PRUDENTIAL BANCORP, INC.
Form 10-K
December 15, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

| | |
|---|---|
| x | Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 |

For the fiscal year ended SEPTEMBER 30, 2014

-or-

| | |
|---|---|
| o | Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 |

For the transition period from to

Commission File Number: 000-55084

PRUDENTIAL BANCORP, INC.
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| PENNSYLVANIA | 46-2935427 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

| | |
|---|---|
| 1834 WEST OREGON AVENUE<br>PHILADELPHIA, PENNSYLVANIA | 19145<br>(Zip Code) |
| (Address of Principal Executive Offices) | |

Registrant's telephone number: (including area code) (215) 755-1500

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each 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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO x

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not 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-K or any amendment to this Form 10-K. x

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

| | |
|---|---|
| Large Accelerated Filer o | Accelerated Filer x |
| Non-Accelerated Filer o (Do not check if a smaller reporting company) | Smaller Reporting Company o |

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). YES o NO x

The aggregate market value of the voting stock held by non-affiliates of the Registrant based on the closing price of $10.65 on March 31, 2014, the last business day of the Registrant's second quarter was approximately $87.6 million (9,544,809 shares outstanding less approximately 1.32 million shares held by affiliates at $10.65 per share). Although directors and executive officers of the Registrant and certain employee benefit plans were assumed to be "affiliates" of the Registrant for purposes of the calculation, the classification is not to be interpreted as an admission of such status.

As of the close of business on December 2, 2014, there were 9,386,909 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Definitive Proxy Statement for the 2014 Annual Meeting of Shareholders are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

Prudential Bancorp, Inc. and Subsidiaries
FORM 10-K INDEX
For the Fiscal Year Ended September 30, 2014

Forward-looking Statements.

In addition to historical information, this Annual Report on Form 10-K includes certain “forward-looking statements” based on management’s current expectations. Prudential Bancorp, Inc.’s (the “Company” or “Prudential Bancorp”) actual results could differ materially, as such term is defined in the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, from management’s expectations. These forward looking statements are intended to be covered by the safe harbor for forward looking statements provided by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include statements regarding management’s current intentions, beliefs or expectations as well as the assumptions on which such statements are based. These forward-looking statements are subject to significant business, economic and competitive uncertainties and contingencies, many of which are not subject to the Company’s control. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal, state and local tax authorities, changes in interest rates, deposit flows, the cost of funds, demand for loan products, demand for financial services, competition, changes in the quality or composition of the Company’s loan, investment and mortgage-backed securities portfolios, changes in accounting principles, policies or guidelines and other economic, competitive, governmental and technological factors affecting the Company’s operations, markets, products, services and fees.

The Company undertakes no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results that occur subsequent to the date such forward-looking statements are made.

PART I

Item 1. Business

General

Prudential Bancorp is a Pennsylvania corporation that was incorporated in June 2013. It is the successor corporation to Prudential Bancorp, Inc. of Pennsylvania (“Old Prudential Bancorp”), the former stock holding company for Prudential Savings Bank (the “Bank”), a Pennsylvania-chartered, FDIC-insured savings bank, after the fiscal 2014 completion of the mutual-to-stock conversion of Prudential Mutual Holding Company (the “MHC”), the former mutual holding company for Prudential Savings Bank.

The mutual-to-stock conversion was completed on October 9, 2013. In connection with the conversion, Prudential Bancorp sold 7,141,602 shares of common stock at $10.00 per share in a public offering. In addition 2,403,207 shares were issued in exchange for the outstanding shares of common stock of Old Prudential Bancorp held by shareholders other than the MHC. Each share of Old Prudential Bancorp’s common stock owned by the public was exchanged for 0.9442 shares of Prudential Bancorp common stock. Gross proceeds from the conversion and offering were approximately $71.4 million. Upon completion of the offering and the exchange, 9,544,809 shares of common stock of Prudential Bancorp were issued and outstanding.

Financial information as of and for the year ended September 30, 2013 presented in this annual report is derived from the consolidated financial statements of Old Prudential Bancorp

Prudential Bancorp's business activity primarily consists of the ownership of the Bank's common stock, and to a lessor degree the management of the offering proceeds it retained. Prudential Bancorp does not own or lease any property. Instead, it uses the premises, equipment and other property of the Bank. Accordingly, the information set forth in this annual report, including the consolidated financial statements and related financial data, relates primarily to the Bank. As a bank holding company, Prudential Bancorp is subject to the regulation of the Board of Governors of the Federal Reserve System ("Federal Reserve Board").

The Company's results of operations are primarily dependent on the results of the Bank. As of September 30, 2014, the Company, on a consolidated basis, had total assets of approximately $525.5 million, total deposits of approximately $391.0 million, and total stockholders' equity of approximately $129.4 million.

The Bank is a community-oriented savings bank headquartered in South Philadelphia which was originally organized in 1886 as a Pennsylvania-chartered building and loan association known as "The South Philadelphia Building and Loan Association No. 2." The Bank grew through a number of mergers with other mutual institutions with the last merger being with Continental Savings and Loan Association in 1983. The Bank converted to a Pennsylvania-chartered savings bank in August 2004. The banking office network currently consists of the headquarters and main office and seven full-service branch offices. Six of the banking offices are located in Philadelphia (Philadelphia County), one is in Drexel Hill in neighboring Delaware County, Pennsylvania and the remaining branch is located in Chalfont in neighboring Bucks County, Pennsylvania. The Chalfont branch opened December 1, 2014. The Bank maintains ATMs at six of the banking offices. We also provide on-line and mobile banking services.

We are primarily engaged in attracting deposits from the general public and using those funds to invest in loans and securities. The Company's principal sources of funds are deposits, repayments of loans and mortgage-backed securities, maturities and calls of investment securities and interest-bearing deposits, funds provided from operations and funds borrowed from the Federal Home Loan Bank of Pittsburgh. These funds are primarily used for the origination of various loan types including single-family residential mortgage loans, construction and land development loans, non-residential or commercial real estate mortgage loans, home equity loans and lines of credit, commercial business loans and consumer loans. We are an active originator of residential home mortgage loans in the market area, including loans in excess of $417,000 (which are referred to as "jumbo loans"). Traditionally, the Bank focused on originating long-term single-family residential mortgage loans for portfolio. Although, we had been involved in construction lending, beginning in fiscal 2003, we began to significantly increase our involvement in construction and land development lending. With the decline in real estate values starting in 2008, we curtailed new construction and land development lending, focused on working with our existing construction lending customers to complete projects that were underway and renewed our focus on residential lending. Construction and land development loans decreased from $40.7 million or 15.5% of the total loan portfolio at September 30, 2010 to $20.4 million or 6.8% of the total loan portfolio at September 30, 2014. As real estate values recover and market conditions improve for residential construction lending, we expect to increase our construction and land development lending. See "-Asset Quality".

The investment and mortgage-backed securities portfolio increased by $13.1 million to $138.7 million at September 30, 2014 from $125.5 million at September 30, 2013. This increase was primarily due to the purchase of $33.7 million of investment and mortgage-backed securities which offset the $21.7 million received from sales and principal payments. At September 30, 2014, the investment and mortgage-backed securities had an aggregate net unrealized loss of $5.1 million which was primarily due to recent increases in the yield on longer term U.S. treasury bond yields which resulted in a reduction with fair values of our available-for-sale securities.

At September 30, 2014, the Company's non-performing assets totaled $6.2 million or 1.2% of total assets as compared to $7.0 million or 1.2% of total assets at September 30, 2013. Non-performing assets at September 30, 2014 included $5.9 million in non-performing loans of which there were 17 one-to-four family residential loans totaling $5.0 million and one commercial real estate loan in the amount of $877,000. Non-performing assets also included a one-to-four family residential real estate owned property totaling $360,000. Included in the non-performing loans were $2.3 million of troubled debt restructurings consisting of one residential real estate loan in the amount of $1.5 million and the aforementioned commercial real estate loan in the amount of $877,000. The allowance for loan losses totaled $2.4 million, or 0.8% of total loans and 41.2% of total non-performing loans at September 30, 2014. See "-Asset Quality".

The executive offices are located at 1834 West Oregon Avenue, Philadelphia, Pennsylvania and the Company's telephone number is (215) 755-1500.

Market Area and Competition

The primary market area is Philadelphia, in particular South Philadelphia and Center City, as well as Delaware County. We also conduct business in Bucks, Chester and Montgomery Counties which, along with Delaware County, comprise the suburbs of Philadelphia. We also make loans in contiguous counties in southern New Jersey. This area is referred to as the Delaware Valley region.

Philadelphia is the seventh largest metropolitan region in the United States and home to over 63 colleges and universities. Traditionally, the economy of the Philadelphia metropolitan area was driven by the manufacturing and distribution sectors. Currently, the leading employment sectors in the region are (i) educational and health services; (ii) transportation, trade and utilities services; (iii) professional and business services; and (iv) due to the region's numerous historic attractions, leisure and hospitality services. The region's leading employers include Jefferson Health System, the University of Pennsylvania Health System, Merck & Company, Inc. and Comcast Corporation. The Philadelphia metropolitan area has also evolved into one of the major corporate centers in the United States due to its geographic location, access to transportation, significant number of educational facilities to supply technical talent and available land for corporate and industrial development. The Philadelphia metropolitan area is currently home to 12 Fortune 500 companies, including AmerisourceBergen, Comcast, Sunoco, DuPont, Aramark and Lincoln Financial. It is also a major health care area with a number of teaching and research hospitals being operated.

We face significant competition in originating loans and attracting deposits. This competition stems primarily from commercial banks, credit unions other savings banks and savings associations and mortgage-banking companies. Many of the financial service providers operating in the market area are significantly larger, and have greater financial resources, than us. We face additional competition for deposits from short-term money market funds and other corporate and government securities funds, mutual funds and from other non-depository financial institutions such as brokerage firms and insurance companies.

Lending Activities

General. At September 30, 2014, the net loan portfolio totaled $321.1 million or 61.1% of total assets. Historically, the principal lending activity has been the origination of residential real estate loans collateralized by one- to four-family, also known as "single-family", homes secured by properties located in the Company's market area.

The types of loans that we may originate are subject to federal and state banking laws and regulations. Interest rates charged by us on loans are affected principally by the demand for such loans and the supply of money available for lending purposes and the rates offered by competitors. These factors are, in turn, affected by general and economic conditions, the monetary policy of the federal government, including the Federal Reserve Board, legislative tax policies and governmental budgetary matters.

Loan Portfolio Composition. The following table shows the composition of the loan portfolio by type of loan at the dates indicated.

| | September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | 2012 | | 2011 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| | (Dollars in Thousands) | | | | | | | |
| Real estate loans: | | | | | | | | |
| One- to four-family residential (1) | $282,637 | 85.47 % | $270,791 | 87.81 % | $222,793 | 84.65 % | $196,533 | 79.54 % |
| Multi-family residential | 7,174 | 2.17 % | 5,716 | 1.85 % | 5,051 | 1.92 % | 5,723 | 2.32 % |
| Commercial real estate | 16,113 | 4.87 % | 19,506 | 6.33 % | 19,333 | 7.35 % | 21,175 | 8.57 % |
| Construction and land development | 22,397 | 6.77 % | 11,356 | 3.68 % | 14,873 | 5.65 % | 22,226 | 9.00 % |
| Total real estate loans | 328,321 | 99.28 % | 307,369 | 99.67 % | 262,050 | 99.56 % | 245,657 | 99.42 % |
| Commercial business | 1,976 | 0.60 % | 588 | 0.19 % | 632 | 0.24 % | 814 | 0.33 % |
| Consumer | 399 | 0.12 % | 438 | 0.14 % | 523 | 0.20 % | 613 | 0.25 % |
| Total loans | 330,696 | 100.00% | 308,395 | 100.00% | 263,205 | 100.00% | 247,084 | 100.00% |
| Less: | | | | | | | | |
| Undisbursed portion of loans in process | 9,657 | | 1,676 | | 1,629 | | 3,773 | |
| Deferred loan costs | (2,449) | | (2,151) | | (989) | | (564) | |
| Allowance for loan losses | 2,425 | | 2,353 | | 1,881 | | 3,364 | |
| Net loans | $321,063 | | $306,517 | | $260,684 | | $240,511 | |

(1) Includes home equity loans and lines of credit totaling $5.0 million and $10.0 million, respectively, as of September 30, 2014.

Contractual Terms to Final Maturities. The following table shows the scheduled contractual maturities of loans as of September 30, 2014, before giving effect to net items. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. The amounts shown below do not take into account loan prepayments.

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| | One-to-Four Family Residential (In Thousands) | Multi-family Residential | Commercial Real Estate | Construction and Land Development | Commercial Business | Consumer | Total |
|---|---|---|---|---|---|---|---|
| Amounts due after September 30, 2014 in: | | | | | | | |
| One year or less | $ 7,920 | $ - | $ 2,124 | $ 19,420 | $ 43 | $ 158 | $ 29,665 |
| After one year through two years | 4,862 | - | 1,193 | 2,977 | - | 27 | 9,059 |
| After two years through three years | 1,523 | - | 2,654 | - | - | 40 | 4,217 |
| After three years through five years | 15,902 | 1,766 | 1,719 | - | - | 155 | 19,542 |
| After five years through ten years | 58,089 | 5,226 | 7,691 | - | 1,933 | 19 | 72,958 |
| After ten years through fifteen years | 67,012 | - | 223 | - | - | - | 67,235 |
| After fifteen years | 127,329 | 182 | 509 | - | - | - | 128,020 |
| Total | $ 282,637 | $ 7,174 | $ 16,113 | $ 22,397 | $ 1,976 | $ 399 | $ 330,696 |

The following table shows the dollar amount of all loans due after one year from September 30, 2014, as shown in the table above, which have fixed interest rates or which have floating or adjustable interest rates.

| | Fixed-Rate (In Thousands) | Floating or Adjustable-Rate | Total |
|---|---|---|---|
| One- to four-family residential (1) | $ 204,378 | $ 70,339 | $ 274,717 |
| Multi-family residential | 7,174 | - | 7,174 |
| Commercial real estate | 12,707 | 1,282 | 13,989 |
| Construction and land development | 1,606 | 1,371 | 2,977 |
| Commercial business | 1,933 | - | 1,933 |
| Consumer | 142 | 99 | 241 |
| Total | $ 227,940 | $ 73,091 | $ 301,031 |

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(1) Includes home equity loans and lines of credit.

The Bank originates five, seven and 10 year hybrid adjustable-rate mortgage loans, consisting primarily of one-to four-family residential mortgage loans. The interest rate is initially fixed for a specified period (five, seven or 10 years) and then converts to an adjustable interest rate which adjusts each year thereafter for the remainder of the loan term. The seven and 10 year adjustable-rate mortgages have artificially low initial interest rates at the date of origination commonly known as “teaser rates.” Most of the “hybrid” loans are originated in connection with the origination of jumbo residential mortgage loans.

Loan Originations. The Bank's lending activities are subject to underwriting standards and loan origination procedures established by our board of directors and management. Loan originations are obtained through a variety of sources, primarily existing customers as well as new customers obtained from referrals and local advertising and promotional efforts. We also use loan correspondents and brokers as a source for a substantial part of our residential mortgage loans, either having them originate such loans using our documentation or purchasing such loans from them immediately upon closing. Loans obtained from loan correspondents are underwritten using the same underwriting standards as loans originated internally. Consumer loan applications are taken at any of our offices while loan applications for all other types of loans, including home equity and home equity line of credits, are taken only at our main office. All loan applications are processed and underwritten centrally at our main office.

Single-family residential mortgage loans are generally written on standardized documents used by the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") and Federal National Mortgage Association ("FNMA" or "Fannie Mae"). Property valuations of loans secured by real estate are undertaken by independent third-party appraisers approved by the board of directors and are reviewed internally before acceptance. At both September 30, 2014 and September 30, 2013, the Company had no real estate loans that would be considered subprime loans, which we define as mortgage loans advanced to borrowers who do not qualify for loans bearing market interest rates because of problems with their credit history. The Bank does not originate and has not in the past originated subprime loans.

In addition, the Bank utilizes correspondent brokers to assist in the origination of single-family residential loans. However, all of such loans are underwritten by us using the Bank's underwriting criteria and are approved in accordance with the procedures established by our loan policy prior to loan closing. We also occasionally purchase participation interests in larger balance loans, typically commercial real estate loans, from other financial institutions in our market area. Such participations are reviewed for compliance, are underwritten independently in accordance with our underwriting criteria and are approved by the Management Loan Committee and either the Executive Committee or the full board before they are purchased. Generally, loan purchases have been without any recourse to the seller. However, we actively monitor the performance of such loans through the receipt of regular updates, including inspections reports, from the lead lender regarding the loan's performance, discussing the loan with the lead lender on a regular basis and receiving copies of updated financial statements of the borrower from the lead lender. These loans are subjected to regular internal reviews in accordance with our loan policy.

The Bank has sold participation interests in construction and land development loans originated by it to other institutions in its market area. When we have sold participation interests, it has been done without recourse. We generally have sold participation interests in loans only when a loan would exceed the Bank's internal loans to one borrower limits. With respect to the sale of participation interests in such loans, we have received commitments to purchase such participation interests prior to the time the loan is closed. In addition, we have sold loans in the past to the Federal Home Loan Bank of Pittsburgh pursuant to the Mortgage Partnership Finance program consisting of long-term, fixed-rate single-family residential loans originated which had interest rates below certain levels established by the board of directors. Such sales provide for a limited amount of recourse. There were no loan sales pursuant to this program or otherwise during the fiscal years ended September 30, 2014 and 2013. At September 30, 2014 and 2013, the Company's recourse exposure was approximately $64,000. During the year ended September 30, 2013, we sold $9.2 million of loans consisting of all the loans related to a 133-unit condominium project located in Philadelphia; the loans were sold as part of a resolution of the loan relationship. See "-Lending Activities - Construction and Land Development Lending."

As part of the Bank's loan policy, we are permitted, subject to certain exceptions as approved by the loan committee, to make loans to one borrower and related entities in an aggregate amount of up to 15% of the capital accounts of the Bank which consist of the aggregate of its capital, surplus, undivided profits, capital securities and allowance for loan losses. At September 30, 2014, the Bank's internal "guidance" limit is $8.0 million to one borrower as a threshold, which the Bank is permitted to exceed in certain situations subject to the approval of the Board of Directors that there is adequate support for the exception. At September 30, 2014, our three largest loans to one borrower and related entities amounted to $9.3 million, $4.7 million, and $4.3 million. As of this date, the largest relationship of $9.3 million consisted of three construction loans totaling $7.7 million, two commercial real estate loans totaling $1.5 million and one residential mortgage totaling $95,000. This relationship was classified as "substandard" as of September 30, 2014 and is currently in a work-out status. As part of the resolution process, the Bank extended in November 2014 an additional construction loan to the borrower in the amount of $5.4 million in connection with an additional infusion. As of December 15, 2014 no funds had been drawn against such loan. The second largest relationship of $4.7 million consisted of seven commercial real estate loans totaling $3.9 million and two residential mortgage loans totaling $846,000. The third relationship totaling $4.3 million consisted of four commercial real estate loans. Included in the $4.3 million commercial real estate loans was one loan for approximately $887,000 deemed a troubled debt restructuring as of September 30, 2014, which was performing in accordance with its terms. A policy exception was approved by the Board of Directors regarding the borrowing relationship that exceeded our policy guidance limit in order to protect the Bank's security interest as this relationship is being worked out in accordance with a detailed work-out plan. For more information regarding certain of these loans, see "-Lending Activities - Construction and Land Development Lending."

The following table shows our total loans originated, purchased, sold and repaid during the periods indicated.

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | (In Thousands) | | |
| Loan originations (1) | | | |
| One- to four-family residential | $ 39,660 | $ 93,377 | $ 60,913 |
| Multi-family residential | 3,272 | 588 | 770 |
| Commercial real estate | 5,936 | 4,353 | 1,576 |
| Construction and land development | 17,461 | 4,344 | 7,960 |
| Commercial business | 2,191 | 674 | 1,049 |
| Consumer | 114 | 111 | 193 |
| Total loan originations | 68,634 | 103,447 | 72,461 |
| Loans purchased | - | - | 1,624 |
| Total loans originated and purchased | 68,634 | 103,447 | 74,085 |
| Loans sold | - | 9,240 | - |
| Loans transferred to real estate owned | 83 | 282 | 223 |
| Loan principal repayments | 53,554 | 48,581 | 53,302 |
| Total loans sold and principal repayments | 53,637 | 58,103 | 53,525 |
| (Decrease) increase due to other items, net (2) | (451 ) | 489 | (387 ) |
| Net increase in loan portfolio | $ 14,546 | $ 45,833 | $ 20,173 |

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(1) Includes loan participations with other lenders.

(2) Other items consist of the undisbursed portion of loans in process, deferred fees and the allowance for loan losses. The 2014 balance consisted of a $240,000 provision for loan losses recorded to the allowance and the $211,000 amortization of net loans fees. The 2013 balance consisted of the $500,000 recovery from the provision allowance and the $11,000 amortization of net loans fees. The 2012 balance consisted primarily of the $725,000 loan loss provision expense offset by in part by a $338,000 accretion of deferred loan fee income.

One- to Four-Family Residential Mortgage Lending. The primary lending activity continues to be the origination or purchase of loans secured by first mortgages on one- to four-family residential properties located in the Company's market area. Our single-family residential mortgage loans are obtained through the lending department and branch personnel as well as through correspondents. The balance of such loans increased from $197.2 million or 75.0% of total loans at September 30, 2010 to $282.6 million, or 85.5% of total loans at September 30, 2014.

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Single-family residential mortgage loans generally are underwritten on terms and documentation conforming to guidelines issued by Freddie Mac and Fannie Mae. We generally have retained for portfolio a substantial portion of the single-family residential mortgage loans that we originate, including our jumbo residential mortgage loans, only selling certain long-term, fixed-rate loans bearing interest rates below certain levels established by the board. All of such loans have been sold to the Federal Home Loan Bank of Pittsburgh pursuant to the Mortgage Partnership Finance Program. No sales pursuant to this program occurred during the past three fiscal years. We service all loans that we have originated, including loans that we subsequently sell. We currently offer adjustable-rate mortgage and balloon loans, which are structured as shorter term fixed-rate loans (generally 10 years or less) followed by a final payment of the full amount of the principal due at the maturity date. Due to the interest rate environment, originations of such loans have been limited in recent years. However, in recent periods we have offered "hybrid" adjustable-rate loans as described below in order to increase the interest-rate sensitivity of the loan portfolio, which loans have been more attractive to customers than traditional adjustable-rate loans since the initial interest rate is fixed for a specified period. At September 30, 2014, $70.1 million, or 25.8%, of our one-to four-family residential loan portfolio consisted of adjustable-rate loans. We also originate fixed-rate, fully amortizing mortgage loans with maturities of 15, 20 or 30 years.

In light of the historically low current interest rate environment and to assist in the implementation of its asset/liability management policy, in recent periods we have been increasing our emphasis on the origination of adjustable-rate single-family mortgage loans. The adjustable-rate loans currently offered by us have interest rates which are fixed for the first five, seven or 10 years and then adjust every year thereafter for the remainder of the term of the loan in accordance with a designated index, currently one-year U.S. Treasury obligations, adjusted to a constant maturity ("CMT"), plus a stipulated margin. Our adjustable-rate single-family residential mortgage loans generally have a cap of 2% on any increase or decrease in the interest rate at any adjustment date, and a maximum adjustment limit of 5% on any such increase or decrease over the life of the loan. Our adjustable-rate loans require that any payment adjustment resulting from a change in the interest rate of an adjustable-rate loan be sufficient to result in full amortization of the loan by the end of the loan term and, thus, do not permit any of the increased payment to be added to the principal amount of the loan, creating negative amortization. Although we offer adjustable-rate loans with initial rates below the fully indexed rate, loans tied to the one-year CMT are underwritten using methods approved by Freddie Mac or Fannie Mae which require borrowers to be qualified at 2% above the discounted loan rate under certain conditions.

We underwrite one- to four-family residential mortgage loans with loan-to-value ratios of up to 95%, provided that the borrower obtains private mortgage insurance on loans that exceed 80% of the appraised value or sales price, whichever is less, of the secured property. We also require that title insurance, hazard insurance and, if appropriate, flood insurance be maintained on all properties securing real estate loans. A licensed appraiser appraises all properties securing one- to four-family first mortgage loans. Our mortgage loans generally include due-on-sale clauses which provide us with the contractual right to deem the loan immediately due and payable in the event the borrower transfers ownership of the property.

Our single-family residential mortgage loans also include home equity loans and lines of credit, which amounted to $5.0 million and $10.0 million, respectively, at September 30, 2014. The unused portion of home equity lines was $3.3 million at such date. Our home equity loans are fully amortizing and have terms to maturity of up to 20 years. While home equity loans also are secured by the borrower's residence, we generally obtain a second mortgage position on these loans. Our lending policy provides that our home equity loans have loan-to-value ratios, when combined with any first mortgage, of 80% or less at time of origination, although the preponderance of our home equity loans have combined loan-to-value ratios of 75% or less at time of origination. We also offer home equity revolving lines of credit with interest tied to the Wall Street Journal prime rate. Generally, we have a second mortgage on the borrower's residence as collateral on our home equity lines. In addition, our home equity lines generally have loan-to-value ratios (combined with any loan secured by a first mortgage) of 75% or less at time of origination. Our customers may apply for home equity lines as well as home equity loans at any banking office. While there has been decline in some collateral values due to the continued weak real estate market, we believe our conservative underwriting guidelines have minimized our exposure in that regard.

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Construction and Land Development Lending. We have been involved in construction and land development lending for many years. Prior to 2007, we emphasized construction loan originations because construction loans had shorter terms to maturity, provided an attractive yield and they generally had floating or adjustable interest rates We have focused our construction lending on making loans to developers and homebuilders with whom we have long-standing relationships within our primary market area to acquire, develop and build single-family residences or condominium projects. Our construction loans include, to a lesser extent, loans for the construction of multi-family residential or mixed-use properties. At September 30, 2014, our construction and loan development loans amounted to $22.4 million, or 6.8% of our total loan portfolio. This amount includes $9.7 million of undisbursed loans in process. The average size of our construction and land development loans, excluding loans to our largest lending relationship, was approximately $510,000 at September 30, 2014. Our construction loan portfolio has decreased substantially since September 30, 2010 when construction loans amounted to $40.7 million or 15.5% of our total loan portfolio.

Loans to finance the construction of condominium projects or single-family homes and subdivisions are generally offered to experienced builders in our primary market area with whom we have an established relationship. Residential construction and development loans are offered with terms of up to 36 months although typically the terms are 12 to 24 months. The maximum loan-to-value limit applicable to these loans is 75% of the appraised post construction value and the policy does not require amortization of the principal during the term of the loan. We often establish interest reserves and obtain personal and corporate guarantees as additional security on the construction loans. Interest reserves are used to pay the monthly interest payments during the development phase of the loan and are treated as an addition to the loan balance. Interest reserves pose an additional risk to the Company if it does not become aware of deterioration in the borrower's financial condition before the interest reserve is fully utilized. In order to help monitor the risk, financial statements and tax returns are obtained from borrowers on an annual basis. Additionally, construction loans are reviewed at least annually pursuant to a third party loan review. Construction loan proceeds are disbursed periodically in increments as construction progresses and as inspection by approved appraisers or loan inspectors warrants. Construction loans are negotiated on an individual basis but typically have floating rates of interest based upon the Wall Street Journal prime rate. Additional fees may be charged as funds are disbursed. In addition to interest payments during the term of the construction loan, we typically require that payments to reduce the principal outstanding be made as units are completed and released. Generally such principal payments must be equal to 110% of the amount attributable to the acquisition and development of the lot plus 100% of the amount attributable to construction of the individual home. We permit a pre-determined limited number of model homes to be constructed on an unsold or "speculative" basis. All other units must be pre-sold before we will disburse funds for construction. Construction loans also include loans to acquire land and loans to develop the basic infrastructure, such as roads and sewers. The majority of the construction loans are secured by properties located in the Philadelphia metropolitan statistical area. In addition, we have sold participation interests in a number of the larger construction projects, although we generally retain at least a 20% interest. Such sales do not provide for any recourse against the Bank.

Set forth below is a brief description of the two largest construction loan or loan relationships.

As of September 30, 2014, we had extended three construction and land development loans to a local developer aggregating $7.5 million with a total exposure of $9.3 million. The first is a $3.8 million construction and land development loan to purchase land for future development of 39 single-family residential real estate units. The loan was a variable-rate loan indexed to the Wall Street Journal prime rate plus a margin with a floor of 5.5%. During 2011, a new appraisal revealed that the market value of the collateral had substantially decreased in value. The borrower subsequently agreed to provide additional collateral resulting in a revised loan-to-value ratio of 73%. The loan has been converted to a 30- year amortizing loan with a three year balloon maturing in December 2014. Additionally, a portion of proceeds received by the developer from the sale of units in other projects must be applied to reduce the principal of this loan. The modification was not considered a troubled debt restructuring as the loan was current at the time of the restructuring and the restructured loan was made at current market rates. The loan is performing in accordance with its terms. The second loan is a $2.3 million construction and land development loan containing 25 residential lots and one fully constructed unit. The loan is a variable-rate loan indexed to the Wall Street Journal prime rate plus a margin with a floor of 6.0%. The borrower has agreed not to develop either of the two projects until certain other projects are completed. The remaining construction and land development loan has an outstanding balance of $1.5 million and is secured by 169 residential lots. The loan is a short-term loan maturing in October 2016 with a fixed-rate of 4.375%. All three construction and land development loans are classified “substandard” and considered to be in a work-out situation as part of the borrower’s total relationship. The Bank extended an additional construction loan in the amount of $5.4 million in November 2014. The loan is being used to develop the 169 unit mixed townhome and condominium single-family residential community referenced above. As the project is completed, the proceeds on unit sales will be used to pay down the borrower’s remaining obligation. As a result of the extension of the additional construction loan, the Board determined to grant an exception to the Bank’s internal loans-to-one borrower limit.

In 2007, we extended a $2.4 million construction loan to a local developer for the purchase and renovation of a property in Center City Philadelphia. During 2009, an additional $530,000 was made available as part of the issuance of two home equity lines of credit secured by the renovated property and the developer’s primary residence. Although construction is complete, the property remains unsold. The loans were modified during June 2011, being restructured to three year balloon loans bearing interest at 4.875% amortizing based on a 30 year schedule. The loans were extended in June 2014 to December 2020. The modification was not considered a troubled debt restructuring as the loans were current at the time of the restructuring and the restructured loans were made at current market rates. The loans are classified as substandard due to the need for several extensions when the loans could not be satisfied at their original maturity date as well as due to delinquency issues in prior periods. As of September 30, 2014, the loan balance was $2.7 million. There was a $71,000 charge-off recognized during fiscal 2012 based on a decrease in the appraised values of the loan collateral. No further charge- offs were required during the years ended September 30, 2014 and 2013 and the loans were current as of September 30, 2014.

Construction financing 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 property’s value at completion of construction compared to the estimated costs, including interest, of construction and other assumptions. Additionally, if the estimate of value proves to be inaccurate, we may be confronted with a project, when completed, having a value less than the loan amount. We have attempted to minimize these risks by generally concentrating on residential construction loans in our market area to contractors with whom we have established lending relationships and by selling, with respect to larger construction and land development loans, participation interests in order to reduce our exposure.

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Multi-Family Residential and Commercial Real Estate Loans. At September 30, 2014, multi-family residential and commercial real estate loans amounted in the aggregate to $23.3 million or 7.0% of the total loan portfolio.

The commercial real estate and residential multi-family real estate loan portfolio consists primarily of loans secured by small office buildings, strip shopping centers, small apartment buildings and other properties used for commercial and multi-family purposes located in the Company's market area. At September 30, 2014, the average commercial and multi-family real estate loan size was approximately $300,000. The largest multi-family residential or commercial real estate loan at September 30, 2014 was a $1.6 million loan secured by commercial real estate that contains an auto body repair shop. The loan was performing in accordance with its terms at such date. Substantially all of the properties securing the multi-family residential and commercial real estate loans are located in the Company's primary market area.

Although terms for commercial real estate and multi-family loans vary, our underwriting standards generally allow for terms up to 15 years with loan-to-value ratios of not more than 75%. Most of the loans are structured with balloon payments of 10 years or less and amortization periods of up to 25 years. Interest rates are either fixed or adjustable, based upon designated market indices such as the Wall Street Journal prime rate plus a margin or, with respect to our multi-family residential loans, the Average Contract Interest Rate for previously occupied houses as reported by the Federal Housing Finance Board. In addition, fees are charged to the borrower at the origination of the loan. We generally obtain personal guarantees of the principals as well as additional collateral for commercial real estate and multi-family real estate loans.

Commercial real estate and multi-family real estate lending involves different risks than single-family residential lending. These risks include larger loans to individual borrowers and loan payments that are dependent upon the successful operation of the project or the borrower's business. These risks can be affected by supply and demand conditions in the project's market area of rental housing units, office and retail space and other commercial space. We attempt to minimize these risks by limiting loans to proven businesses, only considering properties with existing operating performance which can be analyzed, using conservative debt coverage ratios in our underwriting, and periodically monitoring the operation of the business or project and the physical condition of the property.

Various aspects of commercial and multi-family loan transactions are evaluated in an effort to mitigate the additional risk in these types of loans. In our underwriting procedures, consideration is given to the stability of the property's cash flow history, future operating projections, current and projected occupancy levels, location and physical condition. Generally, we impose a debt service ratio (the ratio of net cash flows from operations before the payment of debt service to debt service) of not less than 120%. We also evaluate the credit and financial condition of the borrower, and if applicable, the guarantor. With respect to loan participation interests we purchase, we underwrite the loans as if we were the originating lender. Appraisal reports prepared by independent appraisers are reviewed by us prior to the closing of the loan.

Our origination of commercial real estate and multi-family loans were modest during the periods from fiscal 2012 through fiscal 2014. Although some delinquencies have existed with respect to these types of loans in our portfolio, no losses have been incurred over the past several years.

Consumer Lending Activities.  We offer various types of consumer loans such as loans secured by deposit accounts and unsecured personal loans.  Consumer loans are originated primarily through existing and walk-in customers and direct advertising.  At September 30, 2014, $399,000, or 0.1% of the total loan portfolio consisted of consumer loans.

Consumer loans generally have higher interest rates and shorter terms than residential loans. However, consumer loans have additional credit risk due to the type of collateral securing the loan or in some cases the absence of collateral.

Commercial Business Loans.  Our commercial business loans amounted to $2.0 million or 0.6% of the total loan portfolio at September 30, 2014.

Our commercial business loans typically are made to small to mid-sized businesses in our market area primarily to provide working capital.  Small business loans may have adjustable or fixed rates of interest and generally have terms of three years or less but may be as long as 15 years.  Our commercial business loans are underwritten based on the creditworthiness of the borrower and generally require a debt service coverage ratio of at least 120%.  In addition, we generally obtain personal guarantees from the principals of the borrower with respect to commercial business loans and frequently obtain real estate as additional collateral.

Loan Approval Procedures and Authority. Our Board of Directors establishes the  Bank's lending policies and procedures. Our various lending policies are reviewed at least annually by our management team and the Board in order to consider modifications as a result of market conditions, regulatory changes and other factors.

Consumer and residential mortgages with total credit exposure equal to or less than $100,000 may be approved by two senior lending officers. Consumer and residential mortgages with total credit exposure exceeding $100,000 but not more than $500,000 may be approved by two senior lending officers plus either the Chief Executive Officer or the Chief Financial Officer. Residential owner-occupied non-home equity loans up to $1.0 million can be approved by Management Loan Committee, comprised of the Chief Executive Officer, Chief Financial Officer, Chief Lending Officer, Chief Credit Officer and the Treasurer. All other loans, including all construction and land loans, must be approved by Management Loan Committee and either the Executive Committee of the Board or the full Board of Directors.

Asset Quality

General.  One of our key objectives has been, and continues to be, maintaining a high level of asset quality.  In addition to maintaining credit standards for new originations which we believe are prudent, we are proactive in our loan monitoring, collection and workout processes in dealing with delinquent or problem loans.  We have also retained an independent, third party to undertake periodic reviews of the credit quality of a random sample of new loans as well as all of our major loans on at least an annual  basis.

Reports listing all delinquent accounts are generated and reviewed by management on a monthly basis. These reports include information regarding all loans 30 days or more delinquent and all real estate owned properties and are provided to the Board of Directors. The procedures we take with respect to delinquencies vary depending on the nature of the loan, period and cause of delinquency and whether the borrower is habitually delinquent. When a borrower fails to make a required payment on a loan, we take a number of steps to have the borrower cure the delinquency and restore the loan to current status. We generally send the borrower a written notice of non-payment after the loan is first past due. Our guidelines provide that telephone, written correspondence and/or face-to-face contact will be attempted to ascertain the reasons for delinquency and the prospects of repayment. When contact is made with the borrower at any time prior to foreclosure, we will attempt to obtain full payment, work out a repayment schedule with the borrower to avoid foreclosure or, in some instances, accept a deed in lieu of foreclosure. In the event payment is not then received or the loan not otherwise satisfied, additional letters and telephone calls generally are made. If the loan is still not brought current or satisfied and it becomes necessary for us to take legal action, which typically occurs after a loan is 90 days or more delinquent, we will commence foreclosure proceedings against any real property that secures the loan. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before foreclosure sale, the property securing the loan generally is sold at foreclosure and, if purchased by us, becomes real estate owned. Since there has not been a significant increase in recent years in the one-to-four family residential loans that are 90 days past due, the Company was not adversely impacted by any recent government programs related to the foreclosure process.

On loans where the collection of principal or interest payments is doubtful, the accrual of interest income ceases ("non-accrual" loans). On loans 90 days or more past due as to principal and/or interest payments, our policy is to discontinue accruing additional interest and reverse any interest previously accrued. On occasion, this action may be taken earlier if the financial condition of the borrower raises significant concern with regard to his/her ability to service the debt in accordance with the terms of the loan agreement. Interest income is not accrued on these loans until the borrower's financial condition and payment record demonstrate an ability to service the debt.

Property acquired by the Bank through foreclosure is initially recorded at the lower of cost, which is the carrying value of the loan, or fair value at the date of acquisition, which is fair value of the related assets at the date of foreclosure, less estimated costs to sell. Thereafter, if there is a further deterioration in value, we charge earnings for the diminution in value. The Bank's policy is to obtain an appraisal on real estate subject to foreclosure proceedings prior to the time of foreclosure if the property is located outside the Company's market area or consists of other than single-family residential property. We obtain re-appraisals on a periodic basis, generally on at least an annual basis, on foreclosed properties. We also conduct inspections on foreclosed properties.

We account for our impaired loans in accordance with generally accepted accounting principles. An impaired loan generally is one for which it is more likely than not, based on current information, that the lender will not collect all the amounts due under the contractual terms of the loan. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Loans collectively evaluated for impairment include smaller balance commercial real estate loans, residential real estate loans and consumer loans. These loans are evaluated as a group because they have similar characteristics and performance experience. Larger commercial real estate, construction and land development and commercial business loans are individually evaluated for impairment on at least a quarterly basis by management and the independent third party loan review function. All loans classified as substandard as part of the loan review process or due to delinquency status are evaluated for potential impairment. There were $22.0 million of loans evaluated for impairment as of September 30, 2014, consisting of $10.4 million of one-to four-family residential loans, $7.4 million of construction and land development loans, $3.8 million of commercial real estate loans and $368,000 of multi-family loans. Although no specific allocations were applied to these loans, there were partial charge-offs of $699,000. As of September 30, 2014, there were eight loans totaling $2.6 million designated as special mention loans during fiscal 2014 consisting of four single-family residential loans aggregating $1.5 million, two commercial real estate loans aggregating $989,000 and two consumer loans aggregating $119,000. As of September 30, 2013 there were six loans totaling $9.1 million related to one borrower designated as special mention loans consisting of three construction and land development loans aggregating $7.5 million, two commercial real estate loans aggregating $1.5 million and a single-family residential loan in the amount of $95,000.

Federal regulations and our policies require that we utilize an internal asset classification system as a means of reporting problem and potential problem assets. We have incorporated an internal asset classification system, consistent with Federal banking regulations, as a part of our credit monitoring system. We currently classify problem and potential problem assets as “special mention”, “substandard,” “doubtful” or “loss” assets. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the insured institution 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 “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are required to be designated “special mention.”

When an insured institution classifies one or more assets, or portions thereof, as “substandard” or “doubtful,” it is required that a general valuation allowance for loan losses be established for loan losses in accordance with established methodology. General valuation allowances represent loss allowances which have been established to recognize the inherent losses associated with lending activities, but which, unlike specific allocations, have not been allocated to particular problem assets. When an insured institution classifies one or more assets, or portions thereof, as “loss,” it is required to charge off such amount.

Our allowance for loan losses includes a portion which is allocated by type of loan, based primarily upon our periodic reviews of the risk elements within the various categories of loans. The specific components relate to certain impaired loans. The general components cover non-classified loans and are based on historical loss experience adjusted for qualitative factors in response to changes in risk and market conditions. Our management believes that, based on information currently available, the allowance for loan losses is maintained at a level which covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. However, actual losses are dependent upon future events and, as such, further additions to the level of the allowance for loan losses may become necessary.

We review and classify assets on a quarterly basis and the Board of Directors is provided with reports on our classified and criticized assets. We classify assets in accordance with the management guidelines described above. At September 30, 2014 and 2013, we had no assets classified as “doubtful” or “loss” and $22.0 million and $15.1 million, respectively, of assets classified as “substandard.” In addition, there were $2.6 million and $9.1 million of loans designated as “special mention” as of September 30, 2014 and 2013, respectively. During fiscal 2014, a significant loan relationship previously deemed special mention was reclassified as substandard. See –“Construction and Land Development Lending”.

Delinquent Loans. The following table shows the delinquencies in the loan portfolio as of the dates indicated.

| | September 30, 2014 | | | | September 30, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | 30-89 Days Overdue | | 90 or More Days Overdue | | 30-89 Days Overdue | | 90 or More Days Overdue | |
| | Number of Loans | Principal Balance | Number of Loans | Principal Balance | Number of Loans | Principal Balance | Number of Loans | Principal Balance |
| | (Dollars in Thousands) | | | | | | | |
| One- to-four family residential | 8 | $475 | 15 | $3,446 | 16 | $3,589 | 16 | $2,930 |
| Multi-family residential | - | - | - | - | - | - | - | - |
| Commercial real estate | - | - | - | - | 1 | 355 | 3 | 465 |
| Construction and land development | - | - | - | - | - | - | - | - |
| Commercial business | - | - | - | - | - | - | - | - |
| Consumer | - | - | - | - | - | - | - | - |
| Total delinquent loans | 8 | $475 | 15 | $3,446 | 17 | $3,944 | 19 | $3,395 |
| Delinquent loans to total net loans | 0.15 % | | 1.07 % | | 1.23 % | | 1.06 % | |
| Delinquent loans to total loans | 0.14 % | | 1.05 % | | 1.20 % | | 1.03 % | |

Non-Performing Loans and Real Estate Owned. The following table sets forth information regarding the non-performing loans and real estate owned. The Company’s general policy is to cease accruing interest on loans, other than single-family residential loans, which are 90 days or more past due and to reverse all accrued interest. At September 30, 2014, all of the loans listed as 90 or more days past due in the table above were in non-accrual status. In addition, three loans totaling $2.4 million consisting of two one-to-four family loans aggregating $1.5 million and an $877,000 commercial real estate loan classified as troubled debt restructurings as of September 30, 2014 were also on non-accrual. At September 30, 2013, all of the loans listed as 90 or more days past due in the table above were in non-accrual status. In addition, six loans totaling $2.1 million consisting of $157,000 of single-family loans and $1.9 million of commercial real estate loans were classified as troubled debt restructurings as of September 30, 2013 and were also on non-accrual.

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The following table shows the amounts of non-performing assets (defined as non-accruing loans, accruing loans 90 days or more past due as to principal or interest and real estate owned) at the dates indicated.

| | September 30, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | 2012 | | 2011 | | 2010 | |
| | (Dollars in Thousands) | | | | | | | | | |
| Non-accruing loans: | | | | | | | | | | |
| One- to four-family residential | $5,002 | (1) | $4,259 | (1) | $12,904 | (1) | $10,314 | (1) | $- | |
| Multi-family residential | - | | - | | - | | - | | - | |
| Commercial real estate | 877 | (1) | 2,375 | (1) | 597 | | 545 | | - | |
| Construction and land development | - | | - | | 517 | | 1,772 | | - | |
| Commercial business | - | | - | | - | | - | | - | |
| Consumer | - | | - | | - | | - | | - | |
| Total non-accruing loans | 5,879 | | 6,634 | | 14,018 | | 12,631 | | - | |
| Accruing loans 90 days or more past due: | | | | | | | | | | |
| One- to four-family residential | - | | - | | - | | - | | 1,811 | |
| Multi-family residential | - | | - | | - | | - | | - | |
| Commercial real estate | - | | - | | - | | - | | 1,462 | |
| Construction | - | | - | | - | | - | | 206 | |
| Commercial business | - | | - | | - | | - | | - | |
| Consumer | - | | - | | - | | - | | - | |
| Total accruing loans 90 days or more past due | - | | - | | - | | - | | 3,479 | |
| Total non-performing loans (2) | 5,879 | | 6,634 | | 14,018 | | 12,631 | | 3,479 | |
| Real estate owned, net (3) | 360 | | 406 | | 1,972 | | 2,268 | | 3,197 | |
| Total non-performing assets | $6,239 | | $7,040 | | $15,990 | | $14,899 | | $6,676 | |
| Total non-performing loans as a percentage of loans, net | 1.83 | % | 2.16 | % | 5.38 | % | 5.25 | % | 1.36 | % |
| Total non-performing loans as a percentage of total assets | 1.12 | % | 1.09 | % | 2.86 | % | 2.53 | % | 0.66 | % |
| Total non-performing assets as a percentage of total assets | 1.19 | % | 1.16 | % | 3.26 | % | 2.98 | % | 1.26 | % |

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1. Includes at: (i) September 30, 2014, $2.4 million of trouble debt restructurings (TDRs) that were classified non-performing consisting of a $1.5 million one-to-four family loan and a $877,000 commercial real estate loan, (ii) at September 30, 2013, $2.1 million of TDR's consisting of a one-to-four single family loan in the amount of $157,000 and five commercial real estate loans totaling $1.9 million and (iii) September 30, 2012, $8.1 million of TDRs consisting of five loans to the same borrower related to a 133-unit condominium project, that was resolved in fiscal 2013. There were no TDRs at either September 30, 2011 or September 30, 2010.
2. Non-performing loans consist of non-accruing loans plus accruing loans 90 days or more past due.
3. Real estate owned balances are shown net of related loss allowances and consist solely of real property.

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Interest income on non-accrual loans is recognized only as collected. There was $71,000 of such interest recognized during fiscal 2014 while there was $115,000 of such interest recognized for non-accrual loans for fiscal 2013. Approximately $187,000 in additional interest income would have been recognized during the year ended September 30, 2014 if these loans had been performing during fiscal 2014.

At September 30, 2014, the Company's non-performing assets totaled $6.2 million or 1.2% of total assets as compared to $7.0 million or 1.2% of total assets at September 30, 2013. Non-performing assets at September 30, 2014 included $5.9 million in non-performing loans of which there were 16 one-to four-family residential loans totaling $5.0 million and a commercial real estate loan in the amount of $877,000 (which was a performing TDR placed on non-accrual until the loan had performed in accordance with its terms for a sufficient period). Included in the non-performing assets was a single-family resident real estate owned property in the amount of $360,000. Non-performing assets at September 30, 2013 included $6.6 million in non-performing loans of which there were 21 one-to four-family residential loans totaling $4.2 million and seven commercial real estate loans extended to the same borrower totaling $2.4 million, one of which consisted of a $1.3 million loan extended as part of the resolution in January 2013 of what was at such time our largest construction loan project. The loan is collateralized by residential and commercial condominium units with an aggregate loan-to-value ratio of 80%. The loan is classified as a troubled debt restructuring but it is performing in accordance with its terms and is no longer classified as a non-performing asset and has been placed on accruing status. Four of the six other non-performing commercial loans were to one borrower and totaled approximately $589,000 at such date. A principal of the borrower also had single-family residential loan on non-accrual in the amount of $157,000 at September 30, 2013. Non-performing assets at such date also included two one-to-four family residential real estate owned properties totaling $406,000. The properties are currently being marketed for sale.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses charged to expense. We maintain the allowance at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio that are both probable and reasonable to estimate at each reporting date. Management reviews the allowance for loan losses on no less than a quarterly basis in order to identify those inherent losses and to assess the overall collection probability for the loan portfolio. For each primary type of loan, we establish a loss factor reflecting an estimate of the known and inherent losses in such loan type using both a quantitative analysis as well as consideration of qualitative factors. Management's evaluation process includes, among other things, an analysis of delinquency trends, non-performing loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of our loans, the value of collateral securing the loan, the borrower's ability to repay and repayment performance, the number of loans requiring heightened management oversight, local economic conditions and industry experience.

The carrying value of loans is periodically evaluated and the allowance is adjusted accordingly. The establishment of the allowance for loan losses is significantly affected by management judgment and uncertainties and there is a likelihood that different amounts would be reported under different conditions or assumptions. Various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies may require us to make additional provisions for estimated loan losses based upon judgments that differ from those of management. As of September 30, 2014, our allowance for loan losses of $2.4 million was 0.8% of total loans receivable and 41.2% of non-performing loans.

Charge-offs on loans totaled $215,000 and $154,000 for the years ended September 30, 2014 and 2013, respectively. The charge-offs during fiscal 2014 and 2013 were primarily the result of the decline in collateral value on certain collateral dependent loans which are classified as substandard. Management took a prudent approach in writing down all substandard loans to the net realizable value of the applicable underlying collateral.

Management will continue to monitor and modify the allowance for loan losses as conditions dictate. No assurances can be given that the level of allowance for loan losses will cover all of the inherent losses on our loans or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the economic and other conditions used by management to determine the current level of the allowance for loan losses.

The following table shows changes in the allowance for loan losses during the periods presented.

| | At or For the Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (Dollars in Thousands) | | | | |
| Total loans outstanding at end of period | $330,696 | $308,395 | $263,205 | $247,084 | $263,018 |
| Average loans outstanding | 319,126 | 278,582 | 242,781 | 246,188 | 254,781 |
| Allowance for loan losses, beginning of period | 2,353 | 1,881 | 3,364 | 3,151 | 2,732 |
| Provision (recovery) for loan losses | 240 | (500) | 725 | 4,630 | 1,110 |
| Charge-offs: | | | | | |
| One- to four-family residential | 215 | 154 | 1,905 | 750 | 51 |
| Multi-family residential and commercial real estate | - | - | - | - | - |
| Construction and land development | - | - | 303 | 3,667 | 640 |
| Commercial business | - | - | - | - | - |
| Consumer | - | - | - | - | - |
| Total charge-offs | 215 | 154 | 2,208 | 4,417 | 691 |
| Recoveries on loans previously charged off | 47 | 1,126 | - | - | - |
| Allowance for loan losses, end of period | $2,425 | $2,353 | $1,881 | $3,364 | $3,151 |
| Allowance for loan losses as a percent of total loans | 0.75% | 0.77% | 0.71% | 1.36% | 1.20% |
| Allowance for loan losses as a percent of non-performing loans | 41.24% | 35.47% | 13.42% | 26.63% | 90.57% |
| Ratio of net charge-offs during the period to average loans outstanding during the period | 0.05% | NM* | 0.91% | 1.79% | 0.27% |

* Not meaningful.

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The following table shows how the allowance for loan losses is allocated by type of loan at each of the dates indicated.

| | September 30, 2014 | | 2013 | | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount of Allowance | Loan Category as a % of Total Loans | Amount of Allowance | Loan Category as a % of Total Loans | Amount of Allowance | Loan Category as a % of Total Loans | Amount of Allowance | Loan Category as a % of Total Loans | Amount of Allowance | Loan Category as a % of Total Loans |
| | (Dollars in Thousands) | | | | | | | | | |
| One- to four-family residential | $ 1,663 | 85.47 % | $ 1,384 | 87.81 % | $ 830 | 84.65 % | $ 1,651 | 79.54 % | $ 672 | 74.96 % |
| Multi-family residential | 67 | 2.17 % | 22 | 1.85 % | 7 | 1.92 % | 7 | 2.32 % | 4 | 1.52 % |
| Commercial real estate | 122 | 4.87 % | 70 | 6.33 % | 125 | 7.35 % | 221 | 8.57 % | 560 | 7.49 % |
| Construction and land development | 323 | 6.77 % | 653 | 3.68 % | 745 | 5.65 % | 1,481 | 9.00 % | 1,909 | 15.46 % |
| Commercial business | 15 | 0.60 % | 4 | 0.19 % | 3 | 0.24 % | 3 | 0.33 % | 3 | 0.34 % |
| Consumer | 4 | 0.12 % | 2 | 0.14 % | 1 | 0.20 % | 1 | 0.25 % | 1 | 0.23 % |
| Unallocated | 231 | - | 218 | - | 170 | 0.00 % | - | 0.00 % | 2 | 0.00 % |
| Total allowance for loan losses | $ 2,425 | 100.00 % | $ 2,353 | 100.00 % | $ 1,881 | 100.01 % | $ 3,364 | 100.00 % | $ 3,151 | 100.00 % |

The aggregate allowance for loan losses increased by $72,000 from September 30, 2013 to September 30, 2014, due to a provision of $240,000, partially offset by net-charge offs of $168,000 recorded during the period. During the year ended September 30, 2014, we recorded a provision in the amount of $240,000 as a result of growth in the loan portfolio combined with an increase in the level of classified assets. Fluctuations in the allowance may occur based on management's consideration of the known and inherent losses in the loan portfolio that are reasonably estimated as well as current qualitative and quantitative risk factors at the time of the analysis.

Investment Activities

General. We invest in securities in accordance with policies approved by our board of directors. The investment policy designates the President, Chief Financial Officer and Treasurer as the Investment Committee, which is authorized by the board to make the Bank's investments consistent with the investment policy. The Board of Directors of the Bank reviews all investment activity on a monthly basis.

The investment policy is designed primarily to manage the interest rate sensitivity of the assets and liabilities, to generate a favorable return without incurring undue interest rate and credit risk, to complement the lending activities and to provide and maintain liquidity. The current investment policy generally permits investments in debt securities issued by the U.S. government and U.S. agencies, municipal bonds, and corporate debt obligations, as well as investments in preferred and common stock of government agencies and government sponsored enterprises such as Fannie Mae, Freddie Mac and the Federal Home Loan Bank of Pittsburgh (federal agency securities) and, to a lesser extent, other equity securities. Securities in these categories are classified as “investment securities” for financial reporting purposes. The policy also permits investments in mortgage-backed securities, including pass-through securities issued and guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae as well as collateralized mortgage obligations (“CMOs”) issued or backed by securities issued by these government sponsored agencies.

Ginnie Mae is a government agency within the Department of Housing and Urban Development which is intended to help finance government-assisted housing programs. Ginnie Mae securities are backed by loans insured by the Federal Housing Administration, or guaranteed by the Department of Veterans Affairs. The timely payment of principal and interest on Ginnie Mae securities is guaranteed by Ginnie Mae and backed by the full faith and credit of the U.S. Government. Freddie Mac is a private corporation chartered by the U.S. Government. Freddie Mac issues participation certificates backed principally by conventional mortgage loans. Freddie Mac guarantees the timely payment of interest and the ultimate return of principal on participation certificates. Fannie Mae is a private corporation chartered by the U.S. Congress with a mandate to establish a secondary market for mortgage loans. Fannie Mae guarantees the timely payment of principal and interest on Fannie Mae securities. Freddie Mac and Fannie Mae securities are not backed by the full faith and credit of the U.S. Government. On September 7, 2008, Freddie Mac and Fannie Mae were placed into conservatorship by the U.S. Government. During 2011 and 2012, the Federal Housing Administration Agency indicated that the Treasury Department is committed to fund Freddie Mac and Fannie Mae to levels needed in order to sufficiently to meet their funding needs.

Investments in mortgage-backed securities involve a risk that actual prepayments will be greater than 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 thereby changing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or in the event such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates. Further, privately issued mortgage-backed securities and CMOs also have a higher risk of default due to adverse changes in the creditworthiness of the issuer. Management's practice is generally to not invest in such securities, and the small amount of these types of securities received as a result of the redemption in kind of an investment in a mutual fund, were sold prior to the end of fiscal 2014. See further discussion in Note 5 of the Notes to Consolidated Financial Statements included in Item 8 herein.

At September 30, 2014, the investment and mortgage-backed securities amounted to $138.7 million or 26.4% of total assets at such date. The largest component of the securities portfolio as of September 30, 2014 was U.S. Government and agency obligations, which amounted to $84.8 million or 61.1% of the securities portfolio at September 30, 2014. In addition, we invest in U.S Government agency mortgage-backed securities and to a significantly lesser degree, other securities.

The securities are classified at the time of acquisition as available for sale, held to maturity or trading. Securities classified as held to maturity must be purchased with the intent and ability to hold that security until its final maturity, and can be sold prior to maturity only under rare circumstances. Held to maturity securities are accounted for based upon the amortized cost of the security. Available for sale securities can be sold at any time based upon needs or market conditions. Available for sale securities are accounted for at fair value, with unrealized gains and losses on these securities, net of income tax provisions, reflected as accumulated other comprehensive income. At September 30, 2014, we had $80.8 million of investment and mortgage-backed securities classified as held to maturity, $57.8 million of investment and mortgage-backed securities classified as available for sale and no securities classified as trading securities.

We do not purchase mortgage-backed derivative instruments nor do we purchase corporate obligations which are not rated investment grade or better. However, certain investments acquired through a redemption in kind during 2008 of our entire investment in a mutual fund are below investment grade and are deemed impaired. As of September 30, 2014, the remaining balance of such securities were sold and the Company recorded a pre-tax gain of $142,000.

The mortgage-backed securities consist primarily of mortgage pass-through certificates issued by Ginnie Mae, Fannie Mae or Freddie Mac. At September 30, 2014, the Company sold the remaing portfolio of non-agency securities.

The following table sets forth certain information relating to the investment and mortgage-backed securities portfolios at the dates indicated.

| | September 30, 2014 | | 2013 | | 2012 | |
|---|---|---|---|---|---|---|
| | Amortized Cost | Market Value | Amortized Cost | Market Value | Amortized Cost | Market Value |
| | (In Thousands) | | | | | |
| Mortgage-backed securities - U.S. Government agencies | $54,190 | $54,845 | $38,231 | $38,903 | $64,357 | $68,364 |
| Mortgage-backed securities - Non-agency (1) | - | - | 3,319 | 3,530 | 4,308 | 4,103 |
| U.S. Government and agency obligations | 85,906 | 81,994 | 85,920 | 79,897 | 58,469 | 59,902 |
| Total debt securities | 140,096 | 136,839 | 127,470 | 122,330 | 127,134 | 132,369 |
| FHLMC preferred stock | 6 | 70 | 6 | 33 | 6 | 7 |
| Total investment and mortgage-backed securities | $140,102 | $136,909 | $127,476 | $122,363 | $127,140 | $132,376 |

(1) Includes impaired securities.

The following tables set forth the amortized cost of investment and mortgage-backed securities which mature during each of the periods indicated and the weighted average yields for each range of maturities at September 30, 2014. Tax-exempt yields have not been adjusted to a tax-equivalent basis.

| | Amounts at September 30, 2014 Which Mature In | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | One Year or Less | Weighted Average Yield | Over One Year Through Five Years | Weighted Average Yield | Over Five Years Through Ten Years | Weighted Average Yield | Over Ten Years | Weighted Average Yield | Total | Weighted Average Yield |
| | (Dollars in Thousands) | | | | | | | | | |
| Bonds and other debt securities: | | | | | | | | | | |
| U.S. Government and agency obligations | $- | - % | $ 3,999 | 3.31 % | $ 16,478 | 2.33 % | $ 65,429 | 2.48 % | $ 85,906 | 2.49 % |
| Mortgage-backed securities | - | - | - | - | 19 | 1.70 % | 54,171 | 2.67 % | 54,190 | 2.67 % |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Total | $- | - % | $ | 3,999 | 3.31 % | $ 16,497 | 2.33 % | $ 119,600 | 2.57 % | $ 140,096 | 2.56 % |

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The following table sets forth the purchases and principal repayments of our mortgage-backed securities at amortized cost during the periods indicated.

| | At or For the Year Ended September 30, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | | (Dollars in Thousands) | |
| Mortgage-backed securities at beginning of period | $ 41,550 | $ 68,665 | $ 83,837 |
| Purchases | 23,085 | 1,977 | 25,821 |
| Sale of mortgage-backed securities available for sale | (1,779 ) | (14,289 ) | (19,528 ) |
| Other than temporary impairment of securities (1) | (16 ) | (32 ) | (154 ) |
| Maturities and repayments | (8,936 ) | (15,110 ) | (21,623 ) |
| Amortizations of premiums and discounts, net | 286 | 339 | 312 |
| Mortgage-backed securities at end of period | $ 54,190 | $ 41,550 | $ 68,665 |
| Weighted average yield at end of period | 2.67 % | 3.21 % | 3.79 % |

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(1) Impairment primarily relates to non-agency mortgage-backed securities received in the redemption in kind of an investment in a mutual fund. The Company sold the remaining mortgage-backed securities received in redemption in kind as of September 30, 2014.

Sources of Funds

General. Deposits, loan repayments and prepayments, proceeds from sales of loans, cash flows generated from operations and FHLB advances are the primary sources of funds for use in lending, investing and for other general purposes.

Deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Deposits consist of checking, both interest-bearing and non-interest-bearing, money market, savings and certificate of deposit accounts. At September 30, 2014, 45.7% of the funds deposited with Prudential Savings Bank were in core deposits, which are deposits other than certificates of deposit.

The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. Deposits are obtained predominantly from the areas where the branch offices are located. We have historically relied primarily on customer service and long-standing relationships with customers to attract and retain these deposits; however, market interest rates and rates offered by competing financial institutions significantly affect the Company’s ability to attract and retain deposits. The interest rates offered on deposits are competitive in the market place.

Prudential Savings Bank uses traditional means of advertising its deposit products, including broadcast and print media and generally does not solicit deposits from outside its market area.

We do not actively solicit certificate accounts of $100,000 and above, known as "jumbo CDs," or use brokers to obtain deposits. At September 30, 2014, jumbo CDs amounted to $90.9 million, of which $30.2 million are scheduled to mature within twelve months subsequent to such date. At September 30, 2014, the weighted average remaining period until maturity of the certificate of deposit accounts was 30.9 months.

The following table shows the distribution of, and certain other information relating to, deposits by type of deposit, as of the dates indicated.

| | September 30, 2014 Amount | 2014 % of Total Deposits | 2013 Amount | 2013 % of Total Deposits | 2012 Amount | 2012 % of Total Deposits |
|---|---|---|---|---|---|---|
| | (Dollars in Thousands ) | | | | | |
| Certificate accounts: | | | | | | |
| Less than 1.00% | $ 74,146 | 18.96 % | $ 85,672 | 15.78 % | $ 62,984 | 14.80 % |
| 1.00% - 1.99% | 79,474 | 20.33 % | 77,884 | 14.35 % | 63,981 | 15.03 % |
| 2.00% - 2.99% | 48,105 | 12.30 % | 30,345 | 5.59 % | 84,887 | 19.95 % |
| 3.00% - 3.99% | 10,914 | 2.79 % | 17,653 | 3.25 % | 19,460 | 4.57 % |
| 4.00% - 4.99% | - | - | 2,744 | 0.51 % | 10,101 | 2.37 % |
| 5.00% - 5.99% | - | - | - | - | 6,001 | 1.41 % |
| Total certificate accounts | $ 212,639 | 54.38 % | $ 214,298 | 39.48 % | $ 247,414 | 58.13 % |
| Transaction accounts: | | | | | | |
| Savings | 73,275 | 18.73 % | 223,615 | 41.20 % | 71,083 | 16.70 % |
| Checking: | | | | | | |
| Interest-bearing | 2,327 | 0.60 % | 36,063 | 6.64 % | 33,659 | 7.91 % |
| Non-interest-bearing | 38,119 | 9.75 % | 3,474 | 0.64 % | 3,711 | 0.87 % |
| Money market | 64,665 | 16.54 % | 65,298 | 12.03 % | 69,735 | 16.39 % |
| Total transaction accounts | $ 178,386 | 45.62 % | $ 328,450 | 60.52 % | $ 178,188 | 41.87 % |
| Total deposits | $ 391,025 | 100.00 % | $ 542,748 | 100.00 % | $ 425,602 | 100.00 % |

The following table shows the average balance of each type of deposit and the average rate paid on each type of deposit for the periods indicated.

| | Year Ended September 30, 2014 Average Balance | 2014 Interest Expense | 2014 Average Rate Paid | 2013 Average Balance | 2013 Interest Expense | 2013 Average Rate Paid | 2012 Average Balance | 2012 Interest Expense | 2012 Average Rate Paid |
|---|---|---|---|---|---|---|---|---|---|
| | (Dollars in Thousands) | | | | | | | | |
| Savings | $80,432 | $262 | 0.33 % | $82,478 | $265 | 0.32 % | $70,186 | $401 | 0.57 % |
| Interest-bearing checking and money market accounts | 100,303 | 348 | 0.35 % | 100,709 | 358 | 0.36 % | 103,988 | 490 | 0.47 % |
| Certificate accounts | 203,083 | 2,791 | 1.37 % | 233,814 | 3,721 | 1.59 % | 258,154 | 4,884 | 1.89 % |
| Total interest-bearing deposits | 383,818 | $3,401 | 0.89 % | 417,001 | $4,344 | 1.04 % | 432,328 | $5,775 | 1.34 % |
| | 2,498 | | | 3,483 | | | 3,924 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Non-interest-bearing deposits | | | | | | |
| Total deposits | $386,316 | 0.88 % | $420,484 | 1.03 % | $436,252 | 1.32 % |

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The following table shows the savings flows during the periods indicated.

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | (In Thousands) | | |
| Deposits made | $ 345,125 | $ 507,513 | $ 322,480 |
| Withdrawals | (499,938) | (394,002) | (336,952) |
| Interest credited | 3,090 | 3,635 | 4,060 |
| Total (decrease) increase in deposits | $ (151,723) | $ 117,146 | $ (10,412) |

Proceeds from the Company's second-step conversion offering in the amount of $145.7 million are included in the deposits made during 2013. The offering was completed in October 2013 and $69.4 million was transferred to capital and $75.4 million was returned to subscribers due to an over subscription in the offering. Such transfers and refunds are reflected in the withdrawals during 2014.

The following table presents, by various interest rate categories and maturities, the amount of certificates of deposit at September 30, 2014.

| | Maturing in the 12 Months Ending September 30, | | | | |
|---|---|---|---|---|---|
| Certificates of Deposit | 2015 | 2016 | 2017 | Thereafter | Total |
| | (In Thousands) | | | | |
| Less than 1.00% | $ 66,710 | $ 7,437 | $ - | $ - | $ 74,147 |
| 1.00% - 1.99% | 11,236 | 13,910 | 10,551 | 43,777 | 79,474 |
| 2.00% - 2.99% | 1,965 | 12,045 | 14,094 | 20,000 | 48,104 |
| 3.00% - 3.99% | 10,914 | - | - | - | 10,914 |
| Total certificate accounts | $ 90,825 | $ 33,392 | $ 24,645 | $ 63,777 | $ 212,639 |

The following tables show the maturities of our certificates of deposit of $100,000 or more at September 30, 2014, by time remaining to maturity.

| Quarter Ending: | Amount | Weighted Avg Rate |
|---|---|---|
| | (Dollars in Thousands) | |
| December 31, 2014 | $ 7,404 | 0.97 % |
| March 31, 2015 | 7,160 | 1.08 % |
| June 30, 2015 | 6,307 | 0.98 % |
| September 30, 2015 | 9,019 | 1.21 % |
| After September 30, 2015 | 60,763 | 1.86 % |
| Total certificates of deposit with balances of $100,000 or more | $ 90,653 | 1.60 % |

Borrowings. We utilize advances from the Federal Home Loan Bank of Pittsburgh as an alternative to retail deposits to fund the operations as part of the operating and liquidity strategy. See “Liquidity and Capital Resources” in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operation. These FHLB advances are collateralized primarily by certain mortgage loans and mortgage-backed securities and secondarily by an investment in capital stock of the Federal Home Loan Bank of Pittsburgh. There are no specific credit covenants associated with these borrowings. FHLB advances are made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. The maximum amount that the Federal Home Loan Bank of Pittsburgh will advance to member institutions, including the Bank, fluctuates from time to time in accordance with the policies of the Federal Home Loan Bank of Pittsburgh. At September 30, 2014, we had $340,000 in outstanding FHLB advances (as described below) and the ability to obtain an additional $194.0 million of FHLB advances. At such date, maturities of our outstanding advances all occur in fiscal year 2015. We have not utilized any other types of borrowings such as securities sold under agreements to repurchase.

The following table shows certain information regarding borrowings at or for the dates indicated:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| | (Dollars in Thousands) | | |
| FHLB advances: | | | |
| Average balance outstanding | $ 340 | $ 350 | $ 537 |
| Maximum amount outstanding at any month-end during the period | 340 | 453 | 567 |
| Balance outstanding at end of period | 340 | 340 | 483 |
| Average interest rate during the period | 0.00 % | 0.50 % | 0.75 % |
| Weighted average interest rate at end of period | 0.00 % | 0.00 % | 0.59 % |

We have two FHLB advances made under a community housing program in which we participate. These advances currently have a zero interest rate. The total of these two FHLB advances is $340,000. As of September 30, 2014, there were no advances from the FHLB which are not part of the community housing program.

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Subsidiaries

The Company has only one direct subsidiary: Prudential Savings Bank. The Bank's sole subsidiary as of September 30, 2014 was PSB Delaware, Inc. ("PSB"), a Delaware-chartered corporation established to hold investment securities. As of September 30, 2014, PSB had assets of $113.4 million primarily consisting of mortgage-backed and investment securities. We may consider the establishment of one or more additional subsidiaries in the future.

Employees

At September 30, 2014, we had 72 full-time employees, and four part-time employees. None of such employees are represented by a collective bargaining group, and we believe that the Company's relationship with its employees is good.

REGULATION

General

Prudential Savings Bank is a Pennsylvania-chartered savings bank and is subject to extensive regulation and examination by the Pennsylvania Department of Banking and Securities (the "Department") and by the Federal Deposit Insurance Corporation ("FDIC"), and is also subject to certain requirements established by the Federal Reserve Board. The federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the payment of dividends, the timing of the availability of deposited funds and the nature and amount of and collateral for certain loans. There are periodic examinations by the Department and the FDIC to test the Bank's compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the 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. Any change in such regulation, whether by the Department, the FDIC, the Federal Reserve Board or the Congress could have a material adverse impact on Prudential Bancorp and the Bank and their respective operations.

Federal law provides the federal banking regulators, including the FDIC and the Federal Reserve Board, with substantial enforcement powers. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders, and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

Prudential Bancorp is a registered as bank holding company under the Bank Holding Company Act and is subject to regulation and supervision by the Federal Reserve Board and by the Department. Prudential Bancorp files annually a report of its operations with, and are subject to examination by, the Federal Reserve Board and the Department. This regulation and oversight is generally intended to ensure that Prudential Bancorp limit its activities to those allowed by law and that it operates in a safe and sound manner without endangering the financial health of the Bank.

In connection with the reorganization completed in October 2013, Prudential Bancorp registered its common stock with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934. Prudential Bancorp is subject to the proxy and tender offer rules, insider trading reporting requirements and restrictions, and certain other requirements under the Securities Exchange Act of 1934. Prudential Bancorp's common stock is listed on the Nasdaq Global Market under the symbol "PBIP." The Nasdaq Stock Market listing requirements impose additional requirements on us, including, among other things, rules relating to corporate governance and the composition and independence of our board of directors and various committees of the board, such as the audit committee.

Certain of the regulatory requirements that are applicable to the Bank and Prudential Bancorp are described below. This description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations and their effects on the Bank and Prudential Bancorp and is qualified in its entirety by reference to the actual statutes and regulations.

Recently Enacted Regulatory Reform

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"). The Dodd-Frank Act imposes new restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions. The new law also establishes an independent federal consumer protection bureau within the Federal Reserve Board. The following discussion summarizes significant aspects of the new law that may affect the Bank and Prudential Bancorp. Many of the regulations implementing these changes have not been promulgated, so we cannot determine the full impact on our business and operations at this time.

The following aspects of the financial reform and consumer protection act are related to the operations of the Bank:

A new independent consumer financial protection bureau has been established within the Federal Reserve Board, empowered to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws. Smaller financial institutions, like the Bank, will be subject to the supervision and enforcement of their primary federal banking regulator with respect to the federal consumer financial protection laws.

Tier 1 capital treatment for "hybrid" capital items like trust preferred securities is eliminated subject to various grandfathering and transition rules.

The prohibition on payment of interest on demand deposits was repealed.

Deposit insurance on most accounts increased to $250,000.

The deposit insurance assessment base calculation now equals the depository institution's total assets minus the sum of its average tangible equity during the assessment period.

The minimum reserve ratio of the Deposit Insurance Fund increased to 1.35 percent of estimated annual insured deposits or assessment base; however, the FDIC is directed to "offset the effect" of the increased reserve ratio for insured depository institutions with total consolidated assets of less than $10 billion.

The following aspects of the financial reform and consumer protection act are related to the operations of Prudential Bancorp:

The Federal Deposit Insurance Act was amended to direct federal regulators to require depository institution holding companies to serve as a source of strength for their depository institution subsidiaries.

The SEC is authorized to adopt rules requiring public companies to make their proxy materials available to shareholders for nomination of their own candidates for election to the board of directors.

Public companies are required to provide their shareholders with a non-binding vote: (i) at least once every three years on the compensation paid to executive officers, and (ii) at least once every six years on whether they should have a "say on pay" vote every one, two or three years.

A separate, non-binding shareholder vote is required regarding golden parachutes for named executive officers when a shareholder vote takes place on mergers, acquisitions, dispositions or other transactions that would trigger the parachute payments.

Securities exchanges are required to prohibit brokers from using their own discretion to vote shares not beneficially owned by them for certain "significant" matters, which include votes on the election of directors, executive compensation matters, and any other matter determined to be significant.

Stock exchanges are prohibited from listing the securities of any issuer that does not have a policy providing for (i) disclosure of its policy on incentive compensation payable on the basis of financial information reportable under the securities laws, and (ii) the recovery from current or former executive officers, following an accounting restatement triggered by material noncompliance with securities law reporting requirements, of any incentive compensation paid erroneously during the three-year period preceding the date on which the restatement was required that exceeds the amount that would have been paid on the basis of the restated financial information.

Disclosure in annual proxy materials will be required concerning the relationship between the executive compensation paid and the financial performance of the issuer.

Item 402 of Regulation S-K promulgated by the SEC will be amended to require companies to disclose the ratio of the Chief Executive Officer's annual total compensation to the median annual total compensation of all other employees.

Smaller reporting companies are exempt from complying with the internal control auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act.

Regulation of Prudential Savings Bank

Pennsylvania Banking Law. The Pennsylvania Banking Code of 1965 (the "Banking Code") contains detailed provisions governing the organization, location of offices, rights and responsibilities of directors, officers, employees and members, as well as corporate powers, savings and investment operations and other aspects of the Bank and its affairs. The Banking Code delegates extensive rulemaking power and administrative discretion to the Department so that the supervision and regulation of state-chartered savings banks may be flexible and readily responsive to changes in economic conditions and in savings and lending practices.

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One of the purposes of the Banking Code is to provide savings banks with the opportunity to be competitive with each other and with other financial institutions existing under other Pennsylvania laws and other state, federal and foreign laws. A Pennsylvania savings bank may locate or change the location of its principal place of business and establish an office anywhere in the Commonwealth, with the prior approval of the Department.

The Department generally examines each savings bank not less frequently than once every two years. Although the Department may accept the examinations and reports of the FDIC in lieu of its own examination, the present practice is for the Department to alternate conducting examinations with the FDIC. The Department may order any savings bank to discontinue any violation of law or unsafe or unsound business practice and may direct any director, trustee, officer, attorney or employee of a savings bank engaged in an objectionable activity, after the Department has ordered the activity to be terminated, to show cause at a hearing before the Department why such person should not be removed.

Insurance of Accounts. The deposits of the Bank are insured to the maximum extent permitted by the Deposit Insurance Fund and are backed by the full faith and credit of the U.S. Government. The Dodd-Frank Act increased deposit insurance on most accounts to $250,000. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the FDIC. The FDIC also has the authority to initiate enforcement actions against savings institutions.

The FDIC’s risk-based premium system provides for quarterly assessments. Each insured institution is placed in one of four risk categories depending on supervisory and capital considerations. Within its risk category, an institution is assigned to an initial base assessment rate which is then adjusted to determine its final assessment rate based on its brokered deposits, secured liabilities and unsecured debt. To implement the Dodd Frank Act, the FDIC amended its deposit insurance regulations (1) to change the assessment base for insurance from domestic deposits to average assets minus average tangible equity and (2) to lower overall assessment rates. The revised assessments rates are between 2.5 to 9 basis points for banks in the lowest risk category and between 30 to 45 basis points for banks in the highest risk category. In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize a predecessor to the Deposit Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2019.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is not aware of any existing circumstances which could result in termination of the Bank’s deposit insurance.

Capital Requirements. The FDIC has promulgated regulations and adopted a statement of policy regarding the capital adequacy of state-chartered banks which, like the Bank, are not members of the Federal Reserve System. These requirements are substantially similar to those adopted by the Federal Reserve Board regarding bank holding companies.

The FDIC's capital regulations establish a minimum 3.0% Tier I leverage capital requirement for the most highly-rated state-chartered, non-member banks. An additional cushion of at least 100 basis points is required for all other state-chartered, non-member banks, which effectively increases their minimum Tier I leverage ratio to 4.0% or more. Under the FDIC's regulation, the most highly rated banks are those that the FDIC determines are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and, in general, which are considered a strong banking organization and are rated composite 1 under the Uniform Financial Institutions Rating System. Leverage or core capital is defined as the sum of common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and related surplus, and minority interests in consolidated subsidiaries, minus all intangible assets other than certain qualifying supervisory goodwill and certain purchased mortgage servicing rights.

The FDIC also requires that savings banks meet a risk-based capital standard. The risk-based capital standard for savings banks requires the maintenance of total capital (which is defined as Tier I capital and supplementary (Tier 2) capital) to risk-weighted assets of 8%. In determining the amount of risk-weighted assets, all assets, plus certain off balance sheet assets, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset or item. The components of Tier I capital are equivalent to those discussed above under the 3% leverage capital standard. The components of supplementary capital include certain perpetual preferred stock, certain mandatory convertible securities, certain subordinated debt and intermediate preferred stock and general allowances for loan and lease losses. Allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of core capital.

Recent Regulatory Capital Rules. In July 2013 the respective U.S. federal banking agencies issued final rules implementing Basel III and the Dodd-Frank Act capital requirements to be fully-phased in on a global basis on January 1, 2019. The new regulations establish a new tangible common equity capital requirement, increase the minimum requirement for the current Tier 1 risk-weighted asset ("RWA") ratio, phase out certain kinds of intangibles treated as capital and certain types of instruments and change the risk weightings of certain assets used to determine required capital ratios. The new common equity Tier 1 capital component requires capital of the highest quality – predominantly composed of retained earnings and common stock instruments. For community banks such as the Bank, a common equity Tier 1 capital ratio 4.5% will become effective on January 1, 2015. The new capital rules will also increase the current minimum Tier 1 capital ratio from 4.0% to 6.0% beginning on January 1, 2015. In addition, institutions that seek the freedom to make capital distributions and pay discretionary bonuses to executive officers without restriction must also maintain greater than 2.5% in common equity attributable to a capital conservation buffer to be phased in from January 1, 2016 until January 1, 2019. The new rules also increase the risk weights for several categories of assets, including an increase from 100% to 150% for certain acquisition, development and construction loans and more than 90-day past due exposures. The new capital rules maintain the general structure of the prompt corrective action rules, but incorporate the new common equity Tier 1 capital requirement and the increased Tier 1 RWA requirement into the prompt corrective action framework.

The Bank is also subject to more stringent Department capital guidelines. Although not adopted in regulation form, the Department utilizes capital standards requiring a minimum of 6% leverage capital and 10% risk-based capital. The components of leverage and risk-based capital are substantially the same as those defined by the FDIC. At September 30, 2013, Prudential Savings Bank's capital ratios exceeded each of its capital requirements.

Prompt Corrective Action. The following table shows the amount of capital associated with the different capital categories set forth in the prompt corrective action regulations.

| Capital Category | Total Risk-Based Capital | Tier 1 Risk-Based Capital | Tier 1 Leverage Capital |
|---|---|---|---|
| Well capitalized | 10% or more | 6% or more | 5% or more |
| Adequately capitalized | 8% or more | 4% or more | 4% or more |
| Undercapitalized | Less than 8% | Less than 4% | Less than 4% |
| Significantly undercapitalized | Less than 6% | Less than 3% | Less than 3% |

In addition, an institution is "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Under specified circumstances, a federal banking agency may reclassify a "well capitalized" institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized institution as critically undercapitalized).

An institution generally must file a written capital restoration plan which meets specified requirements within 45 days of the date that the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. A federal banking agency must provide the institution with written notice of approval or disapproval within 60 days after receiving a capital restoration plan, subject to extensions by the agency. An institution which is required to submit a capital restoration plan must concurrently submit a performance guaranty by each company that controls the institution. In addition, undercapitalized institutions are subject to various regulatory restrictions, and the appropriate federal banking agency also may take any number of discretionary supervisory actions.

At September 30, 2014, the Bank was deemed to be a "well capitalized" institution for purposes of the prompt corrective action regulations and as such is not subject to the above mentioned restrictions.

The table below sets forth the Company and the Bank's capital position relative to its respective regulatory capital requirements at September 30, 2014.

| | Actual | | Required for Capital Adequacy Purposes | | Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | (Dollars in Thousands) | | | | | |
| Tier 1 capital (to average assets) | | | | | | |
| Company | $ 130,378 | 25.39 % | $ 20,544 | 4.0 % | N/A | N/A |
| Bank | 92,090 | 17.95 | 20,519 | 4.0 | $ 25,649 | 5.0 % |
| Tier 1 capital (to risk-weighted assets) | | | | | | |
| Company | 130,378 | 57.21 | 9,115 | 4.0 | N/A | N/A |
| Bank | 92,090 | 40.52 | 9,091 | 4.0 | 13,636 | 6.0 |
| Total capital (to risk-weighted assets) | | | | | | |
| Company | 132,803 | 58.28 | 18,231 | 8.0 | N/A | N/A |
| Bank | 94,515 | 41.59 | 18,182 | 8.0 | 22,727 | 10.0 |

Activities and Investments of Insured State-Chartered Banks. The activities and equity investments of FDIC-insured, state-chartered banks are generally limited to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank is not prohibited from, among other things:

acquiring or retaining a majority interest in a subsidiary;

investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank's total assets;

acquiring up to 10% of the voting stock of a company that solely provides or reinsures directors', trustees' and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions; and

acquiring or retaining the voting shares of a depository institution if certain requirements are met.

The FDIC has adopted regulations pertaining to the other activity restrictions imposed upon insured state banks and their subsidiaries. Pursuant to such regulations, insured state banks engaging in impermissible activities may seek approval from the FDIC to continue such activities. State banks not engaging in such activities but that desire to engage in otherwise impermissible activities either directly or through a subsidiary may apply for approval from the FDIC to do so; however, if such bank fails to meet the minimum capital requirements or the activities present a significant risk to the FDIC insurance funds, such application will not be approved by the FDIC. Pursuant to this authority, the FDIC has determined that investments in certain majority-owned subsidiaries of insured state banks do not represent a significant risk to the deposit insurance funds. Investments permitted under that authority include real estate activities and securities activities.

Restrictions on Capital Distributions. Under federal rules, an insured depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it is already undercapitalized. In addition, federal regulators have the authority to restrict or prohibit the payment of dividends for safety and soundness reasons. The FDIC also prohibits an insured depository institution from paying dividends on its capital stock or interest on its capital notes or debentures (if such interest is required to be paid only out of net profits) or distributing any of its capital assets while it remains in default in the payment of any assessment due the FDIC. The Bank is currently not in default in any assessment payment to the FDIC. Pennsylvania law also restricts the payment and amount of dividends, including the requirement that dividends be paid only out of accumulated net earnings.

Privacy Requirements. Federal law places limitations on financial institutions like the Bank regarding the sharing of consumer financial information with unaffiliated third parties. Specifically, these provisions require all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of personal financial information with unaffiliated third parties. The Bank currently has a privacy protection policy in place and believes such policy is in compliance with applicable regulations.

Anti-Money Laundering. Federal anti-money laundering rules impose various requirements on financial institutions to prevent the use of the U.S. financial system to fund terrorist activities. These provisions include a requirement that financial institutions operating in the United States have anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such compliance programs supplement existing compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control Regulations. The Bank has established policies and procedures to ensure compliance with the federal anti-money laundering provisions.

Regulatory Enforcement Authority. Applicable banking laws include substantial enforcement powers available to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

Community Reinvestment Act. All insured depository 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 neighborhoods. An institution's failure to comply with the provisions of the Community Reinvestment Act could result in restrictions on its activities. The Bank received a "satisfactory" Community Reinvestment Act rating in its most recently completed examination.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank of Pittsburgh, which is one of 12 regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the Federal Home Loan Bank.

As a member, the Bank is required to purchase and maintain stock in the Federal Home Loan Bank of Pittsburgh in an amount in accordance with the Federal Home Loan Bank's capital plan and sufficient to ensure that the Federal Home Loan Bank remains in compliance with its minimum capital requirements. At September 30, 2014, the Bank was in compliance with this requirement.

Federal Reserve Board System. The Federal Reserve Board requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts, which are primarily checking and NOW accounts, and non-personal time deposits. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy the liquidity requirements that are imposed by the Pennsylvania Department . At September 30, 2014, the Bank was in compliance with these reserve requirements.

Regulation of Prudential Bancorp

Bank Holding Company Act Activities and Other Limitations. Under the Bank Holding Company Act, Prudential Bancorp must obtain the prior approval of the Federal Reserve Board before they may acquire control of another bank or bank holding company, merge or consolidate with another bank holding company, acquire all or substantially all of the assets of another bank or bank holding company, or acquire direct or indirect ownership or control of any voting shares of any bank or bank holding company if, after such acquisition, Prudential Bancorp would directly or indirectly own or control more than 5% of such shares.

Federal statutes impose restrictions on the ability of a bank holding company and its nonbank subsidiaries to obtain extensions of credit from its subsidiary bank, on the subsidiary bank's investments in the stock or securities of the holding company, and on the subsidiary bank's taking of the holding company's stock or securities as collateral for loans to any borrower. A bank holding company and its subsidiaries are also prevented from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property, or furnishing of services by the subsidiary bank.

A bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it has been the policy of the Federal Reserve Board that a bank holding company should stand ready to use available resources to provide adequate capital to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve Board to be an unsafe and unsound banking practice or a violation of the Federal Reserve Board regulations, or both. The Dodd-Frank Act included a provision that directs federal regulators to require depository institution holding companies to serve as a source of strength for their depository institution subsidiaries.

Non-Banking Activities. The business activities of Prudential Bancorp, as a bank holding company, are restricted by the Bank Holding Company Act. Under the Bank Holding Company Act and the Federal Reserve Board's bank holding company regulations, bank holding companies may only engage in, or acquire or control voting securities or assets of a company engaged in:

- banking or managing or controlling banks and other subsidiaries authorized under the Bank Holding Company Act; and

- any Bank Holding Company Act activity the Federal Reserve Board has determined to be so closely related that it is incidental to banking or managing or controlling banks.

The Federal Reserve Board has determined by regulation that certain activities are closely related to banking including operating a mortgage company, finance company, credit card company, factoring company, trust company or savings association; performing certain data processing operations; providing limited securities brokerage services; acting as an investment or financial advisor; acting as an insurance agent for certain types of credit-related insurance; leasing personal property on a full-payout, non-operating basis; providing tax planning and preparation services; operating a collection agency; and providing certain courier services. Moreover, as discussed below, certain other activities are permissible for a bank holding company that becomes a financial holding company.

Financial Holding Companies. Bank holding companies may also engage in a broad range of activities under a type of financial services company known as a "financial holding company." A financial holding company essentially is a bank holding company with significantly expanded powers. Financial holding companies are authorized by statute to engage in a number of financial activities previously impermissible for bank holding companies, including securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; and merchant banking activities. The Federal Reserve Board and the Department of the Treasury are also authorized to permit additional activities for financial holding companies if the activities are "financial in nature" or "incidental" to financial activities. A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized, well managed, and has at least a "satisfactory" Community Reinvestment Act rating. A financial holding company must provide notice to the Federal Reserve Board within 30 days after commencing activities previously determined by statute or by the Federal Reserve Board and Department of the Treasury to be permissible. Prudential Bancorp has not submitted notices to the Federal Reserve Board of its intent to be deemed a financial holding company. However, it is not precluded from submitting a notice in the future should it wish to engage in activities only permitted to financial holding companies.

Regulatory Capital Requirements. The Federal Reserve Board has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the Bank Holding Company Act. The Federal Reserve Board's capital adequacy guidelines for Prudential Bancorp, on a consolidated basis, are similar to those imposed on Prudential Savings Bank by the FDIC. See "-Regulation of Prudential Savings Bank - Capital Requirements." Moreover, certain of the bank holding company capital requirements promulgated by the Federal Reserve Board in 2013 will become effective as of January 1, 2015. Those requirements establish the following four minimum capital ratios that Prudential Bancorp must comply with as of that date:

| Capital Ratio | Regulatory Minimum |
|---|---|
| Common Equity Tier 1 Capital | 4.5% |
| Tier 1 Leverage Capital | 4.0% |
| Tier 1 Risk-Based Capital | 6.0% |
| Total Risk-Based Capital | 8.0% |

The leverage capital requirement is calculated as a percentage of total assets and the other three capital requirements are calculated as a percentage of risk-weighted assets. For a more detailed discussion of the 2013 capital rules, see "Recent Regulatory Capital Rules" under "Regulations of Prudential Savings Bank" above.

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Restrictions on Dividends. Prudential Bancorp's ability to declare and pay dividends may depend in part on dividends received from the Bank. The Banking Code regulates the distribution of dividends by savings banks and states, in part, that dividends may be declared and paid out of accumulated net earnings, provided that the bank continues to meet its surplus requirements. In addition, dividends may not be declared or paid if the Bank is in default in payment of any assessment due the FDIC.

A Federal Reserve Board policy statement on the payment of cash dividends states that a bank holding company should pay cash dividends only to the extent that the holding company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality and overall financial condition. The Federal Reserve Board's policy statement also provides that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the federal prompt corrective action regulations, the Federal Reserve Board may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized." See "-Regulation of Prudential Savings Bank - Prompt Corrective Action" above.

Federal Securities Laws. Prudential Bancorp's common stock is registered with the SEC under Section 12(b) of the Securities Exchange Act of 1934. Prudential Bancorp is subject to the proxy and tender offer rules, insider trading reporting requirements and restrictions, and certain other requirements under the Securities Exchange Act of 1934.

The Sarbanes-Oxley Act. As a public company, Prudential Bancorp is subject to the Sarbanes-Oxley Act of 2002 which addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our principal executive officer and principal financial officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the SEC under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

Volcker Rule Regulations

Regulations were recently adopted by the federal banking agencies to implement the provisions of the Dodd Frank Act commonly referred to as the Volcker Rule. The regulations contain prohibitions and restrictions on the ability of financial institutions holding companies and their affiliates to engage in proprietary trading and to hold certain interests in, or to have certain relationships with, various types of investment funds, including hedge funds and private equity funds. The regulations became effective on April 1, 2014 with full compliance being phased in over a period ending on July 21, 2015. Prudential Bancorp is currently reviewing its investment portfolio to ensure compliance as the various provisions of the Volcker Rule regulations become effective.

Limitations on Transactions with Affiliates. Transactions between insured financial institutions and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of an insured financial institution is any company or entity which controls, is controlled by or is under common control with the insured financial institution. In a bank holding company context, the bank holding company of an insured financial institution (such as Prudential Bancorp) and any companies which are controlled by such holding company are affiliates of the insured financial institution. Generally, Section 23A limits the extent to which the insured financial institution or its subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10% of such institution’s capital stock and surplus, and contains an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus. Section 23B applies to “covered transactions” as well as certain other transactions and requires that all transactions be on terms substantially the same, or at least as favorable, to the insured financial institution as those provided to a non-affiliate. The term “covered transaction” includes the making of loans to, purchase of assets from and issuance of a guarantee to an affiliate and similar transactions. Section 23B transactions also include the provision of services and the sale of assets by an insured financial institution to an affiliate.

In addition, Sections 22(g) and (h) of the Federal Reserve Act place restrictions on loans to executive officers, directors and principal stockholders. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% stockholder of an insured financial institution, and certain affiliated interests of either, may not exceed, together with all other outstanding loans to such person and affiliated interests, the insured financial institution’s loans to one borrower limit (generally equal to 15% of the institution’s unimpaired capital and surplus). Section 22(h) also requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as offered in comparable transactions to other persons unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the institution and (ii) does not give preference to any director, executive officer or principal stockholder, or certain affiliated interests of either, over other employees of the insured finacial institution. Section 22(h) also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by an insured financial institution to all insiders cannot exceed the institution’s unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers. At September 30, 2014, the Bank was in compliance with the above restrictions.

## TAXATION

### Federal Taxation

General. Prudential Bancorp and the Bank are subject to federal income taxation in the same general manner as other corporations with some exceptions listed below. The following discussion of federal, state and local income taxation is only intended to summarize certain pertinent income tax matters and is not a comprehensive description of the applicable tax rules. As of September 30, 2014, the Internal Revenue Service had concluded an audit of the Company’s tax returns for the year ended September 30, 2010 and no adverse findings were noted. The federal and state income tax return for taxable years through September 30, 2011 have been closed for purposes of examination by the Internal Revenue Service or the Pennsylvania Department of Revenue.

Prudential Bancorp files a consolidated federal income tax return with the Bank and its subsidiary, PSB. Accordingly, any cash distributions made by Prudential Bancorp to its shareholders will be treated as cash dividends and not as a non-taxable return of capital to shareholders for federal and state tax purposes.

Method of Accounting.  For federal income tax purposes, Prudential Bancorp and the Bank report income and expenses on the accrual method of accounting and file their federal income tax return on a fiscal year basis.

Bad Debt Reserves.  The Small Business Job Protection Act of 1996 eliminated the use of the reserve method of accounting for bad debt reserves by savings associations, effective for taxable years beginning after 1995.  Prior to that time, the Bank was permitted to establish a reserve for bad debts and to make additions to the reserve.  These additions could, within specified formula limits, be deducted in arriving at taxable income.  As a result of the Small Business Job Protection Act of 1996, savings associations must use the specific charge-off method in computing their bad debt deduction beginning with their 1996 federal tax return.  In addition, federal legislation required the recapture over a six year period of the excess of tax bad debt reserves at December 31, 1995 over those established as of December 31, 1987.

Taxable Distributions and Recapture.  Prior to the Small Business Job Protection Act of 1996, bad debt reserves created prior to January 1, 1988 were subject to recapture into taxable income if the Bank failed to meet certain thrift asset and definitional tests.  New federal legislation eliminated these savings association related recapture rules.  However, under current law, pre-1988 reserves remain subject to recapture should the Bank make certain non-dividend distributions or cease to maintain a bank charter.

At September 30, 2014, the total federal pre-1988 reserve was approximately $6.6 million.  The reserve reflects the cumulative effects of federal tax deductions by the Bank for which no federal income tax provisions have been made.

Alternative Minimum Tax.  The Internal Revenue Code imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences.  The alternative minimum tax is payable to the extent such alternative minimum tax income is in excess of the regular income tax.  Net operating losses, of which the Bank has none, can offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years.  The Bank has not been subject to the alternative minimum tax.

Corporate Dividends Received Deduction. Prudential Bancorp may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of corporations.  The corporate dividends received deduction is 80% in the case of dividends received from corporations which a corporate recipient owns less than 80%, but at least 20% of the distribution corporation. Corporations which own less than 20% of the stock of a corporation distributing a dividend may deduct only 70% of dividends received.

State and Local Taxation

Pennsylvania Taxation.  Prudential Bancorp is subject to the Pennsylvania Corporate Net Income Tax, Capital Stock and Franchise Tax.  The Corporation Net Income Tax rate for 2013 is 9.99% and is imposed on unconsolidated taxable income for federal purposes with certain adjustments.  In general, the Capital Stock and Franchise Tax is a property tax imposed on a corporation's capital stock value at a statutorily defined rate, such value being determined in accordance with a fixed formula based upon average net income and net worth.

Prudential Savings Bank is subject to tax under the Pennsylvania Mutual Thrift Institutions Tax Act, as amended to include thrift institutions having capital stock. Pursuant to the Mutual Thrift Institutions Tax, the tax rate is 11.50%. The Mutual Thrift Institutions Tax exempts Prudential Savings Bank from other taxes imposed by the Commonwealth of Pennsylvania for state income tax purposes and from all local taxation imposed by political subdivisions, except taxes on real estate and real estate transfers. The Mutual Thrift Institutions Tax is a tax upon net earnings, determined in accordance with generally accepted accounting principles with certain adjustments. The Mutual Thrift Institutions Tax, in computing income according to generally accepted accounting principles, allows for the deduction of interest earned on state and federal obligations, while disallowing a percentage of a thrift's interest expense deduction in the proportion of interest income on those securities to the overall interest income of Prudential Savings Bank. Net operating losses, if any, thereafter can be carried forward three years for Mutual Thrift Institutions Tax purposes.

Item 1A. Risk Factors.

Not applicable.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties

We currently conduct business from our main office and six banking offices. The following table sets forth the net book value of the land, building and leasehold improvements and certain other information with respect to our offices at September 30, 2014. All the offices are owned by us with the exception of the Old City Branch. During December 2014, the Company opened a full service branch located in Chalfont, Bucks County, Pennsylvania.

| Description/Address | Leased/Owned | Date of Lease Expiration | Net Book Value of Property and Leasehold Improvements | Amount of Deposits | |
|---|---|---|---|---|---|
| | | | (In Thousands) | | |
| Main Office<br>1834 Oregon Avenue<br>Philadelphia, PA 19145-4725 | Owned | N/A | $ 292 | $ 212,869 | |
| Snyder Branch<br>2101 South 19th Street<br>Philadelphia, PA 19145-3709 | Owned | N/A | 6 | 17,306 | (I) |
| Center City Branch<br>112 South 19th Street<br>Philadelphia, PA 19103-4667 | Owned | N/A | 30 | 25,859 | |
| Broad Street Branch<br>1722 South Broad Street<br>Philadelphia, PA 19145-2388 | Owned | N/A | 199 | 47,903 | |
| Pennsport Branch<br>238A Moore Street<br>Philadelphia, PA 19148-1925 | Owned | N/A | 35 | 39,759 | |
| Drexel Hill Branch<br>601 Morgan Avenue<br>Drexel Hill, PA 19026-3105 | Owned | N/A | 77 | 36,606 | |
| Old City Branch<br>28 North 3rd Street<br>Philadelphia, PA 19106-2108 | Leased | May 2015 | 43 | 10,723 | |
| Total | | | $ 682 | $ 391,025 | |

(1) The Bank has provided notice of its intent to close this office effective February 15, 2015.

Item 3. Legal Proceedings

The Company is involved in various legal proceedings occurring in the ordinary course of business. Management of the Company, based on discussions with litigation counsel, does not believe that such proceedings will have a material adverse effect on the financial condition or operations of the Company. There can be no assurance that any of the outstanding legal proceedings to which the Company is a party will not be decided adversely to the Company's interests and have a material adverse effect on the financial condition and operations of the Company.

Item 4. Mine Safety Disclosures

Not applicable

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Our common stock is traded on the NASDAQ Global Market (NASDAQ) under the symbol "PBIP". At December 14, 2014, there were approximately 275 registered shareholders of record, not including the number of persons or entities whose stock is held in nominee or "street" name through various brokerage firms and banks.

The following table shows the quarterly high and low trading prices of our stock, reported on the NASDAQ Stock Market, and the amount of cash dividends declared per share for each of the quarters in fiscal 2014 and 2013:

| | Stock Price | | Cash dividends |
|---|---|---|---|
| Quarter ended: | High | Low | per share |
| September 30, 2014 | $ 12.23 | $ 11.51 | $ 0.03 |
| June 30, 2014 | 11.66 | 10.65 | 0.03 |
| March 31, 2014 | 10.83 | 10.45 | 0.00 |
| December 31, 2014 | 10.91 | 10.10 | 0.00 |

| | Stock Price | | Cash dividends |
|---|---|---|---|
| Quarter ended (1): | High | Low | per share |
| September 30, 2013 | $ 11.32 | $ 9.55 | $ 0.00 |
| June 30, 2013 | 10.56 | 8.41 | 0.00 |
| March 31, 2013 | 9.71 | 7.13 | 0.00 |
| December 31, 2012 | 7.89 | 6.13 | 0.00 |

(1) Dollar values have been adjusted for the stock conversion resulting from second-step conversion offering.

(b) Not applicable

(c) There were no repurchases of common stock by the Company during the quarter ended September 30, 2014.

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Item 6. Selected Financial Data

Set forth below is selected financial and other data of Prudential Bancorp. Reference is made to the consolidated financial statements and related notes contained in Item 8 which provide additional information.

| | At September 30, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (Dollars in Thousands) | | | | |
| Selected Financial and Other Data: | | | | | |
| Total assets | $ 525,483 | $ 607,897 | $ 490,504 | $ 499,537 | $ 529,080 |
| Cash and cash equivalents | 45,382 | 158,984 | 81,273 | 53,829 | 66,524 |
| Investment and mortgage-backed securities: | | | | | |
| Held-to-maturity | 80,840 | 83,732 | 63,110 | 108,956 | 112,673 |
| Available-for-sale | 57,817 | 41,781 | 65,975 | 75,370 | 72,425 |
| Loans receivable, net | 321,063 | 306,517 | 260,684 | 240,511 | 255,091 |
| Deposits | 391,025 | 542,748 | 425,602 | 436,014 | 464,455 |
| FHLB advances | 340 | 340 | 483 | 570 | 615 |
| Non-performing loans | 5,880 | 6,634 | 14,018 | 12,631 | 3,479 |
| Non-performing assets | 6,240 | 7,040 | 15,990 | 14,899 | 6,676 |
| Total stockholders' equity, substantially restricted | 129,425 | 59,912 | 59,81 | 57,452 | 56,999 |
| Banking offices | 7 | 7 | 7 | 7 | 7 |

| | Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (Dollars in Thousands, except per share data) | | | | |
| Selected Operating Data: | | | | | |
| Total interest income | $ 16,465 | $ 16,773 | $ 18,979 | $ 21,685 | $ 25,109 |
| Total interest expense | 3,401 | 4,344 | 5,779 | 7,097 | 9,416 |
| Net interest income | 13,064 | 12,429 | 13,200 | 14,588 | 15,693 |
| Provision (recovery) for loan losses | 240 | (500) | 725 | 4,630 | 1,110 |
| Net interest income after provision (recovery) for loan losses | 12,824 | 12,929 | 12,475 | 9,958 | 14,583 |
| Total non-interest income | 1,111 | 1,774 | 3,068 | 938 | 387 |
| Total non-interest expense | 11,465 | 11,250 | 11,668 | 10,996 | 10,794 |
| Income (loss) before income taxes | 2,470 | 3,453 | 3,875 | (100) | 4.176 |
| Income tax expense (benefit) | 690 | 1,698 | 1,282 | (212) | 1,046 |
| Net income | $ 1,780 | $ 1,755 | $ 2,593 | $ 112 | $ 3,130 |
| Basic earnings per share | $ 0.20 | $ 0.18 | $ 0.27 | $ 0.01 | $ 0.33 |
| Diluted earnings per share | $ 0.19 | $ 0.18 | $ 0.27 | $ 0.01 | $ 0.32 |
| | $ 0.06 | $ 0.00 | $ 0.00 | 0.10 | $ 0.20 |

| | | | | | |
|---|---|---|---|---|---|
| Dividends paid per common share | | | | | |
| | | | | | |
| Selected Operating Ratios(1): | | | | | |
| Average yield earned on interest-earning assets | 3.28 % | 3.60 % | 3.96 % | 4.42 % | 5.08 % |
| Average rate paid on interest-bearing liabilities | 0.89 | 1.04 | 1.33 | 1.58 | 2.06 |
| Average interest rate spread(2) | 2.39 | 2.56 | 2.63 | 2.84 | 3.02 |
| Net interest margin(2) | 2.61 | 2.67 | 2.76 | 2.97 | 3.17 |
| Average interest-earning assets to average interest-bearing liabilities | 130.51 | 111.15 | 110.29 | 109.41 | 100.04 |
| Net interest income after provision for loan losses to non-interest expense | 111.85 | 114.92 | 106.92 | 90.55 | 135.73 |
| Total non-interest expense to total average assets | 2.21 | 2.25 | 2.33 | 2.15 | 2.07 |
| Efficiency ratio(3) | 80.88 | 79.21 | 71.72 | 70.83 | 67.13 |
| Return on average assets | 0.34 | 0.35 | 0.52 | 0.02 | 0.60 |
| Return on average equity | 1.38 | 3.00 | 4.43 | 0.20 | 5.58 |
| Average equity to average total assets | 24.79 | 11.92 | 11.71 | 10.90 | 10.78 |

(Footnotes on next page)

| | At or For the Year Ended September 30, 2014 | | 2013 | | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Asset Quality Ratios(4): | | | | | | | | | | |
| Non-performing loans as a percent of total loans receivable(5) | 1.83 | % | 2.16 | % | 5.38 | % | 5.25 | % | 1.36 | % |
| Non-performing assets as a percent of total assets(6) | 1.19 | | 1.16 | | 3.26 | | 2.98 | | 1.25 | |
| Allowance for loan losses as a percent of non-performing loans | 41.24 | | 35.47 | | 13.42 | | 26.63 | | 90.57 | |
| Allowance for loan losses as a percent of total loans | 0.75 | | 0.77 | | 0.71 | | 1.36 | | 1.20 | |
| Net charge-offs to average loans receivable | 0.05 | | -0.35 | | 0.88 | | 1.90 | | 0.30 | |
| | | | | | | | | | | |
| Capital Ratios(4): | | | | | | | | | | |
| Tier 1 leverage ratio | | | | | | | | | | |
| Company | 25.39 | % | 12.54 | % | 11.73 | % | 11.06 | % | 10.27 | % |
| Bank | 17.95 | | 11.81 | | 10.95 | | 10.23 | | 9.46 | |
| Tier 1 risk-based capital ratio | | | | | | | | | | |
| Company | 57.21 | | 26.69 | | 27.51 | | 25.54 | | 23.12 | |
| Bank | 40.52 | | 25.15 | | 25.69 | | 23.62 | | 21.28 | |
| Total risk-based capital ratio | | | | | | | | | | |
| Company | 58.28 | | 27.72 | | 28.39 | | 26.79 | | 24.37 | |
| Bank | 41.59 | | 26.18 | | 26.57 | | 24.87 | | 22.53 | |

(1) With the exception of end of period ratios, all ratios are based on average monthly balances during the indicated periods.

(2) Average interest rate spread represents the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities, and net interest margin represents net interest income as a percentage of average interest-earning assets.

(3) The efficiency ratio represents the ratio of non-interest expense divided by the sum of net interest income and non-interest income.

(4) Asset quality ratios and capital ratios are end of period ratios, except for net charge-offs to average loans receivable.

(5) Non-performing assets consist of non-performing loans and real estate owned. Non-performing loans consist of all loans 90 days or more past due and loans in excess of 90 days delinquent and still accruing interest. It is our policy to cease accruing interest on all loans 90 days or more past due. Real estate owned consists of real estate acquired through foreclosure or by acceptance of a deed-in-lieu of foreclosure.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

At September 30, 2014, we had total assets of $525.5 million, including $321.1 million in net loans and $138.7 million of investment and mortgage-backed securities, total deposits of $391.0 million and total stockholders’ equity of $129.4 million.

The Company conducts community banking activities by accepting deposits and making loans in our market area. Our lending products primarily consist of residential mortgage loans and to a lesser extent commercial real estate, multi-family and construction loans. The Company also originates commercial business and consumer loans in an effort to maintain strong customer relationships.

Despite the challenging current market and economic conditions, the Company continues to maintain capital in excess of regulatory requirements.

This Management’s Discussion and Analysis section is intended to assist in understanding the financial condition and results of operations of Prudential Bancorp. The results of operations of Prudential Bancorp are primarily dependent on the results of the Bank. The information contained in this section should be read in conjunction with our consolidated financial statements and the accompanying notes to the consolidated financial statements contained in Item 8 of this Annual Report on Form 10-K.

Critical Accounting Policies

In reviewing and understanding financial information for Prudential Bancorp, you are encouraged to read and understand the significant accounting policies used in preparing our financial statements. These policies are described in Note 2 of the notes to our consolidated financial statements included in Item 8 hereof. The accounting and financial reporting policies of Prudential Bancorp conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”) and to general practices within the banking industry. Accordingly, the financial statements require certain estimates, judgments and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities as well as contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of income and expenses during the periods presented. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may significantly affect our reported results and financial condition for the period or in future periods.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses charged to expense. Losses are charged against the allowance for loan losses when management believes that the collectability in full of the principal of a loan is unlikely. Subsequent recoveries are added to the allowance. The allowance for loan losses is maintained at a level that management considers adequate to provide for estimated losses and impairments based upon an evaluation of known and inherent losses in the loan portfolio that are both probable and reasonable to estimate. Loan impairment is evaluated based on the fair value of collateral or estimated net realizable value. It is the policy of management to provide for losses on unidentified loans in its portfolio in addition to criticized and classified loans.

Management monitors its allowance for loan losses at least quarterly and makes adjustments to the allowance through the provision for loan losses as economic conditions and other pertinent factors indicate. The quarterly review and adjustment of the qualitative factors employed in the allowance methodology and the updating of historic loss experience allow for timely reaction to emerging conditions and trends. In this context, a series of qualitative factors are used in a methodology as a measurement of how current circumstances are affecting the loan portfolio. Included in these qualitative factors are:

- Levels of past due, classified, criticized and non-accrual loans, troubled debt restructurings and loan modifications;
- Nature and volume of loans;
- Changes in lending policies and procedures, underwriting standards, collections, charge-offs and recoveries and for commercial loans, the level of loans being approved with exceptions to lending policy;
- Experience, ability and depth of management and staff;
- National and local economic and business conditions, including various market segments;
- Quality of the Company's loan review system and degree of Board oversight;
- Concentrations of credit and changes in levels of such concentrations; and
- Effect of external factors on the level of estimated credit losses in the current portfolio.

In determining the allowance for loan losses, management has established both specific and general pooled allowances. Values assigned to the qualitative factors and those developed from historic loss experience provide a dynamic basis for the calculation of reserve factors for both pass-rated loans (general pooled allowance) and for criticized and classified loans. The amount of the specific allowance is determined through a loan-by-loan analysis of certain large dollar commercial real estate loans. Loans not individually reviewed are evaluated as a group using reserve factor percentages based on historical loss experience and the qualitative factors described above. In determining the appropriate level of the general pooled allowance, management makes estimates based on internal risk ratings, which take into account such factors as debt service coverage, loan-to-value ratios and external factors. Estimates are periodically measured against actual loss experience.

This evaluation is inherently subjective as it requires material estimates including, among others, exposure at default, the amount and timing of expected future cash flows on impaired loans, value of collateral, estimated losses on our commercial, construction and residential loan portfolios and historical loss experience. All of these estimates may be susceptible to significant change.

While management uses the best information available to make loan loss allowance evaluations, adjustments to the allowance may be necessary based on changes in economic and other conditions or changes in accounting guidance. In addition, the Pennsylvania Department of Banking and the FDIC, as an integral part of their examination processes, periodically review our allowance for loan losses. The Pennsylvania Department of Banking and the FDIC may require the recognition of adjustments to the allowance for loan losses based on their judgment of information available to them at the time of their examinations. To the extent that actual outcomes differ from management's estimates, additional provisions to the allowance for loan losses may be required that would adversely affect earnings in future periods.

Investment and Mortgage-Backed Securities Available for Sale. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated using quoted prices of securities with similar characteristics or discounted cash flows and are classified within Level 2 of the fair value hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy, although there were no securities with that classification as of September 30, 2014 or 2013.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company determines whether the unrealized losses are temporary in accordance with U.S. GAAP. The evaluation is based upon factors such as the creditworthiness of the issuers/guarantors, the underlying collateral, if applicable, and the continuing performance of the securities. In addition the Company also considers the likelihood that the security will be required to be sold by a regulatory agency, our internal intent not to dispose of the security prior to maturity and whether the entire cost basis of the security is expected to be recovered. In determining whether the cost basis will be recovered, management evaluates other facts and circumstances that may be indicative of an other-than-temporary impairment condition. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost, and near-term prospects of the issuer.

In addition, certain assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The Company measures impaired loans, FHLB stock and loans or bank properties transferred into real estate owned at fair value on a non-recurring basis.

Valuation techniques and models utilized for measuring financial assets and liabilities are reviewed and validated by the Company at least quarterly.

Income Taxes. The Company accounts for income taxes in accordance with U.S. GAAP. The Company records deferred income taxes that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Management exercises significant judgment in the evaluation of the amount and timing of the recognition of the resulting tax assets and liabilities. The judgments and estimates required for the evaluation are updated based upon changes in business factors and the tax laws. If actual results differ from the assumptions and other considerations used in estimating the amount and timing of tax recognized, there can be no assurance that additional expenses will not be required in future periods.

In evaluating our ability to recover deferred tax assets, we consider all available positive and negative evidence, including our past operating results and our forecast of future taxable income. In determining future taxable income, we make assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record an additional valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.

U.S. GAAP prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the consolidated income statement. Assessment of uncertain tax positions requires careful consideration of the technical merits of a position based on management’s analysis of tax regulations and interpretations. Significant judgment may be involved in the assessment of the tax position.

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is included in Note 2 to the Consolidated Financial Statements set forth in Item 8 hereto.

Derivative Financial Instruments, Contractual Obligations and Other Off Balance Sheet Arrangements.

Derivative financial instruments include futures, forwards, interest rate swaps, option contracts, and other financial instruments with similar characteristics. We have not used derivative financial instruments in the past and do not currently have any intent to do so in the future.

While we have not used derivative financial instruments, we are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and the unused portions of lines of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. Commitments to extend credit generally have fixed expiration dates and may require additional collateral from the borrower if deemed necessary. Commitments to extend credit are not recorded as an asset or liability by us until the instrument is exercised.

Commitments

The following table summarizes our outstanding commitments to originate loans and to advance additional amounts pursuant to outstanding letters of credit, lines of credit and undisbursed construction loans at September 30, 2014.

| | Total Amounts Committed | Amount of Commitment Expiration - Per Period | | | |
|---|---|---|---|---|---|
| | | Less than 1 Year | 1-3 Years | 3-5 Years | After 5 Years |
| | (In Thousands) | | | | |
| Letters of credit | $109 | $109 | $- | $- | $- |
| Lines of credit (1) | 3,823 | - | - | - | 3,823 |
| Undisbursed portions of loans in process | 9,657 | 9,565 | 92 | - | - |
| Commitments to originate loans | 25,323 | 25,323 | - | - | - |
| Total commitments | $38,912 | $34,997 | $92 | $- | $3,823 |

(1)The majority of available lines of credit consist of home equity lines of credits.

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Contractual Cash Obligations

The following table summarizes our contractual cash obligations at September 30, 2014.

| | Payments Due By Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | After 5 Years |
| | (In Thousands) | | | | |
| Certificates of deposit | $212,639 | $90,825 | $58,037 | $63,777 | $- |
| FHLB advances(1) | 340 | 340 | - | - | - |
| Total long-term debt | 212,979 | 91,165 | 58,037 | 63,777 | - |
| Advances from borrowers for taxes and insurance | 1,240 | 1,240 | - | - | - |
| Operating lease obligations | 535 | 136 | 195 | 204 | - |
| Total contractual obligations | $214,754 | $92,541 | $58,232 | $63,981 | $- |

(1) The FHLB advances currently have a zero interest rate.

Average Balances, Net Interest Income, and Yields Earned and Rates Paid. The following table shows for the periods indicated the total dollar amount of interest from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. Tax-exempt income and yields have not been adjusted to a tax-equivalent basis. All average balances are based on monthly balances. Management does not believe that the monthly averages differ significantly from what the daily averages would be.

| | Year Ended September 30, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | | 2012 | | |
| | Average Balance | Interest | Average Yield/ Rate | Average Balance | Interest | Average Yield/ Rate | Average Balance | Interest | Average Yield/ Rate |
| | (Dollars in Thousands) | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Investment securities | $87,466 | $2,199 | 2.51 % | $85,800 | $2,147 | 2.50 % | $77,224 | $2,102 | 2.72 % |
| Mortgage-backed securities | 46,240 | 1,411 | 3.05 % | 53,342 | 1,922 | 3.60 % | 89,089 | 3,726 | 4.18 % |
| Loans receivable (1) | 319,126 | 12,737 | 3.99 % | 278,582 | 12,609 | 4.53 % | 242,780 | 13,008 | 5.36 % |
| Other interest-earning assets | 48,542 | 118 | 0.24 % | 48,154 | 95 | 0.20 % | 70,024 | 143 | 0.20 % |
| Total interest-earning assets | 501,374 | 16,465 | 3.28 % | 465,878 | 16,773 | 3.60 % | 479,117 | 18,979 | 3.96 % |
| Non-interest-earning assets | 18,162 | | | 19,670 | | | 20,818 | | |
| Total assets | $519,536 | | | $485,548 | | | $499,935 | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Savings accounts | $78,364 | $258 | 0.33 % | $82,478 | $260 | 0.32 % | $70,186 | $396 | 0.56 % |
| Checking and money market accounts | 100,303 | 348 | 0.35 % | 100,709 | 358 | 0.36 % | 103,988 | 490 | 0.47 % |
| Certificate accounts | 203,083 | 2,791 | 1.37 % | 233,814 | 3,721 | 1.59 % | 258,154 | 4,884 | 1.89 % |
| Total deposits | 381,750 | 3,397 | 0.89 % | 417,001 | 4,339 | 1.04 % | 432,328 | 5,770 | 1.33 % |
| FHLB advances | 340 | 0 | 0.00 % | 350 | 0 | 0.00 % | 537 | 4 | 0.74 % |
| Real estate tax escrow accounts | 2,068 | 4 | 0.19 % | 1,802 | 5 | 0.28 % | 1,561 | 5 | 0.32 % |
| Total interest-bearing liabilities | 384,158 | 3,401 | 0.89 % | 419,153 | 4,344 | 1.04 % | 434,426 | 5,779 | 1.33 % |
| Non-interest-bearing liabilities | 6,605 | | | 7,120 | | | 6,979 | | |
| Total liabilities | 390,763 | | | 426,273 | | | 441,405 | | |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Stockholders' Equity | 128,773 | | | | 59,275 | | | | 58,530 | | | |
| Total liabilities and Stockholders' Equity | $519,536 | | | | $485,548 | | | | $499,935 | | | |
| Net interest-earning assets | $117,216 | | | | $46,725 | | | | $44,691 | | | |
| Net interest income; interest rate spread | | $13,064 | 2.40 | % | | $12,429 | 2.56 | % | | $13,200 | 2.63 | % |
| Net interest margin (2) | | | 2.61 | % | | | 2.67 | % | | | 2.76 | % |
| Average interest-earning assets to average interest-bearing liabilities | | | 130.51 | % | | | 111.15 | % | | | 110.29 | % |

(1) Includes nonaccrual loans during the respective periods. Calculated net of deferred fees and discounts, loans in process and allowance for loan losses.

(2) Equals net interest income divided by average interest-earning assets.

Rate/Volume Analysis. The following table shows the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities affected our interest income and expense during the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in rate, which is the change in rate multiplied by prior year volume, and (2) changes in volume, which is the change in volume multiplied by prior year rate. The combined effect of changes in both rate and volume has been allocated proportionately to the change due to rate and the change due to volume.

| | 2014 vs. 2013 Increase (Decrease) Due to | | | | 2013 vs. 2012 Increase (Decrease) Due to | | | |
|---|---|---|---|---|---|---|---|---|
| | Rate | Volume | Rate/ Volume | Total Increase (Decrease) | Rate | Volume | Rate/ Volume | Total Increase (Decrease) |
| | (In Thousands) | | | | | | | |
| Interest income: | | | | | | | | |
| Investment securities | $10 | $42 | $- | $ 52 | $(168) | $233 | $(20) | $ 45 |
| Mortgage-backed securities | (294) | (256) | 39 | (511) | (514) | (1,494) | 204 | (1,804) |
| Loans receivable, net | (1,490) | 1,835 | (217) | 128 | (2,024) | 1,919 | (294) | (399) |
| Other interest-earning assets | 22 | 1 | - | 23 | (3) | (44) | (1) | (48) |
| Total interest income | (1,752) | 1,622 | (178) | (308) | (2,709) | 614 | (111) | (2,206) |
| Interest expense: | | | | | | | | |
| Savings accounts | 11 | (13) | (1) | (3) | (171) | 69 | (33) | (135) |
| Checking and money market accounts (interest-bearing and non-interest bearing) | (9) | (1) | - | (10) | (119) | (15) | 2 | (132) |
| Certificate accounts | (507) | (489) | 67 | (930) | (771) | (460) | 67 | (1,164) |
| Total deposits | (505) | (503) | 66 | (943) | (1,061) | (406) | 36 | (1,431) |
| FHLB advances | - | - | - | - | (4) | (1) | 1 | (4) |
| Total interest expense | (505) | (503) | 66 | (943) | (1,065) | (407) | 37 | (1,435) |
| Increase (decrease) in net interest income | $(1,645) | $1,022 | $(244) | $ 635 | $(1,645) | $1,022 | $(148) | $ (771) |

Comparison of Financial Condition at September 30, 2014 and September 30, 2013

At September 30, 2014, we had total assets of $525.5 million, as compared to $607.9 million at September 30, 2013, a decrease of 13.6%. The primary reason for the $82.4 million decrease in assets was a reduction of $113.6 million in cash and cash equivalents. The decrease in such assets reflected in large part the return of approximately $74.3 million in excess subscription funds. Loans receivable increased to $321.1 million at September 30, 2014 from $306.5 million at September 30, 2013 as we continued our efforts to prudently grow the loan portfolio. A majority of the loan growth consisted of the origination of single-family residential loans within our immediate market area. During the year, investment securities increased $13.1 million, primarily due to the Company purchasing mortgage-backed securities guaranteed by the U.S. Government with short effective lives to improve earnings, while reducing the Company’s exposure to interest rate risk.

Total liabilities decreased to $396.1 million at September 30, 2014 from $548.0 million at September 30, 2013. The $151.9 million decrease in total liabilities was primarily due to the return of $74.3 million of subscription funds returned to subscribers who were unable to purchase shares in the Company's stock offering due to the oversubscription for shares and the transfer of $70.3 million to stockholders' equity in connection with the stock offering. Excluding the funds held in connection with the offering, total deposits decreased $6.2 million, primarily due to our determination to let certain higher costing certificates of deposit run-off as part of our asset/liability management strategy. The deposit outflows experienced during the year were funded from cash and cash equivalents.

Total stockholders' equity increased by $69.5 million to $129.4 million at September 30, 2014 from $59.9 million at September 30, 2013. The increase was primarily due to the receipt of net proceeds of approximately $69.4 million from the Company's second-step conversion which closed October 9, 2013 and the recognition of $1.8 million in earnings during the year ended September 30, 2014, partially offset by dividend payments totaling $571,000. In addition stockholders' equity was favorably affected by the increased fair value of the remaining available for sale securities in the portfolio due to changes in market interest rates as of September 30, 2014.

Comparison of Operating Results for the Year Ended September 30, 2014 and September 30, 2013

General. For the year ended September 30, 2014, the Company recognized net income of $1.8 million, as compared to net income of $1.8 million for the fiscal year ended September 30, 2013. Although net income was essentially the same for both fiscal year 2014 and 2013, the components driving net income were different. For fiscal 2014, net interest income increased $635,000 to $13.1 million as compared to fiscal 2013, while fiscal 2013 reflected a substantial recovery as compared to the establishment of a provision for loan losses for fiscal 2014

Net Interest Income. For the year ended September 30, 2014, net interest income increased $635,000 or 5.1% to $13.1 million as compared to $12.4 million for the same period in fiscal 2013. The increase was due to a $943,000 or 21.7% decrease in interest expense partially offset by a $308,000 or 1.8% decrease in interest income. The increase in net interest income resulted from an increase of $35.5 million in the average balance of interest-earning assets combined with a decrease of $35.0 million in the average balance of interest-bearing liabilities between fiscal year 2013 and fiscal year 2014. The weighted average yield earned on interest-earning assets decreased to 3.28% for fiscal year 2014 as compared to 3.60% for fiscal year 2013. The decrease in the weighted average yield earned was primarily due to the reinvestment at lower current market rates of the proceeds from called or sold investment and mortgage-backed securities and the origination of new loans. The decrease in interest expense resulted primarily from a 15 basis point decrease to 0.89% in the weighted average rate paid on interest-bearing liabilities, reflecting the continued repricing downward of interest-bearing liabilities during fiscal year 2014 combined with a $35.0 million or 8.4% decrease in the average balance of interest-bearing liabilities, primarily certificates of deposit, during the year ended September 30, 2014, as compared to fiscal year 2013. The decline in the weighted average rate paid reflected the continued effect of the low interest rate environment on our cost of funds as deposits re-priced downward as well as continued implementation of asset/liability strategies designed to reduce our use of higher costing certificates of deposit as a funding source.

Provision for Loan Losses. The Company established a provision for loan losses of $240,000 during the twelve months ended September 30, 2014, while the Company recorded a recovery for loan losses of $500,000 for the twelve months ended September 30, 2013. The provisions for loan losses were deemed necessary for the 2014 period due to the growth in the loan portfolio combined with an increase in the level of classified assets. The recovery for loan losses during fiscal 2013 was deemed appropriate due to the recovery during the year ended September 30, 2013 related to a $1.1 million previously charged off loan. The Company believes that the provision at September 30, 2014 is sufficient to cover all inherent and known losses associated with the loan portfolio at such date. At September 30, 2014, the Company's non-performing assets totaled $6.2 million or 1.2% of total assets as compared to $7.0 million or 1.2% of total assets at September 30, 2013. Non-performing assets at September 30, 2014 included $5.9 million in non-performing loans consisting of $3.5 million of one-to- four family residential loans, $1.5 million of single-family residential investment property loans and one $877,000 commercial real estate loan. Non-performing assets also included a one-to-four family residential real estate owned property with an aggregate carrying value of $360,000.

The allowance for loan losses totaled $2.4 million, or 0.8% of total loans and 41.2% of total non-performing loans at September 30, 2014 as compared to $2.4 million, or 0.8% of total loans and 35.5% of total non-performing loans at September 30, 2013.

Non-interest Income. Non-interest income amounted to $1.1 million for the year ended September 30, 2014 compared to $1.8 million for the same period in fiscal 2013. The primary reason for the difference in non-interest income between fiscal year 2014 as compared to fiscal year 2013 was the substantially larger gain on sale of available for sale securities of approximately $452,000 experienced during fiscal 2013.

Non-interest Expense. For the year ended September 30, 2014, non-interest expense increased $215,000 to $11.5 million compared to $11.3 million for fiscal year 2013. The increase for the year ended September 30, 2014 was primarily due to increases in salary and employee benefit, professional services and office occupancy expenses, partially offset by a decline in real estate owned, FDIC deposit insurance and advertising expenses.

Income Tax Expense. For the year ended September 30, 2014, we incurred income tax expense of $690,000 as compared to $1.7 million for fiscal year 2013. As a result of the Company increasing the deferred tax valuation allowance in June 2013, specifically for the capital loss carryforward which became fully reserved as a result, the Company's effective tax rate was less volatile during fiscal 2014 and reflected a more normalized rate.

Liquidity and Capital Resources

Liquidity is the ability to maintain cash flows that are adequate to fund operations and meet other obligations on a timely and cost effective basis in various market conditions. The ability of the Company to meet its current financial obligations is a function of balance sheet structure, the ability to liquidate assets and the availability of alternative sources of funds. To meet the needs of the clients and manage the risk of the Company, the Company engages in liquidity planning and management.

Our primary sources of funds are from deposits, scheduled principal and interest payments on loans, loan prepayments and the maturity of loans, mortgage-backed securities and other investments, and other funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan prepayments can be greatly influenced by general interest rates, economic conditions and competition. We also maintain excess funds in short-term, interest-bearing assets that provide additional liquidity. At September 30, 2014, our cash and cash equivalents amounted to $45.4 million. In addition, our available for sale investment and mortgage-backed securities amounted to an aggregate of $57.8 million at September 30, 2014.

We use our liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. At September 30, 2014, we had certificates of deposit maturing within the next 12 months amounting to $90.8 million. We anticipate that a significant portion of the maturing certificates of deposit will be redeposited with us unless we determine to lower rates to below competition in order to facilitate the reduction of higher cost deposits during periods when there is excess cash on hand or in order to satisfy our asset/liability goals. There were no deposits as of September 30, 2014 requiring the pledging of collateral.

In addition to cash flows from loan and securities payments and prepayments as well as from sales of available for sale securities, we have significant borrowing capacity available to fund liquidity requirements should the need arise. Our borrowings consist solely of advances from the FHLB of Pittsburgh, of which we are a member. Under terms of the collateral agreement with the FHLB, we pledge residential mortgage loans as well as our stock in the FHLB as collateral for such advances. At September 30, 2014, we had $340,000 in outstanding FHLB advances and we had the ability to borrow up to an additional $194.0 million in FHLB advances. A borrowing line of credit has also been established with the Federal Reserve Bank of Philadelphia. In addition, the Bank has the ability to generate brokered certificates of deposit.

We anticipate that we will continue to have sufficient funds and alternative funding sources to meet our current commitments.

Impact of Inflation and Changing Prices

The consolidated financial statements, accompanying notes, and related financial data of Prudential Bancorp presented in Item 8, Financial Statements and Supplementary Data, in Part II of this Annual Report on Form 10-K have been prepared in accordance with U.S. GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering the changes in purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of operations. Most of our assets and liabilities are monetary in nature; therefore, the impact of interest rates has a greater impact on our performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Exposure to Changes in Interest Rates

Gap Analysis. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are “interest rate sensitive” and by monitoring the Bank’s interest rate sensitivity “gap.” An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to affect adversely net interest income while a positive gap would tend to result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would tend to result in an increase in net interest income while a positive gap would tend to affect adversely net interest income.

The table on the next page sets forth the amounts of our interest-earning assets and interest-bearing liabilities outstanding at September 30, 2014, which we expect, based upon certain assumptions, to reprice or mature in each of the future time periods shown (the "GAP Table"). Except as stated below, the amounts of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at September 30, 2014, on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable-rate loans and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans. Annual prepayment rates for adjustable-rate and fixed-rate single-family and multi-family residential and commercial mortgage loans are assumed to range from 7.6% to 31.6%. The annual prepayment rate for mortgage-backed securities is assumed to range from 0.7% to 22.5%. Money market deposit accounts, savings accounts and interest-bearing checking accounts are assumed to have annual rates of withdrawal, or "decay rates," based on information from an internal analysis of our accounts up to a maximum of ten years.

| | 3 Months or Less | More than 3 Months to 1 Year | More than 1 Year to 3 Years | More than 3 Years to 5 Years | More than 5 Years | Total Amount |
|---|---|---|---|---|---|---|
| | | | (Dollars in Thousands) | | | |
| Interest-earning assets(1): | | | | | | |
| Investment and mortgage-backed securities | $ 2,143 | $ 6,138 | $ 13,015 | $ 14,448 | $ 104,351 | $ 140,095 |
| Loans receivable(2) | 24,462 | 47,879 | 80,260 | 60,160 | 108,278 | 321,039 |
| Other interest-earning assets (3) | 44,578 | - | - | - | - | 44,578 |
| Total interest-earning assets | $ 71,183 | $ 54,017 | $ 93,275 | $ 74,608 | $ 212,629 | $ 505,712 |
| Interest-bearing liabilities: | | | | | | |
| Savings accounts | 2,358 | 5,702 | 9,594 | 9,250 | 48,120 | 75,024 |
| Checking and money market accounts | 3,707 | 11,121 | 18,369 | 14,851 | 57,705 | 105,753 |
| Certificate accounts | 24,592 | 66,514 | 58,039 | 63,778 | - | 212,923 |
| FHLB advances | - | 340 | - | - | - | 340 |
| Real estate tax escrow accounts | 1,240 | - | - | - | - | 1,240 |
| Total interest-bearing liabilities | $ 31,897 | $ 83,677 | $ 86,002 | $ 87,879 | $ 105,825 | $ 395,280 |
| Interest-earning assets less interest-bearing liabilities | $ 39,286 | $ (29,660 ) | $ 7,273 | $ (13,271 ) | $ 106,804 | $ 110,432 |

| | |
|---|---|
| Cumulative interest-rate sensitivity gap(4) | $ 39,286 |