looking statements i but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates and statements that are not historical in nature. These factors include, but are not limited to, general and local economic conditions, changes in interest rates, deposit flows, demand for mortgage, and other loans, real estate values, competition, changes in accounting principles, policies, or guidelines, changes in legislation or regulation, and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services.

Magyar Bancorp, MHC

Magyar Bancorp, MHC is the New Jersey-chartered mutual holding company of Magyar Bancorp, Inc. Magyar Bancorp, MHC’s only business is the ownership of 54.03% of the issued shares of common stock of Magyar Bancorp, Inc. So long as Magyar Bancorp, MHC exists, it will be required to own a majority of the voting stock of Magyar Bancorp, Inc. The executive office of Magyar Bancorp, MHC is located at 400 Somerset Street, New Brunswick, New Jersey 08903, and its telephone number is (732) 342-7600. Magyar Bancorp, MHC is subject to comprehensive regulation and examination by the Board of Governors of the Federal Reserve System and the New Jersey Department of Banking and Insurance.

Magyar Bancorp, Inc.

Magyar Bancorp, Inc. is the mid-tier stock holding company of Magyar Bank. Magyar Bancorp, Inc. is a Delaware chartered corporation and owns 100% of the outstanding shares of common stock of Magyar Bank. Magyar Bancorp, Inc. has not engaged in any significant business activity other than owning all of the shares of common stock of Magyar Bank. At September 30, 2008, Magyar Bancorp, Inc. had consolidated assets of $514.3 million, total deposits of $375.6 million and stockholders’ equity of $45.8 million. Magyar Bancorp, Inc.’s net loss for the fiscal year ended September 30, 2008 was $2.9 million. The executive offices of Magyar Bancorp, Inc. are located at 400 Somerset Street, New Brunswick, New Jersey 08903, and its telephone number is (732) 342-7600. Magyar Bancorp, Inc. is subject to comprehensive regulation and examination by the Board of Governors of the Federal Reserve System and the New Jersey Department of Banking and Insurance.

On January 23, 2006, Magyar Bancorp, Inc. sold 2,618,550 shares of its common stock at a price of $10.00 per share, issued an additional 3,200,450 shares of its common stock to Magyar Bancorp, MHC, and contributed 104,742 shares to MagyarBank Charitable Foundation.

Magyar Bank

Magyar Bank is a New Jersey-chartered savings bank headquartered in New Brunswick, New Jersey that was originally founded in 1922 as a New Jersey building and loan association. In 1954, Magyar Bank converted to a New Jersey savings and loan association, before converting to the New Jersey savings bank charter in 1993. We conduct business from our main office located at 400 Somerset Street, New Brunswick, New Jersey, and our five branch offices located in New Brunswick, North Brunswick, South Brunswick and Branchburg, New Jersey. The telephone

number at our main office is (732) 342-7600.

Table of Contents

General

Our principal business consists of attracting retail deposits from the general public in the areas surrounding our main office in New Brunswick, New Jersey and our branch offices located in Middlesex and Somerset Counties, New Jersey, and investing those deposits, together with funds generated from operations and wholesale funding, in residential mortgage loans, home equity loans, home equity lines of credit, commercial real estate loans, commercial business loans, construction loans and investment securities. We also originate consumer loans, which consist primarily of secured demand loans. We originate loans primarily for our loan portfolio. However, from time to time we have sold some of our long-term fixed-rate residential mortgage loans into the secondary market, while retaining the servicing rights for such loans. Our revenues are derived principally from interest on loans and securities. Our investment securities consist primarily of mortgage-backed securities and U.S. Government and government-sponsored enterprise obligations. We also generate revenues from fees and service charges. Our primary sources of funds are deposits, borrowings and principal and interest payments on loans and securities. We are subject to comprehensive regulation and examination by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation.

Market Area

We are headquartered in New Brunswick, New Jersey, and our primary deposit market area is concentrated in the communities surrounding our headquarters branch and our branch offices located in Middlesex and Somerset Counties, New Jersey. Our primary lending market area is broader than our deposit market area and includes all of New Jersey. At September 30, 2008, 43.5% of our mortgage loan portfolio consisted of loans secured by real estate located in Middlesex and Somerset Counties in New Jersey.

The economy of our primary market area is diverse. It is largely urban and suburban with a broad economic base that is typical for counties surrounding the New York metropolitan area. Middlesex and Somerset Counties are projected to experience moderate population and household growth through 2010. These counties have an aging population base with the strongest growth projected in the 55-and-older age group and $50,000 or greater household income category.

Competition

We face intense competition within our market area both in making loans and attracting deposits. Our market area has a high concentration of financial institutions including large money center and regional banks, community banks and credit unions. Some of our competitors offer products and services that we currently do not offer, such as trust services and private banking. According to the Federal Deposit Insurance Corporation’s annual Summary of Deposit report, at June 30, 2008 our market share of deposits was 1.91% and 0.15% of deposits Middlesex and Somerset Counties, respectively.

Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms and credit unions. We face additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies. Our primary focus is to build and develop profitable customer relationships across all lines of business while maintaining our role as a community bank.

Lending Activities

We originate residential mortgage loans to purchase or refinance residential real property. Residential mortgage loans represented $157.9 million, or 38.4% of our total loans at September 30, 2008. Historically, we have not originated a significant number of loans for the purpose of reselling them in the secondary market. In the future, however, to help manage interest rate risk and to increase fee income, we may increase our origination and sale of residential mortgage

loans. No loans were held for sale at September 30, 2008. We also originate commercial real estate, commercial business and construction loans. At September 30, 2008, these

2

Table of Contents

loans totaled $92.8 million, $36.0 million and $92.9 million, respectively. We also offer consumer loans, which consist primarily of home equity lines of credit and stock-secured demand loans. At September 30, 2008, home equity lines of credit and stock-secured demand loans totaled $15.9 million and $15.3 million, respectively.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan, at the dates indicated.

	September 30,									
	2008		2007		2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
One-to four-family residential	$ 157,867	38.44%	$ 152,474	39.54%	$ 143,245	40.65%	$ 126,269	46.64%	$ 108,722	55.50%
Commercial real estate	92,823	22.60%	81,275	21.08%	68,567	19.46%	57,366	21.19%	19,935	10.18%
Construction	92,856	22.61%	97,150	25.20%	90,342	25.64%	44,418	16.41%	5,526	2.82%
Home equity lines of credit	15,893	3.87%	12,894	3.34%	10,843	3.08%	10,398	3.84%	9,065	4.63%
Commercial business	35,995	8.76%	26,630	6.91%	24,510	6.96%	17,413	6.43%	27,698	14.14%
Other	15,294	3.72%	15,159	3.93%	14,846	4.21%	14,862	5.49%	24,964	12.74%
Total loans receivable	$ 410,728	100.00%	$ 385,582	100.00%	$ 352,353	100.00%	$ 270,726	100.00%	$ 195,910	100.00%
Net deferred loan fees	(77)		(214)		(492)		(280)		(19)	
Allowance for loan losses	(4,502)		(3,754)		(3,892)		(3,129)		(2,341)	
Total loans receivable, net	$ 406,149		$ 381,614		$ 347,969		$ 267,317		$ 193,550	

Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at September 30, 2008. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

Due During the Fiscal Years Ending September 30,	One-to-Four Family Residential		Commercial Real Estate		Construction		Home Equity Lines of Credit	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							

2009	$ 3,152	5.38%	$ 14,694	6.83%	$ 81,541	6.45%	$ 3,071	6.74%
2010	790	5.86%	633	5.22%	11,052	6.53%	5	6.50%
2011	601	6.68%	3,216	6.41%	263	6.00%	-	-
2012 to 2013	5,228	5.61%	511	7.97%	-	-	30	5.00%
2014 to 2018	17,535	5.49%	9,397	6.44%	-	-	33	6.00%
2019 to 2022	12,209	5.42%	3,898	6.93%	-	-	162	5.00%
2023 and beyond	118,352	5.81%	60,474	6.97%	-	-	12,592	4.57%
Total	$ 157,867	5.73%	$ 92,823	6.87%	$ 92,856	6.46%	$ 15,893	5.00%

Table of Contents

Due During the Fiscal Years Ending September 30,	Commercial Business Amount	Commercial Business Weighted Average Rate	Other Amount	Other Weighted Average Rate	Total Amount	Total Weighted Average Rate
	(Dollars in thousands)					
2009	$ 18,967	5.46%	$ 14,673	3.99%	$ 136,098	6.07%
2010	509	6.57%	25	12.01%	13,014	6.44%
2011	1,914	7.18%	20	13.70%	6,014	6.69%
2012 to 2013	3,982	6.36%	117	8.59%	9,868	6.07%
2014 to 2018	4,768	7.10%	54	5.54%	31,787	6.01%
2019 to 2022	697	7.93%	1	13.00%	16,967	5.86%
2023 and beyond	5,158	7.02%	404	5.53%	196,980	6.12%
Total	$ 35,995	6.15%	$ 15,294	4.10%	$ 410,728	6.10%

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at September 30, 2008 that are contractually due after September 30, 2009.

	Due After September 30, 2009 Fixed	Adjustable	Total
	(Dollars in thousands)		
One-to four-family residential	$ 101,007	$ 53,708	$ 154,715
Commercial real estate	10,528	67,601	78,129
Construction	-	11,315	11,315
Home equity lines of credit	33	12,789	12,822
Commercial business	8,212	8,816	17,028
Other	123	498	621
Total	$ 119,903	$ 154,727	$ 274,630

Residential Mortgage Loans. We originate residential mortgage loans, most of which are secured by properties located in our primary market area and most of which we hold in portfolio. At September 30, 2008, $157.9 million, or 38.4% of our total loan portfolio, consisted of residential mortgage loans (including home equity loans). Residential mortgage loan originations are generally obtained from our in-house loan representatives, from existing or past customers, through advertising, and through referrals from local builders, real estate brokers and attorneys, and are underwritten pursuant to Magyar Bank's policies and standards. Generally, residential mortgage loans are originated in amounts up to 80% of the lesser of the appraised value or purchase price of the property, with private mortgage insurance required on loans with a loan-to-value ratio in excess of 80%. We generally will not make residential mortgage loans with a loan-to-value ratio in excess of 97%, which is the upper limit that has been established by the Board of Directors. Mortgage loans have been originated for terms of up to 30 years and are currently offered for

terms up to 40 years. Magyar Bank has not participated in “sub-prime” (mortgages granted to borrowers whose credit history is not sufficient to get a conventional mortgage) or option ARM mortgage lending. At September 30, 2008, non-accrual residential mortgage loans totaled $772,000, or 0.19% of the total loans receivable. Interest income not recorded on these loans at September 30, 2008 was $18,000. During the year ended September 30, 2008, $31,000 had been charged-off against the allowance for loan loss for one impaired residential real estate loan.

Table of Contents

We also originate home equity loans secured by residences located in our market area. The underwriting standards we use for home equity loans include a determination of the applicant's credit history, an assessment of the applicant's ability to meet existing obligations, the ongoing payments on the proposed loan and the value of the collateral securing the loan. The maximum combined (first and second mortgage liens) loan-to-value ratio for home equity loans and home equity lines of credit is 90%. Home equity loans are generally offered with fixed rates of interest with the loan amount not to exceed $500,000 and with terms of up to 30 years.

Generally, all fixed-rate residential mortgage loans are underwritten according to Freddie Mac guidelines, policies and procedures. Historically, we have not originated a significant number of loans for the purpose of reselling them in the secondary market. In the future, however, to help manage interest rate risk and to increase fee income, we may increase our origination and sale of fixed-rate residential mortgage loans. No loans were held for sale at September 30, 2008.

We generally do not purchase residential mortgage loans, except for loans to low-income borrowers to enhance our Community Reinvestment Act performance. At September 30, 2008, we had $5.4 million of purchased one-to four-family residential mortgage loans. No loans were purchased in the fiscal year ended September 30, 2008.

At September 30, 2008, we had $101.7 million of fixed-rate residential mortgage loans, which represented 64.4% of our total residential mortgage loan portfolio. At September 30, 2008, our largest fixed-rate residential mortgage loan was for $4.6 million. The loan was performing in accordance with its terms at September 30, 2008.

We also offer adjustable-rate residential mortgage loans with interest rates based on the weekly average yield on U.S. Treasuries adjusted to a constant maturity of one year, which adjusts either annually from the outset of the loan or which adjusts annually after a one-, three-, five-, seven-, and ten-year initial fixed-rate period. Our adjustable-rate mortgage loans generally provide for maximum rate adjustments of 2% per adjustment, with a lifetime maximum adjustment up to 5%, regardless of the initial rate. We also offer adjustable-rate mortgage loans with an interest rate based on the prime rate as published in The Wall Street Journal or the Federal Home Loan Bank of New York advance rates.

Adjustable-rate mortgage loans decrease the risk associated with changes in market interest rates by periodically repricing. However, these loans have other risks because, as interest rates increase, the underlying payments by the borrower increase, which increases the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. The maximum periodic and lifetime interest rate adjustments also may limit the effectiveness of adjustable-rate mortgage loans during periods of rapidly rising interest rates.

At September 30, 2008, adjustable-rate residential mortgage loans totaled $56.2 million, or 35.6% of our total residential mortgage loan portfolio. Of these loans, $18.4 million were interest-only loans originated with an average original loan-to-value of 69.3%. Interest-only loans allow the borrower to make interest–only payments during an initial fixed-rate period. Following the initial period, the borrower is required to make principal and interest payments. At September 30, 2008, our largest adjustable-rate residential mortgage loan was for $1.2 million. The loan was performing in accordance with its terms at September 30, 2008.

In an effort to provide financing for low-and moderate-income home buyers, we offer low-to-moderate income residential mortgage loans. These loans are offered with fixed rates of interest and terms of up to 40 years, and are secured by one-to four-family residential properties. All of these loans are originated using underwriting guidelines of U.S. government-sponsored enterprises such as Freddie Mac or Fannie Mae. These loans are originated with maximum loan-to-value ratios of 97%, which is higher than the maximum loan-to-value ratios of our standard one- to four-family mortgage loans.

5

Table of Contents

All residential mortgage loans we originate include “due-on-sale” clauses, which give us the right to declare a loan immediately due and payable if the borrower sells or otherwise disposes of the real property securing the mortgage loan. All borrowers are required to obtain title insurance, fire and casualty insurance and, if warranted, flood insurance on properties securing real estate loans.

Commercial Real Estate Loans. As part of our strategy to add to and diversify our loan portfolio, we have continued our focus on increasing our originations of commercial real estate loans. At September 30, 2008, $92.8 million, or 22.6%, of our total loan portfolio consisted of these types of loans. Commercial real estate loans are generally secured by five-or-more-unit apartment buildings, industrial properties and properties used for business purposes such as small office buildings and retail facilities primarily located in our market area. We generally originate adjustable-rate commercial real estate loans with a maximum term of 25 years, provided adjustable rate periods limit the initial payment period to no more than five years. The maximum loan-to-value ratio for our commercial real estate loans is 75%, based on the appraised value of the property.

We consider a number of factors when we originate commercial real estate loans. During the underwriting process we evaluate the business qualifications and financial condition of the borrower, including credit history, profitability of the property being financed, as well as the value and condition of the mortgaged property securing the loan. When evaluating the business qualifications of the borrower, we consider the financial resources of the borrower, the borrower’s experience in owning or managing similar property and the borrower’s payment history with us and other financial institutions. In evaluating the property securing the loan, we consider the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property and the debt service coverage ratio (the ratio of net operating income to debt service) to ensure it is at least 120% of the monthly debt service. We require personal guarantees on all commercial real estate loans made to individuals. Generally, commercial real estate loans made to corporations, partnerships and other business entities require personal guarantees by the principals. All borrowers are required to obtain title, fire and casualty insurance and, if warranted, flood insurance.

Loans secured by commercial real estate generally are larger than residential mortgage loans and involve greater credit risk. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of these loans makes them more difficult for management to monitor and evaluate.

The maximum amount of a commercial real estate loan is limited by our Board-established loans-to-one-borrower limit, which is currently 15% of Magyar Bank’s capital, or $6.7 million. At September 30, 2008, our largest commercial real estate loan was $5.5 million and was secured by multiple office buildings. The loan was performing in accordance with its terms at September 30, 2008. At September 30, 2008, two loans in the amount of $3.4 million were on non-accrual status. During the year ended September 30, 2008, $30,000 had been charged-off against the allowance for loan loss for the two impaired commercial real estate loans. Interest income not recorded on impaired loans for the year ended September 30, 2008 was $414,000. All other loans secured by commercial real estate were performing in accordance with their terms.

Construction Loans. We also originate construction loans for the development of one-to four-family homes, townhomes, condominiums, apartment buildings and commercial properties. Construction loans are generally offered to experienced local developers operating in our primary market area and to individuals for the construction of their personal residences.

At September 30, 2008, construction loans for the development of one-to four-family residential properties totaled $46.0 million, or 11.2% of total loans. These construction loans generally have a maximum term of 24 months. We provide financing for land acquisition, site improvement and construction of individual homes. Land acquisition funds are limited to 50% to 75% of the sale price of the land. Site improvement funds

Table of Contents

are limited to 100% of the bonded site improvement costs. Construction funds are limited to 75% of the lesser of the contract sale price or appraised value of the property (less funds already advanced for land acquisition and site improvement).

At September 30, 2008, construction loans for the development of townhomes, condominiums and apartment buildings totaled $34.9 million, or 8.5% of total loans. These construction loans also generally have a maximum term of 24 months. We generally require that a commitment for permanent financing be in place prior to closing construction loans. The maximum loan-to-value ratio limit applicable to these loans has been 75% of the appraised value of the property, but was decreased to 70% in 2007 to reduce Magyar Bank's potential exposure to a downtown in the real estate market. Properties must maintain a debt service coverage ratio of 120%. Finally, we may retain up to 10% of each loan advance until the property attains a 90% occupancy level.

At September 30, 2008, construction loans for the development of commercial properties totaled $12.0 million, or 2.9% of total loans. These construction loans have a maximum term of 36 months. The maximum loan-to-value ratio limit applicable to these loans is 75% of the appraised value of the property. In addition, the property must maintain a debt service coverage ratio of 120%.

The maximum amount of a construction loan is limited by our loans-to-one-borrower limit, which is currently 15% of Magyar Bank's capital, or $6.7 million. At September 30, 2008, our largest outstanding construction loan balance was for $3.4 million. The loan was secured by a single-family home development in North Brunswick, New Jersey. The loan was performing according to its terms at September 30, 2008. At September 30, 2008, twelve construction loans totaling $14.9 million (see Item 6. Management's Discussion and Analysis or Plan of Operations for details on these loans), were considered non-performing and impaired. During the year ended September 30, 2008, $3.1 million had been charged-off against the allowance for loan loss for the impaired construction loans. Interest income not recorded on impaired loans at September 30, 2008 was $276,000.

Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser. We generally also engage an outside engineering firm to review and inspect each property before disbursement of funds during the term of a construction loan. Loan proceeds are disbursed after inspection based on the percentage of completion method. We require a personal guarantee from each principal of all of our construction loan borrowers.

Construction lending is generally considered to involve a higher degree of credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost is inaccurate, we may be required to advance funds beyond the amount originally committed in order to protect the value of the property. Additionally, if our estimate of the value of the completed property is inaccurate, our construction loan may exceed the value of the collateral.

Commercial Business Loans. At September 30, 2008, our commercial business loans totaled $36.0 million, or 8.8% of total loans. We make commercial business loans primarily in our market area to a variety of professionals, sole proprietorships and small and mid-sized businesses. Our commercial business loans include term loans and revolving lines of credit. The maximum term of a commercial business loan is 15 years. Such loans are generally used for longer-term working capital purposes such as purchasing equipment or furniture. Commercial business loans are made with either adjustable or fixed rates of interest. The interest rates for adjustable commercial business loans are based on the prime rate as published in The Wall Street Journal.

When making commercial business loans, we consider the financial strength of the borrower, our lending history with the borrower, the debt service capabilities of the borrower, the projected cash flows of the business and the value and type of the collateral. Commercial business loans generally are secured by a variety

of collateral, primarily accounts receivable, inventory, equipment, savings instruments and readily marketable securities. In addition, we generally require the business principals to execute personal guarantees.

Commercial business loans generally have greater credit risk than residential mortgage loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to repay the loan from his or her employment income, and which are secured by real property with ascertainable value, commercial business loans generally are made on the basis of the borrower's ability to repay the loan from the cash flow of the borrower's business. As a result, the repayment of commercial business loans may depend substantially on the success of the borrower's business. Further, any collateral securing commercial business loans may depreciate over time, may be difficult to appraise and may fluctuate in value. We try to minimize these risks through our underwriting standards. The maximum amount of a commercial business loan is limited by our loans-to-one-borrower limit, which is 15% of Magyar Bank's capital, or $6.7 million currently. At September 30, 2008, our largest commercial business loan was a $1.9 million loan to a company that provides janitorial services and was secured by the accounts receivable of the company. This loan was performing according to its terms at September 30, 2008. At September 30, 2008, all of our commercial business loans were performing in accordance with their terms with the exception of one loan totaling $176,000. Interest income not recorded on this loan at September 30, 2008 was $8,000. During the year ended September 30, 2008, $227,000 had been charged-off against the allowance for loan loss for impaired commercial business loans.

Home Equity Lines of Credit and Other Loans. We originate home equity lines of credit secured by residences located in our market area. At September 30, 2008, these loans totaled $15.9 million, or 3.9% of our total loan portfolio. The underwriting standards we use for home equity lines of credit include a determination of the applicant's credit history, an assessment of the applicant's ability to meet existing obligations, the ongoing payments on the proposed loan and the value of the collateral securing the loan. The maximum combined (first and second mortgage liens) loan-to-value ratio for home equity lines of credit is 90%. Home equity lines of credit have adjustable rates of interest, indexed to the prime rate, as reported in The Wall Street Journal, with terms of up to 25 years.

The maximum amount of a home equity line of credit loan is limited by our loans-to-one-borrower limit, which is 15% of Magyar Bank's capital, or $6.7 million currently. At September 30, 2008, our largest home equity line of credit was a $995,000 loan. This loan was performing according to its terms at September 30, 2008. At September 30, 2008, all of our home equity lines of credit were performing in accordance with their terms with the exception of one loan totaling $731,000, or 0.18% of the total loans receivable.. During the year ended September 30, 2008, $69,000 had been charged-off against the allowance for loan loss for the impaired home equity line of credit. Interest income not recorded on this loan at September 30, 2008 was $27,000.

We also originate loans secured by the common stock of publicly traded companies, provided their shares are listed on the New York Stock Exchange, the American Stock Exchange or the NASDAQ Stock Market, and provided the company is not a banking company. Stock-secured loans are interest-only and are offered for terms up to twelve months and for adjustable rates of interest indexed to the prime rate, as reported in The Wall Street Journal. The loan amount is not to exceed 70% of the value of the stock securing the loan at any time.

At September 30, 2008, stock-secured loans totaled $14.7 million, or 3.6% of our total loan portfolio. Generally, we limit the aggregate amount of loans secured by the common stock of any one corporation to 15% of Magyar Bank's capital, with the exception of Johnson & Johnson, for which the collateral concentration limit is 150% of Magyar Bank's capital. At September 30, 2008, $14.6 million, or 3.6% of our loan portfolio, was secured by the common stock of Johnson & Johnson, a New York Stock Exchange company that operates a number of facilities in our market area and employs a substantial number of residents. Although these loans are underwritten based on the ability of the individual borrower to repay the loan, the concentration of our portfolio secured by this stock subjects us to the risk of a decline in the market price of the stock and, therefore, a

8

reduction in the value of the collateral securing these loans. As of September 30, 2008, the aggregate loan-to-value ratio of the stock-secured portfolio was 40.0%.

Loan Originations, Purchases, Participations and Servicing of Loans. Lending activities are conducted primarily by our loan personnel operating at our main and branch office locations. All loans originated by us are underwritten pursuant to our policies and procedures. We originate both adjustable rate and fixed rate loans. Our ability to originate fixed or adjustable rate loans is dependent upon the relative customer demand for such loans, which is affected by the current and expected future levels of market interest rates.

Generally, we retain in our portfolio substantially all loans that we originate. Historically, we have not originated a significant number of loans for the purpose of reselling them in the secondary market. In the future, however, to help manage our interest rate risk and to increase fee income, we may increase our origination and sale of fixed-rate residential loans. All one-to four-family residential mortgage loans that we sell in the secondary market are sold with servicing rights retained pursuant to master commitments negotiated with Freddie Mac. We sell our loans without recourse. No loans were held for sale at September 30, 2008.

At September 30, 2008, we were servicing loans sold in the amount of $2.3 million. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent mortgagors, supervising foreclosures and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans.

From time-to-time, we will also participate in loans, sometimes as the “lead lender.” Whether we are the lead lender or not, we underwrite our participation portion of the loan according to our own underwriting criteria and procedures. At September 30, 2008, we had $18.4 million of loan participation interests in which we were the lead lender, and $6.4 million in loan participations in which we were not the lead lender. We have entered into loan participations when the aggregate outstanding balance of a particular customer relationship exceeds our loan-to-one-borrower limit. All loan participations are loans secured by real estate that adhere to our loan policies. We have not experienced any loan losses in our loan participations portfolio.

During the fiscal year ended September 30, 2008, we originated $35.7 million of fixed-rate and adjustable-rate one- to four-family residential mortgage loans. The fixed-rate loans are primarily of loans with terms of 30 years or less. We also originated $29.4 million of commercial real estate, $4.8 million of construction loans, and $18.2 million of commercial business loans during the fiscal year ended September 30, 2008.

We generally do not purchase residential mortgage loans, except for loans to low-income borrowers as part of our Community Reinvestment Act lenders program. At September 30, 2008, we had $5.4 million of one-to four-family residential mortgage loans that were purchased from other lenders. No loans were purchased in the fiscal year ended September 30, 2008.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors. In the approval process for loans, we assess the borrower’s ability to repay the loan and the value of the property securing the loan. To assess an individual borrower’s ability to repay, we review income and expense, employment and credit history. To assess a business entity’s ability to repay, we review financial statements (including balance sheets, income statements and cash flow statements), rent rolls, other debt service, and projected income and expense.

We generally require appraisals for all real estate securing loans. Appraisals are performed by independent licensed appraisers who are approved annually by our Board of Directors. We require borrowers to obtain title, fire and casualty, general liability, and, if warranted, flood insurance in amounts at least equal to the principal amount of the

loan. For construction loans, we require a detailed plan and cost review, to be reviewed

Table of Contents

by an outside engineering firm, and all construction-related state and local approvals necessary for a particular project.

Our loan approval policies and limits are established by our Board of Directors. All loans are approved in accordance with the loan approval policies and limits. Lending authorities are approved annually by the Board of Directors, and Magyar Bank lending staff members are authorized to approve loans up to their lending authority limits, provided the loan meets all of our underwriting guidelines.

Loan requests for aggregate borrowings up to $1.5 million must be approved by Magyar Bank's Chief Lending Officer or President. Other members of our lending staff have lesser amounts of lending authority based on their experience as lending officers. Loan requests for aggregate borrowings up to 35% of Magyar Bank's loans-to-one-borrower limit, or $2.3 million, must be approved by Magyar Bank's Management Loan Committee. The Management Loan Committee is comprised of the President, Chief Lending Officer, Chief Financial Officer and various bank officers appointed by the Board of Directors. A quorum of three members including either the President or the Chief Lending Officer is required for all Management Loan Committee meetings. The Directors Loan Committee must approve all loan requests for aggregate borrowings in excess of 35% of Magyar Bank's loans-to-one-borrower limit, or $2.3 million. The Board of Directors must approve all loan requests for aggregate borrowings in excess of 80% of Magyar Bank's loans-to-one-borrower limit, or $5.3 million.

Asset Quality

We commence collection efforts when a loan becomes 15 days past due with system-generated reminder notices. Subsequent late charge and delinquent notices are issued and the account is monitored on a regular basis thereafter. Personal, direct contact with the borrower is attempted early in the collection process as a courtesy reminder and later to determine the reason for the delinquency and to safeguard our collateral. When a loan is more than 60 days past due, the credit file is reviewed and, if deemed necessary, information is updated or confirmed and collateral re-evaluated. We make every effort to contact the borrower and develop a plan of repayment to cure the delinquency. Loans are placed on non-accrual status when they are delinquent for more than three months. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received.

A summary report of all loans 30 days or more past due is provided to the Board of Directors on a monthly basis. If no repayment plan is in process, the file is referred to counsel for the commencement of foreclosure or other collection efforts.

Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated. At each date presented, we had no troubled debt restructurings (loans for which a portion of interest or principal has been forgiven and loans modified at interest rates materially less than current market rates).

Table of Contents

	September 30,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Non-accrual loans:					
One-to four-family residential	$ 772	$ 65	$ 56	$ 188	$ 153
Commercial real estate	3,400	1,936	-	-	-
Construction	8,224	6,008	5,135	-	-
Home equity lines of credit	731	-	-	-	-
Commercial business	176	21	188	387	94
Other	-	3	-	2	-
Total	13,303	8,033	5,379	577	247
Accruing loans three months or more past due:					
One-to four-family residential	65	-	88	205	-
Commercial real estate	-	-	1,933	257	-
Construction	6,700	-	-	-	-
Home equity lines of credit	-	-	-	-	-
Commercial business	-	15	-	-	-
Other	-	-	-	1	-
Total loans three months or more past due	6,765	15	2,021	463	-
Total non-performing loans	$ 20,068	$ 8,048	$ 7,400	$ 1,040	$ 247
Other real estate owned	4,666	2,238	-	-	-
Other non-performing assets	-	-	-	-	-
Total non-performing assets	$ 24,734	$ 10,286	$ 7,400	$ 1,040	$ 247
Ratios:					
Total non-performing loans to total loans	4.89%	2.09%	2.10%	0.38%	0.13%
Total non-performing loans to total assets	3.90%	1.70%	1.70%	0.29%	0.09%
Total non-performing assets to total assets	4.81%	2.17%	1.70%	0.29%	0.09%

At September 30, 2008, our portfolio of commercial business, commercial real estate and construction loans totaled $221.7 million, or 54.0% of our total loans, compared to $205.1 million, or 53.2% of our total loans, at September 30, 2007. Commercial business, commercial real estate and construction loans generally have more risk than one-to four-family residential mortgage loans. As shown in the table above, at September 30, 2008, our non-performing assets increased to $24.7 million from $10.3 million at September 30, 2007 and $7.4 million at September 30, 2006, reflecting our increased originations of these loans (See Item 6. - Management's Discussion and Analysis or Plan of Operation for additional discussion of non-performing assets).

Additional interest income of approximately $743,000 and $885,000 would have been recorded during the fiscal years ended September 30, 2008 and 2007, respectively, if the non-accrual loans summarized in the above table had performed in accordance with their original terms.

The Company accounts for its impaired loans in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan", as amended. This standard requires that a creditor measure impairment

11

Table of Contents

based on the present value of expected future cash flows discounted at the loan's effective interest rate except that, as a practical expedient, a creditor may measure impairment based on a loan's observable market price less estimated costs of disposal, or the fair value of the collateral less estimated costs of disposal if the loan is collateral dependent. Regardless of the measurement method, a creditor may measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable.

The Company records cash receipts on impaired loans that are non-performing as a reduction to principal before applying amounts to interest or late charges unless specifically directed by the Bankruptcy Court to apply payments otherwise. The Company continues to recognize interest income on impaired loans that are performing.

Delinquent Loans. The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated. Loans delinquent more than three months are generally classified as non- accrual loans.

Table of Contents

	Loans Delinquent For 60-89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount
			(Dollars in thousands)			
At September 30, 2008						
One-to four-family residential	3	$ 216	4	$ 837	7	$ 1,053
Commercial real estate	-	0	2	3,400	2	3,400
Construction	3	5,476	7	9,395	10	14,871
Home equity lines of credit	-	-	1	731	1	731
Commercial business	1	157	1	176	2	333
Other	-	-	-	-	-	-
Total	7	$ 5,849	15	$ 14,539	22	$ 20,388
At September 30, 2007						
One-to four-family residential	-	$ -	2	$ 65	2	$ 65
Commercial real estate	3	2,214	1	1,936	4	4,150
Construction	-	-	4	6,008	4	6,008
Home equity lines of credit	-	-	-	-	-	-
Commercial business	-	-	3	36	3	36
Other	-	-	2	3	2	3
Total	3	$ 2,214	12	$ 8,048	15	$ 10,262
At September 30, 2006						
One-to four-family residential	-	$ -	3	$ 144	3	$ 144
Commercial real estate	-	-	1	$ 1,933	1	1,933
Construction	-	-	-	-	-	-
Home equity lines of credit	-	-	-	-	-	-
Commercial business	-	-	3	188	3	188
Other	-	-	1	-	1	-
Total	-	$ -	8	$ 2,265	8	$ 2,265
At September 30, 2005						
One-to four-family residential	2	$ 50	6	$ 393	8	$ 443
Commercial real estate	-	-	1	257	-	257
Construction	-	-	-	-	-	-
Home equity lines of credit	-	-	-	-	-	-
Commercial business	-	-	4	387	4	387
Other	1	220	4	3	3	223
Total	3	$ 270	15	$ 1,040	15	$ 1,310
At September 30, 2004						
One-to four-family residential	5	$ 586	3	$ 153	5	$ 739
Commercial real estate	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Home equity lines of credit	-	-	-	-	-	-
Commercial business	3	1,628	1	94	1	1,722
Other	3	70	-	-	2	70
Total	11	$ 2,284	4	$ 247	8	$ 2,531

13

Table of Contents

Real Estate Owned. Real estate we acquire as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until sold. When property is acquired it is recorded at fair market value at the date of foreclosure, establishing a new cost basis. Holding costs and declines in fair value result in charges to expense after acquisition.

The Company held $4.7 million of real estate owned properties at September 30, 2008 and $2.2 million of real estate owned properties at September 30, 2007. During the year ended September 30, 2008, the Company sold $1,283,000 of real estate owned at September 30, 2007 and incurred $87,000 in losses on the sales. In February 2008, the Company foreclosed on the real estate property securing a $4.2 million construction loan. The real estate consists of six residential building lots located in Rumson, NJ on which the Company has made site improvements and is in the process of marketing the lots for sale. At September 30, 2008, four of the six lots were under contract of sale.

Classified Assets. Federal banking regulations provide that loans and other assets of lesser quality should be classified as "substandard," "doubtful" or "loss" assets. An asset is considered "substandard" if it is inadequately protected by the curren net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" we will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "un-collectible" and of such little value their continuance as assets without the establishment of a specific loss reserve is not warranted. We classify an asset as "special mention" if the asset has a potential weakness that warrants management's close attention. While such assets are not impaired, management has concluded that if the potential weakness in the asset is not addressed, the value of the asset may deteriorate, adversely affecting the repayment of the asset. On the basis of our review of assets at September 30, 2008, classified assets consisted of $6.3 million of special mention assets and $27.7 million of substandard assets at September 30, 2008.

We are required to establish an allowance for loan losses in an amount deemed prudent by management for loans classified substandard or doubtful, as well as for other problem loans. General allowances represent loss allowances which have been established to recognize the inherent losses associated with lending activities, but which, unlike impairment allowances, have not been allocated to particular problem assets. When we classify problem assets, we are required to determine whether or not impairment exists. A loan is impaired when, based on current information and events, it is probable that Magyar Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. When it is determined that impairment exists, a specific allowance for loss is established. Our determination as to the classification of our assets and the amount of our valuation allowances is subject to review by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation which can direct us to establish additional loss allowances.

The loan portfolio is reviewed on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all classified assets constitute non-performing assets.

Allowance for Loan Losses

Our allowance for loan losses is maintained at a level management deems necessary to absorb loan losses that are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the losses in our loan portfolio both probable and reasonably estimable, and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. The allowance for loan losses as of September 30, 2008 was maintained at a level that represents management's best estimate of losses in the loan portfolio both probable and reasonably estimable. However, this analysis process is inherently subjective, as it requires us to make estimates that are susceptible to revisions as more information becomes available. Although we believe we have established the allowance at levels to absorb probable and

Table of Contents

estimable losses, future additions may be necessary if economic or other conditions in the future differ from the current environment.

In addition, as an integral part of their examination process, the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation will periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

Allowance for Loan Losses. The following table sets forth activity in our allowance for loan losses for the periods indicated.

	September 30,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Balance at beginning of period	$ 3,754	$ 3,892	$ 3,129	$ 2,341	$ 2,150
Charge-offs:					
One-to four-family residential	31	-	13	-	-
Commercial real estate	111	-	-	-	-
Construction	3,084	652	-	-	-
Home equity lines of credit	69	-	2	-	-
Commercial business	227	-	180	94	-
Other	3	4	3	9	11
Total charge-offs	3,525	656	198	103	11
Recoveries:					
One-to four-family residential	13	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Home equity lines of credit	-	-	-	-	-
Commercial business	-	120	-	-	-
Other	5	-	-	-	-
Total recoveries	18	120	-	-	-
Net charge-offs	3,507	536	198	103	11
Provision for loan losses	4,255	398	961	891	202
Balance at end of period	$ 4,502	$ 3,754	$ 3,892	$ 3,129	$ 2,341
Ratios:					
Net charge-offs to average loans outstanding	0.88%	0.14%	0.06%	0.05%	0.01%
Allowance for loan losses to total delinquent loans at end of period (1)	22.43%	46.64%	52.59%	NM	NM
Allowance for loan losses to total loans at end of period	1.10%	0.97%	1.11%	1.16%	1.20%

(1) “NM” indicates ratio is not meaningful.

15

Table of Contents

Allocation of Allowance for Loan Losses. The following table sets forth the allowance for loan losses allocated by loan category, the percent of the allowance to the total allowance and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

16

Table of Contents

	Amount	Percent of Loans In Category to Total Loans
	(Dollars in thousands)	
At September 30, 2008		
One-to four-family residential	$ 429	38.44%
Commercial real estate	603	22.60%
Construction	2,846	22.61%
Home equity lines of credit	48	3.87%
Commercial business	476	8.76%
Other	4	3.72%
Unallocated	96	0.00%
Total allowance for loan losses	$ 4,502	100%
At September 30, 2007		
One-to four-family residential	$ 473	38.37%
Commercial real estate	576	21.54%
Construction	1,982	23.72%
Home equity lines of credit	40	3.49%
Commercial business	675	8.72%
Other	8	4.16%
Unallocated	-	0.00%
Total allowance for loan losses	$ 3,754	100%
At September 30, 2006		
One-to four-family residential	$ 327	40.65%
Commercial real estate	601	19.46%
Construction	1,519	25.64%
Home equity lines of credit	82	3.08%
Commercial business	1,153	6.96%
Other	210	4.21%
Unallocated	-	0.00%
Total allowance for loan losses	$ 3,892	100%
At September 30, 2005		
One-to four-family residential	$ 312	46.64%
Commercial real estate	615	21.19%
Construction	845	16.41%
Home equity lines of credit	82	3.84%
Commercial business	815	6.43%
Other	193	5.49%
Unallocated	267	0.00%
Total allowance for loan losses	$ 3,129	100%
At September 30, 2004		
One-to four-family residential	$ 281	55.50%
Commercial real estate	857	10.17%
Construction	56	2.82%
Home equity lines of credit	222	4.63%
Commercial business	721	14.14%
Other	170	12.74%
Unallocated	34	0.00%

Total allowance for loan losses	$	2,341	100%

17

Table of Contents

Investments

Our Board of Directors has adopted our Investment Policy. This policy determines the types of securities in which we may invest. The Investment Policy is reviewed annually by the Board of Directors and changes to the policy are recommended to and subject to approval by our Board of Directors. While general investment strategies are developed by the Asset and Liability Committee, the execution of specific actions rests primarily with our President and our Chief Financial Officer. They are responsible for ensuring the guidelines and requirements included in the Investment Policy are followed and only prudent securities are considered for investment. They are authorized to execute transactions that fall within the scope of the established Investment Policy up to $2.5 million per transaction individually or $5.0 million per transaction jointly. Investment transactions in excess of $5.0 million must be approved by the Asset and Liability Committee. Investment transactions are reviewed and ratified by the Board of Directors at their regularly scheduled meetings.

Our investments portfolio may include U.S. Treasury obligations, debt and equity securities issued by various government-sponsored enterprises, including Fannie Mae and Freddie Mac, mortgage-backed securities, certain certificates of deposit of insured financial institutions, overnight and short-term loans to other banks, investment-grade corporate debt instruments, and municipal securities. In addition, we may invest in equity securities subject to certain limitations and not in excess of Magyar Bank’s Tier 1 capital.

The Investment Policy requires that securities transactions be conducted in a safe and sound manner, and purchase and sale decisions be based upon a thorough analysis of each security to determine its quality and inherent risks and fit within our overall asset/liability management objectives. The analysis must consider the effect of an investment or sale on our risk-based capital and prospects for yield and appreciation.

At September 30, 2008, our securities portfolio totaled $58.9 million, or 11.5% of our total assets. Securities are classified as held-to-maturity or available-for-sale when purchased. At September 30, 2008, $9.6 million of our securities were classified as held-to-maturity and reported at amortized cost, and $49.3 million were classified as available-for-sale and reported at fair value. At September 30, 2008, we held no investment securities classified as held-for-trading.

U.S. Government and Government-Sponsored Enterprise Obligations. At September 30, 2008, our U.S. Government and Federal Agency securities portfolio totaled $2.2 million, or 3.8% of our total securities portfolio. While these securities generally provide lower yields than other securities in our securities portfolio, we hold these securities, to the extent appropriate, for liquidity purposes and as collateral for certain borrowings. We invest in these securities to achieve positive interest rate spreads with minimal administrative expense, and to lower our credit risk as a result of the guarantees provided by these issuers.

Mortgage-Backed Securities. We purchase mortgage-backed pass through and collateralized mortgage obligation (“CMO”) securities insured or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. To a lesser extent, we also invest in mortgage-backed securities issued or sponsored by private issuers. At September 30, 2008, the fair market value of our mortgage-backed securities, including CMOs, was $53.5 million, or 90.7% of our total securities portfolio. Included in this balance was $6.7 million of mortgage-backed securities issued by private issuers. Our policy is to limit purchases of privately issued mortgage-backed securities to non-high risk securities rated “AAA” by a nationally recognized credit rating agency. High risk securities generally are defined as those exhibiting significantly greater volatility of estimated average life and price due to changes in interest rates than 30-year fixed rate securities.

Mortgage-backed pass through securities are created by pooling mortgages and issuing a security with an interest rate less than the interest rate on the underlying mortgages. Mortgage-backed pass through securities represent a participation interest in a pool of single-family or multi-family mortgages. As loan payments are made by the

borrowers, the principal and interest portion of the payment is passed through to the investor as received. CMOs are also backed by mortgages. However they differ from mortgage-backed pass through securities because the principal and interest payments on the underlying mortgages are structured so that they are paid to the security holders of pre-determined classes or tranches at a faster or slower pace. The receipt of these principal and interest payments, which depends on the estimated average life for each class, is contingent

Table of Contents

on a prepayment speed assumption assigned to the underlying mortgages. Variances between the assumed payment speed and actual payments can significantly alter the average lives of such securities. Mortgage-backed securities and CMOs generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. However, mortgage-backed securities are usually more liquid than individual mortgage loans and may be used to collateralize borrowings and other liabilities.

Mortgage-backed securities present a risk that actual prepayments may differ from estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments that can change the net yield on the securities. There is also reinvestment risk associated with the cash flows from such securities or if the securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates.

Our mortgage-backed securities portfolio had a weighted average yield of 5.07% at September 30, 2008. The estimated fair value of our mortgage-backed securities portfolio at September 30, 2008 was $53.5 million, which was $463,000 less than the amortized cost of $53.9 million. Mortgage-backed securities in Magyar Bank's portfolio do not contain sub-prime mortgage loans.

Corporate Notes. At September 30, 2008, we held no corporate notes. Our Investment Policy allows for the purchase of such instruments and requires that corporate debt obligations be rated in one of the four highest categories by a nationally recognized rating service. We may invest up to 25% of Magyar Bank's investment portfolio in corporate debt obligations and up to 15% of Magyar Bank's capital in any one issuer.

Equity Securities. At September 30, 2008, we held no equity securities other than $3.9 million in Federal Home Loan Bank of New York stock. The investment in Federal Home Loan Bank of New York stock is classified as a restricted security, carried at cost and evaluated for impairment. Equity securities are not insured or guaranteed investments and are affected by market interest rates and stock market fluctuations. Such investments other than the Federal Home Loan Bank of New York are carried at their fair value and fluctuations in the fair value of such investments, including temporary declines in value, directly affect our net capital position.

Municipal Securities. At September 30, 2008, we held $3.3 million in bonds issued as general obligation or revenue bonds by states and political subdivisions, $3.2 million of which were classified as available for sale at fair value and $132,000 of which were classified as held to maturity at amortized cost. Although municipal bonds may offer a higher yield than a U.S. Treasury or government-sponsored enterprise security of comparable duration, these securities also have a higher risk of default due to adverse changes in the creditworthiness of the issuer. In recognition of this potential risk, we generally limit investments in municipal bonds to issues that are insured.

Securities Portfolios. The following table sets forth the composition of our securities portfolio (excluding Federal Home Loan Bank of New York common stock) at the dates indicated.

Table of Contents

	September 30,					
	2008		2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Securities available for sale:						
U.S. government and government-sponsored enterprise obligations	$ 2,237	$ 2,123	$ -	$ -	$ -	$ -
Municipal bonds	3,211	3,104	3,214	3,216	2,049	2,066
Equity securities	-	-	-	-	142	142
Mortgage-backed securities	44,566	44,099	24,217	24,157	16,258	15,961
Total securities available for sale	$ 50,014	$ 49,326	$ 27,431	$ 27,373	$ 18,449	$ 18,169
Securities held to maturity:						
U.S. government and government-sponsored enterprise obligations	$ 99	$ 98	$ 2,133	$ 2,119	$ 2,157	$ 2,105
Municipal bonds	132	140	137	143	137	145
Mortgage-backed securities	9,387	9,391	15,846	15,695	21,601	21,108
Total securities held to maturity	$ 9,618	$ 9,629	$ 18,116	$ 17,957	$ 23,895	$ 23,358

Portfolio Maturities and Yields. The composition, maturities and weighted average yields of the investment debt securities portfolio and the mortgage-backed securities portfolio at September 30, 2008 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. State and municipal bond yields have been adjusted to a tax-equivalent basis.

Table of Contents

	One Year or Less		More Than One Year Through Five Years		More Than Five Years Through Ten Years		More Than Ten Years		Total Securities	
	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield
	(Dollars in thousands)									
Securities available for sale:										
U.S. government and government-sponsored enterprise obligations	$ -	-%	$ -	-%	$ -	-%	$ 2,237	5.00%	$ 2,237	5.00%
Municipal bonds	-	-%	-	-%	2,708	3.90%	503	4.10%	3,211	3.93%
Mortgage-backed securities	-	-%	3,086	4.57%	10,367	5.38%	31,113	5.31%	44,566	5.28%
Total securities available for sale	$ -	-%	$ 3,086	4.57%	$ 13,075	5.07%	$ 33,853	5.27%	$ 50,014	5.18%
Securities held to maturity:										
U.S. government and government-sponsored enterprise obligations	$ -	-%	$ -	-%	$ 30	3.13%	$ 69	3.45%	$ 99	3.35%
Municipal bonds	-	-%	-	-%	132	6.00%	-	-%	132	6.00%
Mortgage-backed securities	4	5.50%	5,164	4.01%	722	4.00%	3,497	4.24%	9,387	4.09%
Total securities held to maturity	$ 4	5.50%	$ 5,164	4.01%	$ 884	4.27%	$ 3,566	4.22%	$ 9,618	4.11%
Total securities	$ 4	5.50%	$ 8,250	4.22%	$ 13,959	5.02%	$ 37,419	5.17%	$ 59,632	5.01%

Sources of Funds

General. Deposits, primarily certificates of deposit, have traditionally been the primary source of funds used for our lending and investment activities. We obtain certificates of deposit primarily through our branch network and to a lesser extent via the brokered CD market. We also use borrowings, primarily Federal Home Loan Bank advances, to supplement cash flow needs, to lengthen the maturities of liabilities for interest rate risk management and to manage our cost of funds. Additional sources of funds include principal and interest payments from loans and securities, loan and security prepayments and maturities, income on other earning assets and stockholders' equity. While cash flows from loans and securities payments can be relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

Deposits. Our deposits are generated primarily from residents within our primary market area. We offer a selection of deposit accounts, including demand accounts, NOW accounts, money market accounts, savings accounts, retirement accounts and certificates of deposit. Deposit account terms vary, with the principal differences being the minimum balance required, the amount of time the funds must remain on deposit and the interest rate. We also have the authority to accept brokered deposits and do so when attractive rates are available. At September 30, 2008, we had $8.7 million in brokered deposits.

Interest rates, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market rates, liquidity requirements, rates paid by competitors and growth goals. Personalized customer service, long-standing relationships with customers and an active marketing program are relied upon to attract and retain deposits.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and other prevailing interest rates and competition. The variety of deposit accounts offered allows us to be competitive in obtaining funds and responding to changes in consumer demand. Based on experience, we

Table of Contents

believe that our deposits are relatively stable. However, the ability to attract and maintain deposits, and the rates paid on these deposits, has been and will continue to be significantly affected by market conditions. At September 30, 2008, $206.8 million, or 55.1% of our deposit accounts, were certificates of deposit (including individual retirement accounts).

The following table sets forth the distribution of total deposit accounts, by account type, at the dates indicated.

	September 30,								
	2008			2007			2006		
Deposit Types:	Balance	Percent	Weighted Average Rate	Balance	Percent	Weighted Average Rate	Balance	Percent	Weighted Average Rate
	(Dollars in thousands)								
Demand accounts	$ 24,699	6.58%	-	$ 21,514	5.83%	-	$ 20,491	6.29%	-
Savings accounts	34,081	9.07%	0.76%	35,577	9.65%	0.98%	43,127	13.25%	1.14%
NOW accounts	36,163	9.63%	0.95%	32,158	8.72%	1.77%	30,519	9.37%	1.95%
Money market accounts	73,775	19.64%	2.41%	78,979	21.42%	3.69%	56,107	17.23%	4.09%
Certificates of deposit	177,279	47.20%	3.45%	172,063	46.66%	4.74%	149,811	46.01%	4.29%
Retirement accounts	29,563	7.87%	3.81%	28,486	7.72%	4.61%	25,547	7.85%	4.09%
Total deposits	$ 375,560	100.00%	2.56%	$ 368,777	100.00%	3.61%	$ 325,602	100.00%	3.33%

As of September 30, 2008, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $100,000 was $69.9 million. The following table sets forth the maturity of these certificates as of September 30, 2008 (in thousands):

Three months or less	$ 15,717
Over three months through six months	12,806
Over six months through one year	25,089
Over one year to three years	13,840
Over three years	2,403
Total	$ 69,855

At September 30, 2008, $157.2 million of our certificates of deposit had maturities of one year or less. We monitor activity on these accounts and, based on historical experience and our current pricing strategy, we believe we will retain a large portion of these accounts upon maturity. The following table sets forth the interest-bearing deposit activities for the periods indicated.

September 30,

	2008	2007	2006
	(Dollars in thousands)		
Beginning balance	$ 347,263	$ 305,111	$ 263,524
Net deposits (withdrawals) before interest credited	(6,935)	30,141	33,644
Interest credited	10,533	12,011	7,944
Ending balance	$ 350,861	$ 347,263	$ 305,111

Table of Contents

Borrowings. Our borrowings consist of short- and long-term advances from the Federal Home Loan Bank of New York and securities sold under agreements to repurchase with CitiGroup Global Markets Inc.

As of September 30, 2008, we had short-term and long-term advances from the Federal Home Loan Bank in the amount of $17.6 million and $55.4 million, respectively. In addition, our repurchase agreements totaled $15.0 million at September 30, 2008. These aggregate borrowings represent 18.8% of total liabilities and had a weighted average rate of 4.21% at September 30, 2008. As a member of the Federal Home Loan Bank of New York, we had an aggregate borrowing capacity of $125.4 million with the Federal Home Loan Bank.

Our repurchase agreements are recorded as financing transactions as we maintain effective control over the transferred or pledged securities. The dollar amount of the securities underlying the agreements continues to be carried in our securities portfolio while the obligations to repurchase the securities are reported as liabilities in our consolidated balance sheets. The securities underlying the agreements are delivered to the party with whom each transaction is executed. Those parties agree to resell to us the identical securities we delivered to them at the maturity or call period of the agreement.

Long-term Federal Home Loan Bank of New York advances as of September 30, 2008 mature as follows (in thousands):

Year	
2009	$ 7,757
2010	10,858
2011	10,853
2012	2,813
2013	9,143
Thereafter	13,960
	$ 55,384

Information concerning short-term advances with the Federal Home Loan Bank of New York is summarized as follows:

	September 30, 2008	September 30, 2007
	(Dollars in thousands)	
Balance at end of year	$ 17,550	$ 11,200
Weighted average balance during the year	20,409	28,828
Weighted average interest rate at the end of year	2.20%	5.24%
Maximum month-end balance during the year	39,800	42,300
Average interest rate during the year	2.93%	5.36%

The outstanding securities sold under agreements to repurchase totaled $15.0 million at September 30, 2008. $10.0 million are callable by the issuer, CitiGroup Global Markets Inc., quarterly beginning July 31, 2009 and mature July 31, 2012. The interest rate is 4.92% as long as the 3 month LIBOR remains below 5.50%. Should the 3 month LIBOR increase above 5.50% on a quarterly reset date, the interest rate will be reset to the initial rate minus twice the difference between 3 month LIBOR and 5.50% for the next quarter, assuming the counter-party does not exercise its call option. $5.0 million are callable by the issuer quarterly beginning December 3, 2010 and mature December 3,

2014. The interest rate is 3.83% as long as the 3 month LIBOR remains below 5.12%. Should the 3 month LIBOR increase above 5.12% on a quarterly reset date, the interest rate will be reset to the initial rate minus twice the difference between 3 month LIBOR and 5.12% for the next quarter, assuming the counter-party does not exercise its call option.

Table of Contents

Subsidiary Activities

Magyar Bank organized Magbank Investment Company on August 15, 2006 as a New Jersey investment corporation subsidiary for the purpose of buying, selling and holding investment securities. The income earned on Magbank Investment Company's investment securities is subject to a significantly lower state tax than that assessed on income earned on investment securities maintained at Magyar Bank.

Hungaria Urban Renewal, LLC is a Delaware limited-liability corporation established in 2002 as a qualified intermediary operating for the purpose of acquiring and developing Magyar Bank's new main office. On January 24, 2006, Magyar Bank exercised a purchase option within its lease from Hungaria Urban Renewal, LLC allowing Magyar Bank to purchase the land and building from this entity. Magyar Bank acquired a 100% interest in Hungaria Urban Renewal, LLC, which will have no other business other than owning Magyar Bank's main office site. As part of a tax abatement agreement with the City of New Brunswick, Magyar Bank's new office will remain in Hungaria Urban Renewal, LLC's name.

Magyar Service Corp., a New Jersey corporation, is a wholly owned subsidiary of Magyar Bank. Magyar Service Corp. offers Magyar Bank customers and others a complete range of non-deposit investment products and financial planning services, including insurance products, fixed and variable annuities, and retirement planning for individual and commercial customers.

Personnel

At September 30, 2008, we employed 92 full-time employees and 14 part-time employees. Our employees are not represented by any collective bargaining group. Management believes that we have good relations with our employees.

FEDERAL AND STATE TAXATION

Federal Taxation

General. Magyar Bancorp, Inc. and Magyar Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. Magyar Bank's federal tax returns are not currently under audit, and Magyar Bank has not been audited during the past five years. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to Magyar Bancorp, Inc. or Magyar Bank.

Method of Accounting. For federal income tax purposes, Magyar Bancorp, Inc. reports its income and expenses on the accrual method of accounting and will use a tax year ending September 30 for filing its federal and state income tax returns.

Bad Debt Reserves. Historically, Magyar Bank has been subject to special provisions in the tax law regarding allowable tax bad debt deductions and related reserves. Tax law changes were enacted in 1996, pursuant to the Small Business Protection Act of 1996 (the "1996 Act"), that eliminated the use of the percentage of taxable income method for computing tax bad debt deductions for tax years after 1995, and required recapture into taxable income over a six-year period all applicable excess bad debt reserves accumulated after 1988.

Currently, Magyar Bank uses the reserve method to account for bad debt deductions for income tax purposes.

Taxable Distributions and Recapture. Prior to the 1996 Act, bad debt reserves created prior to January 1, 1988 (pre-base year reserves) were subject to recapture into taxable income if Magyar Bank failed to meet certain thrift asset and definitional tests.

Table of Contents

At September 30, 2008, our total federal pre-base year reserve was approximately $1.3 million. However, under current law, pre-base year reserves remain subject to recapture if Magyar Bank makes certain non-dividend distributions, repurchases any of its stock, pays dividends in excess of tax earnings and profits, or ceases to maintain a bank charter.

Alternative Minimum Tax. The Internal Revenue Code imposes an alternative minimum tax ("AMT") at a rate of 20% on a base of regular taxable income plus certain tax preferences ("alternative minimum taxable income" or "AMTI"). The AMT is payable to the extent such AMTI is in excess of an exemption amount and the AMT exceeds the regular income tax. Net operating losses can offset no more than 90% of AMTI. Certain payments of AMT may be used as credits against regular tax liabilities in future years. Magyar Bancorp, Inc. and Magyar Bank have not been subject to the AMT and have no such amounts available as credits for carryover.

Net Operating Loss Carryovers. A financial institution may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. Magyar Bancorp, Inc. generated $459,000 in loss carry forwards for federal income tax purposes in the tax year ended September 30, 2008.

Corporate Dividends-Received Deduction. Magyar Bancorp, Inc. may exclude from its federal taxable income 100% of dividends received from Magyar Bank as a wholly owned subsidiary. The corporate dividends-received deduction is 80% when the dividend is received from a corporation having at least 20% of its stock owned by the recipient corporation. A 70% dividends-received deduction is available for dividends received from corporations owned less than 20% by the recipient corporation.

State Taxation

New Jersey State Taxation. The income of savings institutions in New Jersey, which is calculated based on federal taxable income, subject to certain adjustments, is subject to New Jersey tax. Magyar Bank, Magyar Service Corporation, and MagBank Investment Company file New Jersey corporate income tax returns. Magyar Bank, Magyar Service Corporation, and MagBank Investment Company are not currently under audit with respect to their New Jersey income tax returns nor have their respective state tax returns been audited for the past five years.

New Jersey tax law does not and has not allowed for a taxpayer to file a tax return on a combined or consolidated basis with another member of the affiliated group where there is common ownership. However, under recent tax legislation, if the taxpayer cannot demonstrate by clear and convincing evidence that the tax filing discloses the true earnings of the taxpayer on its business carried on in the State of New Jersey, the New Jersey Director of the Division of Taxation may, at the director's discretion, require the taxpayer to file a consolidated return of the entire operations of the affiliated group or controlled group, including its own operations and income.

Delaware and New Jersey State Taxation. As a Delaware holding company not earning income in Delaware, Magyar Bancorp, Inc. is exempt from Delaware corporate income tax, but is required to file annual returns and pay annual fees and a franchise tax to the State of Delaware.

Magyar Bancorp, Inc. is subject to New Jersey corporate income taxes in the same manner as described above for Magyar Bank.

SUPERVISION AND REGULATION

General

Magyar Bank is a New Jersey-chartered savings bank, and its deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation under the Deposit Insurance Fund (“DIF”). Magyar Bank is subject to extensive regulation, examination and supervision by the Commissioner of the New

Table of Contents

Jersey Department of Banking and Insurance (the "Commissioner") as the issuer of its charter, and by the Federal Deposit Insurance Corporation as deposit insurer and its primary federal regulator. Magyar Bank must file reports with the Commissioner and the Federal Deposit Insurance Corporation concerning its activities and financial condition, and it must obtain regulatory approval prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions and opening or acquiring branch offices. The Commissioner and the Federal Deposit Insurance Corporation conduct periodic examinations to assess Magyar Bank's compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a savings bank can engage and is intended primarily for the protection of the deposit insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

Magyar Bancorp, Inc., as a bank holding company controlling Magyar Bank, is subject to the Bank Holding Company Act of 1956, as amended ("BHCA"), and the rules and regulations of the Federal Reserve Board under the BHCA and to the provisions of the New Jersey Banking Act of 1948 (the "New Jersey Banking Act"), and to the regulations of the Commissioner under the New Jersey Banking Act applicable to bank holding companies. Magyar Bank and Magyar Bancorp, Inc. are required to file reports with, and otherwise comply with the rules and regulations of the Federal Reserve Board and the Commissioner. Magyar Bancorp, Inc. is required to file certain reports with, and otherwise comply with, the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Any change in such laws and regulations, whether by the Commissioner, the Federal Deposit Insurance Corporation, the Federal Reserve Board or through legislation, could have a material adverse impact on Magyar Bank and Magyar Bancorp, Inc. and their operations and stockholders.

Certain of the laws and regulations applicable to Magyar Bank and Magyar Bancorp, Inc. are summarized below. These summaries do not purport to be complete and are qualified in their entirety by reference to such laws and regulations.

New Jersey Banking Regulation

Activity Powers. Magyar Bank derives its lending, investment and other activity powers primarily from the applicable provisions of the New Jersey Banking Act and its related regulations. Under these laws and regulations, savings banks, including Magyar Bank, generally may invest in:

- real estate mortgages;
- consumer and commercial loans;
- specific types of debt securities, including certain corporate debt securities and obligations of federal, state and local governments and agencies;
- certain types of corporate equity securities; and
- certain other assets.

A savings bank may also make other investments pursuant to "leeway" authority that permits investments not otherwise permitted by the New Jersey Banking Act. "Leeway" investments must comply with a number of limitations on the individual and aggregate amounts of "leeway" investments. A savings bank may also exercise trust powers upon approval of the Commissioner. New Jersey savings banks may exercise those powers, rights, benefits or privileges

authorized for national banks or out-of-state banks or for federal or out-of-state savings banks or savings associations, provided that before exercising any such power, right, benefit or privilege, prior approval by the Commissioner by regulation or by specific authorization is required. The

exercise of these lending, investment and activity powers are limited by federal law and regulations. See "Federal Banking Regulation-Activity Restrictions on State-Chartered Banks" below.

Loans-to-One-Borrower Limitations. With certain specified exceptions, a New Jersey-chartered savings bank may not make loans or extend credit to a single borrower or to entities related to the borrower in an aggregate amount that would exceed 15% of the bank's capital funds. A savings bank may lend an additional 10% of the bank's capital funds if secured by collateral meeting the requirements of the New Jersey Banking Act. Magyar Bank currently complies with applicable loans-to-one-borrower limitations.

Dividends. Under the New Jersey Banking Act, a stock savings bank may declare and pay a dividend on its capital stock only to the extent that the payment of the dividend would not impair the capital stock of the savings bank. In addition, a stock savings bank may not pay a dividend unless the savings bank would, after the payment of the dividend, have a surplus of not less than 50% of its capital stock, or alternatively, the payment of the dividend would not reduce the surplus. Federal law may also limit the amount of dividends that may be paid by Magyar Bank. See "Federal Banking Regulation-Prompt Corrective Action" below.

Minimum Capital Requirements. Regulations of the Commissioner impose on New Jersey-chartered depository institutions, including Magyar Bank, minimum capital requirements similar to those imposed by the Federal Deposit Insurance Corporation on insured state banks. See "Federal Banking Regulation-Capital Requirements."

Examination and Enforcement. The New Jersey Department of Banking and Insurance may examine Magyar Bank whenever it deems an examination advisable. The New Jersey Department of Banking and Insurance examines Magyar Bank at least every two years. The Commissioner may order any savings bank to discontinue any violation of law or unsafe or unsound business practice and may direct any director, officer, attorney or employee of a savings bank engaged in an objectionable activity, after the Commissioner has ordered the activity to be terminated, to show cause at a hearing before the Commissioner why such person should not be removed.

Federal Banking Regulation

Capital Requirements. The Federal Deposit Insurance Corporation regulations establish a minimum leverage capital requirement for banks in the strongest financial and managerial condition, with a rating of 1 (the highest examination rating of the Federal Deposit Insurance Corporation for banks) under the Uniform Financial Institutions Rating System, of not less than a ratio of 3.0% of Tier 1 capital to total assets. For all other banks, the minimum leverage capital requirement is 4.0%, unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the depository institution.

The Federal Deposit Insurance Corporation regulations also require that banks meet a risk-based capital standard. The risk-based capital standard requires the maintenance of a ratio of total capital, which is defined as the sum of Tier 1 capital and Tier 2 capital, to risk-weighted assets of at least 8% and a ratio of Tier 1 capital to risk-weighted assets of at least 4%. In determining the amount of risk-weighted assets, all assets, plus certain off balance sheet items, are multiplied by a risk-weight of 0% to 100%, based on the risks the Federal Deposit Insurance Corporation believes are inherent in the type of asset or item.

The federal banking agencies, including the Federal Deposit Insurance Corporation, have also adopted regulations to require an assessment of an institution's exposure to declines in the economic value of a bank's capital due to changes in interest rates when assessing the bank's capital adequacy. Institutions with significant interest rate risk may be required to hold additional capital.

As of September 30, 2008, Magyar Bank's capital exceeded all applicable requirements.

Prompt Corrective Action. The Federal Deposit Improvement Act also established a system of prompt corrective action to resolve the problems of undercapitalized institutions. The Federal Deposit Insurance Corporation, as well as the other federal banking regulators, adopted regulations governing the supervisory

27

Table of Contents

actions that may be taken against undercapitalized institutions. The regulations establish five categories, consisting of "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." The Federal Deposit Insurance Corporation's regulations define the five capital categories as follows:

An institution will be treated as "well-capitalized" if:

its ratio of total capital to risk-weighted assets is at least 10%;

its ratio of Tier 1 capital to risk-weighted assets is at least 6%; and

its ratio of Tier 1 capital to total assets is at least 5%, and it is not subject to any order or directive by the Federal Deposit Insurance Corporation to meet a specific capital level.

An institution will be treated as "adequately capitalized" if:

its ratio of total capital to risk-weighted assets is at least 8%; or

its ratio of Tier 1 capital to risk-weighted assets is at least 4%; and

its ratio of Tier 1 capital to total assets is at least 4% (3% if the bank receives the highest rating under the Uniform Financial Institutions Rating System) and it is not a well-capitalized institution.

An institution will be treated as "undercapitalized" if:

its total risk-based capital is less than 8%; or

its Tier 1 risk-based-capital is less than 4%; and

its leverage ratio is less than 4% (or less than 3% if the institution receives the highest rating under the Uniform Financial Institutions Rating System).

An institution will be treated as "significantly undercapitalized" if:

its total risk-based capital is less than 6%;

its Tier 1 capital is less than 3%; or

its leverage ratio is less than 3%.

An institution that has a tangible capital to total assets ratio equal to or less than 2% would be deemed to be "critically undercapitalized."

The Federal Deposit Insurance Corporation is required, with some exceptions, to appoint a receiver or conservator for an insured state bank if that bank is "critically undercapitalized." For this purpose, "critically undercapitalized" means having a ratio of tangible capital to total assets of less than 2%. The Federal Deposit Insurance Corporation may also appoint a conservator or receiver for a state bank on the basis of the institution's financial condition or upon the occurrence of certain events, including:

insolvency, or when the assets of the bank are less than its liabilities to depositors and others;

substantial dissipation of assets or earnings through violations of law or unsafe or unsound practices;

28

Table of Contents

existence of an unsafe or unsound condition to transact business;

likelihood that the bank will be unable to meet the demands of its depositors or to pay its obligations in the normal course of business; and

insufficient capital, or the incurring or likely incurring of losses that will deplete substantially all of the institution's capital with no reasonable prospect of replenishment of capital without federal assistance.

As of September 30, 2008, Magyar Bank met the criteria for being considered "well-capitalized."

Activity Restrictions on State-Chartered Banks. Federal law and Federal Deposit Insurance Corporation regulations generally limit the activities and investments of state-chartered Federal Deposit Insurance Corporation-insured banks and their subsidiaries to those permissible for national banks and their subsidiaries, unless such activities and investments are specifically exempted by law or consented to by the Federal Deposit Insurance Corporation.

Before making a new investment or engaging in a new activity that is not permissible for a national bank or otherwise permissible under federal law or the Federal Deposit Insurance Corporation regulations, an insured bank must seek approval from the Federal Deposit Insurance Corporation to make such investment or engage in such activity. The Federal Deposit Insurance Corporation will not approve the activity unless the bank meets its minimum capital requirements and the Federal Deposit Insurance Corporation determines that the activity does not present a significant risk to the DIF. Certain activities of subsidiaries that are engaged in activities permitted for national banks only through a "financial subsidiary" are subject to additional restrictions.

Federal law permits a state-chartered savings bank to engage, through financial subsidiaries, in any activity in which a national bank may engage through a financial subsidiary and on substantially the same terms and conditions. In general, the law permits a national bank that is well-capitalized and well-managed to conduct, through a financial subsidiary, any activity permitted for a financial holding company other than insurance underwriting, insurance investments, real estate investment or development or merchant banking. The total assets of all such financial subsidiaries may not exceed the lesser of 45% of the bank's total assets or $50 million. The bank must have policies and procedures to assess the financial subsidiary's risk and protect the bank from such risk and potential liability, must not consolidate the financial subsidiary's assets with the bank's and must exclude from its own assets and equity all equity investments, including retained earnings, in the financial subsidiary. State-chartered savings banks may retain subsidiaries in existence as of March 11, 2000 and may engage in activities that are not authorized under federal law. Although Magyar Bank meets all conditions necessary to establish and engage in permitted activities through financial subsidiaries, it has not yet determined whether or the extent to which it will seek to engage in such activities.

Federal Home Loan Bank System. Magyar Bank is a member of the Federal Home Loan Bank system, which consists of twelve regional federal home loan banks, each subject to supervision and regulation by the Federal Housing Finance Board ("FHFB"). The federal home loan banks provide a central credit facility primarily for member thrift institutions as well as other entities involved in home mortgage lending. Magyar Bank, as a member of the Federal Home Loan Bank of New York, is required to purchase and hold shares of capital stock in the Federal Home Loan Bank of New York in an amount at least equal to the sum of:

(i) 0.2% of its mortgage related assets, calculated annually, which include one-to-four family residential mortgage loans, multifamily and non-residential real estate loans, home equity loans, and mortgage-backed investment securities;

(ii) 4.5% (or such greater fraction as established by the Federal Home Loan Bank of New York) of its advances from the Federal Home Loan Bank of New York, calculated daily.

As of September 30, 2008, Magyar Bank was in compliance with these requirements.

Table of Contents

Enforcement. The Federal Deposit Insurance Corporation has extensive enforcement authority over insured savings banks, including Magyar Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders and to remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and to unsafe or unsound practices.

Deposit Insurance. Deposit accounts in Magyar Bank are insured by the Federal Deposit Insurance Corporation, generally up to a maximum of $100,000 per separately insured depositor and up to a maximum of $250,000 for self-directed retirement accounts. However, pursuant to its statutory authority, the Board of Directors of the Federal Deposit Insurance Corporation recently increased the deposit insurance available on deposit accounts to $250,000 effective until December 31, 2009.

Magyar Bank's deposits are subject to Federal Deposit Insurance Corporation deposit insurance assessments. The Federal Deposit Insurance Corporation has adopted a risk-based system for determining deposit insurance assessments. This assessment is based on the risk category of the institution and ranges from 5 to 43 basis points of the institution's deposits. On October 16, 2008, the Federal Deposit Insurance Corporation published a proposed rule that would raise the current deposit insurance assessment rates uniformly for all institutions by 7 basis points (to a range from 12 to 50 basis points) for the first quarter of 2009. The proposed rule would also alter the way the Federal Deposit Insurance Corporation calculates federal deposit insurance assessment rates beginning in the second quarter of 2009 and thereafter.

Under the proposed rule, the Federal Deposit Insurance Corporation would first establish an institution's initial base assessment rate. This initial base assessment rate would range, depending on the risk category of the institution, from 10 to 45 basis points. The Federal Deposit Insurance Corporation would then adjust the initial base assessment (higher or lower) to obtain the total base assessment rate. The adjustments to the initial base assessment rate would be based upon an institution's levels of unsecured debt, secured liabilities, and brokered deposits. The total base assessment rate would range from 8 to 77.5 basis points of the institution's deposits.

Based upon Magyar Bank's review of the Federal Deposit Insurance Corporation's proposed rule, if the rule was implemented as proposed, its Federal Deposit Insurance Corporation assessment for the first quarter of 2009 would increase by approximately $280,000. Thereafter, because of adjustments to the initial base assessment rate, we believe the rule would have a negative effect on our earnings. There can be no assurance that the proposed rule will be implemented by the Federal Deposit Insurance Corporation or implemented in its proposed form.

In addition to the Federal Deposit Insurance Corporation assessments, the Financing Corporation ("FICO") is authorized to impose and collect, with the approval of the Federal Deposit Insurance Corporation, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended September 30, 2008, the annualized FICO assessment was equal to 1.12 basis points for each $100 in domestic deposits maintained at an institution.

In October 2008, the FDIC announced the Temporary Liquidity Guarantee Program, under which any participating depository institution would be able to provide full deposit insurance coverage for non-interest bearing transaction accounts, regardless of the dollar amount. Under the program, effective December 5, 2008, insured depository institutions that have not opted out of the Temporary Liquidity Guarantee Program will be subject to a 0.10% surcharge applied to non-interest bearing transaction deposit account balances in excess of $250,000, which surcharge will be added to the institution's existing risk-based deposit insurance assessments. Magyar Bank opted in of the FDIC Temporary Liquidity Guaranty Program.

Transactions with Affiliates of Magyar Bank. Magyar Bank's authority to engage in transactions with its affiliates is limited by Sections 23A and 23B of the Federal Reserve Act and its implementing Regulation W promulgated by the Board of Governors of the Federal Reserve System. An affiliate is a company that controls, is controlled by, or is under common control with an insured depository institution such as Magyar Bancorp, Inc and Magyar Bancorp, MHC. In general, loan transactions between an insured depository institution and its

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Table of Contents

affiliates are subject to certain quantitative and collateral requirements. In this regard, transactions between an insured depository institution and its affiliates are limited to 10% of the institution's unimpaired capital and unimpaired surplus for transactions with any one affiliate and 20% of unimpaired capital and unimpaired surplus for transactions in the aggregate with all affiliates. Collateral of specific types and in specified amounts ranging from 100% to 130% of the amount of the transaction must usually be provided by affiliates in order to receive loans from the savings association. In addition, transactions with affiliates must be consistent with safe and sound banking practices, not involve low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates. Magyar Bank is in compliance with these requirements.

Prohibitions Against Tying Arrangements. Banks are subject to the prohibitions of 12 U.S.C. Section 1972 on certain tying arrangements. A depository institution is prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Community Reinvestment Act and Fair Lending Laws. All Federal Deposit Insurance Corporation insured institutions have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income neighbourhoods. In connection with its examination of a state chartered savings bank, the Federal Deposit Insurance Corporation is required to assess the institution's record of compliance with the Community Reinvestment Act. Among other things, the current Community Reinvestment Act regulations replace the prior process-based assessment factors with a new evaluation system that rates an institution based on its actual performance in meeting community needs. In particular, the current evaluation system focuses on three tests:

a lending test, to evaluate the institution's record of making loans in its service areas;

an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and

a service test, to evaluate the institution's delivery of services through its branches, ATMs and other offices.

An institution's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities. We received an "outstanding" Community Reinvestment Act rating in our most recently completed federal examination, which was conducted by the Federal Deposit Insurance Corporation in 2007.

In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the Federal Deposit Insurance Corporation, as well as other federal regulatory agencies and the Department of Justice.

Loans to a Bank's Insiders

Federal Regulation. A bank's loans to its executive officers, directors, any owner of 10% or more of its stock (each, an insider) and any of certain entities affiliated with any such person (an insider's related interest) are subject to the conditions and limitations imposed by Section 22(h) of the Federal Reserve Act and its implementing regulations. Under these restrictions, the aggregate amount of the loans to any insider and the insider's related interests may not exceed the loans-to-one-borrower limit applicable to national banks, which is comparable to the loans-to-one-borrower limit applicable to Magyar Bank's loans. See "New Jersey Banking Regulation—Loans-to-One

Borrower Limitations." All loans by a bank to all insiders and insiders' related interests in the aggregate may not exceed the bank's unimpaired capital and unimpaired surplus. With certain exceptions, loans to an executive officer, other than loans for the education of the officer's children and certain

31

Table of Contents

loans secured by the officer's residence, may not exceed the lesser of (1) $100,000 or (2) the greater of $25,000 or 2.5% of the bank's unimpaired capital and surplus. Federal regulation also requires that any proposed loan to an insider or a related interest of that insider be approved in advance by a majority of the Board of Directors of the bank, with any interested directors not participating in the voting, if such loan, when aggregated with any existing loans to that insider and the insider's related interests, would exceed either (1) $250,000 or (2) the greater of $25,000 or 5% of the bank's unimpaired capital and surplus. Generally, such loans must be made on substantially the same terms as, and follow credit underwriting procedures that are not less stringent than, those that are prevailing at the time for comparable transactions with other persons.

An exception is made for extensions of credit made pursuant to a benefit or compensation plan of a bank that is widely available to employees of the bank and that does not give any preference to insiders of the bank over other employees of the bank.

In addition, federal law prohibits extensions of credit to a bank's insiders and their related interests by any other institution that has a correspondent banking relationship with the bank, unless such extension of credit is on substantially the same terms as those prevailing at the time for comparable transactions with other persons and does not involve more than the normal risk of repayment or present other unfavourable features.

New Jersey Regulation. Provisions of the New Jersey Banking Act impose conditions and limitations on the liabilities to a savings bank of its directors and executive officers and of corporations and partnerships controlled by such persons, that are comparable in many respects to the conditions and limitations imposed on the loans and extensions of credit to insiders and their related interests under federal law, as discussed above. The New Jersey Banking Act also provides that a savings bank that is in compliance with federal law is deemed to be in compliance with such provisions of the New Jersey Banking Act.

Federal Reserve System

Federal Reserve Board regulations require all depository institutions to maintain non-interest-earning reserves at specified levels against their transaction accounts (primarily NOW and regular checking accounts). At September 30, 2008, Magyar Bank was in compliance with the Federal Reserve Board's reserve requirements. Savings associations, such as Magyar Bank, are authorized to borrow from the Federal Reserve Bank "discount window." Magyar Bank is deemed by the Federal Reserve Board to be generally sound and thus is eligible to obtain primary credit from its Federal Reserve Bank. Generally, primary credit is extended on a very short-term basis to meet the liquidity needs of the institution. Loans must be secured by acceptable collateral and carry a rate of interest of 100 basis points above the Federal Open Market Committee's federal funds target rate.

The USA PATRIOT Act

The USA PATRIOT Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. The USA PATRIOT Act also requires the federal banking agencies to take into consideration the effectiveness of controls designed to combat money laundering activities in determining whether to approve a merger or other acquisition application of a member institution. Accordingly, if we engage in a merger or other acquisition, our controls designed to combat money laundering would be considered as part of the application process. We have established policies, procedures and systems designed to comply with these regulations.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 is a law that addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by Section 302(a) of Sarbanes-Oxley Act of 2002, Magyar Bancorp, Inc.'s Chief Executive Officer and Chief Financial Officer each are required to certify that its quarterly and annual reports do not contain any untrue statement of a material fact. The rules have several requirements, including having these officers certify

that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal controls; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal controls; and they have included information in our quarterly and annual reports about their evaluation and whether there have been significant changes in our internal controls or in other factors that could significantly affect internal controls. Magyar Bancorp, Inc. is subject to further reporting and audit requirements under the requirements of the Sarbanes-Oxley Act. Magyar Bancorp, Inc. has existing policies, procedures and systems designed to comply with these regulations, and is further enhancing and documenting such policies, procedures and systems to ensure continued compliance with these regulations.

Holding Company Regulation

Federal Regulation. Magyar Bancorp, Inc. is regulated as a bank holding company. Bank holding companies are subject to examination, regulation and periodic reporting under the Bank Holding Company Act, as administered by the Federal Reserve Board. The Federal Reserve Board has adopted capital adequacy guidelines for bank holding companies on a consolidated basis substantially similar to those of the Federal Deposit Insurance Corporation for Magyar Bank. As of September 30, 2008, Magyar Bancorp, Inc.'s total capital and Tier 1 capital ratios exceeded these minimum capital requirements.

Regulations of the Federal Reserve Board provide that a bank holding company must serve as a source of strength to any of its subsidiary banks and must not conduct its activities in an unsafe or unsound manner. Under the prompt corrective action provisions of the Federal Deposit Insurance Act, a bank holding company parent of an undercapitalized subsidiary bank would be directed to guarantee, within limitations, the capital restoration plan that is required of such an undercapitalized bank. See "Federal Banking Regulation—Prompt Corrective Action." If the undercapitalized bank fails to file an acceptable capital restoration plan or fails to implement an accepted plan, the Federal Reserve Board may prohibit the bank holding company parent of the undercapitalized bank from paying any dividend or making any other form of capital distribution without the prior approval of the Federal Reserve Board.

As a bank holding company, Magyar Bancorp, Inc. is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior Federal Reserve Board approval is required for Magyar Bancorp, Inc. to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after giving effect to such acquisition, it would, directly or indirectly, own or control more than 5% of any class of voting shares of such bank or bank holding company.

A bank holding company is required to give the Federal Reserve Board prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, will be equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. Such notice and approval is not required for a bank holding company that would be treated as "well capitalized" under applicable regulations of the Federal Reserve Board, that has received a composite "1" or "2" rating, as well as a "satisfactory" rating for management, at its most recent bank holding company inspection by the Federal Reserve Board, and that is not the subject of any unresolved supervisory issues.

In addition, a bank holding company that does not elect to be a financial holding company under federal regulation, is generally prohibited from engaging in, or acquiring direct or indirect control of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be permissible. Some of the principal activities that the Federal Reserve Board has determined by regulation to be so closely related to banking as to be permissible

are:

making or servicing loans;

33

Table of Contents

- performing certain data processing services;
- providing discount brokerage services, or acting as fiduciary, investment or financial advisor;
- leasing personal or real property;
- making investments in corporations or projects designed primarily to promote community welfare; and
- acquiring a savings and loan association.

Bank holding companies that elect to be a financial holding company may engage in activities that are financial in nature or incident to activities which are financial in nature. Magyar Bancorp, Inc. has not elected to be a financial holding company, although it may seek to do so in the future. Bank holding companies may elect to become a financial holding company if:

- each of its depository institution subsidiaries is "well capitalized;"
- each of its depository institution subsidiaries is "well managed;"
- each of its depository institution subsidiaries has at least a "satisfactory" Community Reinvestment Act rating at its most recent examination; and
- the bank holding company has filed a certification with the Federal Reserve Board stating that it elects to become a financial holding company.

Under federal law, depository institutions are liable to the Federal Deposit Insurance Corporation for losses suffered or anticipated by the Federal Deposit Insurance Corporation in connection with the default of a commonly controlled depository institution or any assistance provided by the Federal Deposit Insurance Corporation to such an institution in danger of default. This law would be applicable potentially to Magyar Bancorp, Inc. if it ever acquired as a separate subsidiary a depository institution in addition to Magyar Bank.

It has been the policy of many mutual holding companies to waive the receipt of dividends declared by its subsidiary. In connection with its approval of the reorganization, however, the Federal Reserve Board will require Magyar Bancorp, MHC to obtain prior Federal Reserve Board approval before it may waive any dividends. As of the date hereof, Federal Reserve Board policy is to prohibit a mutual holding company from waiving the receipt of dividends from its holding company or bank subsidiary, and management is not aware of any instance in which the Federal Reserve Board has given its approval for a mutual holding company to waive dividends. Additionally, under Federal Deposit Insurance Corporation policy, the cumulative amount of waived dividends, if any, must not be available for distribution to public stockholders. See "Supervision and Regulation-Holding Company Regulation." It is not currently intended that Magyar Bancorp, MHC will waive dividends declared by Magyar Bancorp, Inc. as long as Magyar Bancorp, MHC is regulated by the Federal Reserve Board.

Conversion of Magyar Bancorp, MHC to Stock Form. Magyar Bancorp, MHC is permitted to convert from the mutual form of organization to the capital stock form of organization (a "Conversion Transaction"). There can be no assurance when, if ever, a Conversion Transaction will occur, and the Board of Directors has no current intention or plan to undertake a Conversion Transaction. In a Conversion Transaction a new stock holding company may be formed as the successor to Magyar Bancorp, Inc. (the "New Holding Company"), Magyar Bancorp, MHC's corporate existence

would end, and certain depositors of Magyar Bank would receive the right to subscribe for additional shares of the New Holding Company. In a Conversion Transaction, each share of common stock held by stockholders other than Magyar Bancorp, MHC ("Minority Stockholders") would be converted into a number of shares of common stock of the New Holding Company determined pursuant to an exchange ratio that ensures that Minority Stockholders own the same percentage of common stock in the New Holding Company as they owned in Magyar Bancorp, Inc. immediately before the Conversion Transaction, subject to any adjustment required by regulation or regulatory policy. The Federal Deposit

Table of Contents

Insurance Corporation will require that dividends waived by Magyar Bancorp, MHC be taken into account. The total number of shares held by Minority Stockholders after a Conversion Transaction also would be increased by any purchases by Minority Stockholders in the stock offering conducted as part of the Conversion Transaction.

Any Conversion Transaction would require the approval of a majority of the outstanding shares of Magyar Bancorp, Inc. common stock held by Minority Stockholders and the approval of a majority of the eligible votes of depositors of Magyar Bank.

New Jersey Regulation. Under the New Jersey Banking Act, a company owning or controlling a savings bank is regulated as a bank holding company. The New Jersey Banking Act defines the terms "company" and "bank holding company" as such terms are defined under the BHCA. Each bank holding company controlling a New Jersey-chartered bank or savings bank must file certain reports with the Commissioner and is subject to examination by the Commissioner.

Acquisition of Magyar Bancorp, Inc. Under federal law and under the New Jersey Banking Act, no person may acquire control of Magyar Bancorp, Inc. or Magyar Bank without first obtaining approval of such acquisition of control by the Federal Reserve Board and the Commissioner. See "Restrictions on Acquisition of Magyar Bancorp, Inc. and Magyar Bank."

Federal Securities Laws. Magyar Bancorp, Inc. common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Magyar Bancorp, Inc. is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

The registration under the Securities Act of 1933 of shares of the common stock sold in the stock offering did not cover the resale of the shares. Shares of the common stock purchased by persons who are not affiliates of Magyar Bancorp, Inc. may be resold without registration. Shares purchased by an affiliate of Magyar Bancorp, Inc. will be subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If Magyar Bancorp, Inc. meets the current public information requirements of Rule 144 under the Securities Act of 1933, each affiliate of Magyar Bancorp, Inc. who complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three month period, the greater of 1% of the outstanding shares of Magyar Bancorp, Inc., or the average weekly volume of trading in the shares during the preceding four calendar weeks. Provision may be made in the future by Magyar Bancorp, Inc. to permit affiliates to have their shares registered for sale under the Securities Act of 1933.

Risk Factors

Changes in Interest Rates May Hurt our Profits and Asset Values.

Our earnings largely depend on our net interest income, which could be negatively affected by changes in interest rates. Net interest income is the difference between:

- the interest income we earn on our interest-earning assets, such as loans and securities; and
- the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings.

The rates we earn on our assets and the rates we pay on our liabilities are generally fixed for a contractual period of time. While we have taken steps to attempt to reduce our exposure to increases in interest rates, historically our liabilities generally have shorter contractual maturities than our assets. This imbalance can create significant earnings volatility, because market interest rates change over time. In a period of rising interest rates, the interest income earned on our assets may not increase as rapidly as the interest paid on our liabilities. Likewise, in a period of falling interest rates, the interest expense paid on our liabilities may not decrease as

rapidly as the interest income received on our assets. See "Management's Discussion and Analysis or Plan of Operation-Management of Market Risk."

In addition, changes in interest rates can affect the average life of loans and mortgage-backed securities. A reduction in interest rates causes increased prepayments of loans and mortgage-backed securities as borrowers tend to refinance their debt to reduce their borrowing costs. This creates reinvestment risk, which is the risk that we may not be able to reinvest the funds from faster prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. Additionally, increases in interest rates may decrease loan demand and/or make it more difficult for borrowers to repay adjustable-rate loans.

Changes in interest rates also affect the current market value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At September 30, 2008, the fair value of our total securities portfolio was $59.0 million. Unrealized net losses on securities totaled $677,000 on a pre-tax basis at September 30, 2008.

We evaluate interest rate sensitivity using models that estimate the change in Magyar Bank's net interest income over a range of interest rate scenarios. At September 30, 2008, in the event of an immediate 200 basis point increase in interest rates, the model projects that we would experience a $180,000, or 1.2%, increase in net interest income in the first year following the change in interest rates, and a $75,000, or 0.5%, decrease in net interest income in the second year following the change in interest rates. At September 30, 2008, in the event of an immediate 100 basis point decrease in interest rates, the model projects that we would experience a $124,000, or 0.8%, increase in net interest income in the first year following the change in interest rates, and a $350,000, or 2.4%, increase in net interest income in the second year following the change in interest rates.

At September 30, 2008, our available-for-sale securities portfolio totaled $49.3 million, which included $44.1 million of mortgage-backed securities. To the extent interest rates increase and the value of our available-for-sale portfolio decreases, our stockholders' equity will be adversely affected.

A Significant Portion of Our Commercial Business, Commercial Real Estate and Construction Loan Portfolio Has Been Originated in the Last Four Years.

Our portfolio of commercial business, commercial real estate and construction loans has grown from $53.2 million at September 30, 2004 to $221.7 million at September 30, 2008. Accordingly, a large portion of this loan portfolio does not provide a significant payment history pattern that can be used to evaluate ongoing credit risk. Therefore, it is difficult to predict the future performance of this part of our loan portfolio. These loans may have delinquency or charge-off levels above our historical experience, which could adversely affect our future performance.

Because We Intend to Continue our Emphasis on the Origination of Commercial Business, Commercial Real Estate and Construction Loans, Our Lending Risk Will Increase.

At September 30, 2008, our portfolio of commercial business, commercial real estate and construction loans totaled $221.7 million, or 54.0% of our total loans, compared to $205.1 million or 53.2% of our total loans at September 30, 2007, $183.4 million or 52.1% of our total loans at September 30, 2006, and $119.2 million, or 44.0% of our total loans at September 30, 2005. It is our intent to continue to emphasize the origination of commercial business and commercial real estate loans. Commercial business, commercial real estate and construction loans generally have more risk than one-to four-family residential mortgage loans. At September 30, 2008, our non-performing loans increased to $20.1 million from $8.0 million at September 30, 2007, reflecting our increased originations of these loans. In addition, because the repayment of these loans depends on the successful management and operation of the borrower's properties or related businesses, repayment of these loans can be affected by adverse conditions in the real

estate market or the local economy. Further, these loans typically have larger loan balances, and several of our borrowers have more than one commercial business, commercial real estate and construction loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. Finally, if

36

Table of Contents

we foreclose on a commercial business, commercial real estate or construction loan, our holding period for the collateral, if any, typically is longer than for one- to four-family residential mortgage loans because there are fewer potential purchasers of the collateral. Because we plan to continue to emphasize the origination of these loans, it may be necessary to increase our allowance for loan losses because of the increased credit risk associated with these types of loans. Any increase to our allowance for loan losses would adversely affect our earnings.

The Financial Sector Is Experiencing An Economic Downturn. A Deterioration of Our Current Non-performing Loans or An Increase In The Number of Non-performing Loans Will Have An Adsverse Effect On Our Operations.

Virtually all of our real estate loans are secured by real estate in New Jersey. At September 30, 2008, loans secured by real estate, including home equity loans and lines of credit, represented 87.5% of our total loans. Both nationally and in the State of New Jersey we are experiencing an economic downturn that is having a significant impact on the prices of real estate and related assets. The residential and commercial real estate sectors have been adversely affected by weakening economic conditions and may negatively impact our loan portfolio. Total non-performing assets increased from $10.3 million at September 30, 2007 to $24.7 million at September 30, 2008, and total non-performing loans as a percentage of total assets increased to 3.09% at September 30, 2008 as compared to 1.70% at September 30, 2007. If loans that are currently non-performing further deteriorate or loans that are currently performing become non-performing loans, we may need to increase our allowance for loan losses, which would have an adverse impact on our financial condition and results of operations.

Our FDIC Premium Could Be Substantially Higher In The Future, Which Would Have An Adverse Effect On Our Future Earnings.

Our FDIC insurance assessment was $228,000 for fiscal year 2008 compared to $52,000 for fiscal 2007. Since January 1, 2007 our assessment has been substantially reduced by a $203,000 special One Time Credit. This credit was fully utilized during the fiscal year ended September 30, 2008. Accordingly, our FDIC assessment could be substantially higher in future periods depending on the premium rates set by the FDIC for such periods. Any increases in out FDIC premium rates will reduce future earnings.

Our Profits Have Declined over the Past Three Years, and May Not Improve in the Foreseeable Future.

Over the past three years, in addition to losses related to higher non-performing loans, our earnings have declined as a direct result of our branch expansion, the relocation of our headquarters office, and the addition of experienced senior lending and administrative personnel. We plan to add additional new branches. It is possible that our business plan will not succeed, or that our new branches, when added, will not become profitable. Accordingly, we may not experience any improvement in our net income in the near future as a result of these efforts.

If Our Allowance for Loan Losses is Not Sufficient to Cover Actual Loan Losses, Our Earnings Could Decrease.

Our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, requiring additions to our allowance, which could materially decrease our net income. Our allowance for loan losses was 1.1% of total loans and 22.4% of total delinquent loans at September 30, 2008. We make various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. Based on this review, we believe our allowance for loan losses is adequate to absorb losses in our loan portfolio as of September 30, 2008.

Bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or

37

Table of Contents

loan charge-offs as required by these regulatory authorities will have a material adverse effect on our financial condition and results of operations.

Strong Competition Within Our Market Area May Limit Our Growth and Profitability.

Competition in the banking and financial services industry is intense. In our market area, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Some of our competitors have substantially greater resources and lending limits than we, have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do. Our profitability depends upon our continued ability to successfully compete in our market area. The greater resources and deposit and loan products offered by some of our competitors may limit our ability to increase our interest-earning assets. For additional information see "Business of Magyar Bank-Competition."

If We Declare Dividends on Our Common Stock, Magyar Bancorp, MHC will be Prohibited From Waiving the Receipt of Dividends by Current Federal Reserve Board Policy, Which May Result in Lower Dividends for All Other Stockholders.

The Board of Directors of Magyar Bancorp, Inc. will have the authority to declare dividends on its common stock, subject to statutory and regulatory requirements. So long as Magyar Bancorp, MHC is regulated by the Federal Reserve Board, if Magyar Bancorp, Inc. pays dividends to its stockholders, it also will be required to pay dividends to Magyar Bancorp, MHC, unless Magyar Bancorp, MHC is permitted by the Federal Reserve Board to waive the receipt of dividends. The Federal Reserve Board's current position is to not permit a mutual holding company to waive dividends declared by its subsidiary. Accordingly, because dividends will be required to be paid to Magyar Bancorp, MHC along with all other stockholders, the amount of dividends available for all other shareholders will be less than if Magyar Bancorp, MHC were permitted to waive the receipt of dividends.

Magyar Bancorp, MHC Exercises Voting Control Over Magyar Bancorp, Inc.; Public Stockholders Own a Minority Interest.

Magyar Bancorp, MHC owns a majority of Magyar Bancorp, Inc.'s common stock and, through its Board of Directors, exercises voting control over the outcome of all matters put to a vote of stock holders (including the election of directors), except for matters that require a vote greater than a majority. Public stockholders own a minority of the outstanding shares of Magyar Bancorp, Inc.'s common stock. The same directors and officers who manage Magyar Bancorp, Inc. and Magyar Bank also manage Magyar Bancorp, MHC. In addition, regulatory restrictions applicable to Magyar Bancorp, MHC prohibit the sale of Magyar Bancorp, Inc. unless the mutual holding company first undertakes a second-step conversion.

Table of Contents

ITEM 2. Description of Property

The following table provides certain information with respect to our five banking offices as of September 30, 2008:

Location	Leased or Owned	Original Year Leased or Acquired	Year of Lease Expiration
Main Office:			
400 Somerset Street New Brunswick, New Jersey	Owned	2005	-
Full - Service Branches:			
582 Milltown Road North Brunswick, New Jersey	Leased	2002	2012
3050 Highway No. 27 South Brunswick, New Jersey	Owned	1969	-
1000 Route 202 South Branchburg, New Jersey	Leased	2006	2031
89 French Street New Brunswick, New Jersey	Leased	2006	2011

The net book value of our premises, land and equipment was approximately $21.6 million at September 30, 2008.

For information regarding Magyar Bancorp, Inc.'s investment in mortgages and mortgage-related securities, see "Item 1. Business" herein.

ITEM 3. Legal Proceedings

From time to time, we are involved as plaintiff or defendant in various legal proceedings arising in the ordinary course of business. At September 30, 2008, we were not involved in any legal proceedings, the outcome of which would be material to our financial condition or results of operations.

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of stockholders during the fourth quarter of the fiscal year under report.

PART II

ITEM 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

(a) Our shares of common stock are traded on the NASDAQ Global Market under the symbol "MGYR." At September 30, 2008, Magyar Bancorp, MHC owned 3,200,450 shares, or 54.03% of the issued shares of our common stock. The approximate number of holders of record of Magyar Bancorp, Inc.'s common stock as of September 30, 2008 was 650. Certain shares of Magyar Bancorp, Inc. are held in "nominee" or "street" name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing

Table of Contents

number. The following table presents quarterly market information for Magyar Bancorp, Inc. common stock for each quarter of the previous two fiscal years. Magyar Bancorp, Inc. began trading on the NASDAQ Global Market on January 24, 2006. The following information was provided by the NASDAQ Stock Market.

Fiscal Year Ended September 30, 2008	High	Low	Closing Price	Dividends Declared
Quarter ended September 30, 2008	$ 9.28	$ 7.01	$ 8.35	$ -
Quarter ended June 30, 2008	10.97	8.25	8.87	-
Quarter ended March 31, 2008	11.63	8.40	9.50	-
Quarter ended December 31, 2007	11.50	10.15	10.65	-

Fiscal Year Ended September 30, 2007	High	Low	Closing Price	Dividends Declared
Quarter ended September 30, 2007	$ 14.17	$ 10.75	$ 10.76	$ -
Quarter ended June 30, 2007	15.20	13.88	14.18	-
Quarter ended March 31, 2007	14.98	13.60	14.25	-
Quarter ended December 31, 2006	14.05	12.05	13.76	-

Dividend payments by Magyar Bancorp, Inc. are dependent primarily on dividends it receives from Magyar Bank, because Magyar Bancorp, Inc. will have no source of income other than dividends from Magyar Bank, earnings from the investment of proceeds from the sale of shares of common stock retained by Magyar Bancorp, Inc., and interest payments with respect to Magyar Bancorp, Inc.'s loan to the Employee Stock Ownership Plan. For more information on regulatory restrictions regarding the payment of dividends, see "Item 1- Description of Business- Supervision and Regulation- New Jersey Banking Regulation- Dividends."

Other than its employee stock ownership plan, Magyar Bancorp, Inc. does not have any equity compensation plans that were not approved by stockholders. The following table sets forth information with respect to the Magyar Bancorp's equity compensation plans.

	Number of securities to be issued upon exercise of outstanding options and rights	Weighted average exercise price(1)	Number of securities remaining available for issuance under plan
Stock options	217,826	15	54,503
Shares of restricted stock	-	-	5,452
Total	217,826	15	59,955

(1) Reflects weighted average exercise price of stock options only.

(b) Not applicable.

(c) Share repurchases.

The Company completed its first stock repurchase program of 130,927 shares in November 2007 and announced in November 2007 a second repurchase program of up to 5% of its publicly-held outstanding shares

Table of Contents

of common stock, or 129,924 shares, under which 57,370 shares had been repurchased as of September 30, 2008 at an average price of $9.89.

The following table reports information regarding repurchases of our common stock during the year ended September 30, 2008.

Period	Total Number of Shares Purchased		Average Price Paid Per Share	Remaining Number of Shares That May be Purchased Under the Plan
October 1, 2007 through December 31, 2007	7,927	$	10.65	128,124
January 1, 2008 through March 31, 2008	21,600	$	10.28	106,524
April 1, 2008 through June 30, 2008	18,370	$	9.96	88,154
July 1, 2008 through September 30, 2008	15,600	$	9.18	72,554
Total	63,497	$	9.80	

ITEM 6. Management's Discussion and Analysis or Plan of Operation

Overview

Magyar Bancorp, Inc. (the "Company") is a Delaware-chartered mid-tier stock holding company whose most significant business activity is ownership of 100% of the common stock of Magyar Bank. Magyar Bank's principal business is attracting retail deposits from the general public and investing those deposits, together with funds generated from operations, principal repayments on loans and securities and borrowed funds, into one-to four-family residential mortgage loans, multi-family and commercial real estate mortgage loans, home equity loans and lines of credit, commercial business loans and construction loans. Our results of operations depend primarily on our net interest income which is the difference between the interest we earn on our interest-earning assets and the interest we pay on our interest-bearing liabilities. Our net interest income is primarily affected by the market interest rate environment, the shape of the U.S. Treasury yield curve, the timing of the placement of interest-earning assets and interest-bearing liabilities, and the prepayment rate on our mortgage-related assets. Other factors that may affect our results of operations are general and local economic and competitive conditions, government policies and actions of regulatory authorities.

In connection with the completion of our initial public stock offering on January 23, 2006, Magyar Bancorp, Inc. sold 2,618,550 shares of common stock, or 44.20% of its outstanding common stock, at a price of $10.00 per share, to subscribers in the offering. Magyar Bancorp, MHC, the Company's New Jersey-chartered mutual holding company parent, holds 3,200,450 shares, or 54.03%, of the Company's outstanding common stock. The Company also contributed $500,000 in cash and issued 104,742 shares of common stock, or 1.77% of its outstanding shares, to the MagyarBank Charitable Foundation. Net proceeds from the initial offering were $25.8 million (including $1.0 million in stock contributed to the charitable foundation) of which the Company contributed $12.4 million to Magyar Bank.

During the year ended September 30, 2008, we grew net loans $24.5 million, or 6.4%. We attribute this growth to an expanding referral network and reputation resulting from our continued focus on originating commercial real estate, commercial business, and residential mortgage loans. Deposits increased $6.8 million, or 1.8%, during the year ended September 30, 2008. We attribute this growth to the attractiveness of our promotional certificates of deposit as well as the expansion of our commercial relationships, which tend to hold larger deposit balances. In addition to an expanding branch and referral network for deposits, we have been implementing a strategy to increase deposits from our current

depositor base through relationship products and pricing and targeted marketing campaigns.

Table of Contents

We reported a net loss of $2.9 million for the year ended September 30, 2008. Net income decreased $3.7 million for the year ended September 30, 2008 compared with the year ended September 30, 2007. The decrease was primarily due to larger reserves for loan losses. Reserves were increased to $4.3 million during the year ended September 30, 2008 compared with $398,000 for the year ended September 30, 2007 due to higher levels of non-performing loans, adverse economic conditions that resulted in depreciation of collateral values securing construction and commercial loans, and higher levels of loan charge-offs during the current period.

Our net interest margin decreased to 3.19% for the year ended September 30, 2008 from 3.27% for the year ended September 30, 2007 and our net interest spread was 2.96% for the years ended September 30, 2008 and 2007.

Throughout 2009, we expect to continue with our strategy of diversifying our balance sheet with higher concentrations in commercial real estate and commercial business loans.

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 Loss. 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

Table of Contents

factors that are applied to the loan groups to determine the amount of the general component of the allowance for loan losses.

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

Deferred Income Taxes. The Company records income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," as amended, 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 September 30, 2008 and September 30, 2007

Total Assets. Total assets increased $41.1 million, or 8.7%, to $514.3 million at September 30, 2008 from $473.2 million at September 30, 2007, due primarily to significant growth in loans receivable and securities available for sale, partially offset by a decrease in securities held-to-maturity.

Loans Receivable. Net loans receivable increased $24.5 million, or 6.4%, to $406.1 million at September 30, 2008 from $381.6 million at September 30, 2007. During the year ended September 30, 2008, one-to four-family residential mortgage loans increased $5.4 million, or 3.5%, to $157.9 million. In addition, commercial real estate loans and commercial business loans increased $20.9 million, or 19.4%, and $9.4 million, or 35.2%, to $92.8 million and $36.0 million, respectively. Construction loans decreased $4.3 million, or 4.4%, to $92.9 million at September 30, 2008 from $97.2 million at September 30, 2007.

At September 30, 2008, the significant loan categories in terms of the percent of total loans were 38.4% in one-to four-family residential mortgage loans, 22.6% in construction loans and 22.6% in commercial real estate loans. The remaining total loans were comprised of 8.8% commercial business, 3.9% home equity lines of credit and 3.7% of other loans, which consisted primarily of stock-secured consumer loans.

Total non-accrual loans increased by $4.3 million to $13.3 million at September 30, 2008 from $8.0 million at September 30, 2007. Total non-performing loans (non-accrual loans and accruing loans three months or more past due) increased by $12.1 million to $20.1 million at September 30, 2008 from $8.0 million at September 30, 2007. Non-performing loans consisted of twelve construction loan relationships totaling $14.9 million, two commercial real estate loans totaling $3.4 million, four loans secured by one-to-four family residential properties totaling $837,000 million, one commercial business loan totaling $176,000, and one home equity line of credit loan totaling $731,000. The balances of the non-performing loans totaled $23.2 million prior to loan charge-offs recorded during the year ended September 30, 2008.

Non-performing construction loans increased $8.9 million to $14.9 million at September 30, 2008 from $6.0 million at September 30, 2007. At September 30, 2008, non-performing construction loans included $4.7 million in loans

secured by vacant and partially completed residential lots in Newark, New Jersey, $2.6 million in loans to finance the substantially completed construction of an eight-unit condominium in Wildwood, New Jersey, and a $1.7 million construction loan secured by a completed home in Summit, New Jersey. Magyar Bank is determining the proper course of action to collect the principal outstanding on these loans. In addition, two smaller acquisition loans totaling $1.0 million that were non-performing at September 30, 2007 were in the process of foreclosure at September 30, 2008. Finally, three loans totaling $4.9 million were reported as non-

43

performing because they had exceeded their maturity at September 30, 2008. These loans, on which interest payments were current at September 30, 2008, were in the process of extension at September 30, 2008.

Non-performing commercial real estate loans increased $1.5 million to $3.4 million at September 30, 2008 from $1.9 million at September 30, 2007. The increase was due to a $1.5 million commercial loan secured by an income-producing property located in Plainfield, New Jersey. Magyar Bank had begun foreclosure proceedings on the property as of September 30, 2008. In addition, Magyar Bank continues its foreclosure proceedings on the $1.9 million loan secured by a catering facility in Lodi, New Jersey.

Non-performing loans secured by residential properties increased $1.6 million at September 30, 2008. Of these non-performing loans, two loans totaling $994,000 were made to construction loan developers that have been negatively impacted by the downturn in the real estate market. In addition to these loans, there are two owner-occupied mortgage loans totaling $510,000 that were non-performing and one loan past maturity in the amount of $65,000 at September 30, 2008.

The ratio of non-accrual and non-performing loans to total loans receivable was 3.2% and 4.9%, respectively, at September 30, 2008 compared with 2.1% and 2.1% at September 30, 2007. The allowance for loan losses increased $748,000 to $4.5 million or 33.8% of non-performing loans at September 30, 2008 compared with $3.8 million or 46.7% of non-performing loans at September 30, 2007. The allowance for loan losses was 1.1% of gross loans outstanding at September 30, 2008 and 1.0% of gross loans outstanding at September 30, 2007.

Investment Securities. Investment securities increased $13.5 million, or 29.6%, to $58.9 million at September 30, 2008 from $45.5 million at September 30, 2007.

Securities available-for-sale increased $22.0 million, or 80.2%, to $49.3 million at September 30, 2008 from $27.4 million at September 30, 2007. The increase was the result of $37.6 million in purchases of mortgage-backed securities and U.S. government-sponsored enterprise obligations, partially offset by $8.2 million in principal amortization and $6.8 million in security sales. In addition, the unrealized loss on the available-for-sale portfolio based on market values increased $630,000 at September 30, 2008 compared with the prior year period.

Securities held-to-maturity decreased $8.5 million, or 46.9%, to $9.6 million at September 30, 2008 from $18.1 million at September 30, 2007, resulting from $4.0 million in principal amortizations, $2.0 million in security maturities and $2.3 million in security sales.

Bank-Owned Life Insurance. The cash surrender value of life insurance held for directors and executive officers of Magyar Bank increased $427,000, or 4.2%, to $10.5 million at September 30, 2008 from $10.1 million at September 30, 2007. The increase in bank-owned life insurance was due to increases in the cash surrender value of existing policies.

Other Real Estate Owned. Other real estate owned increased $2.5 million to $4.7 million at September 30, 2008 from $2.2 million at September 30, 2007.

The real estate owned at September 30, 2007 reflected a nine lot property consisting of eight vacant lots and one partially built home located in Little Egg Harbor, New Jersey. The property was sold at the Company’s carrying price of $955,000 in August 2008.

The $4.7 million in real estate owned at September 30, 2008 resulted from the foreclosure of property securing a $4.2 million loan made by Magyar Bank to Solomon Dwek, whose real estate holdings were forced into bankruptcy in February 2007. The value of the property was then written down to $4.0 million. Magyar Bank has improved and

begun marketing for sale all six approved lots located in Rumson, NJ. During the year ended September 30, 2008, Magyar Bank invested an additional $861,000 in site improvements into the project, bringing Magyar Bank's total investment to $4.9 million. At September 30, 2008, four of the six lots were under

contract of sale with deposits received totaling $195,000 that reduced Magyar Bank's carrying value at September 30, 2008 to $4.7 million.

Deposits. Total deposits increased $6.8 million, or 1.8%, to $375.6 million at September 30, 2008 from $368.8 million at September 30, 2007.

The growth in deposits during the twelve months ended September 30, 2008 occurred in checking accounts and certificates of deposit (including individual retirement accounts), which increased $7.2 million and $6.3 million to $60.9 million and $206.8 million, respectively. Decreases in money market and savings accounts of $5.2 million and $1.5 million, respectively, partially offset the growth in checking and certificates of deposit. The Company's deposit strategy during the twelve months ended September 30, 2008 was focused on increasing and expanding customer relationships with Magyar Bank. As a result of this strategy, many high-cost, single service deposit account holders were replaced with higher checking account balances. The annual $7.2 million increase in checking accounts represented a 13.4% increase in the category. Deposits accounted for 73.0% of assets and 92.5% of net loans at September 30, 2008.

At September 30, 2008, the Company held $12.5 million in Certificate of Deposit Account Registry Service (CDARS) Reciprocal certificates of deposit (a CD instrument that provides full FDIC insurance up to $50 million) and $8.7 million in brokered certificates of deposit.

Borrowed Funds. Borrowings and securities sold under agreements to repurchase increased $37.9 million, or 75.9% to $87.9 million at September 30, 2008 from $50.0 million at September 30, 2007. Proceeds from borrowed funds were used to purchase investment securities and originate loans.

To the extent the Company's asset growth exceeded growth in deposits, Federal Home Loan Bank of New York (FHLBNY) advances were used as alternative funding sources. Use of the FHLBNY advances enabled Magyar Bank to reduce its cost of funds and manage its interest rate risk position. FHLBNY borrowings increased $32.9 million during the year ended September 30, 2008 to $72.9 million, or 14.2% of assets. Securities sold under agreements to repurchase increased $5.0 million to $15.0 million.

Stockholders' Equity. Stockholders' equity decreased $2.4 million, or 4.9%, to $45.8 million at September 30, 2008 from $48.2 million at September 30, 2007.

On April 27, 2007 the Company announced its first stock repurchase program and authorized the repurchase of up to 5% of its publicly-held outstanding shares of common stock, or 130,927 shares. The Company completed its first stock repurchase program of 130,927 shares in November 2007 and announced a second repurchase program of up to 5% of its publicly-held outstanding shares of common stock, or 129,924 shares. During the year ended September 30, 2008, the Company repurchased 63,497 shares of its common stock at an average cost of $9.89 per share. Under the current stock repurchase program, 72,554 shares of the 129,924 shares authorized remained available for repurchase at September 30, 2008.

The decrease in stockholders' equity was attributable to the $2.9 million net loss from operations for the year ended September 30, 2008, partially offset by the implementation of FIN 48, which resulted in an increase of $603,000 to the beginning balance of retained earnings. In addition, an increase in stockholders' equity of $722,000 related to the accounting of the Company's equity incentive plan and Employee Stock Ownership Plan was partially offset by repurchases of shares of Company stock totaling $633,000 and accumulated other comprehensive losses of $116,000 during the period.

Comparison of Operating Results for the Years Ended September 30, 2008 and 2007

Net Income. Net income decreased $3.7 million to a net loss of $2.9 million for the year ended September 30, 2008 from net income of $716,000 for the year ended September 30, 2007.

Table of Contents

Net Interest and Dividend Income. Net interest and dividend income increased $848,000, or 6.2%, to $14.5 million for the year ended September 30, 2008 from $13.7 million for the year ended September 30, 2007. Total interest and dividend income decreased $408,000, or 1.4%, to $28.8 million for the year ended September 30, 2008 while total interest expense decreased $1.3 million, or 8.1%, to $14.3 million.

Average Balance Sheet. The table on the following page presents certain information regarding our financial condition and net interest income for the years ended September 30, 2008 and 2007. The table presents the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. We derived average balances from daily balances over the periods indicated. Interest income includes fees that we consider adjustments to yields.

Table of Contents

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

	For the Twelve Months Ended September 30,								
	2008			2007			2006		
	Average Balance	Interest Income/ Expense	Yield/Cost (Annualized)	Average Balance	Interest Income/ Expense	Yield/Cost (Annualized)	Average Balance	Interest Income/ Expense	
Interest-earning assets:									
Interest-earning deposits	$ 403	$ 9	2.12%	$ 241	$ 12	4.79%	$ 2,441	$ 106	4.34%
Loans receivable, net	396,343	25,890	6.51%	371,972	27,096	7.28%	311,706	21,520	6.90%
Securities									
Taxable	50,979	2,534	4.96%	40,407	1,786	4.42%	47,048	1,801	3.83%
Tax-exempt (1)	3,362	198	5.87%	2,961	176	5.95%	1,214	69	5.68%
FHLB of NY stock	3,550	256	7.19%	2,962	218	7.37%	2,408	119	4.94%
Total interest-earning assets	454,637	28,887	6.34%	418,543	29,288	7.00%	364,817	23,615	6.47%
Noninterest-earning assets	45,423			42,091			30,693		
Total assets	$ 500,060			$ 460,634			$ 395,510		
Interest-bearing liabilities:									
Savings accounts (2)	$ 34,440	$ 272	0.79%	$ 38,615	$ 410	1.06%	$ 55,623	$ 621	1.12%
NOW accounts (3)	113,124	2,757	2.43%	101,088	3,628	3.59%	70,470	1,681	2.39%
Time deposits (4)	192,928	8,085	4.18%	188,306	8,653	4.60%	166,118	6,192	3.73%
Total interest-bearing deposits	340,492	11,114	3.26%	328,009	12,691	3.87%	292,211	8,494	2.91%
Borrowings	80,617	3,178	3.93%	56,403	2,857	5.07%	39,172	1,829	4.67%
Loan payable	-	-		-	-		807	64	7.93%
Total interest-bearing liabilities	421,109	14,292	3.38%	384,412	15,548	4.04%	332,190	10,387	3.13%
Noninterest-bearing liabilities	32,737			27,633			24,509		
Total liabilities	453,846			412,045			356,699		
Retained earnings	46,214			48,589			38,811		
Total liabilities and retained earnings	$ 500,060			$ 460,634			$ 395,510		
Tax-equivalent basis adjustment		(67)			(60)			(20)	
Net interest income		$ 14,528			$ 13,680			$ 13,208	

Interest rate spread		2.96%		2.96%		3.34%
Net interest-earning assets	$ 33,528		$ 34,131		$ 32,627	
Net interest margin (5)		3.19%		3.27%		3.62%
Average interest-earning assets to average interest-bearing liabilities	107.96%		108.88%		109.82%	

(1) Calculated using 34% tax rate for all periods.
(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 net interest income divided by average total interest-earning assets.

Table of Contents

Rate/Volume Analysis. The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by average volume). The volume column shows the effects attributable to changes in volume (changes in average volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	September 30,					
	2008 vs. 2007			2007 vs. 2006		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Net	Volume	Rate	Net
	(Dollars in thousands)					
Interest-earning assets:						
Interest-earning deposits	$ 8	(11)	$ (3)	$ (94)	$ -	$ (94)
Loans	1,774	(2,980)	(1,206)	4,161	1,415	5,576
Securities						
Taxable	467	281	748	(254)	239	(15)
Tax-exempt (1)	24	(2)	22	99	8	107
FHLB of NY stock	43	(5)	38	27	72	99
Total interest-earning assets	2,316	(2,717)	(401)	3,939	1,734	5,673
Interest-bearing liabilities:						
Savings accounts (2)	(44)	(94)	(138)	(189)	(22)	(211)
NOW accounts (3)	432	(1,303)	(871)	733	1,214	1,947
Time deposits (4)	213	(781)	(568)	826	1,635	2,461
Total interest-bearing deposits	601	(2,178)	(1,577)	1,370	2,827	4,197
Federal Home Loan Bank borrowings	1,228	(907)	321	803	225	1,028
Loan payable	-	-	-	(64)	-	(64)
Total interest-bearing liabilities	1,829	(3,085)	(1,256)	2,109	3,052	5,161
Increase (decrease) in tax equivalent net interest income	$ 487	$ 368	$ 855	$ 1,830	$ (1,318)	$ 512
Change in tax-equivalent basis adjustment			(7)			(40)
Increase in net interest income			$ 848			$ 472

(1) Calculated using 34% tax rate for all periods.
(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.

Interest Income. Interest income decreased $408,000, or 1.4%, to $28.8 million for the year ended September 30, 2008 from $29.2 million for the prior year. The decrease in interest income was due to a decrease in the yield on interest earning assets of 66 basis points to 6.34% from 7.00%, offset by an increase in the average balance of interest earnings assets of $36.1 million to $454.6 million from 418.5 million.

Interest income on loans decreased $1.2 million, or 4.5%, to $25.9 million for the year ended September 30, 2008 from $27.1 million for the prior year. An increase of $24.4 million, or 6.6%, in the average balance of loans was

more than offset by a 77 basis point decrease in the average yield on such loans to 6.51% from 7.28%. The lower yield on loans resulted from reductions in the federal funds interest rate totaling 275

48

basis points during the twelve month period and higher levels of non-performing loans during the year ended September 30, 2008 compared with the year ended September 30, 2007.

Interest earned on investment securities increased $760,000, or 39.7%, to $2.7 million for the year ended September 30, 2008 from $1.9 million a year earlier. The increase was due to an $11.0 million, or 25.3%, increase in the average balance of such securities to $54.3 million from $43.4 million for the prior year as well as a 50 basis point increase in the average yield on securities to 5.02% from 4.52% for the prior year period.

Interest Expense. Interest expense decreased $1.2 million, or 8.1%, to $14.3 million for the year ended September 30, 2008 from $15.5 million for the year ended September 30, 2007. The decrease in interest expense was primarily due to a decrease in the average cost of such liabilities of 66 basis points to 3.38% from 4.04% in the lower market interest rate environment.

The average balance of interest-bearing deposits increased $12.5 million to $340.5 million for the year ended September 30, 2008 from $328.0 million for the prior year while the average cost of such deposits decreased 61 basis points to 3.26% from 3.87%. This resulted in a $1.6 million, or 12.4%, decrease in interest paid on deposits to $11.1 million for the year ended September 30, 2008 from $12.7 million for the year ended September 30, 2007.

Interest paid on borrowings increased $321,000 to $3.2 million for the year ended September 30, 2008 from $2.9 million for the year ended September 30, 2007. The increase in advance interest expense was due to an increase in the average balance of such advances to $80.6 million from $56.4 million partially offset by a 114 basis point decrease in the average cost of borrowings to 3.93% for the year ended September 30, 2008 from 5.07% for the prior year. The proceeds from the increase in the balance of deposits and advances were used to fund the increase in loans and investment securities.

Provision for Loan Losses. Management made a provision of $4.3 million for the year ended September 30, 2008 compared with a $398,000 provision for the prior year.

Reserves for loan loss were increased during the year ended September 30, 2008 due to higher levels of non-performing loans, adverse economic conditions that resulted in depreciation of collateral values securing construction and commercial loans, and higher levels of loan charge-offs during the current period.

The higher level of loan charge-offs resulted from depreciation of real estate collateral securing commercial and construction loans due to the current adverse economic environment. There were net charge-offs of $3.5 million for the year ended September 30, 2008 compared to net charge-offs of $656,000 for the year ended September 30, 2007.

Non-accrual loans increased $5.3 million to $13.3 million at September 30, 2008 from $8.0 million at September 30, 2007. Non-performing loans (non-accrual loans and accruing loans three months or more past due) increased $12.1 million to $20.1 million at September 30, 2008 from $8.0 million at September 30, 2007. The allowance for loan losses increased $748,000 to $4.5 million, or 1.1% of gross loans outstanding at September 30, 2008, from $3.8 million, or 1.0% of gross loans outstanding at September 30, 2007.

Other Income. Non-interest income was unchanged at $1.5 million for the years ended September 30, 2008 and 2007.

Service charge income decreased $57,000, or 5.9%, to $911,000 for the year ended September 30, 2008 from $968,000 for the year ended September 30, 2007. Decreases in loan-related service charges such as loan commitment, late charge, and prepayment fees of $108,000 during the year ended September 30, 2008 more than offset a $51,000 increase in deposit service fees. The increase in deposit fees was primarily due to an increase in insufficient fund service fees that resulted from the recent implementation of a checking account overdraft program.

Other operating income increased $51,000, or 11.0%, to $513,000 for the year ended September 30, 2008 from $462,000 for the year ended September 30, 2007. The increase was due to a $50,000 increase in the cash surrender value of Magyar Bank's bank-owned life insurance and $23,000 in commissions from the sales of non-deposit investment products, partially offset by a $23,000 decrease in rental income during the year ended September 30, 2008 compared with the prior year period.

Gains on the sales of investment securities of $99,000 offset losses on the sales of other real estate owned of $97,000 during the year ended September 30, 2008.

Other Expenses. Other expenses increased $835,000, or 6.1% to $14.6 million for the year ended September 30, 2008 from $13.8 million for the year ended September 30, 2007.

Employee and benefit expenses increased $501,000, or 6.3%, to $8.4 million for the year ended September 30, 2008 from $7.9 million for the year ended September 30, 2007 primarily due to the Company's equity incentive awards that were granted in March 2007 and higher compensation and benefit expenses related to the opening of Magyar Bank's fifth branch in February 2007. Stock award and stock option expenses, which are determined at the award date and fixed for five years, were $465,000 for the year ended September 30, 2008 compared to $270,000 for the year ended September 30, 2007.

Occupancy expense increased $121,000 or 4.8% to $2.7 million for the year ended September 30, 2008 from $2.5 million for the prior year period. The increase primarily reflected additional expenses related to the operation of the Magyar Bank's fifth retail branch office opened February 2007.

Advertising expense decreased $42,000 or 14.7% to $244,000 for the year ended September 30, 2008 from $286,000 for the prior year period. The higher expense in the prior year period was due to the opening of the two new branches during the year ended September 30, 2007.

Professional fees and services fees increased $87,000 or 14.1% to $704,000 and $53,000, or 10.3% to $567,000, respectively, during the year ended September 30, 2008 from the prior year period. During the year ended September 30, 2008, professional fees reflected an additional $59,000 for third party consultant services with regard to the Company's compliance with the Sarbanes-Oxley Act regarding management's assessment of internal controls. In addition, professional fees increased by $28,000 for the first required external audit of the Bank's 401(k) plan. The increase in service fees was primarily due to an increase in fees charged by the Bank's third-party servicer due to increases in the products offered and number of deposits serviced during the same period.

Other expenses increased $115,000, or 6.2%, to $2.0 million for the year ended September 30, 2008 from $1.9 million for the year ended September 30, 2007 due to an increase in FDIC premium. Magyar Bank paid $176,000 more in FDIC insurance premiums during the year ended September 30, 2008 than in the prior year period.

Income Tax Expense (Benefit). The Company recorded tax expense of $82,000 for the twelve months ended September 30, 2008 compared with tax expense of $257,000 for the twelve months ended September 30, 2007. Included in tax expense is approximately $90,000 of tax benefit relating to the reversal of a tax liability on which the statute of limitations expired in June 2008. In assessing the realizability of deferred tax assets, the Company considers the likelihood that part or all of the deferred tax assets will not be realized. This assessment requires significant judgment and estimates. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. The Company considers our history of losses, scheduled reversal of tax assets and liabilities, deferred tax planning strategies, if any, and projected future taxable income over the periods in which the deferred tax asset items are deductible. The Company has incurred a net loss for the year ended September 30, 2008 and therefore has prevented us from reaching the "more

likely than not" conclusion required under the applicable literature to recognize deferred tax assets on our Consolidated Balance Sheet. Accordingly, the net deferred tax assets are fully offset by a valuation allowance at September 30, 2008.

Table of Contents

Management of Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. Our assets, consisting primarily of mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and reduce the exposure of our net interest income to changes in market interest rates. Accordingly, our Board of Directors has established an Asset and Liability Management Committee which is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors. Senior management monitors the level of interest rate risk on a regular basis and the Asset and Liability Committee meets at least on a quarterly basis to review our asset/liability policies and interest rate risk position.

We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. As part of our ongoing asset-liability management, we seek to manage our exposure to interest rate risk by retaining in our loan portfolio fewer fixed rate residential loans, by originating and retaining adjustable-rate loans in the residential, construction and commercial real estate loan portfolios, by using alternative funding sources, such as advances from the Federal Home Loan Bank of New York, to “match fund” longer-term residential and commercial mortgage loans, and by originating and retaining variable rate home equity and short-term and medium-term fixed-rate commercial business loans. We have also increased money market account deposits as a percentage of our total deposits. Money market accounts offer a variable rate based on market indications. Finally, we have purchased interest rate floors and sold securities under agreements to repurchase with embedded derivatives to mitigate the impact of interest rates on our prime-based loans. At September 30, 2008 we held interest rate floors with a notional amount of $5 million and securities sold under agreements to repurchase with embedded derivatives in the amount of $15 million. By following these strategies, we believe that we are well-positioned to react to changes in market interest rates.

Net Interest Income Analysis. The table below sets forth, as of September 30, 2008, the estimated changes in our net interest income for each of the next two years that would result from the designated instantaneous changes in the United States Treasury yield curve. These estimates require making certain assumptions including loan and mortgage-related investment prepayment speeds, reinvestment rates, and deposit maturities and decay rates. These assumptions are inherently uncertain and, as a result, we cannot precisely predict the impact of changes in interest rates on net interest income. Actual results may differ significantly due to timing, magnitude and frequency of interest rate changes and changes in market conditions. Further, certain shortcomings are inherent in the methodology used in the interest rate risk measurement. Modeling changes in net interest income require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates.

Change in Interest rates (Basis Points)(1)	Estimated Net Interest Income (NII) Year 1	Estimated Increase in NII Year 1		Estimated NII Year 2	Estimated Increase (Decrease) in NII Year 2	
		Amount	Percentage		Amount	Percentage
	(Dollars in thousands)					
+200	$ 15,035	$ 180	1.21%	$ 14,780	$ (75)	-0.50%
Unchanged	14,855	-	-	15,013	158	1.06%
-100	14,979	124	0.83%	15,205	350	2.36%

(1) Assumes an instantaneous uniform change in interest rates at all maturities.

Table of Contents

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments and maturities and sales of securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. Our Asset/Liability Management Committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs of our customers as well as unanticipated contingencies. We seek to maintain a liquidity ratio of 20.0% of assets or greater. The liquidity ratio is calculated by determining the sum of the difference between liquid assets (cash and unpledged investment securities) and short-term liabilities (estimated 30-day deposit outflows), borrowing capacity from the FHLBNY, and brokered deposit capacity and dividing the sum by total assets. At September 30, 2008, our liquidity ratio was 29.6% of assets.

We regularly adjust our investments in liquid assets based upon our assessment of expected loan demand, expected deposit flows, yields available on interest-earning deposits and securities, and the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning deposits and short- and intermediate-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At September 30, 2008, cash and cash equivalents totaled $5.0 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled $49.3 million at September 30, 2008. At September 30, 2008, we also had the ability to borrow $125.4 million from the Federal Home Loan Bank of New York. On that date, we had an aggregate of $72.9 million in advances outstanding. Finally, the brokered certificate of deposit market offers an additional option for wholesale funding.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Statements of Cash Flows included in our Financial Statements.

At September 30, 2008, we had $46.6 million in loan commitments outstanding. In addition to commitments to originate loans, we had $38.4 million in unused lines of credit to borrowers. Certificates of deposit due within one year of September 30, 2008 totaled $157.2 million, or 41.9% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including other deposits and Federal Home Loan Bank advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before September 30, 2008. We believe, however, that based on past experience a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are the origination of loans and the purchase of securities. For the year ended September 30, 2008, we originated $88.1 million of loans and purchased $37.6 million of securities.

Financing activities consist primarily of activity in deposit accounts and Federal Home Loan Bank advances. We experienced a net increase in total deposits of $6.8 million for the year ended September 30, 2008 and a net increase in total deposits of $43.2 million for the year ended September 30, 2007. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of New York, which provide an additional source of funds. Federal Home Loan Bank advances totaled $72.9 million and $40.0 million at September 30, 2008 and September 30, 2007, respectively. Federal Home Loan Bank advances have

primarily been used to fund loan demand. Our current asset/liability management strategy has been to fund variable, prime-based loans with Federal Home Loan Bank overnight advances.

Magyar Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At September 30, 2008, Magyar Bank exceeded all regulatory capital requirements. Magyar Bank is considered "well capitalized" under regulatory guidelines. See "Supervision and Regulation-Federal Banking Regulation-Capital Requirements."

Bank-owned life insurance is a tax-advantaged financing transaction that is used to offset employee benefit plan costs. Policies are purchased insuring directors and officers of Magyar Bank using a single premium method of payment. Magyar Bank is the owner and beneficiary of the policies and records tax-free income through cash surrender value accumulation. We have minimized our credit exposure by choosing carriers that are highly rated. The investment in bank-owned life insurance has no significant impact on our capital and liquidity.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit, standby letters of credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans made by us. For additional information, see Note P, "Lease Commitments," and Note Q "Financial Instruments with Off-Balance Sheet Risk" to our Financial Statements.

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include operating leases for premises and equipment.

The following table summarizes our significant fixed and determinable contractual obligations and other funding needs by payment date at September 30, 2008. The payment amounts represent those amounts due to the recipient and do not include any unamortized premiums or discounts or other similar carrying amount adjustments.

	Payments Due by Period				
	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years	Total
	(Dollars in thousands)				
Certificates of deposit	$ 157,231	$ 32,688	$ 16,923	-	$ 206,842
Federal Home Loan Bank advances	7,757	21,711	11,956	13,960	55,384
Repurchase agreements	-	-	10,000	5,000	15,000
Available lines of credit	25,392	210	30	12,794	38,427
Operating leases	286	573	286	2,758	3,903
Total	$ 190,666	$ 55,182	$ 39,195	$ 34,512	$ 319,556
Commitments to extend credit	$ 46,572	$ -	$ -	$ -	$ 46,572

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies to other accounting pronouncements that

require or permit fair value measurements, but does not require any new fair value measurements. In March 2008, the FASB issued FSP FAS 157-2 to partially delay the effective implementation of SFAS 157 until fiscal years beginning after November, 15, 2008 for all nonfinancial assets and liabilities except those that are recognized or disclosed at fair value in financial statements on a recurring

basis (at least annually). Assets and liabilities currently reported or disclosed at fair value on a recurring basis in the Company's financial statements include investment securities, impaired loans, residential mortgage loans held for sale, mortgage servicing rights and derivatives. The Company is in the process of assessing the impact of the adoption of SFAS 157 for its fiscal year beginning October 1, 2009 relating to nonfinancial assets and liabilities on the Company's financial statements.

At its September 2006 meeting, the Emerging Issues Task Force ("EITF") reached a final consensus on Issue 06-04, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements." In accordance with the EITF consensus, an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under SFAS No. 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS No. 106 if the benefit is offered under an arrangement that constitutes a plan or under APB No. 12 if it is not part of a plan. The provisions of Issue 06-04 are to be applied through either a cumulative–effect adjustment to retained earnings as of the beginning of the year of adoption or retrospective application. Issue 06-04 is effective for annual or interim reporting periods beginning after December 15, 2007. The application of Issue 06-04 did not have a material effect on the Company's financial position or results of operations.

At its September 2006 meeting, the EITF reached a final consensus on Issue 06-05, "Accounting for Purchases of Life Insurance –Determining the Amount That Could be Realized in Accordance with FASB Technical Bulletin No. 85-4." Issue 06-05 concludes that in determining the amount that could be realized under an insurance contract accounted for under FASB Technical Bulletin No. 85-4, "Accounting for Purchases of Life Insurance," the policyholder should (1) consider any additional amounts included in the contractual terms of the policy; (2) assume the surrender value on an individual life-by individual-life policy basis; and (3) not discount the cash surrender value component of the amount that could be realized when contractual restrictions on the ability to surrender a policy exist. Issue 06-05 should be adopted through either (1) a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or (2) a change in accounting principle through retrospective application to all prior periods. Issue 06-05 is effective for fiscal years beginning after December 15, 2006 (as of October 1, 2007 for the Company). The application of Issue 06-05 did not have a material effect on the Company's financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" which included an amendment of FASB Statement No. 115. Statement 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Statement 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company did not make an early adoption election nor has it chosen to measure the financial instruments identified under SFAS No. 159 at fair value.

The Company adopted the provisions of FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), on October 1, 2007. Previously, the Company had accounted for tax contingencies in accordance with SFAS No. 5, "Accounting for Contingencies." As required by FIN 48, which clarifies SFAS No. 109, "Accounting for Income Taxes," the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied FIN 48 to all tax positions for which the statute of limitations remained open. As a result of the implementation of FIN 48, the Company recognized an increase of approximately $416,000 in deferred tax assets and a decrease of approximately $187,000 in the liability for unrecognized tax benefits, which was

accounted for as a $603,000 increase to the October 1, 2007 balance of retained earnings.

Table of Contents

In December 2007, the FASB revised SFAS No. 141(R) "Business Combinations" to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. To accomplish that, SFAS No. 141(R) establishes principles and requirements for how the acquirer: 1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; 2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and 3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (as of October 1, 2009 for the Company). The Company is evaluating the effect of SFAS No. 141(R) on its financial statements.

In December 2007, the FASB issued SFAS No. 160 "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards. This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. Not-for-profit organizations should continue to apply the guidance in Accounting Research Bulletin No. 51, Consolidated Financial Statements, before the amendments made by this Statement, and any other applicable standards, until the Board issues interpretative guidance. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (as of October 1, 2009 for the Company). The Company is evaluating the effect of SFAS No. 160 on its financial statements.

In December 2007, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 110 ("SAB 110"). SAB 110 expresses the views of the staff regarding the use of a "simplified" method, as discussed in SAB No. 107 ("SAB 107"), in developing an estimate of expected term of "plain vanilla" share options in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment. In particular, the staff indicated in SAB 107 that it will accept a company's election to use the simplified method, regardless of whether the company has sufficient information to make more refined estimates of expected term. At the time SAB 107 was issued, the staff believed that more detailed external information about employee exercise behavior (e.g., employee exercise patterns by industry and/or other categories of companies) would, over time, become readily available to companies. Therefore, the staff stated in SAB 107 that it would not expect a company to use the simplified method for share option grants after December 31, 2007. The staff understands that such detailed information about employee exercise behavior may not be widely available by December 31, 2007. Accordingly, the staff will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007.

In February 2008, FASB issued FASB Staff Position (FSP) FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions", which provides guidance on accounting for a transfer of a financial asset and a repurchase financing. The FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement under FASB Statement No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". However, if certain criteria are met, the initial transfer and repurchase shall not be evaluated as a linked transaction and therefore evaluated separately under FASB 140. The FSP is effective for repurchase financing in which the initial transfer is entered in fiscal years beginning after November 15, 2008. The Company does not anticipate a material impact on its consolidated financial statements as a result of this statement.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities". SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and

interim periods beginning after November 15, 2008 (as of October 1, 2009 for the Company), with early application encouraged. The Company does not expect that the adoption of SFAS No. 161 will have a material impact on its consolidated financial statements.

Table of Contents

In April 2008, FASB issued Statement FSP 142-3 which amends the list of factors an entity should consider in developing renewal of extension assumptions used in determining the useful life of recognized intangible assets under SFAS 142 "Goodwill and Other Intangibles". The new guidance applies to intangible assets that are acquired individually or with a group of other assets and to intangible assets acquired in both business combinations and asset acquisitions. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The guidance must be applied prospectively only to intangible assets acquired after the FSP's effective date.

In May 2008, the Financial Accounting Standards Board (FASB) Issued Statement No. 162 (SFAS 162), "The Hierarchy of Generally Accepted Accounting Principles". This statement identifies the sources of accounting principles and the framework for selecting the accounting principles to be used in the preparation of financial statements prepared in conformity with generally accepted accounting principles (GAAP) in the United States. The statement is not expected to result in changes to current practices nor have a material effect on the Company.

In June 2008, EITF 03-6-1 was issued which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share. The Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008 (as of October 1, 2009 for the Company). The Company does not expect that the adoption of EITF 03-6-1 will have a material impact on its consolidated financial statements.

In September 2008 FASB issued FSP FAS 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees," to improve disclosures about credit-indexed derivative instruments (credit derivatives) and financial guarantees. The FSP requires companies that sell credit derivatives to disclose information that will enable financial statement users to assess the potential effect of the credit derivatives on the seller's financial position, financial performance, and cash flows. FSP FAS 133-1 and FIN 45-4 is effective for interim and annual periods ending after November 15, 2008. The Company does not anticipate a material impact as a result of this statement on its consolidated financial statements.

In September 2008, the SEC and FASB jointly issued a press release clarifying fair value measurement practices in the current market environment. The key issues discussed in the press release include: the use of internal assumptions to estimate fair value when no relevant market data exists, use of market (broker) quotes to measure fair value, consideration of how transactions from distressed sales or inactive markets impact fair value, and factors to consider in the assessment of other-than-temporary impairment.

Table of Contents

ITEM 7. Financial Statements

TABLE OF CONTENTS

Consolidated Financial Statements:

Report of Independent Registered Public Accounting Firm	58
Consolidated Balance Sheets as of September 30, 2008 and 2007	59
Consolidated Statements of Operations for the Years ended September 30, 2008 and 2007	60
Consolidated Statements of Changes in Stockholders’ Equity for the Years ended September 30, 2008 and 2007	61
Consolidated Statements of Cash Flows for the Years ended September 30, 2008 and 2007	62
Notes to Consolidated Financial Statements	63

Signatures

Exhibit 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

Report of Independent Registered Public Accounting Firm

Board of Directors
Magyar Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Magyar Bancorp, Inc. and subsidiary (collectively, “the Company”) as of September 30, 2008 and 2007 and the related consolidated statements of operations, changes in stockholders’ equity and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Magyar Bancorp, Inc. and subsidiary as of September 30, 2008 and 2007 and the consolidated results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B to the consolidated financial statements, the Company has adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty Income Taxes, in 2008. As discussed in Note M to the consolidated financial statements, the Corporation has adopted FASB No. 158, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106 and 132(R), in 2008. As discussed in Note C to the consolidated financial statements, the Company adopted the fair value method of accounting provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payments in 2006.

/s/ Grant Thornton LLP
Philadelphia, Pennsylvania
December 23, 2008

58

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY
Consolidated Balance Sheets
(In Thousands, Except Share Data)

	September 30, 2008		September 30, 2007	
Assets				
Cash	$	4,756	$	5,132
Interest earning deposits with banks		257		101
Total cash and cash equivalents		5,013		5,233
Investment securities - available for sale, at fair value		49,326		27,373
Investment securities - held to maturity, at amortized cost (fair value of $9,629 and $17,957 at September 30, 2008 and September 30, 2007, respectively)		9,618		18,116
Federal Home Loan Bank of New York stock, at cost		3,867		2,325
Loans receivable, net of allowance for loan losses of $4,502 and $3,754 at September 30, 2008 and September 30, 2007, respectively		406,149		381,614
Bank-owned life insurance		10,547		10,120
Accrued interest receivable		2,177		2,521
Premises and equipment, net		21,613		22,302
Other real estate owned		4,666		2,238
Other assets		1,296		1,335
Total assets	$	514,272	$	473,177
Liabilities and Stockholders' Equity				
Liabilities				
Deposits	$	375,560	$	368,777
Escrowed funds		1,285		1,172
Federal Home Loan Bank of New York advances		72,934		39,985
Securities sold under agreements to repurchase		15,000		10,000
Accrued interest payable		660		1,706
Accounts payable and other liabilities		3,007		3,344
Total liabilities		468,446		424,984
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; 5,756,141 and 5,798,942 outstanding at September 30, 2008 and September 30, 2007, respectively		59		59
Additional paid-in capital		26,209		26,082
Treasury stock: 167,601 and 124,800 shares at September 30, 2008 and September 30, 2007, respectively		(2,093)		(1,740)
Unearned shares held by Employee Stock Ownership Plan		(1,551)		(1,845)
Retained earnings		23,398		25,717
Accumulated other comprehensive loss, net		(196)		(80)

Total stockholders' equity		45,826		48,193
Total liabilities and stockholders' equity	$	514,272	$	473,177

The accompanying notes are an integral part of these statements.

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Income
(In Thousands, Except Per Share Data)

	For the Year Ended September 30,	
	2008	2007
Interest and dividend income		
Loans, including fees	$ 25,890	$ 27,096
Investment securities		
Taxable	2,543	1,798
Tax-exempt	131	116
Federal Home Loan Bank of New York stock	256	218
Total interest and dividend income	28,820	29,228
Interest expense		
Deposits	11,114	12,691
Borrowings	3,178	2,857
Total interest expense	14,292	15,548
Net interest and dividend income	14,528	13,680
Provision for loan losses	4,255	398
Net interest and dividend income after provision for loan losses	10,273	13,282
Other income		
Service charges	911	968
Other operating income	513	462
Gains on sales of loans	38	24
Gains on the sales of investment securities	99	-
Losses on the sales of other real estate owned	(97)	-
Total other income	1,464	1,454
Other expenses		
Compensation and employee benefits	8,443	7,942
Occupancy expenses	2,659	2,538
Advertising	244	286
Professional fees	704	617
Service fees	567	514
Other expenses	1,981	1,866
Total other expenses	14,598	13,763
Income (loss) before income tax expense	(2,861)	973

Income tax expense		82		257
Net (loss) income	$	(2,943)	$	716
Net (loss) income per share-basic and diluted	$	(0.51)	$	0.12

The accompanying notes are an integral part of these statements.

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY
Consolidated Statement of Changes in Stockholders' Equity
Years Ended Septmber 30, 2008 and 2007
(In Thousands, Except for Share Amounts)

	Common Stock Shares Outstanding	Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, September 30, 2006	5,923,742	$ 59	$ 25,786	$ -	$ (2,133)	$ 25,001	$ (501)	$ 48,212
Comprehensive income								
Net income	-	-	-	-	-	716	-	716
Other comprehensive income, net of reclassification adjustments and taxes	-	-	-	-	-	-	421	421
Total comprehensive income								1,137
Purchase of treasury stock	(124,800)	-	-	(1,740)	-	-	-	(1,740)
Allocation of ESOP stock	-	-	26	-	288	-	-	314
Stock-based compensation expense	-	-	270	-	-	-	-	270
Balance, September 30, 2007	5,798,942	$ 59	$ 26,082	$ (1,740)	$ (1,845)	$ 25,717	$ (80)	$ 48,193
Cumulative adjustment for adoption of FIN 48	-	-	-	-	-	603	-	603
Balance, October 1, 2007 as revised	5,798,942	59	26,082	(1,740)	(1,845)	26,320	(80)	$ 48,796
Comprehensive loss								
Net loss	-	-	-	-	-	(2,943)	-	(2,943)
Change in funded status of retirement obligations, net of tax benefit of $31	-	-	-	-	-	-	(47)	(47)
Unrealized loss on securities available-for-sale, net of tax benefit of $249	-	-	-	-	-	-	(389)	(389)

Reclassification adjustment for losses included in net loss	-	-	-	-	-	-	11	11
Unrealized gain on derivatives, net of tax expense of $205	-	-	-	-	-	-	309	309
Total comprehensive loss								(3,059)
Purchase of treasury stock	(63,497)	-	-	(633)	-	-	-	(633)
Treasury stock used for restricted stock plan	20,696		(301)	280		21		-
Allocation of ESOP stock	-	-	(37)	-	294	-	-	257
Stock-based compensation expense	-	-	465	-	-	-	-	465
Balance, September 30, 2008	5,756,141	$ 59	$ 26,209	$ (2,093)	$ (1,551)	$ 23,398	$ (196)	$ 45,826

The accompanying notes are an integral part of this statement.

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
(In Thousands)

	For the Year Ended September 30, 2008	For the Year Ended September 30, 2007
Operating activities		
Net (loss) income	$ (2,943)	$ 716
Adjustment to reconcile net (loss) income to net cash provided by operating activities		
Depreciation expense	1,047	1,145
Premium amortization on investment securities, net	62	158
Mortgage loans originated for sale	-	(3,312)
Proceeds from the sales of loans	5,852	3,312
Provision for loan losses	4,255	398
Gains on sale of loans	(38)	(24)
Gains on sales of investment securities	(99)	-
Losses on the sales of other real estate owned	97	-
ESOP compensation expense	257	314
Stock-based compensation expense	465	270
Deferred income tax provision	-	(185)
Decrease (increase) in accrued interest receivable	344	(303)
Increase in bank owned life insurance	(427)	(377)
Decrease in other assets	2,787	240
Increase (decrease) in accrued interest payable	(1,046)	565
Decrease in accounts payable and other liabilities	(228)	(1,256)
Net cash provided by operating activities	10,385	1,661
Investing activities		
Net increase in loans receivable	(38,604)	(36,257)
Purchases of investment securities available for sale	(37,579)	(13,772)
Sales of investment securities held to maturity	2,321	-
Sales of investment securities available for sale	6,869	142
Proceeds from maturities/calls of investment securities held to maturity	2,005	-
Principal repayments on investment securities held to maturity	4,133	5,709
Principal repayments on investment securities available for sale	8,202	4,560
Purchases of bank owned life insurance	-	(137)
Purchases of premises and equipment	(358)	(1,757)
Investment in other real estate owned	(861)	-
Proceeds from the sale of other real estate owned	2,336	-
Purchase (redemption) of Federal Home Loan Bank stock	(1,542)	545
Net cash used in investing activities	(53,078)	(40,967)
Financing activities		
Net increase in deposits	6,783	43,175
Stock compensation tax benefit	(1,739)	84
Net increase in escrowed funds	113	14
Proceeds from long-term advances	30,622	10,326

Repayments of long-term advances	(4,023)	(3,662)
Proceeds from short-term advances	6,350	-
Repayments of short-term advances	-	(17,675)
Proceeds from securities sold under agreements to repurchase	5,000	10,000
Repayments of loans payable	-	(2,000)
Purchase of treasury stock	(633)	(1,740)
Net cash provided by financing activities	42,473	38,522
Net decrease in cash and cash equivalents	(220)	(784)
Cash and cash equivalents, beginning of year	5,233	6,017
Cash and cash equivalents, end of year	$ 5,013	$ 5,233
Supplemental disclosures of cash flow information		
Cash paid for		
Interest	$ 15,337	$ 14,983
Income taxes	$ 152	$ 512
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	$ 4,000	$ 2,238

The accompanying notes are an integral part of these statements.

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 2008 and 2007

NOTE A - ORGANIZATION

On January 23, 2006, Magyar Bank (the Bank) completed a reorganization involving a series of transactions by which our corporate structure was changed from a mutual savings bank to the mutual holding company form of ownership. Magyar Bank became a New Jersey-chartered stock savings bank subsidiary of Magyar Bancorp, Inc., a Delaware-chartered mid-tier stock holding company. Magyar Bancorp, Inc. (the Company) owns 100% of the outstanding shares of common stock of Magyar Bank. Magyar Bancorp, Inc. is a majority-owned subsidiary of Magyar Bancorp, MHC, a New Jersey-chartered mutual holding company.

Magyar Bancorp, MHC, owns 54.0%, or 3,200,450, of the issued shares of common stock of Magyar Bancorp, Inc. Of the remaining shares, 2,555,691, or 43.2%, are held by public stockholders and 167,601, or 2.8%, are held by Magyar Bancorp, Inc. in treasury stock. So long as Magyar Bancorp, MHC exists, it will be required to own a majority of the voting stock of Magyar Bancorp, Inc. Magyar Bancorp, MHC is subject to comprehensive regulation and examination by the Board of Governors of the Federal Reserve System and the New Jersey Department of Banking and Insurance.

Magyar Bank (the Bank) is subject to regulations issued by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation. The Bank’s administrative offices are located in New Brunswick, New Jersey. The Bank has five branch offices which are located in New Brunswick (two including the main branch), North Brunswick, South Brunswick and Branchburg, New Jersey. The Bank’s savings deposits are insured by the FDIC through the Deposit Insurance Fund (DIF); also, the Bank is a member of the Federal Home Loan Bank of New York.

MagBank Investment Company, a New Jersey investment corporation subsidiary of Magyar Bank was formed on August 15, 2006 for the purpose of buying, selling and holding investment securities.

Hungaria Urban Renewal, LLC is a Delaware limited-liability corporation established in 2002 as a qualified intermediary operating for the purpose of acquiring and developing Magyar Bank’s new main office. The Bank owns a 100% interest in Hungaria Urban Renewal, LLC, which has no other business other than owning the Bank’s main office site.

Magyar Service Corporation, a New Jersey corporation, is a wholly owned, non-bank subsidiary of Magyar Bank. Magyar Service Corporation, which also operates under the name Magyar Financial Services, receives commissions from annuity and life insurance sales referred to a licensed, non-bank financial planner.

The Bank competes with other banking and financial institutions in its primary market areas. Commercial banks, savings banks, savings and loan associations, credit unions and money market funds actively compete for savings and time certificates of deposit and all types of loans. Such institutions, as well as consumer financial and insurance companies, may be considered competitors of the Bank with respect to one or more of the services it renders.

The Bank is subject to regulations of certain state and federal agencies and, accordingly, the Bank is periodically examined by such regulatory authorities. As a consequence of the regulation of commercial banking activities, the Bank’s business is particularly susceptible to future state and federal legislation and regulations.

Table of Contents

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Financial Statement Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (US GAAP) and predominant practices within the banking industry. The financial statements include the accounts of the Company and its who