PRUDENTIAL BANCORP INC OF PENNSYLVANIA
Form 10-K
December 23, 2011

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, 2011

-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: 0-51214

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

PENNSYLVANIA	68-0593604
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1834 OREGON AVENUE PHILADELPHIA, PENNSYLVANIA (Address of Principal Executive Offices)	19145 (Zip Code)

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

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 $6.99 on March 31, 2011, the last business day of the Registrant's second quarter was approximately $12.9 million (10,023,495) shares outstanding less approximately 8.2 million shares held by affiliates at $6.99 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 1, 2011 there were 10,023,495 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Definitive Proxy Statement for the 2012 Annual Meeting of Shareholders are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

Prudential Bancorp, Inc. of Pennsylvania and Subsidiaries

FORM 10-K INDEX

For the Fiscal Year Ended September 30, 2011

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. of Pennsylvania’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. 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 which was organized as a mid-tier holding company for Prudential Savings Bank, a Pennsylvania-chartered, FDIC-insured savings bank (the “Bank” or “Prudential Savings Bank”). The Bank is a wholly owned subsidiary of the Company. The Company’s results of operations are primarily dependent on the results of the Bank. As of September 30, 2011, the Company, on a consolidated basis, had total assets of approximately $499.5 million, total deposits of approximately $436.0 million, and total stockholders’ equity of approximately $57.5 million.

The Company was formed when the Bank reorganized from a mutual savings bank into a mutual holding company structure in March 2005. Prudential Mutual Holding Company, a Pennsylvania mutual holding company, is the mutual holding company parent of the Company. As of September 30, 2011, Prudential Mutual Holding Company owned 74.6% (7,478,062 shares) of the Company’s outstanding common stock and must continue to own at least a majority of the outstanding voting stock of the Company.

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." We 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 six full-service branch offices. Six of the banking offices are located in Philadelphia (Philadelphia County) and one is in Drexel Hill in neighboring Delaware County, Pennsylvania. The Bank maintains ATMs at six of the banking offices. We also provide on-line 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 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. Traditionally, the Bank focused on originating long-term single-family residential mortgage loans for portfolio. This focus has continued as we have decreased in recent periods the Company's involvement in construction and land development lending due to adverse market conditions. Construction and land development loans decreased from $52.4 million or 22.2% of the total loan portfolio at September 30, 2007 to $22.2 million or 9.0% of the total loan portfolio at September 30, 2011. If there is improvement in the real estate market, the Company's involvement in such lending may increase in the future. See "-Asset Quality".

The investment and mortgage-backed securities portfolio has decreased modestly over the past year from $185.1 million at September 30, 2010 to $184.3 Million at September 30, 2011. A significant portion of the investment securities consist of debt and mortgage-backed securities issued by Government Sponsored Enterprises ("GSEs") or U.S. government agencies. At September 30, 2011, $184.3 million of investment and mortgage-backed securities had an aggregate gross unrealized loss of $1.0 million which reflected primarily unrealized losses related to the non-agency mortgage-backed securities portfolio due in large part to continued turbulence in the mortgage industry.

In addition to offering loans and deposits we also offer, on an agency basis, securities and insurance products to customers through an affiliation with a third-party broker-dealer.

At September 30, 2011, the Company's non-performing assets totaled $14.9 million or 3.0% of total assets as compared to $6.7 million or 1.3% at September 30, 2010. Non-performing assets included $12.6 million in non-performing loans of which $10.3 million were one- to four-family residential loans, $1.8 million were construction and land development loans and $545,000 were commercial real estate loans. Included in non-performing loans were $7.7 million in troubled debt restructurings which are performing in accordance with the revised contractual terms of the loans but were placed on non-accrual at the time the restructuring was effected during the first quarter of fiscal 2011. These troubled debt restructurings are loans classified as one-to-four family loans related to a 133-unit completed condominium project in Philadelphia. Non-performing assets also included six one- to four-family residential real estate owned properties totaling $2.3 million. The allowance for loan losses totaled $3.4 million, or 1.4% of total loans and 26.6% of non-performing loans at September 30, 2011. See "-Asset Quality".

The executive offices are located at 1834 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. The Philadelphia metropolitan area is one of the leading regions for biotech and pharmaceutical research with many of the largest pharmaceutical companies maintaining a presence in the region. It is also a major health care area with a number of teaching and research hospitals being operated.

Since 2008, the Philadelphia area has been affected by the downturn in the national economy. Manufacturers and retailers reported declines. Overall credit quality on bank loans deteriorated and residential real estate sales, construction activity, and commercial real estate investment declined. This deterioration in the local economy had a negative impact on the loan portfolio which was the primary factor in the determination to increase the allowance for loan losses. See "-Asset Quality".

We face significant competition in originating loans and attracting deposits. This competition stems primarily from commercial banks, 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, 2011, the net loan portfolio totaled $240.5 million or 48.1% 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. Since the 2007 period, our one-to four-family residential loans increased while the construction loan portfolio decreased as market conditions became less favorable for construction lending.

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 Board of Governors of the Federal Reserve System ("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,									
	2011		2010		2009		2008		2007	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)									
Real estate loans:										
One- to four-family residential(1)	$196,533	79.53 %	$197,164	74.96 %	$201,396	75.98 %	$191,344	74.02 %	$159,945	67.85 %
Multi-family residential	5,723	2.32 %	4,006	1.52 %	4,178	1.58 %	2,801	1.08 %	4,362	1.85 %
Commercial real estate	21,175	8.57 %	19,710	7.49 %	19,907	7.51 %	20,518	7.94 %	18,019	7.64 %
Construction and land development	22,226	9.00 %	40,650	15.46 %	36,764	13.87 %	42,634	16.49 %	52,429	22.24 %
Total real estate loans	245,657	99.42 %	261,530	99.43 %	262,245	98.94 %	257,297	99.53 %	234,755	99.58 %
Commercial business	814	0.33 %	893	0.34 %	2,232	0.84 %	465	0.18 %	155	0.07 %
Consumer	613	0.25 %	595	0.23 %	586	0.22 %	739	0.29 %	832	0.35 %
Total loans	247,084	100.00 %	263,018	100.00 %	265,063	100.00 %	258,501	100.00 %	235,742	100.00 %
Less:										
Undisbursed portion of loans in process	3,773		5,366		6,281		13,515		15,897	
Deferred loan costs	(564)		(590)		(644)		(574)		(315)	
Allowance for loan losses	3,364		3,151		2,732		1,591		1,011	
Net loans	$240,511		$255,091		$256,694		$243,969		$219,149	

(1) Includes home equity loans and lines of credit totaling $9.0 million and $11.9 million, respectively, as of September 30, 2011.

Contractual Terms to Final Maturities. The following table shows the scheduled contractual maturities of loans as of September 30, 2011, 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.

	One-to-Four Family Residential	Multi-family Residential	Commercial Real Estate	Construction and Land Development	Commercial Business	Consumer	Total

			(In Thousands)				
Amounts due after September 30, 2011 in:							
One year or less	$1,665	$ -	$541	$ 9,549	$218	$99	$12,072
After one year through two years	8,397	194	962	2,323	2	28	11,906
After two years through three years	10,516	-	845	5,433	-	72	16,866
After three years through five years	9,135	1,788	4,139	4,921	14	276	20,273
After five years through ten years	52,568	3,244	12,726	-	90	138	68,766
After ten years through fifteen years	61,552	401	1,542	-	351	-	63,846
After fifteen years	52,700	96	420	-	139	-	53,355
Total	$196,533	$ 5,723	$21,175	$ 22,226	$814	$613	$247,084

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The following table shows the dollar amount of all loans due after one year from September 30, 2011, as shown in the table above, which have fixed interest rates or which have floating or adjustable interest rates.

	Fixed-Rate	Floating or Adjustable-Rate (In Thousands)	Total
One- to four-family residential (1)	$ 186,173	$ 8,695	$ 194,868
Multi-family residential	5,723	-	5,723
Commercial real estate	19,729	905	20,634
Construction and land development	7	12,670	12,677
Commercial business	596	-	596
Consumer	514	-	514
Total	$ 212,742	$ 22,270	$ 235,012

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

The Company originates one, three, and five year adjustable-rate mortgages. None of these mortgages had artificially low initial interest rates at the date of origination commonly known as “teaser rates”.

Loan Originations. The 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 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 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. The secondary mortgage market has been adversely impacted in recent periods and through the filing date of this Annual Report on Form 10-K by deteriorating investor demand for mortgage loan products, particularly with regard to subprime products, as investors are tightening credit standards and offering less favorable pricing. At both September 30, 2011 and September 30, 2010, the Company had no real estate loans that would be considered subprime loans, which are defined as mortgage loans advanced to borrowers who do not qualify for loans bearing market interest rates because of problems with their credit history. Prudential Savings Bank does not originate and has not in the past originated subprime loans.

In addition, the Company utilizes correspondents to assist in the origination of single-family residential loans. However, all of such loans are underwritten by us using the underwriting criteria and approved by the executive committee or the full board of directors prior to loan closing. We also occasionally purchase participation interests in larger balance loans, typically commercial real estate loans, from other financial institutions in the Company's market area. Such participations are reviewed for compliance with our underwriting criteria and are approved by 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 reports from the lead lender regarding the loan's performance, physically inspecting the loan security property on a periodic basis, discussing the loan with the lead lender on a regular basis and receiving copies of updated financial statements from the borrower.

The Company 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 loan 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, beginning in fiscal 2002, we have sold to the Federal Home Loan Bank of Pittsburgh pursuant to the Mortgage Partnership Finance program 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. At September 30, 2011, the Company's recourse exposure was approximately $64,000.

As part of the loan policy, we are permitted, subject to certain exceptions as approved by the loan committee, to make loans to one borrower 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, 2011, the Bank's loans to one borrower limit pursuant to our loan policy was approximately $8.1 million. At September 30, 2011, our three largest loans to one borrower and related entities amounted to $11.9 million, $11.5 million, and $10.6 million. All of such loans were performing in accordance with their terms, as revised, and primarily consist of loans to fund single-family residential construction projects. Two of the borrowers described above are members of a limited partnership to which the Company has extended loans totaling $7.7 million which are in non-accrual status due to impairment issues related to collateral valuation. Policy exceptions were made related to these borrowing relationships in order to protect the Bank's security interest in the existing loans. For more information regarding such 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,		
	2011	2010	2009
		(In Thousands)	
Loan originations (1)			
One- to four-family residential	$ 27,947	$ 28,120	$ 46,296
Multi-family residential	1,891	300	459
Commercial real estate	2,487	915	1,855
Construction and land development	9,622	20,929	15,399
Commercial business	986	2,941	4,551
Consumer	370	302	493
Total loan originations	43,303	53,507	69,053
Loans purchased	-	-	-
Total loans originated and acquired	43,303	53,507	69,053
Loans sold	-	-	-
Loans transferred to real estate owned	461	1,692	3,142
Loan principal repayments	52,914	52,456	51,868
Total loans sold and principal repayments	53,375	54,148	55,010
Decrease due to other items, net (2)	(4,508)	(962)	(1,318)
Net (decrease) increase in loan portfolio	$ (14,580)	$ (1,603)	$ 12,725

(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 2011 balance consisted primarily of $4.6 million loan loss provision expense partially offset by a $122,000 accretion of deferred loan fee income. The 2010 balance consisted primarily of the $1.1 million loan loss provision expense offset by in part by a $148,000 accretion of deferred loan fee income. The 2009 balance consisted primarily of the $1.4 million loan loss provision offset partially by an $85,000 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 residences located in the Company's market area. Our single-family residential mortgage loans are obtained through the lending department and branch personnel and through correspondents. The balance of such loans increased from $160.0 million, or 67.9% of total loans at September 30, 2007 to $196.5 million, or 79.5% of total loans at September 30, 2011.

Single-family residential mortgage loans generally are underwritten on terms and documentation conforming to guidelines issued by Freddie Mac and Fannie Mae. Applications for one- to four-family residential mortgage loans are accepted only at the main office. We generally have retained for portfolio a substantial portion of the single-family residential mortgage loans that we originate, 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 occurred during the past three fiscal years. We service all loans that we have originated, including loans that we subsequently sell. We currently originate fixed-rate, fully amortizing mortgage loans with maturities of 15, 20 or 30 years. We also offer adjustable-rate mortgage ("ARM") and balloon loans, which are structured as shorter term fixed-rate loans (generally 15 years or less) followed by a final payment of the full amount of the principal due at the maturity date. However, due to local market conditions, originations of such loans have been limited in recent years. At September 30, 2011, $7.6 million, or 4.3%, of our one- to four-family residential loan portfolio (excluding home equity loans and lines of credit) consisted of ARM loans.

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 $9.0 million and $11.9 million, respectively, at September 30, 2011. The unused portion of home equity lines was $6.0 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 recent decline in some collateral values due to the weak real estate market, our conservative underwriting guidelines have minimized our exposure in that regard.

Construction and Land Development Lending. We have been an active originator of construction and land development loans for more than 25 years. Construction loan originations prior to 2007 was a growth area for us because they have shorter terms to maturity and they generally have floating or adjustable interest rates. However, since 2007, our construction loan portfolio has decreased as market conditions made these loans less desirable due to the weakening of the real estate market which has caused slower sales and reduced housing prices in certain instances. We have focused our construction lending on making loans to developers and homebuilders in 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, 2011, our construction and loan development loans amounted to $22.2 million, or 9.0% of our total loan portfolio. This amount includes $3.8 million of undisbursed loans in process (of which $118,000 relates to participation interests we have sold). Our construction loan portfolio has decreased substantially since September 30, 2007 when construction loans amounted to $52.4 million or 22.2% 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. One or two six-month extensions may be provided for at our option and upon payment of a fee by the borrower. These extensions are used as an incentive to the borrower to finish the project promptly in order to avoid additional fees. 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/or 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 generally obtained from borrowers on a regular 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 acquisition and development of the lot plus 100% of the amount attributable to construction of the individual home. We permit a pre-determined 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 Philadelphia, Pennsylvania. However, we also make construction loans in Bucks, Delaware and Montgomery Counties, Pennsylvania as well as the New Jersey suburbs of Philadelphia. In addition, we have sold participation interests in a number of the larger construction projects, although we generally retain at least a 25% interest. Such sales do not provide for any recourse against the Bank.

Set forth below is a brief description of the five largest construction loans.

The largest construction and development loan is comprised of a series of loans aggregating $29.0 million loan to a limited partnership sponsored by a Philadelphia-based regional developer. We sold participation interests totaling $23.2 million to five other local financial institutions in connection with the closing of the loan in late 2004 and in subsequent years. This loan covers the first phase of the project, representing 132 residential condominium units. The project also involves the construction of both indoor and outdoor parking lots. As of September 30, 2011, construction had been completed. There are 81 unsold units remaining as part of the remaining loan. All of the unsold units are being used as rental properties as a means of paying down the construction loans during a period when sales have slowed due to current market conditions. During the first quarter of fiscal 2011, the loans were re-negotiated to a lower interest rate in exchange for the pledging of additional collateral to the Bank. At the time of renegotiation, the loans were classified as troubled debt restructurings and placed on non-accrual at that time as well. There was also an impairment charge recognized by the Bank of $495,000 based on substantial reduction in collateral values as of September 30, 2011. As of September 30, 2011, the principal balance of the loan was $20.4 million and the portion retained by the Company was $7.7 million. As a result of the completion of construction, the loans were re-classified as one-to four-family residential loans.

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 modification was not considered a trouble 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. There is no impairment recognized as recent appraised values are in excess of the loan amount.

In March 2010, we extended a $2.5 million loan to a local real estate developer for the financing of a 5 unit condominium project in Center City Philadelphia. The loan has a 36 month term with interest only due during the term and a variable interest rate with a floor of 6.25%. The loan will then convert to a five year balloon with principal and interest amortization based on a 30 year schedule. The loan-to-value ratio at the date of origination was approximately 55% which includes certain additional collateral. We retained the entire interest in the loan. As of September 30, 2011, the outstanding loan balance was approximately $2.5 million. The loan is performing in accordance with its terms.

In June 2010, we extended a $5.1 million loan to a local real estate developer for the construction of 19 single-family homes in Bucks County Pennsylvania. The loan has a 36 month term with interest only due during the term and a variable interest rate indexed to the Wall Street Journal prime rate plus a margin. The loan has a floor of 6.0%. The loan-to-value ratio at the date of origination was approximately 67% which includes certain additional collateral. We retained the entire interest in the loan. As of September 30, 2011, the outstanding loan balance was approximately $3.8 million and there have been seven units sold with an additional six lots under agreements of sale. The loan is performing in accordance with its terms.

In September 2009, we extended a $3.9 million construction and land development loan to a local developer to purchase land for future development of 39 single-family residential real estate units. The loan was a variable-rate loan with a floor of 5.5% and with a maturity date after pre-approved extensions of June 2011. During 2011, a new appraisal revealed that the market value of the collateral has substantially decreased in value. The borrower subsequently agreed to provide additional collateral resulting in a current loan to value ratio of 73%. The loan has also been converted to a 30 year amortizing loan with a three year balloon maturing in September 2014. Additionally, a portion of proceeds received by the developer from the sale of units in other projects must be applied to the principal of this loan. The borrower has agreed not to develop the project until certain other projects are completed. The loan has performed in accordance with its contractual terms since inception; however the loan is classified as special mention due to its extension beyond the original maturity and the reduction in the value of the primary collateral.

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 relationships and by selling, with respect to larger construction and land development loans, participation interests in order to reduce the Bank’s exposure.

Multi-Family Residential and Commercial Real Estate Loans. At September 30, 2011, multi-family residential and commercial real estate loans amounted in the aggregate to $26.9 million or 10.9% of the total loan portfolio. Commercial real estate loans increased from $18.0 million or 7.6% of the total loan portfolio at September 30, 2007 to $21.2 million or 8.6% of our total loan portfolio at September 30, 2011.

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, 2011, the average commercial and multi-family real estate loan size was approximately $289,000. The largest multi-family residential or commercial real estate loan at September 30, 2011 was $1.8 million, which was performing in accordance with its terms. 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 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. Appraisal reports prepared by independent appraisers are reviewed by us prior to the closing of the loan. With respect to participations we purchase, we underwrite the loans as if we were the originating lender.

Our origination of commercial real estate and multi-family loans modestly increased during the 2011 period from 2009. 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, 2011, $613,000, or 0.3% of the total loan portfolio consisted of these types of 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 $814,000 or 0.3% of the total loan portfolio at September 30, 2011.

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 generally are secured by real estate. In addition, we generally obtain personal guarantees from the principals of the borrower with respect to all commercial business loans.

Loan Approval Procedures and Authority. Our Board of Directors establishes Prudential Savings 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. All modifications must be approved by either the Executive Committee of the Board or the full Board of Directors.

Home equity loans and lines of credit up to $100,000 can be approved by one underwriter and either of two lending officers. Amounts in excess of the individual lending limit with respect to home equity loans and lines of credit must be approved by our two lending officers, and our President or Chief Financial Officer. All other loans must be approved by either the Executive Committee of the Board or the full Board of Directors of Prudential Savings Bank.

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 sound, we are proactive in our loan monitoring, collection and workout processes in dealing with delinquent or problem loans. We also retain 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 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 loans that are 90 days past due in our one-to four-family residential portfolio, 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 interest payments, our policy is to discontinue accruing additional interest and reverse any interest currently 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.

Real estate which is acquired as a result of foreclosure or a deed in-lieu of foreclosure is classified as real estate owned until sold. Real estate owned is recorded at the lower of cost or fair value less estimated selling costs. Costs associated with acquiring and improving a foreclosed property are usually capitalized to the extent that the carrying value does not exceed fair value less estimated selling costs. Holding costs are charged to expense. Gains and losses on the sale of real estate owned are charged to operations, as incurred.

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. A loan is considered impaired when there is an expectation that the present value of the future cash flows or the net realizable value of the collateral will not satisfy all the contractual cash flows due. There were $11.4 in impaired loans as of September 30, 2011, $3.2 million of which were construction loans and $7.7 million were one-to-four family residential loans related to one condominium construction project and three commercial real estate loans totaling $545,000 to one borrower. A specific allocation of $495,000 was applied against the one-to-four family loans. Although no specific allocation was applied to the construction loans, there were partial charge-offs of $4.4 million applicable to those loans during fiscal 2011. There were two impaired loans as of September 30, 2010 for $5.1 million.

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 “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 either to establish a specific allocation equal to 100% of the amount of the loss or 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 allowances for loan losses may become necessary.

We review and classify assets on a quarterly basis and the Board of Directors is provided with monthly reports on our classified assets. We classify assets in accordance with the management guidelines described above. At September 30, 2011 and 2010, we had no assets classified as "doubtful" or "loss", and $19.0 million and $9.1 million, respectively, of assets classified as "substandard." In addition, there were $3.9 million and $6.8 million of loans designated as "special mention" as of September 30, 2011 and 2010, respectively. The assets deemed special mention and substandard assets were placed in such categories primarily due to slower than anticipated sales of residential construction loan properties due to current real estate market conditions.

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

	September 30, 2011				September 30, 2010			
	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	26	$ 3,048	20	$ 2,663	16	$ 1,421	18	$ 1,811
Multi-family residential	-	-	-	-	-	-	-	-
Commercial real estate	1	358	3	545	-	-	5	1,462
Construction and land development	-	-	3	1,772	-	-	1	206
Commercial business	-	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-	-
Total delinquent loans	27	$ 3,406	26	$ 4,980	16	$ 1,421	24	$ 3,479
Delinquent loans to total net loans	1.42 %		2.07 %		0.56 %		1.36 %	
Delinquent loans to total loans	1.38 %		2.02 %		0.54 %		1.32 %	

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, 2011, all of the loans listed as 90 or more days past due in the table above were in non-accrual status. In addition, five loans totaling $7.7 million related to one condominium project discussed previously which were classified as troubled debt restructurings, were also in non-accrual status as of September 30, 2011. There were no loans in non-accrual status at September 30, 2010.

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

	September 30, 2011		2010		2009		2008		2007	
	(Dollars in Thousands)									
Non-accruing loans:										
One- to four-family residential	$ 10,314		$ -		$ -		$ -		$ -	
Multi-family residential	-		-		-		-		-	
Commercial real estate	545		-		-		-		-	
Construction and land development	1,772		-		640		3,640		2,022	
Commercial business	-		-		-		-		-	
Consumer	-		-		-		-		-	
Total non-accruing loans	12,631		-		640		3,640		2,022	
Accruing loans 90 days or more past due:										
One- to four-family residential	-		1,811		851		152		502	
Multi-family residential	-		-		-		-		-	
Commercial real estate	-		1,462		491		244		-	
Construction	-		206		-		-		-	
Commercial business	-		-		-		-		69	
Consumer	-		-		-		-		-	
Total accruing loans 90 days or more past due	-		3,479		1,342		396		571	
Total non-performing loans(1)	12,631		3,479		1,982		4,036		2,593	
Real estate owned, net(2)	2,268		3,197		3,622		1,488		-	
Total non-performing assets	$ 14,899		$ 6,676		$ 5,604		$ 5,524		$ 2,593	
Total non-performing loans as a percentage of loans, net	5.25	%	1.36	%	0.77	%	1.65	%	1.18	%
Total non-performing loans as a percentage of total assets	2.53	%	0.66	%	0.39	%	0.82	%	0.55	%
Total non-performing assets as a percentage of total assets	2.98	%	1.26	%	1.09	%	1.13	%	0.55	%

(1) Non-performing loans consist of non-accruing loans plus accruing loans 90 days or more past due.
(2) Real estate owned balances are shown net of related loss allowances and consist solely of real property.

Interest income on non-accrual loans is recognized only as collected. There was $251,000 of such interest recognized during fiscal 2011 while there was no such interest recognized for non-accrual loans for fiscal 2010. Approximately $376,000 in additional interest income would have been recognized during the year ended September 30, 2011 if these loans had been performing during fiscal 2011.

At September 30, 2011, non-performing assets included $10.3 million one-to-four family residential loans, $1.8 million construction and land development loans and $545,000 of commercial real estate loans. Included in non-performing loans were $7.7 million in troubled debt restructurings which are performing in accordance with the revised contractual terms of the loans but were placed on non-accrual at the time the restructuring was affected during the first quarter of fiscal 2011. These troubled debt restructurings are one-to-four family loans related to a 133-unit completed condominium project in Philadelphia. (See “Lending Activities – Construction and Land Development

Lending.") Non-performing assets also included six one-to-four family residential real estate owned properties totaling $2.3 million.

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Property acquired by Prudential Savings Bank through foreclosure is initially recorded at the lower of cost, which is the lesser of the carrying value of the loan or fair value at the date of acquisition, or the 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 Company'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.

As of September 30, 2011, there were six real estate owned properties totaling $2.3 million. Four of the real estate owned properties totaling $1.6 million consist of four townhouses in the same development project. Three of the six properties are being rented at this time at sufficient levels to cover the Company's cost of operating the properties. During December 2011, the Company entered into an agreement of sale with respect to one of the real estate owned properties. The property, which consists of a single-family residence, has a book value of $309,000. A loss of approximately $120,000 is anticipated to be recognized during the quarter ending December 31, 2011. The sale is expected to settle during January 2012. The Company anticipates marketing the remaining properties for sale when market conditions improve. As of September 30, 2010, the real estate owned balance was $3.2 million consisting of six properties. The largest real estate owned property at September 30, 2010 was sold during fiscal 2011 at an additional loss of $135,000.

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, 2011, our allowance for loan losses of $3.4 million was 1.4% of total loans receivable and 26.6% of non-performing loans.

Charge-offs on loans totaled $4.4 million and $691,000 for the years ended September 30, 2011 and 2010, respectively. The charge-offs during fiscal 2011 were the result of the decline in collateral value on two collateral dependent loans which are on non-accrual status. See "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operation – Comparison of Operating Results For the Year Ended September 30, 2011 and September 30, 2010". The charge-offs during the 2010 period represented a portion of one construction loan which was transferred to real estate owned during fiscal 2010.

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,				
	2011	2010	2009	2008	2007
	(Dollars in Thousands)				
Total loans outstanding at end of period	$247,084	$263,018	$265,063	$258,501	$235,742
Average loans outstanding	246,188	254,781	253,278	227,662	221,262
Allowance for loan losses, beginning of period	3,151	2,732	1,591	1,011	618
Provision for loan losses	4,630	1,110	1,403	1,084	395
Charge-offs:					
One- to four-family residential	750	51	45	-	2
Multi-family residential and commercial real estate	-	-	-	-	-
Construction and land development	3,667	640	217	504	-
Commercial business	-	-	-	-	-
Consumer	-	-	-	-	-
Total charge-offs	4,417	691	262	504	2
Recoveries on loans previously charged off	-	-	-	-	-
Allowance for loan losses, end of period	$3,364	$3,151	$2,732	$1,591	$1,011
Allowance for loan losses as a percent of total loans	1.36 %	1.20 %	1.03 %	0.62 %	0.43 %
Allowance for loan losses as a percent of non-performing loans	26.63 %	90.57 %	137.77 %	39.42 %	38.97 %
Ratio of net charge-offs during the period to average loans outstanding during the period	1.79 %	0.27 %	0.10 %	0.22 %	*

* Not meaningful

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

	September 30,									
	2011		2010		2009		2008		2007	
	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	$ 1,651	79.53 %	$ 672	74.96 %	$ 403	75.98 %	$ 155	74.02 %	$ 186	67.85 %
Multi-family residential	7	2.32 %	4	1.52 %	7	1.58 %	4	1.08 %	22	1.85 %
Commercial real estate	221	8.57 %	560	7.49 %	193	7.51 %	106	7.94 %	179	7.64 %
Construction and land development	1,481	9.00 %	1,909	15.46 %	2,114	13.87 %	1,323	16.49 %	610	22.24 %
Commercial business	3	0.33 %	3	0.34 %	7	0.84 %	1	0.18 %	12	0.07 %
Consumer	1	0.25 %	1	0.23 %	1	0.22 %	2	0.29 %	2	0.35 %
Unallocated	-	-	2	-	7	-	-	-	-	-
Total allowance for loan losses	$ 3,364	100.00 %	$ 3,151	100.00 %	$ 2,732	100.00 %	$ 1,591	100.00 %	$ 1,011	100.00 %

The aggregate allowance for loan losses increased by $213,000 from September 30, 2010 to September 30, 2011 due primarily to a $531,000 increase in the general allowance, partially offset by a $315,000 decrease in specific allocations on loans determined to be impaired. The increase in the Company's general allowance since the 2006 period was mainly the result of an increase in the allowance for loan losses related to construction and land development loans and commercial business loans. The increase in the allowance was determined based on management's consideration of the known and reasonably estimatable losses in the loan portfolio as well as current qualitative and quantitative risk factors and was attributable primarily to the increase in the balance of the portfolio of classified and criticized loans as of September 30, 2011 as a result of the continued weakening of the real estate market.

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 Prudential Savings 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 securities 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 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 Veterans Administration. 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 Federal Government. During 2010 and 2011 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 current portfolio is limited to the securities received as a result of the redemption in kind of an investment in a mutual fund. See further discussion in Note 4 of the Notes to Consolidated Financial Statements included in Item 8 herein.

At September 30, 2011, the investment and mortgage-backed securities amounted to $184.3 million or 36.9% of total assets at such date. The largest component of the securities portfolio in recent periods has been U.S. Government and agency obligations, which amounted to $97.1 million or 52.7% of the securities portfolio at September 30, 2011. In addition, we invest in mortgage-backed securities and to a significantly lesser degree, municipal securities and 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, 2011, we had $109.0 million of investment and mortgage-backed securities classified as held to maturity, $75.4 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 the redemption in kind during 2008 are below investment grade.

The mortgage-backed securities consist primarily of mortgage pass-through certificates issued by Ginnie Mae, Fannie Mae or Freddie Mac. At September 30, 2011, approximately 5.0% of the mortgage-backed securities were non-agency securities, all of which were acquired through the 2008 redemption in kind. See further discussion in Note 4 of the Notes to Consolidated Financial Statements in Item 8.

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

	September 30,					
	2011		2010		2009	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
	(In Thousands)					
Mortgage-backed securities - U.S. government agencies	$78,588	$85,220	$78,036	$83,342	$84,892	$88,444
Mortgage-backed securities - Non-agency	5,249	4,357	8,067	7,199	10,325	7,767
U.S. governnment and agency obligations	97,068	98,508	95,978	97,995	125,923	126,141
Municipal obligations	-	-	475	475	1,970	1,976
Total debt securities	180,905	188,085	182,556	189,011	223,110	224,328
FHLB stock	2,887	2,887	3,545	3,545	3,545	3,545
FHLMC preferred stock	6	6	8	8	16	47
Total investment and mortgage-backed securities	$183,798	$190,978	$186,109	$192,564	$226,671	$227,920

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, 2011. Tax-exempt yields have not been adjusted to a tax-equivalent basis.

	Amounts at September 30, 2011 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
	(Dollars in Thousands)							
Bonds and other debt securities:								
U.S. government and agency obligations	$ -	-	$ 11,000	1.39 %	$ 57,957	2.56 %	$ 28,111	3.65 %
Mortgage-backed securities	-	-	-	-	26	1.32 %	83,811	4.55 %
Total	$ -	-	$ 11,000	1.39 %	$ 57,983	2.56 %	$ 111,922	4.32 %

The following table sets forth the purchases and principal repayments of our mortgage-backed securities at amortized cost during the periods indicated. The adoption of FASB ASC 320-10-35-33 through 35-34, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, resulted in a $1.1 million reversal of non-credit related impairment charges in fiscal 2009 related to the non-agency mortgage-backed securities. See Note 4 in the Notes to Consolidated Financial Statements.

	At or For the Year Ended September 30,		
	2011	2010	2009
	(Dollars in Thousands)		
Mortgage-backed securities at beginning of period	$ 86,103	$ 95,217	$ 93,407
Purchases	14,613	11,853	17,717
Sale of mortgage-backed securities available for sale	(90)	-	-
Other than temporary impairment of securities	(202)	(560)	(3,272)
Maturities and repayments	(16,918)	(20,810)	(15,103)
Adoption of FASB ASC 320-10-35-33 through 35-34	-	-	1,148
Amortizations of premiums and discounts, net	331	403	1,320
Mortgage-backed securities at end of period	$ 83,837	$ 86,103	$ 95,217
Weighted average yield at end of period	4.55 %	5.37 %	5.73 %

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, 2011, 41.2% 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 and have increased over the past year as market rates have increased.

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, 2011, jumbo CDs amounted to $97.4 million, of which $38.8 million are scheduled to mature within twelve months subsequent to such date. At September 30, 2011, the weighted average remaining period until maturity of the certificate of deposit accounts was 16.8 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, 2011		September 30, 2010		September 30, 2009	
	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)					
Certificate accounts:						
Less than 1.00%	$23,195	5.32 %	$4,786	1.03 %	$-	-
1.00% - 1.99%	105,366	24.17 %	90,381	19.46 %	37,235	8.61 %
2.00% - 2.99%	77,636	17.81 %	114,170	24.58 %	88,146	20.39 %
3.00% - 3.99%	21,801	5.00 %	28,962	6.24 %	69,530	16.08 %
4.00% - 4.99%	10,914	2.50 %	21,096	4.54 %	34,353	7.95 %
5.00% - 5.99%	17,325	3.97 %	30,695	6.61 %	30,924	7.15 %
Total certificate accounts	256,237	58.77 %	290,090	62.46 %	260,188	60.18 %
Transaction accounts:						
Savings	70,623	16.20 %	69,901	15.05 %	66,968	15.49 %
Checking:						
Interest-bearing	29,658	6.80 %	26,146	5.63 %	27,311	6.32 %
Non-interest-bearing	3,847	0.88 %	2,496	0.54 %	2,558	0.59 %
Money market	75,649	17.35 %	75,822	16.32 %	75,349	17.42 %
Total transaction accounts	179,777	41.23 %	174,365	37.54 %	172,186	39.82 %
Total deposits	$436,014	100.00 %	$464,455	100.00 %	$432,374	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, 2011			2010			2009		
	Average Balance	Interest Expense	Average Rate Paid	Average Balance	Interest Expense	Average Rate Paid	Average Balance	Interest Expense	Average Rate Paid
	(Dollars in Thousands)								
Savings	$ 69,741	$ 700	1.00 %	$ 69,363	$ 1,230	1.77 %	$ 65,392	$ 1,532	2.34 %
Interest-bearing checking and money market accounts	105,046	779	0.74 %	105,724	1,119	1.06 %	96,806	1,863	1.92 %
Certificate accounts	271,758	5,612	2.07 %	264,082	6,321	2.39 %	247,791	8,585	3.46 %
Total interest-bearing deposits	446,545	$ 7,091	1.59 %	439,169	$ 8,670	1.97 %	409,989	$ 11,980	2.92 %
Non-interest-bearing deposits	3,291			2,241			3,409		
Total deposits	$ 449,836		1.58 %	$ 441,410		1.96 %	$ 413,398		2.90 %

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

	Year Ended September 30,		
	2011	2010	2009
		(In Thousands)	
Deposits made	$ 419,733	$ 478,078	$ 528,953
Withdrawals	(453,949)	(451,630)	(480,442)
Interest credited	5,775	5,633	7,033
Total (decrease) increase in deposits	$ (28,441)	$ 32,081	$ 55,544

The following table presents, by various interest rate categories and maturities, the amount of certificates of deposit at September 30, 2011.

	Balance at September 30, 2011				
	Maturing in the 12 Months Ending September 30,				
Certificates of Deposit	2012	2013	2014	Thereafter	Total
			(In Thousands)		
Less than 1.00%	$ 23,195	$ -	$ -	$ -	$ 23,195
1.00% - 1.99%	77,369	17,898	10,099	-	105,366
2.00% - 2.99%	7,141	53,511	1,097	15,887	77,636
3.00% - 3.99%	1,734	590	6,973	12,503	21,800
4.00% - 4.99%	748	7,367	2,799	-	10,914
5.00% - 5.99%	11,797	5,529	-	-	17,326
Total certificate accounts	$ 121,984	$ 84,895	$ 20,968	$ 28,390	$ 256,237

The following tables show the maturities of our certificates of deposit of $100,000 or more at September 30, 2011, by time remaining to maturity.

Quarter Ending:	Amount	Weighted Avg Rate
	(Dollars in Thousands)	
December 31, 2011	$ 7,881	1.45 %
March 31, 2012	7,423	1.82 %
June 30, 2012	7,461	1.64 %
September 30, 2012	16,031	1.83 %
After September 30, 2012	58,625	2.37 %
Total certificates of deposit with balances of $100,000 or more	$ 97,421	2.11 %

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 Prudential Savings Bank, fluctuates from time to time in accordance with the policies of the Federal Home Loan Bank. At September 30, 2011, we had $570,000 in outstanding FHLB advances (as described below) and $123.1 million of additional FHLB advances available. At such date, maturities of our outstanding advances range from one month to six years. 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:

	At or For the Year Ended September 30,		
	2011	2010	2009
	(Dollars in Thousands)		
FHLB advances:			
Average balance outstanding	$ 591	$ 16,676	$ 24,243
Maximum amount outstanding at any month-end during the period	611	25,304	47,694
Balance outstanding at end of period	570	615	19,659
Average interest rate during the period	1.02 %	4.47 %	3.53 %
Weighted average interest rate at end of period	1.02 %	1.02 %	4.35 %

We have six FHLB advances made under a community housing program in which we participate. Four of the FHLB advances amortize over the period to maturity. Three of these advances are at an interest rate of 3.0% and one is at 2.0%. The other two FHLB advances bear a 0% interest rate. The total of these six FHLB advances is $570,000. As of September 30, 2011, there were no advances from the FHLB which are not part of the community housing program.

Subsidiaries

The Company has only one direct subsidiary: Prudential Savings Bank. The Bank's sole subsidiary as of September 30, 2011 was PSB Delaware, Inc. ("PSB"), a Delaware-chartered corporation established to hold investment securities. As of September 30, 2011, PSB had assets of $107.4 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, 2011, we had 66 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 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 Pennsylvania Department of Banking and the FDIC to test Prudential Savings 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 Pennsylvania Department of Banking, the FDIC or the Congress could have a material adverse impact on Prudential Bancorp, Prudential Savings Bank and Prudential Mutual Holding Company and their 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. Any change in such regulation, whether by the Pennsylvania Department of Banking, the FDIC, the Federal Reserve Board or the United States Congress, could have a material impact on us and the Company's operations.

Prudential Bancorp and Prudential Mutual Holding Company are registered as bank holding companies under the Bank Holding Company Act and are subject to regulation and supervision by the Federal Reserve Board and by the Pennsylvania Department of Banking. Prudential Bancorp and Prudential Mutual Holding Company file annually a report of their operations with, and are subject to examination by, the Federal Reserve Board and the Pennsylvania Department of Banking. This regulation and oversight is generally intended to ensure that Prudential Bancorp and Prudential Mutual Holding Company limit their activities to those allowed by law and that they operate in a safe and sound manner without endangering the financial health of Prudential Savings Bank.

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In connection with the reorganization completed in March 2005, Prudential Bancorp registered its common stock with the 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 Prudential Savings Bank, Prudential Bancorp and Prudential Mutual Holding Company 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 Prudential Savings Bank, Prudential Bancorp and Prudential Mutual Holding Company 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. The financial reform and consumer protection act imposes new restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions. In addition, the new law changes the jurisdictions of existing bank regulatory agencies and in particular transferred the regulation of federal savings associations from the Office of Thrift Supervision to the Office of Comptroller of the Currency, effective July 21, 2011. Savings and loan holding companies are now regulated by the Federal Reserve Board. 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 Prudential Savings Bank, Prudential Mutual Holding Company and Prudential Bancorp. All 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 Prudential Savings 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 Prudential Savings 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 current prohibition on payment of interest on demand deposits was repealed, effective July 21, 2011.

Deposit insurance is permanently increased to $250,000 and unlimited deposit insurance for non-interest-bearing transaction accounts extended through December 31, 2012.

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 and Prudential Mutual Holding Company:

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 Securities and Exchange Commission 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 will be 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 is 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 Securities and Exchange Commission is to 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.

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Regulation of Prudential Savings Bank

Pennsylvania Banking Law. The Pennsylvania Banking Code of 1965 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 Prudential Savings Bank and its affairs. The Banking Code delegates extensive rulemaking power and administrative discretion to the Pennsylvania Department of Banking 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.

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 Pennsylvania Department of Banking.

The Pennsylvania Department of Banking generally examines each savings bank not less frequently than once every two years. The Pennsylvania Department of Banking may accept the examinations and reports of the FDIC in lieu of its own examination, the present practice is for the Pennsylvania Department of Banking to alternate with the FDIC. The Pennsylvania Department of Banking 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 Pennsylvania Department of Banking has ordered the activity to be terminated, to show cause at a hearing before the Pennsylvania Department of Banking why such person should not be removed.

Insurance of Accounts. The deposits of Prudential Savings 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. 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 recently enacted financial institution reform legislation permanently increased deposit insurance on most accounts to $250,000. In addition, pursuant to Section 13(c)(4)(G) of the Federal Deposit Insurance Act, the Federal Deposit Insurance Corporation has implemented two temporary programs to provide deposit insurance for the full amount of most non-interest bearing transaction deposit accounts and to guarantee certain unsecured debt of financial institutions and their holding companies. Under the unsecured debt program, the FDIC's guarantee expires on the earlier of the maturity date of the debt or December 31, 2012. The unlimited deposit insurance for non-interest-bearing transaction accounts was extended by the recently enacted legislation through the end of 2012 for all insured institutions without a separate insurance assessment (but the cost of the additional insurance coverage will be considered under the risk-based assessment system). Financial institutions could have opted out of either or both of these programs. We did not opt out of the temporary liquidity guarantee program.

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. The FDIC recently 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. The amendments became effective for the quarter beginning April 1, 2011 with the new assessment methodology being reflected in the premium invoices due September 30, 2011.

In 2009, the FDIC collected a five basis point special assessment on each insured depository institution's assets minus its Tier 1 capital as of September 30, 2009. The amount of our special assessment, which was paid on September 30, 2009, was an additional expense of $232,000.

In 2009, the FDIC also required insured deposit institutions on December 30, 2009 to prepay 13 quarters of estimated insurance assessments. Our prepayment totaled approximately $2.5 million. Unlike a special assessment, this prepayment did not immediately affect bank earnings. Banks will book the prepaid assessment as a non-earning asset and record the actual risk-based premium payments at the end of each quarter.

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 the 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 Federal Deposit Insurance Corporation has promulgated regulations and adopted a statement of policy regarding the capital adequacy of state-chartered banks which, like Prudential Savings 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.

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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.

Prudential Savings Bank is also subject to more stringent Pennsylvania Department of Banking 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, 2011, 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, 2011, Prudential Savings Bank was deemed 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 Prudential Savings Bank's capital position relative to its regulatory capital requirements at September 30, 2011.

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
Tier 1 capital (to average assets)						
Company	$ 55,199	11.06 %	$ 19,961	4.0 %	N/A	N/A
Bank	51,051	10.23	19,961	4.0	$ 24,951	5.0 %
Tier 1 capital (to risk-weighted assets)						
Company	55,199	25.54	8,645	4.0	N/A	N/A
Bank	51,051	23.62	8,645	4.0	12,968	6.0
Total capital (to risk-weighted assets)						
Company	57,909	26.79	17,290	8.0	N/A	N/A
Bank	53,761	24.87	17,290	8.0	21,613	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 Federal Deposit Insurance Corporation 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. Prudential Savings 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 of the Gramm-Leach-Bliley Act. Federal law places limitations on financial institutions like Prudential Savings 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. Prudential Savings Bank currently has a privacy protection policy in place and believes such policy is in compliance with the 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 provision 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. Prudential Savings 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. Prudential Savings Bank received a "satisfactory" Community Reinvestment Act rating in its most recently completed examination.

Federal Home Loan Bank System. Prudential Savings 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, Prudential Savings 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, 2011, Prudential Savings 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 of Banking. At September 30, 2011, Prudential Savings Bank was in compliance with these reserve requirements.

Regulation of Prudential Bancorp and Prudential Mutual Holding Company

Bank Holding Company Act Activities and Other Limitations. Under the Bank Holding Company Act, Prudential Bancorp and Prudential Mutual Holding Company 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 and Prudential Mutual Holding Company 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 2010 regulatory reform 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 and Prudential Mutual Holding Company, as bank holding companies, 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 Treasury Department 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 and Prudential Mutual Holding Company have not submitted notices to the Federal Reserve Board of their intent to be deemed financial holding companies. However, they are not precluded from submitting a notice in the future should they 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 Federal

Deposit Insurance Corporation. See "-Regulation of Prudential Savings Bank - Capital Requirements."

Restrictions on Dividends. Prudential Bancorp's ability to declare and pay dividends may depend in part on dividends received from Prudential Savings Bank. The Pennsylvania 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 Prudential Savings Bank is in default in payment of any assessment due the Federal Deposit Insurance Corporation.

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 also indicated 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 Securities and Exchange Commission under Section 12(g) 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 Securities and Exchange Commission 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.

Limitations on Transactions with Affiliates. Transactions between savings institutions and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a savings institution is any company or entity which controls, is controlled by or is under common control with the savings institution. In a mutual holding company context, the mutual holding company and mid-tier holding company of a savings institution (such as Prudential Bancorp and Prudential Mutual Holding Company) and any companies which are controlled by such holding companies are affiliates of the savings institution. Generally, Section 23A limits the extent to which the savings 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 savings 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 a savings 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 a savings institution, and certain affiliated interests of either, may not exceed, together with all other outstanding loans to such person and affiliated interests, the savings 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 savings institution. Section 22(h) also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a savings 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, 2010, Prudential Savings Bank was in compliance with the above restrictions.

Restrictions Applicable to Mutual Holding Companies. While regulations governing Pennsylvania-chartered mutual holding companies have not been adopted, under authority of Section 115.1 of the Pennsylvania Banking Code and a policy statement issued by the Pennsylvania Department of Banking, the Department approved the reorganization of Prudential Saving Bank to the mutual holding company form of organization.

Pursuant to Pennsylvania law, a mutual holding company may engage only in the following activities:

- investing in the stock of one or more financial institution subsidiaries;

- acquiring one or more additional financial institution subsidiaries into a subsidiary of the holding company;

- merging with or acquiring another holding company, one of whose subsidiaries is a financial institution subsidiary;

- investing in a corporation the capital stock of which is available for purchase by a savings bank under federal law or under the Pennsylvania Banking Code;

- engaging in such activities as are permitted, by statute or regulation, to a holding company of a federally chartered insured mutual institution under federal law; and

- engaging in such other activities as may be permitted by the Pennsylvania Department of Banking.

If a mutual holding company acquires or merges with another holding company, the holding company acquired or the holding company resulting from such merger or acquisition may only invest in assets and engage in activities listed above, and has a period of two years to cease any non-conforming activities and divest of any non-conforming investments.

The mutual holding company will be subject to such regulations as the Pennsylvania Department of Banking may prescribe. No mutual holding company regulations have been issued to date by the Department.

Dividend Waivers By Prudential Mutual Holding Company. Prudential Mutual Holding Company is subject to the Federal Reserve Board policies regarding the waiver of dividends. While, as described below, those policies do not prohibit the waiver of dividends, it has not been the practice of the Federal Reserve Board to approve such waivers. Moreover, as a result of 2010 financial reform, the Federal Reserve Board now has jurisdiction over mutual holding company organizations previously under the jurisdiction of the Office of Thrift Supervision ("OTS"). Those OTS-regulated mutual holding companies routinely received OTS approval to waive dividends. However, the regulations promulgated by the Federal Reserve Board implementing the 2010 financial reform regarding such waivers includes requirements adopted to address conflict of interest concerns and likely will result in significantly fewer mutual holding companies waiving dividends in the future. In connection with its approval of the 2005 reorganization, the Federal Reserve Board imposed certain conditions on the waiver by Prudential Mutual Holding Company of dividends paid on the common stock by Prudential Bancorp including requiring that Prudential Mutual Holding Company obtain the prior approval of the Federal Reserve Board before Prudential Mutual Holding Company may waive any dividends from Prudential Bancorp. The Federal Reserve Board approval of the 2005 reorganization also required that the amount of any dividends waived by Prudential Mutual Holding Company will not be available for payment to the public stockholders of Prudential Bancorp (i.e., shareholders except for Prudential Mutual Holding Company) and that such amounts will be excluded from Prudential Bancorp's capital for purposes of calculating dividends payable to the public shareholders. Moreover, Prudential Savings Bank would be required to maintain the cumulative amount of dividends waived by Prudential Mutual Holding Company in a restricted capital account that would be added to the liquidation account established in the reorganization. This amount would not be available for distribution to public stockholders. The restricted capital account and liquidation account amounts would not be reflected in Prudential Savings Bank's financial statements, but would be considered as a notational or memorandum account of Prudential Savings Bank. These accounts would be maintained in accordance with the laws, rules, regulations and policies of the Pennsylvania Banking Department and the plan of reorganization. The plan of reorganization also provides that if Prudential Mutual Holding Company converts to stock form in the future (commonly referred to as a second step reorganization), any waived dividends would reduce the percentage of the converted company's shares of common stock issued to public shareholders in connection with any such transaction.

Prudential Mutual Holding Company does not expect to seek the prior approval of the Federal Reserve Board to waive dividends declared by Prudential Bancorp. If Prudential Mutual Holding Company decides that it is in its best interest to waive a particular dividend to be paid by Prudential Bancorp and the Federal Reserve Board approves such waiver, then Prudential Bancorp would pay such dividend only to its public shareholders. The amount of the dividend waived by Prudential Mutual Holding Company would be treated in the manner described above. Prudential Mutual Holding Company's decision as to whether or not to waive a particular dividend will depend on a number of factors, including Prudential Mutual Holding Company's capital needs, the investment alternatives available to Prudential Mutual Holding Company as compared to those available to Prudential Bancorp, and the possibility of regulatory approvals.

TAXATION

Federal Taxation

General. Prudential Bancorp, Prudential Mutual Holding Company and Prudential Savings 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, 2011, the Internal Revenue Service is in the process of conducting an audit of the Company's tax returns for the year ended September 30, 2010. The federal and state income tax return for taxable years through September 30, 2007 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 Prudential Savings Bank and its subsidiary, PSB Delaware, Inc. 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 Prudential Savings 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, Prudential Savings 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 Prudential Savings 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 Prudential Savings Bank make certain non-dividend distributions or cease to maintain a bank charter.

At September 30, 2011, the total federal pre-1988 reserve was approximately $6.6 million. The reserve reflects the cumulative effects of federal tax deductions by Prudential Savings 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 Prudential Savings 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. Prudential Savings 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 Prudential Savings 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 2011 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, 2011. All the offices are owned by us with the exception of the Old City Branch.

Description/Address	Leased/Owned	Date of Lease Expiration	Net Book Value of Property and Leasehold Improvements (In Thousands)	Amount of Deposits
Main Office 1834 Oregon Avenue Philadelphia, PA 19145-4725	Owned	N/A	$ 405	$ 219,828
Snyder Branch 2101 South 19th Street Philadelphia, PA 19145-3709	Owned	N/A	6	22,531
Center City Branch 112 South 19th Street Philadelphia, PA 19103-4667	Owned	N/A	18	40,178
Broad Street Branch 1722 South Broad Street Philadelphia, PA 19145-2388	Owned	N/A	216	55,832
Pennsport Branch 238A Moore Street Philadelphia, PA 19148-1925	Owned	N/A	47	43,382
Drexel Hill Branch 601 Morgan Avenue Drexel Hill, PA 19026-3105	Owned	N/A	84	42,034
Old City Branch 28 North 3rd Street Philadelphia, PA 19106-2108	Leased	May 2015	240	12,229
Total			$ 1,016	$ 436,014

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. (Removed and Reserved)

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 1, 2011, there were approximately 270 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 and the amount of cash dividends declared per share for fiscal 2011 and 2010

	Stock Price		Cash dividends
Quarter ended:	High	Low	per share
September 30, 2011	$ 6.29	$ 5.05	$ 0.00
June 30, 2011	8.00	5.60	0.00
March 31, 2011	7.95	6.05	0.05
December 31, 2010	7.33	5.50	0.05

	Stock Price		Cash dividends
Quarter ended:	High	Low	per share
September 30, 2010	$ 7.90	$ 5.52	$ 0.05
June 30, 2010	8.55	5.52	0.05
March 31, 2010	10.25	7.60	0.05
December 31, 2009	10.45	9.06	0.05

(b) Not applicable

(c) There were no repurchases of common stock by the Company or Prudential Mutual Holding Company for the quarter ended September 30, 2011.

Item 6. Selected Financial Data

Set forth below is selected financial and other data of Prudential Bancorp.

	At September 30,				
	2011	2010	2009	2008 (1)	2007 (1)
	(Dollars in Thousands)				
Selected Financial and Other Data:					
Total assets	$ 499,537	$ 529,080	$ 514,761	$ 489,537	$ 474,399
Cash and cash equivalents	53,829	66,524	13,669	9,454	12,269
Investment and mortgage-backed securities:					
Held-to-maturity	108,956	112,673	160,126	163,303	180,316
Available-for-sale	75,370	72,425	62,407	55,106	46,892
Loans receivable, net	240,511	255,091	256,694	243,969	219,149
Deposits	436,014	464,455	432,374	376,830	354,038
FHLB advances	570	615	19,659	31,701	33,743
Total stockholders' equity, substantially restricted	57,452	56,999	55,857	68,487	80,558
Banking offices	7	7	7	7	7

	Year Ended September 30,				
	2011	2010	2009	2008 (1)	2007 (1)
	(Dollars in Thousands)				
Selected Operating Data:					
Total interest income	$ 21,685	$ 25,109	$ 27,386	$ 26,408	$ 26,907
Total interest expense	7,097	9,416	12,942	14,654	14,784
Net interest income	14,588	15,693	14,444	11,754	12,123
Provision for loan losses	4,630	1,110	1,403	1,084	395
Net interest income after provision for loan losses	9,958	14,583	13,041	10,670	11,728
Total non-interest income (charges)	938	387	(2,452)	(5,285)	1,046
Total non-interest expense	10,996	10,794	11,065	8,753	7,973
(Loss) income before income taxes	(100)	4,176	(476)	(3,368)	4,801
Income tax (benefit) expense	(212)	1,046	350	762	1,393
Net income (loss)	$ 112	$ 3,130	$ (826)	$ (4,130)	$ 3,408
Basic earnings (loss) per share	$ 0.01	$ 0.33	$ (0.08)	$ (0.38)	$ 0.30