Maspeth Federal Savings and Loan Association and Subsidiaries

Consolidated Financial Statements

September 30, 2016 and 2015

Tel: +212 885-8000
Fax: +212 697-1299
www.bdo.com

100 Park Avenue
New York, NY 10017

Independent Auditor's Report

Board of Directors
Maspeth Federal Savings and Loan Association
Maspeth, New York

We have audited the accompanying consolidated financial statements of Maspeth Federal Savings and Loan Association and Subsidiaries (collectively, the "Association") which comprise the consolidated statements of financial condition as of September 30, 2016 and 2015 and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Maspeth Federal Savings and Loan Association and Subsidiaries as of September 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Harrisburg, Pennsylvania
January 30, 2017

Maspeth Federal Savings and Loan Association and Subsidiaries

Consolidated Statements of Financial Condition
(In Thousands)
September 30, 2016 and 2015

	2016	2015
Assets		
Cash and due from banks (including interest-earning balances of $59,059 at September 30, 2016 and $31,138 at September 30, 2015)	$ 69,576	$ 39,492
Securities available for sale, at fair value	16,287	-
Securities held-to-maturity (fair value of $118,528 at September 30, 2015)	-	118,247
Federal Home Loan Bank of New York stock, at cost	2,236	2,178
Loans receivable, net of allowance for loan losses of $15,541 at September 30, 2016 and $15,624 at September 30, 2015	1,616,474	1,529,385
Interest receivable	4,970	5,318
Real estate owned	1,439	2,236
Real estate held for investment	1,740	1,786
Premises and equipment, net	13,503	13,720
Deferred income tax asset, net	15,578	22,146
Other assets	19,747	16,833
Total assets	$ 1,761,550	$ 1,751,341
Liabilities and Equity		
Liabilities		
Deposits	$ 1,163,703	$ 1,174,156
Mortgage escrow funds	6,687	5,852
Accrued expenses and other liabilities	23,505	23,014
Total liabilities	1,193,895	1,203,022
Commitments and Contingencies		
Equity		
Retained earnings	571,379	550,904
Accumulated other comprehensive loss, net of income taxes	(3,724)	(2,585)
Total equity	567,655	548,319
Total liabilities and equity	$ 1,761,550	$ 1,751,341

See notes to consolidated financial statements

Maspeth Federal Savings and Loan Association and Subsidiaries

Consolidated Statements of Income
(In Thousands)
Years Ended September 30, 2016 and 2015

	2016	2015
Interest Income		
Loans	$ 74,111	$ 73,682
Securities, taxable	835	862
Other interest-earning assets	99	96
Total interest income	75,045	74,640
Interest Expense, Deposits	4,493	4,530
Net interest income	70,552	70,110
Credit for Loan Losses	(820)	(3,646)
Net interest income after credit for loan losses	71,372	73,756
Non-Interest Income		
Fees and service charges	314	337
Net gain on sale of securities held to maturity	105	-
Other operating revenues	517	504
Total non-interest income	936	841
Non-Interest Expense		
Compensation and benefits	18,395	17,885
Occupancy and equipment	3,115	3,037
Outside service expense	2,633	2,323
Net gain (loss)on sale of real estate owned	2	(149)
Advertising and promotion	760	918
Federal deposit insurance premiums	977	1,165
State and local taxes	1,823	-
Direct loan origination costs deferred	(509)	(442)
Other operating expenses	6,200	5,853
Total non-interest expense	33,396	30,590
Income before provision for income taxes	38,912	44,007
Provision for Income Taxes	18,437	20,174
Net income	$ 20,475	$ 23,833

See notes to consolidated financial statements

Maspeth Federal Savings and Loan Association and Subsidiaries

Consolidated Statements of Comprehensive Income
(In Thousands)
Years Ended September 30, 2016 and 2015

	2016	2015
Net Income	$ 20,475	$ 23,833
Other Comprehensive Income (Loss)		
Pension liability [(1)]	(1,236)	(553)
Directors' Retirement Plan [(1)]	(288)	253
Unrealized gain on securities available for sale	749	-
	(775)	(300)
Deferred income tax effect [(2)]	(364)	164
Total other comprehensive loss	(1,139)	(136)
Total comprehensive income	$ 19,336	$ 23,697

[(1)] This item is included in the computation of net periodic pension cost and is included in compensation and benefits within non-interest expense.

[(2)] Income tax amounts are included in the provision for income tax expense.

See notes to consolidated financial statements

Maspeth Federal Savings and Loan Association and Subsidiaries

Consolidated Statements of Changes in Equity
(In Thousands)
Years Ended September 30, 2016 and 2015

	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance - October 1, 2015	$ 527,071	$ (2,449)	$ 524,622
Net income	23,833	-	23,833
Other comprehensive loss	-	(136)	(136)
Balance - September 30, 2015	550,904	(2,585)	548,319
Net income	20,475	-	20,475
Other comprehensive loss	-	(1,139)	(1,139)
Balance - September 30, 2016	$ 571,379	$ (3,724)	$ 567,655

See notes to consolidated financial statements

Maspeth Federal Savings and Loan Association and Subsidiaries

Consolidated Statements of Cash Flows
(In Thousands)
Years Ended September 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Net income	$ 20,475	$ 23,833
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,268	1,200
Credit for loan losses	(820)	(3,646)
Net amortization of security premium and discount	278	776
Amortization of deferred loan fees and costs, net	(196)	(84)
Realized gain on sale of securities held to maturity	(105)	-
Loss (gain) on sale of real estate owned	2	(149)
Deferred income tax expense	6,204	261
(Increase) decrease in:		
Other assets	(2,914)	(4,181)
Interest receivable	348	295
Increase (decrease) in:		
Accrued expenses and other liabilities	(1,036)	1,650
Accrued interest payable	5	(2)
Net cash provided by operating activities	23,509	19,953
Cash Flows from Investing Activities		
Net increase in loans	(86,955)	(33,296)
Net (purchase) redemption of Federal Home Loan Bank of New York stock	(58)	42
Purchases of securities held-to-maturity	(5,217)	(55,488)
Proceeds from sale of securities held to maturity	50,251	-
Maturities of securities held-to-maturity	57,500	37,500
Proceeds from sale of real estate owned	1,677	2,226
Purchases of premises and equipment, net	(1,005)	(2,222)
Net cash provided by (used in) investing activities	16,193	(51,238)
Cash Flows from Financing Activities		
Increase in mortgage escrow funds	835	369
Net decrease in deposits	(10,453)	(11,441)
Net cash used in financing activities	(9,618)	(11,072)
Net increase (decrease) in cash and cash equivalents	30,084	(42,357)
Cash and Cash Equivalents, Beginning of Year	39,492	81,849
Cash and Cash Equivalents, End of Year	$ 69,576	$ 39,492
Supplementary Cash Flows Information		
Interest paid	$ 4,489	$ 4,532
Income taxes paid	$ 16,511	$ 24,072
Supplementary Schedule of Noncash Activities		
Transfer from loans to real estate owned	$ 882	$ 557
Transfer from securities held to maturity to available for sale	$ 15,538	$ -

See notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Maspeth Federal Savings and Loan Association (the "Association") is a federally-chartered savings and loan association regulated by the Comptroller of the Currency (the "OCC"). The Association is principally engaged in the business of attracting customer deposits and investing those funds into residential and commercial mortgage loans. The Association presently conducts its operations through seven locations in the New York City area.

The consolidated financial statements of the Association and its subsidiaries are prepared in conformity with accounting principles generally accepted in the United States of America. The following are the significant accounting and reporting policies followed by the Association in preparing and presenting the accompanying consolidated financial statements.

Basis of Presentation

The accompanying consolidated financial statements of the Association include the accounts of its wholly-owned subsidiaries, M.A.B. Realty Corp. and M.S.H. Services Ltd. M.A.B. Realty Corp. was formed to hold certain real estate acquired by the Association through foreclosure and real estate held for investment. Results of operations for real estate acquired through foreclosure are included in other operating expenses. M.S.H. Services Ltd. was formed to hold certain real estate property. All significant intercompany accounts and transactions are eliminated in consolidation.

In preparing these consolidated financial statements, the Association evaluated events for recognition or disclosure through January 30, 2017, the date these consolidated financial statements were available to be issued.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates and assumptions.

A material estimate that is particularly susceptible to significant changes relates to the determination of the allowance for loan losses. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions in the Association's market area.

In addition, the OCC, as an integral part of its examination process, periodically reviews the Association's allowance for loan losses. The OCC may require the Association to recognize additions to the allowance for loan losses based on its judgments about information available at the time of its examination.

Cash and Cash Equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash and due from banks.

Securities

The Association reports debt and equity securities in one of the following categories: (i) “held-to-maturity” (management has positive intent and ability to hold to maturity) which are reported at cost adjusted for the amortization of premiums and accretion of discounts; (ii) “trading” (held for current resale) which are reported at fair value, with unrealized gains and losses included in earnings; and (iii) “available-for-sale” (all other debt and equity securities) which are reported at fair value, with unrealized gains and losses reported net of tax as a separate component of equity. At the time of new securities purchases, a determination is made as to the appropriate classification. In the second quarter of 2016 all the Association’s U.S. Treasury securities that were held to maturity were sold for liquidity purposes. By doing this, the remaining U.S agency notes totaling $15.5 million were required to be classified as available for sale. At September 30, 2016, all securities were classified as available-for-sale.

Individual securities are considered impaired when fair value is less than amortized cost. Management evaluates on a monthly basis whether any securities are other-than-temporarily impaired. In making this determination, management considers the extent and duration of the impairment, the nature and financial health of the issuer, other factors relevant to specific securities, and whether or not the Association intends or may be required to sell a security prior to the full recovery of its fair value to an amount at least equal to amortized cost. If a security is determined to be other-than-temporarily impaired, any credit related impairment loss is charged to operations.

Premiums and discounts on securities are amortized to expense and accreted to income over the contractual lives of the respective securities using the straight-line method which is not materially different from the level-yield method. Gains and losses on the sales of securities are recognized when sold using the specific identification method.

Federal Home Loan Bank of New York Stock

Federal law requires a member institution of the Federal Home Loan Bank (“FHLB”) system to hold stock of its district FHLB according to a predetermined formula. The stock is carried at cost.

Management evaluates the stock for impairment in accordance with guidance on accounting by certain entities that lend to or finance the activities of others. Management’s determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted; (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB; (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB; and (4) the liquidity position of the FHLB.

Management believes no impairment charge was necessary related to the FHLB Stock for the years ended September 30, 2016 and 2015.

Loans Receivable

Loans receivable are stated at unpaid principal balances adjusted for net deferred loan origination costs/fees and the allowance for loan losses. Loan origination fees, and certain loan origination costs, net, are deferred and recognized through interest income as an adjustment of the loan's yield over the term of the loan using the interest method.

Loans are placed on nonaccrual status when they become past due ninety days, or sooner if management deems it appropriate. Past due status is determined based on original or modified contractual terms. All interest previously accrued and not collected is reversed against interest income, and income is subsequently recognized only to the extent cash is received until, in management's judgment, a return to accrual status is warranted. Loans are generally returned to accrual status when principal and interest payments are current, full collectability of principal and interest is reasonably assured and a consistent record of performance, generally six months, has been demonstrated.

Cash receipts on nonaccrual loans, including impaired loans, are applied to principal and interest in accordance with the contractual terms of the loan unless full payment of principal is not expected, in which case, both principal and interest payments received are applied as a reduction of the carrying value of the loan.

Concentration of Credit Risk

The Association's lending activities are concentrated in loans secured by real estate located primarily in the State of New York (predominantly in New York City.)

Allowance for Loan Losses

An allowance for loan losses is maintained at a level considered necessary to provide for loan losses based upon an evaluation of known and inherent losses in the loan portfolio, provisions for losses are charged to operations. Management of the Association, in determining the allowance for loan losses, considers the losses in the portfolio and changes in the nature and volume of its loan activities, along with the local economic and real estate market conditions. The Association utilizes a two-tier approach: (1) identification of impaired loans and establishment of specific loss allowances on such loans as necessary and (2) establishment of a general valuation allowance on the remainder of its loan portfolio. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The Association maintains a loan review system which allows for a periodic review of its loan portfolio and the early identification of impaired loans. The Association considers one-to-four family mortgage loans and consumer installment loans to be homogeneous and, therefore, does not separately evaluate them for impairment unless they are considered a troubled debt restructuring (TDR). A loan is considered to be a troubled debt restructuring when, to maximize the recovery of the loan, the Association modifies the borrower's existing loan terms and conditions in response to financial difficulties experienced by the borrower.

Management takes into consideration, among other things, delinquency status, size of loans, types of collateral and financial condition of borrowers when determining impairment. A loan is deemed to be impaired when, based on current information and events, it is probable that the Association will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated individually to measure the amount of impairment, if any. The Association does not aggregate such loans for evaluation purposes. Loan impairment is measured based on the present value of expected future cash flows discounted to the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The amount by which the recorded investment of an impaired loan exceeds its fair value is recognized by creating a valuation allowance through a charge to the provision for loan losses.

General valuation allowances are based upon a combination of factors including, but not limited to the higher of actual loan loss or peer loss rates, composition of the loan portfolio, current economic conditions and management's judgment. Regardless of the extent of the analysis of customer performance, portfolio evaluations, trends and risk management processes established, certain inherent, but undetected losses are probable within the loan portfolio. This is due to several factors including inherent delays in obtaining information regarding a customer's financial condition or changes in their financial condition, the judgmental nature of individual loan evaluations, collateral assessments and the interpretation of economic trends, and the sensitivity of assumptions utilized to establish allocated allowances for homogeneous groups of loans among other factors. These other risks factors are continually reviewed and revised by management where conditions indicate that the estimates initially applied are different from actual results.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic condition or the result of regulatory examination. Management believes that the allowance for loan losses is adequate.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the related assets or, with respect to leasehold improvements, over the term of the related leases, whichever is shorter. Significant renewals and betterments are charged to the property and equipment account. Maintenance and repairs are charged to operations in the year incurred. Rental income is netted against occupancy costs in the consolidated statement of income.

Real Estate Owned and Real Estate Held for Investment

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

Operating expenses of holding real estate, net of related income, are charged against income as incurred. Gains on sales of real estate are recognized, normally at closing, when initial investment and certain other requirements are met; otherwise such gains are deferred and recognized on the installment method of accounting. Losses on the disposition of real estate, including expenses incurred in connection with the disposition, are charged to operations.

Real estate held for investment consists of mixed use real estate adjacent to the main office. This property was acquired to protect the franchise value of the Association.

Income Taxes

The Association and its subsidiaries file consolidated federal and combined state and city income tax returns. Income taxes are allocated based on the contribution of their respective income or loss to the consolidated income tax return.

Income taxes have been provided on the basis of reported income.

Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. To the extent that current available evidence about the future raises doubt about the realization of a deferred tax asset, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Association follows the provisions of FASB ASC Topic 740, “Accounting for Uncertainty in Income Taxes”, that provides clarification on accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. The provisions prescribe a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. The Association has recognized no adjustment for unrecognized tax benefits for the years ended September 30, 2016 and 2015. The Association’s policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the Consolidated Statement of Income. The amount of interest and penalties for the years ended September 30, 2016 and 2015 was immaterial. The tax years subject to examination by the taxing authorities are the years ended December 31, 2015, 2014 and 2013.

Advertising Costs

Advertising costs are expensed as incurred.

Comprehensive Income

Total comprehensive income consists of net income and other comprehensive income (loss) representing changes in equity resulting from transactions not recognized in net income. Accumulated other comprehensive loss at September 30, 2016 and 2015, and other comprehensive income (loss) for the years then ended related to post retirement liabilities and securities available for sale.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 11. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Defined Benefit Plan

The Association accounts for its defined benefit plans in accordance with the provisions of FASB ASC Topic 715, “Compensation – Retirement Benefits”, which requires an employer to: (*a*) recognize in its statement of financial condition an asset for a plan’s overfunded status or a liability for a plan’s underfunded status; (*b*) measure a plan’s assets and its obligations that determine its funded status as of the end of the employer’s fiscal year (with limited exceptions); and (*c*) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur.

Off-Balance Sheet Credit-Related Financial Instruments

In the ordinary course of business, the Association enters into commitments to extend credit, including commitments under lines of credit. Such financial instruments are recorded when they are funded.

Interest Rate Risk

The Association is principally engaged in the business of attracting deposits from the general public and using these deposits, together with other funds, to purchase securities and to make loans secured by real estate. The potential for interest-rate risk exists as a result of the generally shorter duration of the Association’s interest-sensitive liabilities compared to the generally longer duration of its interest-sensitive assets. In a rising rate environment, liabilities will reprice faster than assets, thereby reducing net interest income. For this reason, management regularly monitors the maturity structure of the Association’s assets and liabilities in order to measure its level of interest-rate risk and to plan for future volatility.

Reclassifications

Certain prior year amounts may be reclassified from time to time to conform to the current year's presentation. Such reclassifications, if any, are not considered material to the consolidated financial statements.

2. Securities

Securities available-for-sale at September 30, 2016 and held-to-maturity at September 30, 2015 are summarized as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2016:				
U.S. agency notes	$ 15,538	$ 749	$ -	$ 16,287
	$ 15,538	$ 749	$ -	$ 16,287
September 30, 2015:				
U.S. treasury	$ 107,869	$ 126	$ -	$ 107,995
U.S. agency notes	10,378	310	155	10,533
	$ 118,247	$ 436	$ 155	$ 118,528

Gross unrealized losses on securities held-to-maturity and the fair value of the related securities, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2015 are as follows (in thousands):

	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2015:						
U.S. agency notes	$ 5,107	$ 155	$ -	$ -	$ 5,107	$ 155

The following is a summary of the amortized cost and fair values of securities available for sale at September 30, 2016, by remaining term to contractual maturity. Actual maturities may differ from contractual maturities because the issuers may have the right to call or redeem their obligations prior to contractual maturity (in thousands).

	Amortized Cost	Fair Value
Less than one year	$ -	$ -
After one year, within five years	-	-
After five years, within ten years	15,538	16,287
	$ 15,538	$ 16,287

During the year ended September 30, 2016, the proceeds from sales of securities held-to-maturity totaled $50.3 million resulting in gross realized gain of $105,000.

3. Loans Receivable and Allowance for Loan Losses

Loans receivable, net, at September 30, 2016 and 2015 are summarized as follows (in thousands):

	2016	2015
Mortgage loans:		
One-to-four family	$ 924,241	$ 907,403
Multi-family	225,125	203,525
Commercial and line of credit	398,496	362,002
Construction and land	82,375	69,894
	1,630,237	1,542,824
Consumer and other loans:		
Home improvement loans	197	216
Loans secured by deposit accounts	22	16
	219	232
	1,630,456	1,543,056
Deferred discounts and loan origination costs and fees, net	1,559	1,953
Allowance for loan losses	(15,541)	(15,624)
	$ 1,616,474	$ 1,529,385

The allowance for loan losses consists of specific, general and unallocated components. The specific component relates to loans classified as impaired, and an allowance is established when the discounted cash flow of the impaired loan or the fair value of the underlying collateral is lower than the carrying value of the loan. The general component covers pools of loans by loan class not considered impaired, such as smaller balance homogeneous loans, such as one-to-four family real estate, construction real estate, land, commercial line of credit and passbook loans. These pools of loans are evaluated for loss exposure based upon the higher of the Association's actual loan loss or peer loss rates for each of these categories of loans, adjusted for qualitative factors to reflect current conditions. These qualitative factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-offs, and recovery practices.

2. Regional and local economic and business conditions including the value of underlying collateral for collateral dependent loans.

3. Nature and volume of the portfolio and terms of loans.

4. Experience, ability, and depth of lending management and staff and the quality of the Association's loan review system.

5. Volume and severity of past due, classified and nonaccrual.

6. Existence and effect of any concentrations of credit and changes in the level of such concentrations.

7. Changes in the values of mortgage loan's collateral.

8. Effects of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value reflecting improving, stable or declining conditions based on management's best judgment using relevant information available at the time of evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The evaluation of the adequacy of the allowance is based on an analysis which categorizes the entire loan portfolio by certain risk characteristics. The loan portfolio is segmented into the following loan classes, where the risk level for each class is analyzed when determining the allowance for loan losses.

Mortgage Loans:

1. One-to-four Family Loans - consists of loans secured by first liens on either owner occupied or investment properties. These loans can be affected by economic conditions and the value of the underlying properties. The risk is considered relatively low as the Association has had minimal historical losses and does not have sub-prime loans in its loan portfolio.

2. Multi-family Loans - consists of loans secured by multi-family real estate which generally involve a greater degree of risk than one-to-four family residential mortgage loans. These loans can be affected by economic conditions and the value of the underlying properties. The Association has had minimal historical losses and does not have sub-prime loans in its portfolio.

3. Commercial Loans and Line of Credit - consists mostly of loans to purchase commercial real estate, renovate the property, or for the property owner to take equity out of the property. This segment is disaggregated into two classes: commercial real estate loans and commercial lines of credit. Both classes are secured by commercial real estate. Commercial real estate loans are only secured by first lien positions, whereas commercial lines of credit are mostly secured by second liens. The repayments of these kinds of loans are dependent upon either ongoing cash flow of the borrowing entity or the lease of the subject property. These loans can be affected by economic conditions and the value of the underlying properties to a greater degree than one-to-four family and multi-family loans.

4. Construction and Land Loans - consists primarily of the financing of construction of one- to four-family properties or for construction of multi-family homes. The construction only loans generally are considered to involve a higher degree of risk of loss than long term financing on improved, occupied real estate due to uncertainty of construction costs. Inspections are performed prior to disbursement of loan proceeds as construction progresses to mitigate these risks. These loans are affected by economic conditions. Land loans consist of loans secured by land for borrowers who are not ready to begin construction at this time and as such are not ready to obtain a construction loan but will be ready in the future. Land loans are considered to involve a higher risk of loss. These loans are affected by economic conditions.

Consumer and Other Loans:

1. Home Improvement Loans - consists of loans secured by first liens or second liens of owner occupied properties. These loans can be affected by borrower’s continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. The credit risk is considered slightly higher than one-to-four family first lien loans as these loans are also dependent on the value of underlying properties, but have an added risk in subordinate collateral positions.

2. Loans secured by deposit accounts - consists of loans secured by passbook accounts and unsecured loans. The passbook loans have low credit risk as they are fully secured by their collateral.

The Association further segregates loan classes into credit quality risk rating categories. The borrower’s overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated when credit deficiencies arise, such as delinquent loan payment. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified special mention have potential weakness and deserve management’s close attention. If uncorrected, the potential weakness may result in deterioration of the repayment prospects. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristics that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectable and are charged to the allowance for loan losses. Loans not classified are rated pass.

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Association's internal risk rating system as of September 30, 2016 and 2015 (in thousands).

	Pass	Special Mention	Substandard	Doubtful	Total
At September 30, 2016:					
Real estate loans:					
One-to-four family	$ 873,904	$ 17,711	$ 32,626	$ -	$ 924,241
Multi-family	223,327	-	1,798	-	225,125
Commercial and line of credit	376,173	12,663	9,660	-	398,496
Construction and land	76,175	844	5,356	-	82,375
Consumer and other loans:					
Home improvement loans	100	72	25	-	197
Loans secured by deposit accounts	22	-	-	-	22
Total	$ 1,549,701	$ 31,290	$ 49,465	$ -	$ 1,630,456

	Pass	Special Mention	Substandard	Doubtful	Total
At September 30, 2015:					
Real estate loans:					
One-to-four family	$ 843,252	$ 27,468	$ 36,683	$ -	$ 907,403
Multi-family	202,037		1,488	-	203,525
Commercial and line of credit	337,526	16,043	8,073	-	362,002
Construction and land	60,033	580	9,281	-	69,894
Consumer and other loans:					
Home improvement loans	149	42	25	-	216
Loans secured by deposit accounts	16	-	-	-	16
Total	$ 1,443,013	$ 44,493	$ 55,550	$ -	$ 1,543,056

The following tables summarizes the activity in the allowance for loan losses by class and the information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of and for the years ended September 30, 2016 and 2015 (in thousands).

	Allowance for Loan Losses						
For the year ended	Beginning Balance	Charge-offs	Recoveries	Provisions/ Credits	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated by Impairment
September 30, 2016:							
One-to-four family	$ 8,861	$ (255)	$ 568	$ (444)	$ 8,730	$ 5,314	$ 3,416
Multi-family	1,545		-	231	1,776	1,028	748
Commercial and line of credit	2,945	-	424	255	3,624	1,394	2,230
Construction and land	1,473	-	-	(1,012)	461	22	439
Home improvement loans	1	-	-	-	1	-	1
Loans secured by deposit accounts	0	-	-	-	0	-	-
Unallocated	799	-	-	150	949		949
Total	$ 15,624	$ (255)	$ 992	$ (820)	$ 15,541	$ 7,758	$ 7,783

	Loans Receivable		
	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
At September 30, 2016:			
One-to-four family	$ 924,241	$ 46,005	$ 878,236
Multi-family	225,125	5,553	219,572
Commercial and line of credit	398,496	8,632	389,864
Construction and land	82,375	3,673	78,702
Home improvement loans	197	-	197
Loans secured by deposit accounts	22	-	22
Total	$ 1,630,456	$ 63,863	$ 1,566,593

For the year ended	Allowance for Loan Losses: Beginning Balance	Charge-offs	Recoveries	Provisions/ Credits	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated by Impairment
September 30, 2015:							
One-to-four family	$ 10,169	$ (216)	$ 170	$ (1,262)	$ 8,861	$ 5,231	$ 3,630
Multi-family	2,046	(134)	-	(367)	1,545	1,070	475
Commercial and line of credit	3,152	(13)	-	(194)	2,945	1,511	1,434
Construction and land	3,045	(24)	-	(1,548)	1,473	29	1,444
Home improvement loans	1	-	-	-	1	-	1
Loans secured by deposit accounts	1	-	-	(1)	0	-	-
Unallocated	1,073	-	-	(274)	799	-	799
	$ 19,487	$ (387)	$ 170	$ (3,646)	$ 15,624	$ 7,841	$ 7,783

	Loans Receivable: Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
At September 30, 2015:			
One-to-four family	$ 907,403	$ 51,872	$ 855,531
Multi-family	203,525	6,559	196,966
Commercial and line of credit	362,002	8,695	353,307
Construction and land	69,894	3,527	66,367
Home improvement loans	216	-	216
Loans secured by deposit accounts	16	-	16
Total	$ 1,543,056	$ 70,653	$ 1,472,403

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of September 30, 2016 and 2015 (in thousands).

	30-59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total Gross Loans
At September 30, 2016:						
Real estate loans:						
One-to-four family	$ 16,294	$ 3,416	$ 39,810	$ 59,520	$ 864,721	$ 924,241
Multi-family	4,618	771	612	6,001	219,124	225,125
Commercial and line of credit	1,182	1,826	3,565	6,573	391,923	398,496
Construction and land	558	-	4,202	4,760	77,615	82,375
Consumer loans:						
Home improvement loans	-	-	97	97	100	197
Loans secured by deposit accounts	-	-	-	-	22	22
Total	$ 22,652	$ 6,013	$ 48,286	$ 76,951	$ 1,553,505	$ 1,630,456

	30-59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total Gross Loans
At September 30, 2015:						
Real estate loans:						
One-to-four family	$ 22,047	$ 10,882	$ 45,339	$ 78,268	$ 829,135	$ 907,403
Multi-family	791	-	330	1,121	202,404	203,525
Commercial and line of credit	6,823	2,179	4,132	11,134	350,868	362,002
Construction and land	1,500	380	6,724	8,604	61,290	69,894
Consumer loans:						
Home improvement loans	-	-	67	67	149	216
Loans secured by deposit accounts	-	-	-	-	16	16
Total	$ 31,161	$ 11,441	$ 56,592	$ 99,194	$ 1,443,862	$ 1,543,056

The following table provides nonaccrual loans by class of the loan portfolio as of September 30, 2016 and 2015 (in thousands):

	2016	2015
One-to-four family	$ 55,317	$ 60,011
Multi-family	2,715	807
Commercial	4,290	5,317
Construction and land	4,392	6,933
Home improvement loans	97	67
Total nonaccrual loans	$ 66,811	$ 73,135

The effect on interest income of such nonaccrual loans for the years ended September 30, 2016 and 2015 was a reduction in interest income of approximately $3,407,000 and $4,094,000, respectively.

The following table summarizes information in regards to impaired loans for loan's individually evaluated for impairment as of and for the years ended September 30, 2016 and 2015 (in thousands).

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2016:					
With no related allowance recorded:					
One-to-four family	$ 14,251	$ 15,251	$ -	$ 14,231	$ 92
Multi-family	691	825	-	701	36
Commercial and line of credit	1,301	1,398	-	1,303	-
Construction and land	2,418	2,565	-	2,407	-
Total with no allowance recorded	$ 18,661	$ 20,039	$ -	$ 18,642	$ 128
With an allowance recorded:					
One-to-four family	$ 31,754	$ 31,754	$ 5,314	$ 31,912	$ 1,210
Multi-family	4,862	4,862	1,028	5,100	211
Commercial and line of credit	7,331	7,331	1,394	7,331	279
Construction and land	1,255	1,255	22	1,225	51
Total with an allowance recorded	$ 45,202	$ 45,202	$ 7,758	$ 45,598	$ 1,751
Total:					
One-to-four family	$ 46,005	$ 47,005	$ 5,314	$ 46,143	$ 1,302
Multi-family	5,553	5,687	1,028	5,801	247
Commercial and line of credit	8,632	8,729	1,394	8,634	279
Construction and land	3,673	3,820	22	3,662	51
Total impaired	$ 63,863	$ 65,241	$ 7,758	$ 64,240	$ 1,879

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2015:					
With no related allowance recorded:					
One-to-four family	$ 19,810	$ 21,123	$ -	$ 19,270	$ 46
Multi-family	711	846	-	286	-
Commercial and line of credit	1,309	1,398	-	1,146	-
Construction and land	2,236	2,383	-	2,263	-
Total with no allowance recorded	$ 24,066	$ 25,750	$ -	$ 22,965	$ 46
With an allowance recorded:					
One-to-four family	$ 32,062	$ 32,062	$ 5,231	$ 31,670	$ 1,242
Multi-family	5,848	5,848	1,070	5,928	224
Commercial and line of credit	7,386	7,386	1,511	7,517	300
Construction and land	1,291	1,291	29	1,350	55
Total with an allowance recorded	$ 46,587	$ 46,587	$ 7,841	$ 46,465	$ 1,821
Total:					
One-to-four family	$ 51,872	$ 53,185	$ 5,231	$ 50,940	$ 1,288
Multi-family	6,559	6,694	1,070	6,214	224
Commercial and line of credit	8,695	8,784	1,511	8,663	300
Construction and land	3,527	3,674	29	3,613	55
Total impaired	$ 70,653	$ 72,337	$ 7,841	$ 69,430	$ 1,867

The Association had no loans which were 90 days or more past due and accruing interest at September 30, 2016 and 2015.

The Association may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a troubled debt restructuring (TDR). The Association may modify loans through rate reductions, extensions of maturity, interest only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purpose of calculating the Association's allowance for loan losses.

The Association identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

Loans which have been current for six consecutive months at the time they are restructured remain on accrual status. Loans which were delinquent at the time they are restructured are placed on non-accrual status until they have made timely payments for six consecutive months.

The following table reflects information regarding the Association's troubled debt restructurings and troubled debt restructuring loans which have subsequently defaulted within twelve months of the restructure for the years ended September 30, 2016 and 2015 (dollars in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
2016:			
Troubled debt restructurings:			
One-to-four family	14	$ 4,499	$ 3,531
Multi-family residential	-	-	-
Commercial	1	41	34
Construction and land	-	-	-
Total	15	$ 4,539	$ 3,565

	Number of Contracts	Recorded Investment
Troubled debt restructurings that subsequently defaulted:	-	$ -

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
2015:			
Troubled debt restructurings:			
One-to-four family	15	$ 4,699	$ 3,756
Multi-family residential	-	-	-
Commercial	1	178	145
Construction and land	-	-	-
Total	16	$ 4,877	$ 3,901

	Number of Contracts	Recorded Investment
Troubled debt restructurings that subsequently defaulted:	-	$ -

Residential Mortgage Loans in Foreclosure

The Association may obtain physical possession of one- to four-family real estate collateralizing a residential mortgage loan via foreclosure or through an in-substance repossession. As of September 30, 2016, the Association held two single-family property in real estate owned with a carrying value of $1,439,000 that was acquired through foreclosure on a residential mortgage loan. As of that date, we held 78 residential mortgage loans with aggregate carrying value totaling $32.2 million which were in the process of foreclosure.

4. Premises and Equipment, Net

Premises and equipment at September 30, 2016 and 2015 are summarized as follows (in thousands):

	Estimated Useful Lives	2016	2015
Land	-	$ 3,519	$ 3,519
Buildings and improvements	20 - 40	12,801	12,780
Furnishings and equipment	5 - 10	6,452	6,588
		22,772	22,887
Accumulated depreciation and amortization		(9,269)	(9,167)
		$ 13,503	$ 13,720

5. Deposits

Deposits at September 30, 2016 and 2015 are summarized as follows (dollar amounts in thousands):

	2016		2015	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Demand accounts:				
Passbook accounts	$ 711,058	0.44 %	$ 704,681	0.25 %
Variable rate money market deposit accounts	22,774	0.44	25,145	0.25
Negotiable order of withdrawal (NOW) accounts	97,806	0.44	89,740	0.25
Non-interest bearing	29,370	0.00	27,065	0.00
	861,008	0.43	846,631	0.24
Certificates of deposit:				
0.10% to 0.99%	249,183		279,066	
1.00% to 1.99%	53,512		45,675	
2.00% to 2.99%	-		2,784	
	302,695	0.71	327,525	0.68
	$ 1,163,703	0.50 %	$ 1,174,156	0.36 %

The aggregate amount of certificates of deposit with balances equal to or greater than $250,000 was $22,849,000 and $23,419,000 at September 30, 2016 and 2015, respectively.

Scheduled maturities of certificates of deposit at September 30, 2016 are as follows (dollar amounts in thousands):

	Amount	Percent
Less than one year	$ 220,972	73.0%
Over one year but less than three years	60,070	19.8
Over three years	21,653	7.2
	$ 302,695	100.0%

The Federal Deposit Insurance Corporation (FDIC) insures deposits of account holders up to $250,000 per insured depositor. To provide for this insurance, the Association must pay a risk-based annual assessment which considers the financial soundness of the institution and capitalization level. The Association, as a well-capitalized institution, has been assessed at the FDIC's lowest assessment level.

6. Federal, State and City Taxes

Income tax expense for the years ended September 30, 2016 and 2015 is summarized as follows (in thousands):

	2016	2015
Federal income tax expense (benefit):		
Current	$ 15,670	$ 12,828
Deferred	(821)	168
	14,849	12,996
State and city tax expense (benefit):		
Current	(3,437)	7,085
Deferred	7,025	93
	3,588	7,178
	$ 18,437	$ 20,174

The reconciliation between the statutory federal income tax rate and the effective tax rate (including state and city taxes) is as follows:

	2016	2015
Statutory tax rate	35.0 %	35.0 %
Tax effects of:		
State and city income taxes, net of federal tax benefit	11.3	10.6
Other, net	1.1	0.2
	47.4 %	45.8 %

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities at September 30, 2016 and 2015 are as follows (in thousands):

	2016	2015
Deferred tax assets:		
Allowance for loan losses	$ 5,439	$ 7,110
Nonaccrual interest	4,478	6,118
Performance share plan	6,377	8,429
Directors Retirement Plan Liability	136	58
Other Real Estate Owned	579	-
Directors Retirement Plan Liability (accumulated other comprehensive loss)	295	277
Pension liability (accumulated other comprehensive loss)	2,001	2,039
Depreciation	-	1,210
Total deferred tax assets	19,305	25,241
Deferred tax liabilities:		
Deferred loan costs	(1,436)	(1,954)
Prepaid pension asset	(902)	(1,141)
Depreciation	(878)	-
Securities available for sale	(344)	-
Other	(167)	-
Total deferred tax liabilities	(3,727)	(3,095)
Net deferred tax asset	$ 15,578	$ 22,146

The Association's retained earnings include approximately $22.4 million at September 30, 2016 and 2015, which has been segregated for federal income tax purposes as a bad debt reserve. The use of this amount for purposes other than to absorb losses on loans may result in taxable income for federal income taxes.

Management believes it to be more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

7. Regulatory Capital

The Association is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Association's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Association must meet specific capital guidelines that involve quantitative measures of the Association's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Association's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Association to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 risk-based capital (as defined in the regulations) to risk-weighted assets (as defined), and of leverage (core) to adjusted total assets (as defined). Effective January 1, 2015, the Association must also maintain amounts and ratios of Common equity tier 1 capital (as defined) to risk weighted assets. A capital conservation buffer requirement has phased in beginning January 1, 2016 at 0.625 percent risk-weighted assets and increases each subsequent year by an additional 0.625 percent reaching its final level of 2.5 percent of risk-weighted assets on January 1, 2019, when the full capital conservation buffer requirement will be effective. Management believes, as of September 30, 2016 and 2015, that the Association meets all capital adequacy requirements to which it is subject.

The most recent notification from the Comptroller of the Currency (the "OCC") categorized the Association as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Association must maintain minimum total risk-based, Tier 1 risk-based, Common equity tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Association's actual capital amounts and ratios are also presented in the table (dollars in thousands):

	Actual		For Capital Adequacy Purposes Includes Conservation Buffer		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2016:						
Total risk-based capital (to risk-weighted assets)	$ 586,920	40.4 %	$ 125,076	≥8.625 %	$ 145,016	≥10.0 %
Tier 1 risk-based capital (to risk-weighted assets)	571,379	39.4	96,073	≥6.625	116,013	≥8.0
Common Equity Tier 1 capital (to risk-weighted assets)	571,379	39.4	74,321	≥5.125	94,260	≥6.5
Tier 1 leverage (core) capital (to adjusted total assets)	571,379	32.5	70,354	≥4.000	87,882	≥5.0
As of September 30, 2015:						
Total risk-based capital (to risk-weighted assets)	$ 566,550	40.3 %	$ ≥112,378	≥8.0 %	$ ≥140,473	≥10.0 %
Tier 1 risk-based capital (to risk-weighted assets)	550,904	39.2	≥84,284	≥6.0	≥112,378	≥8.0
Common Equity Tier 1 capital (to risk-weighted assets)	550,904	39.2	≥63,213	≥4.5	≥91,307	≥6.5
Tier 1 leverage (core) capital (to adjusted total assets)	550,904	31.4	≥52,556	≥3.0	≥87,593	≥5.0

8. Benefit Plans

Pension Plan

The Association has a noncontributory qualified defined benefit pension plan (Plan) covering substantially all of its eligible employees. The following table sets forth information at September 30, 2016 and 2015 regarding this Plan (in thousands):

	2016	2015
Change in benefit obligation:		
Projected benefit obligation, beginning of year	$ 13,711	$ 12,753
Interest cost	405	418
Actuarial (gain) loss	1,148	(11)
Benefits paid	(774)	(364)
Service cost	903	915
Projected benefit obligation, end of year	$ 15,393	$ 13,711
Change in plan assets:		
Fair value of plan assets, beginning of year	$ 11,739	$ 11,263
Actual return on plan assets	176	(65)
Contributions	1,113	905
Benefits paid	(774)	(364)
Fair value of plan assets, end of year	$ 12,254	$ 11,739

Effective December 1, 2006, the methodology for calculating retirement benefits under the Plan was significantly changed. All retirement benefits earned by participants through November 30, 2006, which were determined via the Projected Unit Credit method, were frozen. All benefits earned after November 30, 2006, for both participants already in and subsequently joining the Plan, have been and will be calculated using a cash balance method based upon a percentage of annual compensation (ranging from 5.0% to 20.0%).

The following is a reconciliation of the funded status of the Plan and the net amounts recognized in the Association's consolidated statement of financial condition at September 30, 2016 and 2015 (in thousands):

	2016	2015
Actuarial present value of benefit obligation:		
Accumulated benefit obligation	$ 15,393	$ 13,711
Projected benefit obligation for service rendered to date	$ 15,393	$ 13,711
Fair value of plan assets	12,254	11,739
Funded status included in accrued expenses and other liabilities	$ 3,139	$ 1,972

The discount rates used to determine the benefit obligation at September 30, 2016 and 2015 were 3.25% and 4.25%, respectively, for the portion of the liability frozen at November 30, 2006, and 1.89% and 2.40%, respectively, for the liabilities subsequently recorded under the cash balance method.

The components of net periodic pension expense are as follows for the years ended September 30, 2016 and 2015 (in thousands):

	2016	2015
Service cost - benefits earned during the period	$ 903	$ 915
Interest cost on projected benefit obligation	405	418
Expected return on plan assets	(493)	(688)
Net amortization and deferral	230	190
Net periodic pension cost	$ 1,045	$ 835

The straight-line method of amortization is used for prior service costs.

The assumptions used to determine net periodic pension cost for the years ended September 30, 2016 and 2015 were as follows:

	2016	2015
Discount rate	3.25 % And 1.89 %	4.25 % And 2.40 %
Expected long-term rate of return on plan assets	4.50	6.50

The long-term investment objective is to allocate the Plan's assets to a range of approximately 20% equities, 31% fixed income securities, and 47% cash and cash equivalents to achieve an optimal risk/reward profile. Based on an analysis of the current market environment, the Company projects a 3% return from fixed income and a 6% return from equities, for an overall expected rate of return of approximately 4.5%. The long-term rate of return on assets assumption is set based on historical returns earned by equities and fixed income securities, adjusted to reflect expectations of future returns as applied to the Plan's actual target allocation of asset classes.

At September 30, 2016, $5,716,000 ($5,691,000 in actuarial loss and $25,000 in past service cost) has been recorded in accumulated other comprehensive loss before income tax effects. At September 30, 2015, $4,480,000 ($4,433,000 in actuarial loss and $47,000 in past service cost) has been recorded in accumulated other comprehensive loss before income tax effects. Approximately $289,000 of the actuarial loss and $21,000 of the past service liability are expected to be included in net periodic pension cost during the year ending September 30, 2017.

The Association's pension plan weighted-average asset allocation at September 30, 2016 and 2015 by asset category was approximately as follows:

	2016	2015
Equity securities	22 %	20 %
Fixed income securities	31	32
Cash and cash equivalents	47	48
	100 %	100 %

The Association's investment policies and strategies for plan assets are to manage the plan assets as a balanced account composed primarily of equities and fixed income securities. The equity portion of the plan assets is invested in growth and value stocks. Growth selections are made in issues that have high growth rates with lower than average dividend payouts and yields. Value selections are made from issues that have strong fundamentals, but are undervalued in the marketplace. The fixed income security portion of the plan assets may include, among others, investments in U.S. Treasury or Agency securities, as well as corporate notes and bonds. The expected long-term rate of return on plan assets is determined based upon the projected allocation of plan assets and the historical returns for each asset category.

The fair values of the Association's pension plan assets at September 30, 2016 and 2015 by asset category (see Note 11 for the definitions of levels) are as follows (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2016:				
Asset category:				
Cash	$ 5,473	$ 5,473	$ -	$ -
Money market funds	264	264	-	-
Fixed income securities:				
U.S. treasury and agency securities	3,857	1,054	2,803	-
Equity securities	488	488	-	-
Exchange traded funds	2,172	2,172	-	-
	$ 12,254	$ 9,451	$ 2,803	$ -

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2015:				
Asset category:				
Cash	$ 5,053	$ 5,053	$ -	$ -
Money market funds	568	568	-	-
Fixed income securities:				
U.S. treasury and agency securities	3,728	1,050	2,678	-
Equity securities	398	398	-	-
Exchange traded funds	1,992	1,992	-	-
	$ 11,739	$ 9,061	$ 2,678	$ -

The Association expects to contribute $1,100,000 to the pension plan for the year ending September 30, 2017. The following benefit payments are expected to be paid during the years ended September 30 (in thousands):

2017	$ 4,572
2018	366
2019	476
2020	949
2021	296
2022-2026	5,705

Directors' Retirement Plan

The Directors' Retirement Plan is a nonqualified, unfunded defined benefit pension plan with benefits based on fees paid to directors. The following table sets forth the funded status for the Directors' Retirement Plan and amounts recognized in the consolidated statements of financial condition at September 30, 2016 and 2015 (in thousands):

	2016	2015
Change in benefit obligation:		
Benefit obligation - beginning	$ 736	$ 930
Service cost	31	4
Interest cost	29	38
Benefits paid	-	(57)
Actuarial (gain) loss	435	(179)
Projected benefit obligation included in accrued expenses and other liabilities - ending	$ 1,231	$ 736

The assumptions used to determine the projected benefit obligation at September 30, 2016 and 2015 are as follows (dollars in thousands):

	2016	2015
Discount rate	3.25 %	4.00 %

Net periodic pension cost consisted of the following for the year ended September 30, 2016 and 2015 (in thousands):

	2016	2015
Service cost	$ 31	$ 4
Interest cost	29	38
Amortization of unrecognized net obligation	74	74
Amortization of unrecognized gain	(3)	-
Net periodic pension cost	$ 131	$ 116
Assumptions:		
Discount rate	4.00 %	4.25 %

At September 30, 2016 and 2015, transition obligation of $508,000 and 582,000 and actuarial loss of $335,000 and actuarial gain of $103,000 before income tax effects, were included in accumulated other comprehensive loss, respectively. For the fiscal year ending September 30, 2017, $74,000 of transition obligation is expected to be recognized as a component of net periodic pension cost.

The Association will not contribute to the pension plan for the year ended September 30, 2017. The following benefit payments are expected to be paid during the years ended September 30 (in thousands):

2017	$ 29
2018	48
2019	66
2020	82
2021	98
2022-2026	649

401(k) Plan

The Association has established a defined contribution and thrift savings plan under Section 401(k) of the Internal Revenue Code. All employees who have completed one year of service with 1,000 hours and who are 21 years or older are eligible for voluntary participation. The plan is effectuated through a trust established by the Association. The Association makes 25% matching contributions of each participant’s contributions, up to the first 4% of the participant’s eligible compensation. During the fiscal years ended September 30, 2016 and 2015, the Association made $71,000 and $67,000 of cash contributions, respectively.

Performance Share Plan

The Association has adopted a Performance Share Plan (Share Plan) that offers the Association the means by which it may reward participants as they contribute to the creation of maximum value for the Association. The awards under the Share Plan are based on the value of the performance shares as defined by the Share Plan. The value of the performance shares is intended to relate to the increase in value of the Association which is measured through the attainment of certain performance criteria. Each participant in the Share Plan is allocated a certain number of performance shares which vest over a period of three years and will be paid in cash. As of September 30, 2016 and 2015, the Association had $18,220,000 and $18,521,000, respectively, of accrued plan expenses which are included in accrued expenses and other liabilities on the consolidated statement of financial condition and represent the value of the shares vested to date. During the years ended September 30, 2016 and 2015, the Association recorded expenses of $1,500,000 and $1,804,000, respectively, related to the Share Plan.

9. Available Credit Facility

The Association has an approved line of credit from the FHLB of $195,582,000 and $96,570,000 at September 30, 2016 and 2015, respectively, which is collateralized by the Association's portfolio of qualifying mortgage loans. At September 30, 2016 and 2015, no amounts were outstanding under these lines of credit.

10. Commitments and Contingencies

In the ordinary course of the Association's business, there are various outstanding legal proceedings. In the opinion of management, after consultation with legal counsel, the financial position of the Association will not be affected materially by the outcome of such legal proceedings.

The principal commitments and contingent liabilities of the Association are discussed below:

Lease Commitments

At September 30, 2016, the Association was obligated under a number of noncancelable operating leases on property used for operational purposes. These leases contain escalation clauses, which correspond with increased real estate taxes and other operating expenses, and renewal options calling for increased rents as the leases are renewed. Rent expense under such operating leases, included in occupancy and equipment expense, was $134,000 and $129,000 for the years ended September 30, 2016 and 2015, respectively.

At September 30, 2016, the projected minimum rental payments for the related fiscal years ending September 30 under the terms of the leases expiring through January 31, 2026 are as follows (in thousands):

2017	$	127
2018		131
2019		130
2020		125
2021		129
2022-2026		606
	$	1,248

Loan Commitments

At September 30, 2016 and 2015, outstanding commitments made by the Association to originate mortgage loans approximated $50 million and $68 million, respectively. These commitments mature within three months and are principally for fixed rate loans. Additionally, at September 30, 2016 and 2015, the Association had commitments to fund construction loans in process of $10 million and $14 million and unused lines of credit of $7 million and $7 million, respectively. Such commitments may not represent future cash requirements.

For commitments to originate credit, the Association's maximum exposure to credit risk is represented by the contractual amount of those instruments. Those commitments represent ultimate exposure to credit risk only to the extent that they are subsequently drawn upon by customers. The Association uses the same credit policies and underwriting standards in making loan commitments as it does for on-balance-sheet instruments. For loan commitments, the Association would generally be exposed to interest rate risk for three months from the time a commitment is issued with a defined contractual interest rate.

11. Fair Value of Financial Instruments

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Association's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Association's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. The tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

The following table summarizes the carrying values and the estimated fair values of the Association's financial instruments at September 30, 2016 and 2015 (in thousands):

	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2016:					
Cash and due from banks	$ 69,576	$ 69,576	$ 69,576	$ -	$ -
Securities Available-for-sale	16,287	16,287	-	16,287	-
FHLB stock	2,236	2,236	-	2,236	-
Loans receivable, net	1,616,474	1,656,800	-	-	1,656,800
Accrued interest receivable	4,970	4,970	-	4,970	-
Accrued interest payable	34	34	-	34	-
Demand accounts	861,008	861,008	-	861,008	-
Certificates of deposit	302,695	303,062	-	303,062	-

	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2015:					
Cash and due from banks	$ 39,492	$ 39,492	$ 39,492	$ -	$ -
Securities held-to-maturity	118,247	118,528	107,995	10,533	-
FHLB stock	2,178	2,178	-	2,178	-
Loans receivable, net	1,529,385	1,615,736	-	-	1,615,736
Accrued interest receivable	5,318	5,318	-	5,318	-
Accrued interest payable	29	29	-	29	-
Demand accounts	846,631	846,631	-	846,631	-
Certificates of deposit	327,525	328,037	-	328,037	-

The following methodologies and assumptions were utilized by the Association in estimating the fair values of its financial instruments at September 30, 2016 and 2015:

Cash and Due from Banks, Accrued Interest Receivable and Accrued Interest Payable

The carrying values of cash and due from banks, accrued interest receivable and accrued interest payable approximate their fair values because of the relatively short period of time between the origination of the instruments and their expected realization.

Securities

Fair value estimates of securities were determined by use of quoted market prices where available or matrix pricing based on the securities relationship to other quoted benchmark prices.

FHLB Stock

The estimated fair value of the Association's investment in FHLB stock is deemed to be equal to its carrying value which represents the price at which it may be redeemed.

Loans Receivable, Net

The loan portfolio was segregated into various components for valuation purposes in order to group loans based on their significant characteristics, such as type of interest rate (adjustable or fixed) and payment status (performing or nonperforming). Fair values were estimated for each component using the valuation method described below.

The fair values of performing residential mortgage loans, consumer loans, and performing commercial mortgage loans were estimated by discounting the anticipated cash flows from the respective portfolios. The discount rates reflect current market rates for loans with similar terms to borrowers of similar credit quality.

The fair values of nonperforming residential and commercial mortgage loans were based on recent collateral appraisals or management's analysis of estimated cash flows discounted at rates commensurate with the credit risk involved.

Demand Deposits and Certificates of Deposit

The estimated fair value of demand deposits with no stated maturity, which include NOW, money market, passbook accounts and noninterest bearing accounts, is deemed to be equal to the amount payable on demand at the valuation date. The estimated fair value of fixed-maturity certificates of deposit is calculated based upon the discounted value of contractual cash flows using interest rates currently offered for deposits of similar remaining maturities.

Loan Commitments

The fair value of loan commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

The estimated fair values of commitments outstanding at September 30, 2016 and 2015 are not considered significant and are not included in the above table.

Fair Value Measurements

FASB ASC 820, "Fair Value Measurement", defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. The standards apply to other accounting pronouncements that require or permit fair value measurements.

The standards established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

At September 30, 2016, financial assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2016:				
Securities available for sale				
U.S. agency notes	$ 16,287	$ -	$ 16,287	$ -
	$ 16,287	$ -	$ 16,287	$ -

At September 30, 2015, the Association did not have any assets or liabilities that were measured at fair value on a recurring basis.

For financial assets measured at fair value on a non-recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2016:				
Impaired loans	$ 3,408,000	$ -	$ -	$ 3,408,000
Real estate owned	-	-	-	-
	$ 3,408,000	$ -	$ -	$ 3,408,000
September 30, 2015:				
Impaired loans	$ 6,096,000	$ -	$ -	$ 6,096,000
Real estate owned	-	-	-	-
	$ 6,096,000	$ -	$ -	$ 6,096,000

The following valuation techniques were used to measure the fair value of the assets in the tables above:

- *Impaired Loans* - Impaired loans are those that are accounted for under FASB ASC 310, "Receivables", in which the Association has measured impairment based on fair value. Fair value is generally determined based upon independent third party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loans with partial charge-offs of $3,408,000 at September 30, 2016. The fair value as of September 30, 2015 consists of loans with partial charge-offs of $6,096,000.

- *Real estate owned* – Once a loan is foreclosed, the fair value of the real estate continues to be evaluated based upon market value of the repossessed real estate originally securing the loan. At September 30, 2016 and September 30, 2015 there was no real estate owned written down during the year.

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

	Fair value Estimate	Valuation techniques	Unobservable input	Range	Weighted average
September 30, 2016:					
Impaired Loans	$ 3,408,000	Real Estate appraisals (1)	Liquidation expenses (2)	8%	8%
Real estate owned	$ -	Real Estate appraisals (1)	Liquidation expenses (2)	8%	8%
September 30, 2105:					
Impaired Loans	$ 6,096,000	Real Estate Appraisals (1)	Liquidation expenses (2)	8%	8%
Real estate owned	$ -	Real Estate appraisals (1)	Liquidation expenses (2)	8%	8%

(1) Fair value is generally determined through independent appraisals of the underlying collateral which is discounted further based on the age of the appraisals, which generally include various Level 3 inputs which are not identifiable.
(2) Includes estimated liquidation expenses.

12. Related Party Transactions

In the normal course of business, the Association entered into loan and deposit transactions with members of the Board of Directors and management. These transactions are entered into under the same terms as those for nonrelated parties and are considered immaterial to the Association's consolidated financial statements. In addition, a member of the Board of Directors provides legal services to the Association. Fees paid for these services totaled $514,000 and $559,000 for the years ended September 30, 2016 and 2015, respectively.