

PRUDENTIAL BANCORP INC OF PENNSYLVANIA  
Form 10-Q  
February 14, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended December 31, 2011

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 000-51214

Prudential Bancorp, Inc. of Pennsylvania  
(Exact Name of Registrant as Specified in Its Charter)

|   |  |
|---|--|
| Pennsylvania<br>(State or Other Jurisdiction of Incorporation or<br>Organization)<br>1834 Oregon Avenue<br>Philadelphia, Pennsylvania<br>(Address of Principal Executive Offices) | 68-0593604<br>(I.R.S. Employer Identification<br>No.)<br>19145<br>Zip Code |
|---|--|

(215) 755-1500  
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
x Yes  No

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

Large accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
 Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practical date: as of February 1, 2012, 10,023,495 shares were issued and outstanding.

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PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA

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## PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

|   | December<br>31,<br>2011 | September<br>30,<br>2011 |
|---|-------------------------|--------------------------|
|   | (Dollars in Thousands)  |                          |
| <b>ASSETS</b>   |                         |                          |
| Cash and amounts due from depository institutions   | \$3,166                 | \$2,808                  |
| Interest-bearing deposits   | 62,811                  | 51,021                   |
| Total cash and cash equivalents   | 65,977                  | 53,829                   |
| Investment and mortgage-backed securities available for sale (amortized cost—December 31, 2011, \$72,664; September 30, 2011, \$71,955)       | 76,011                  | 75,370                   |
| Investment and mortgage-backed securities held to maturity (estimated fair value—December 31, 2011, \$102,865; September 30, 2011, \$112,721) | 98,825                  | 108,956                  |
| Loans receivable—net of allowance for loan losses (December 31, 2011, \$3,413; September 30, 2011, \$3,364)                                   | 239,297                 | 240,511                  |
| Accrued interest receivable   | 2,027                   | 2,026                    |
| Real estate owned   | 2,143                   | 2,268                    |
| Federal Home Loan Bank stock—at cost  | 2,743                   | 2,887                    |
| Office properties and equipment—net   | 1,851                   | 1,816                    |
| Bank owned life insurance   | 6,225                   | 6,180                    |
| Prepaid expenses and other assets   | 2,205                   | 2,483                    |
| Deferred tax asset-net  | 3,424                   | 3,211                    |
| <b>TOTAL ASSETS</b>   | <b>\$500,728</b>        | <b>\$499,537</b>         |

## LIABILITIES AND STOCKHOLDERS' EQUITY

## LIABILITIES:

## Deposits:

|   |         |         |
|---|---------|---------|
| Noninterest-bearing                             | \$4,100 | \$3,847 |
| Interest-bearing                                | 435,402 | 432,167 |
| Total deposits                                  | 439,502 | 436,014 |
| Advances from Federal Home Loan Bank            | 560     | 570     |
| Accrued interest payable                        | 41      | 2,420   |
| Advances from borrowers for taxes and insurance | 1,751   | 1,090   |
| Accounts payable and accrued expenses           | 874     | 1,991   |

|                   |         |         |
|-------------------|---------|---------|
| Total liabilities | 442,728 | 442,085 |
|-------------------|---------|---------|

## COMMITMENTS AND CONTINGENCIES (Note 8)

## STOCKHOLDERS' EQUITY:

|  |     |     |
|--|-----|-----|
| Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued  | -   | -   |
| Common stock, \$.01 par value, 40,000,000 shares authorized, issued 12,563,750; outstanding - 10,023,495 at December 31, 2011 and September 30, 2011 | 126 | 126 |

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|   |                  |                  |
|---|------------------|------------------|
| Additional paid-in capital  | 54,210           | 54,078           |
| Unearned ESOP shares  | (2,955 )         | (3,011 )         |
| Treasury stock, at cost: 2,540,255 shares at December 31, 2011 and September 30, 2011 | (31,625 )        | (31,625 )        |
| Retained earnings   | 36,035           | 35,631           |
| Accumulated other comprehensive income  | 2,209            | 2,253            |
| Total stockholders' equity  | 58,000           | 57,452           |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                     | <b>\$500,728</b> | <b>\$499,537</b> |

See notes to unaudited consolidated financial statements.

## PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Three Months Ended                                 |                      |
|--|--|----------------------|
|  | 2011   | December 31,<br>2010 |
|  | (Dollars in Thousands Except Per<br>Share Amounts) |                      |
| <b>INTEREST INCOME:</b>  |  |                      |
| Interest on loans  | \$ 3,268   | \$ 3,623             |
| Interest on mortgage-backed securities                                   | 1,044  | 1,065                |
| Interest and dividends on investments                                    | 646  | 932                  |
| Interest on interest-bearing deposits                                    | 25   | 33                   |
| Total interest income  | 4,983  | 5,653                |
| <b>INTEREST EXPENSE:</b>   |  |                      |
| Interest on deposits   | 1,513  | 2,020                |
| Interest on borrowings   | 1  | 2                    |
| Total interest expense   | 1,514  | 2,022                |
| NET INTEREST INCOME  | 3,469  | 3,631                |
| PROVISION FOR LOAN LOSSES  | 150  | 580                  |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES                      | 3,319  | 3,051                |
| <b>NON-INTEREST INCOME:</b>  |  |                      |
| Fees and other service charges   | 117  | 118                  |
| Total other-than-temporary impairment losses                             | (144 )   | (127 )               |
| Portion of losses recognized in other comprehensive income, before taxes | 107  | 32                   |
| Net impairment losses recognized in earnings                             | (37 )  | (95 )                |
| Other  | 93   | 56                   |
| Total non-interest income  | 173  | 79                   |
| <b>NON-INTEREST EXPENSE:</b>   |  |                      |
| Salaries and employee benefits   | 1,519  | 1,431                |
| Data processing  | 109  | 119                  |
| Professional services  | 220  | 122                  |
| Office occupancy   | 98   | 89                   |
| Depreciation   | 84   | 88                   |
| Payroll taxes  | 64   | 65                   |
| Director compensation  | 107  | 82                   |

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|   |         |            |
|---|---------|------------|
| Real estate owned expenses                      | 152     | 145        |
| Federal Deposit Insurance Corporation insurance | 162     | 265        |
| Other   | 352     | 402        |
| Total non-interest expense                      | 2,867   | 2,808      |
| INCOME BEFORE INCOME TAXES                      | 625     | 322        |
| INCOME TAXES:                                   |         |            |
| Current expense                                 | 411     | 106        |
| Deferred expense                                | (190 )  | 310        |
| Total income tax expense                        | 221     | 416        |
| NET INCOME (LOSS)                               | \$ 404  | \$ (94 )   |
| BASIC EARNINGS PER SHARE                        | \$ 0.04 | \$ (0.01 ) |
| DILUTED EARNINGS PER SHARE                      | \$ 0.04 | \$ (0.01 ) |

See notes to unaudited consolidated financial statements.



## PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

|   | Common<br>Stock | Additional<br>Paid-In<br>Capital | Unearned<br>ESOP<br>Shares<br>(Dollars in Thousands except per share amounts) | Treasury<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total<br>Stockholders'<br>Equity | Comprehensive<br>Income<br>(Loss) |
|---|-----------------|----------------------------------|---|-------------------|----------------------|---|----------------------------------|-----------------------------------|
| BALANCE,<br>OCTOBER 1, 2011   | \$ 126          | \$ 54,078                        | \$(3,011 )  | \$(31,625 )       | \$35,631             | \$ 2,253  | \$ 57,452                        |                                   |
| Comprehensive<br>income:  |                 |                                  |   |                   |                      |   |                                  |                                   |
| Net income  |                 |                                  |   |                   | 404                  |   | 404                              | 404                               |
| Net unrealized<br>holding loss on<br>available for sale<br>securities arising<br>during the period,<br>net of income tax<br>benefit of \$35 |                 |                                  |   |                   |                      | (68 )   | (68 )                            | (68 )                             |
| Reclassification<br>adjustment for other<br>than temporary<br>impairment<br>recognized in<br>earnings net of tax<br>of \$13                 |                 |                                  |   |                   |                      | 24  | 24                               | 24                                |
| Comprehensive<br>income   |                 |                                  |   |                   |                      |   |                                  | \$ 360                            |
| Excess tax benefit from<br>stock compensation   |                 | 40                               |   |                   |                      |   | 40                               |                                   |
| Stock option<br>expense   |                 | 55                               |   |                   |                      |   | 55                               |                                   |
| Recognition and Retention<br>Plan expense   |                 | 64                               |   |                   |                      |   | 64                               |                                   |
| ESOP shares<br>committed to be<br>released (5,655   | -               | (27 )                            | 56  | -                 | -                    | -   | 29                               |                                   |

shares)

BALANCE,

December 31, 2011 \$126 \$ 54,210 \$(2,955 ) \$(31,625 ) \$36,035 \$ 2,209 \$ 58,000

|  | Common | Additional | Unearned  | Treasury | Retained | Accumulated | Total         | Comprehensive |  |
|--|--------|------------|---|----------|----------|-------------|---------------|---------------|--|
|  | Stock  | Paid-In    | ESOP  | Stock    | Earnings | Other       | Stockholders' | Income        |  |
|  |        | Capital    | Shares  |          |          | Income      | Equity        | (Loss)        |  |
|  |        |            |   |          |          | (Loss)      |               |               |  |
|  |        |            | (Dollars in Thousands except per share amounts) |          |          |             |               |               |  |

BALANCE,

OCTOBER 1, 2010 \$126 \$ 53,528 \$(3,234 ) \$(31,576 ) \$36,483 \$ 1,672 \$ 56,999

Comprehensive  
loss:

Net loss (94 ) (94 ) (94 )

Net unrealized  
holding loss on  
available for sale  
securities arising  
during the period,  
net of income tax  
benefit of \$380 (738 ) (738 ) (738 )

Reclassification  
adjustment for other  
than temporary  
impairment  
recognized in  
earnings net of tax  
of \$32 63 63 63

Comprehensive loss \$ (769 )

Cash dividend  
declared (\$ 0.05 per  
share) (482 ) (482 )

Excess tax benefit from  
stock compensation 39 39

Stock option  
expense 55 55

Recognition and Retention  
Plan expense 64 64

- (20 ) 56 - - - 36

ESOP shares  
committed to be  
released (5,655  
shares)

BALANCE,

|                   |        |           |            |            |          |        |           |
|-------------------|--------|-----------|------------|------------|----------|--------|-----------|
| December 31, 2010 | \$ 126 | \$ 53,666 | \$(3,178 ) | \$(31,576) | \$35,907 | \$ 997 | \$ 55,942 |
|-------------------|--------|-----------|------------|------------|----------|--------|-----------|

See notes to unaudited consolidated financial statements

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## PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Three Months<br>Ended December 31, |                  |
|--|------------------------------------|------------------|
|  | 2011                               | 2010             |
|  | (Dollars in Thousands)             |                  |
| <b>OPERATING ACTIVITIES:</b>   |                                    |                  |
| Net income (loss)  | \$404                              | \$(94 )          |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: |                                    |                  |
| Provision for loan losses  | 150                                | 580              |
| Depreciation   | 84                                 | 88               |
| Net accretion of premiums/discounts  | (115 )                             | (83 )            |
| Net accretion of deferred loan fees and costs  | (59 )                              | (18 )            |
| Impairment charge on investment securities   | 37                                 | 95               |
| Share-based compensation expense   | 159                                | 158              |
| Compensation expense of ESOP   | 29                                 | 36               |
| Deferred income tax (benefit) expense  | (190 )                             | 310              |
| Changes in assets and liabilities which used cash:                                   |                                    |                  |
| Accrued interest receivable  | (1 )                               | (82 )            |
| Prepaid expenses and other assets  | 330                                | 262              |
| Accrued interest payable   | (2,379 )                           | (3,272 )         |
| Accounts payable and accrued expenses  | (1,117 )                           | (1,347 )         |
| Net cash used in operating activities  | (2,668 )                           | (3,367 )         |
| <b>INVESTING ACTIVITIES:</b>   |                                    |                  |
| Purchase of investment and mortgage-backed securities held to maturity               | (14,976 )                          | (25,000 )        |
| Purchase of investment and mortgage-backed securities available for sale             | (5,936 )                           | (14,777 )        |
| Loans originated or acquired   | (15,533 )                          | (13,656 )        |
| Principal collected on loans   | 16,656                             | 15,466           |
| Principal payments received on investment and mortgage-backed securities:            |                                    |                  |
| Held-to-maturity   | 25,117                             | 12,455           |
| Available-for-sale   | 5,297                              | 11,710           |
| Proceeds from redemption of FHLB stock   | 144                                | 177              |
| Proceeds from sale of real estate owned  | -                                  | 1,028            |
| Purchases of equipment   | (119 )                             | (30 )            |
| Net cash provided by (used in) investing activities                                  | 10,650                             | (12,627 )        |
| <b>FINANCING ACTIVITIES:</b>   |                                    |                  |
| Net increase in demand deposits, NOW accounts, and savings accounts                  | 7,372                              | 2,690            |
| Net decrease in certificates of deposit  | (3,884 )                           | (3,111 )         |
| Repayment of advances from Federal Home Loan Bank                                    | (10 )                              | (11 )            |
| Increase in advances from borrowers for taxes and insurance                          | 661                                | 650              |
| Excess tax benefit related to stock compensation                                     | 27                                 | 39               |
| Cash dividend paid   | -                                  | (483 )           |
| Net cash provided by (used in) financing activities                                  | 4,166                              | (226 )           |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                          | <b>12,148</b>                      | <b>(16,220 )</b> |
| <b>CASH AND CASH EQUIVALENTS—Beginning of period</b>                                 | <b>53,829</b>                      | <b>66,524</b>    |

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|  |          |          |
|--|----------|----------|
| CASH AND CASH EQUIVALENTS—End of period                            | \$65,977 | \$50,304 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:                 |          |          |
| Interest paid on deposits and advances from Federal Home Loan Bank | \$3,893  | \$5,294  |
| Income taxes paid  | \$750    | \$550    |

See notes to unaudited consolidated financial statements.

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation –The accompanying unaudited consolidated financial statements were prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) for interim information and therefore do not include all the information or footnotes necessary for a complete presentation of financial condition, results of operations, changes in equity and cash flows in conformity with accounting principles generally accepted in the United States of America (“GAAP”). However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. The results for the three months ended December 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2012, or any other period. These financial statements should be read in conjunction with the audited consolidated financial statements of Prudential Bancorp, Inc. of Pennsylvania (the “Company”) and the accompanying notes thereto for the year ended September 30, 2011 included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

Use of Estimates in the Preparation of Financial Statements—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The most significant estimates and assumptions in the Company’s consolidated financial statements are recorded in the allowance for loan losses, deferred income taxes, other than temporary impairment, and the fair value measurement for financial instruments. Actual results could differ from those estimates.

Dividend Payable – Upon declaration of a dividend, a payable is established with a corresponding reduction to retained earnings at the declaration date. There was no dividend payable as of December 31, 2011.

Employee Stock Ownership Plan – The Company maintains an employee stock ownership plan (“ESOP”) for substantially all of its full-time employees. The ESOP purchased 452,295 shares of the Company’s common stock for an aggregate cost of approximately \$4.5 million in fiscal 2005. Shares of the Company’s common stock purchased by the ESOP are held in a suspense account until released for allocation to participants. Shares are allocated to each eligible participant based on the ratio of each such participant’s compensation, as defined in the ESOP, to the total compensation of all eligible plan participants. As the unearned shares are released from the suspense account, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to equity as additional paid-in capital. As of December 31, 2011, the Company had allocated a total of 152,685 shares from the suspense account to participants. In addition, at such date the total number of shares of Company common stock held by the ESOP was 449,448. For the three months ended December 31, 2011, the Company recognized \$29,000 in compensation expense.

Share-Based Compensation – The Company accounts for stock-based compensation issued to employees, and where appropriate non-employees, with fair value. Under fair value provisions, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the appropriate vesting period using the straight-line method. The amount of stock-based compensation recognized at any date must at least equal the portion of the grant date fair value of the award that is vested at that date and as a result it may be necessary to recognize the expense using a ratable method. Determining the fair value of stock-based awards at the date of grant requires judgment, including estimating the expected term of the stock options and the expected volatility of the

Company's stock. In addition, judgment is required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from these estimates or different key assumptions were used, it could have a material effect on the Company's consolidated financial statements.

Dividends with respect to non-vested share awards are held by the Company's Recognition and Retention Plan ("Plan") Trust (the "Trust") for the benefit of the recipients and are paid out proportionately by the Trust to the recipients of stock awards granted pursuant to the Plan as soon as practicable after the stock awards are earned.

Treasury Stock – Stock held in treasury by the Company is accounted for using the cost method, which treats stock held in treasury as a reduction to total stockholders' equity. The average cost per share of the approximately 2.5 million shares which have been repurchased by the Company was \$12.45 for purchases through December 31, 2011. The repurchased shares are available for general corporate purposes. As of December 31, 2011, Prudential Mutual Holding Company ("the MHC") had purchased 568,000 shares at an average cost of \$10.30 per share. As of December 31, 2011, 7,478,062 shares were owned by the MHC, 2,540,255 shares had been repurchased by the Company and were held as treasury stock which results in 2,545,433 shares owned by public shareholders.

Comprehensive Income (Loss) —The Company presents in the unaudited consolidated statement of changes in stockholders' equity and comprehensive income (loss) those amounts arising from transactions and other events which currently are excluded from the statements of operations and are recorded directly to stockholders' equity. For the three months ended December 31, 2011 and 2010, the only components of comprehensive income were net income (loss), unrealized holding gains and losses, net of income tax expense and benefit, on available for sale securities and reclassifications related to realized losses due to other than temporary impairment, net of tax on investment securities.

FHLB Stock – FHLB stock is classified as a restricted equity security because ownership is restricted and there is not an established market for its resale. FHLB stock is carried at cost and is evaluated for impairment when certain conditions warrant further consideration.

The Company is a member of the Federal Home Loan Bank of Pittsburgh and as such, is required to maintain a minimum investment in stock of the Federal Home Loan Bank that varies with the level of advances outstanding from the Federal Home Loan Bank. The stock is bought from and sold to the Federal Home Loan Bank based upon its \$100 par value. The FHLB stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the Federal Home Loan Bank as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by the Federal Home Loan Bank to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the Federal Home Loan Bank; and (d) the liquidity position of the Federal Home Loan Bank.

While the Federal Home Loan Banks have been negatively impacted by the current economic conditions, the Federal Home Loan Bank of Pittsburgh reported profits for 2010 and 2011, remains in compliance with regulatory capital and liquidity requirements and makes redemptions at the par value. With consideration given to these factors, management concluded that the FHLB stock was not impaired at December 31, 2011.

Recent Accounting Pronouncements – In April 2011, the FASB issued ASU 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. The amendments in this Update provide additional guidance or clarification to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The amendments in this Update became effective for the first interim or annual reporting period beginning on or after June 15, 2011, and are to be applied retrospectively to the beginning annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should



apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. The Company has provided the necessary disclosures in Note 4.

In April 2011, the FASB issued ASU 2011-03, Transfers and Services (Topic 860): Reconsideration of Effective Control for Repurchase Agreements. The main objective in developing this Update is to improve the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this Update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in this Update apply to all entities, both public and nonpublic. The amendments affect all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The guidance in this Update is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards ("IFRSs"). Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. Early application by public entities is not permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The amendments in this Update improve the comparability, clarity, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS, the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. All entities that report items of comprehensive income, in any period presented, will be affected by the changes in this Update. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The amendments in this Update should be applied retrospectively, and early adoption is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

In September 2011, the FASB issued ASU 2011-08, Intangibles – Goodwill and Other Topics (Topic 350): Testing Goodwill for Impairment. The objective of this update is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this Update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments in this Update apply to all entities, both public and nonpublic, that have goodwill reported in their financial statements and

are effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. This ASU is not expected to have a significant impact on the Company's financial statements.

In September 2011, the FASB issued ASU 2011-09, Compensation-Retirement Benefits-Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan. The amendments in this Update will require additional disclosures about an employer's participation in a multiemployer pension plan to enable users of financial statements to assess the potential cash flow implications relating to an employer's participation in multiemployer pension plans. The disclosures also will indicate the financial health of all of the significant plans in which the employer participates and assist a financial statement user to access additional information that is available outside the financial statements. For public entities, the amendments in this Update are effective for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted. For nonpublic entities, the amendments are effective for annual periods of fiscal years ending after December 15, 2012, with early adoption permitted. The amendments should be applied retrospectively for all prior periods presented. This ASU is not expected to have a significant impact on the Company's financial statements.

In December 2011, the FASB issued ASU 2011-10, Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate-a Scope Clarification. The amendments in this Update affect entities that cease to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt. Under the amendments in this Update, when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt, the reporting entity should apply the guidance in Subtopic 360-20 to determine whether it should derecognize the in substance real estate. Generally, a reporting entity would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse indebtedness. That is, even if the reporting entity ceases to have a controlling financial interest under Subtopic 810-10, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary's operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt. The amendments in this Update should be applied on a prospective basis to deconsolidation events occurring after the effective date. Prior periods should not be adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2013, and interim and annual periods thereafter. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The amendments in this Update affect all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements on offsetting in Section 210-20-50. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. This ASU is not expected to have a significant impact on the Company's financial statements.

In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05. All other requirements in Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities should begin applying these requirements for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. This ASU is not expected to have a significant impact on the Company's financial statements.

## 2. EARNINGS PER SHARE

Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding, net of any treasury shares, during the period. Diluted earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding, net of any treasury shares, after consideration of the potential dilutive effect of common stock equivalents ("CSEs"), based upon the treasury stock method using an average market price for the period.

The calculated basic and diluted earnings per share are as follows:

|   | Quarter Ended December 31,                   |                 |            |                 |
|---|--|-----------------|------------|-----------------|
|   | Basic  | 2011<br>Diluted | Basic      | 2010<br>Diluted |
|   | (Dollars in Thousands Except Per Share Data) |                 |            |                 |
| Net income (loss)   | \$ 404                                       | \$ 404          | \$ (94 )   | \$ (94 )        |
| Weighted average shares outstanding                                     | 9,564,450                                    | 9,564,450       | 9,514,031  | 9,514,031       |
| Effect of common stock equivalents                                      | -  | 48,613          | -          | -               |
| Adjusted weighted average shares used in earnings per share computation | 9,564,450                                    | 9,613,063       | 9,514,031  | 9,514,031       |
| Earnings per share - basic and diluted                                  | \$ 0.04                                      | \$ 0.04         | \$ (0.01 ) | \$ (0.01 )      |

Due to the net loss recognized for the quarter ended December 31, 2010, the inclusion of any CSEs related to stock compensation plans would decrease the amount of net loss per share for the quarter and be antidilutive. Consequently, basic and diluted weighted average shares outstanding are equal for the quarter ended December 31, 2010. Had net income been recognized for the quarter ended December 31, 2010, there would have been an additional 92,503 shares used in the diluted earnings per share calculation.

## 3. INVESTMENT AND MORTGAGE-BACKED SECURITIES

The amortized cost and fair value of investment and mortgage-backed securities, with gross unrealized gains and losses, are as follows:

|  | December 31, 2011 |  |                               |                   |
|--|-------------------|--|-------------------------------|-------------------|
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains<br>(Dollars in Thousands) | Gross<br>Unrealized<br>Losses | Fair<br>Value     |
| <b>Securities Held to Maturity:</b>                      |                   |  |                               |                   |
| U.S. government and agency obligations                   | \$ 76,135         | \$ 1,585   | \$ (13 )                      | \$ 77,707         |
| Mortgage-backed securities - U.S.<br>government agencies | 22,690            | 2,468  | -                             | 25,158            |
| <b>Total securities held to maturity</b>                 | <b>\$ 98,825</b>  | <b>\$ 4,053</b>  | <b>\$ (13 )</b>               | <b>\$ 102,865</b> |
| <b>Securities Available for Sale:</b>                    |                   |  |                               |                   |
| U.S. government and agency obligations                   | \$ 7,997          | \$ 94  | \$ -                          | \$ 8,091          |
| Mortgage-backed securities - U.S.<br>government agencies | 59,633            | 4,244  | (1 )                          | 63,876            |
| Mortgage-backed securities - non-agency                  | 5,028             | 37   | (1,027 )                      | 4,038             |
| Total debt securities                                    | 72,658            | 4,375  | (1,028 )                      | 76,005            |
| FHLMC preferred stock                                    | 6                 | -  | -                             | 6                 |
| <b>Total securities available for sale</b>               | <b>\$ 72,664</b>  | <b>\$ 4,375</b>  | <b>\$ (1,028 )</b>            | <b>\$ 76,011</b>  |

|  | Amortized<br>Cost | September 30, 2011                                     |                               | Fair<br>Value     |
|--|-------------------|--|-------------------------------|-------------------|
|  |                   | Gross<br>Unrealized<br>Gains<br>(Dollars in Thousands) | Gross<br>Unrealized<br>Losses |                   |
| <b>Securities Held to Maturity:</b>                      |                   |  |                               |                   |
| U.S. government and agency obligations                   | \$ 87,708         | \$ 1,457   | \$ (81 )                      | \$ 89,084         |
| Mortgage-backed securities - U.S.<br>government agencies | 21,248            | 2,389  | -                             | 23,637            |
| <b>Total securities held to maturity</b>                 | <b>\$ 108,956</b> | <b>\$ 3,846</b>  | <b>\$ (81 )</b>               | <b>\$ 112,721</b> |
| <b>Securities Available for Sale:</b>                    |                   |  |                               |                   |
| U.S. government and agency obligations                   | \$ 9,360          | \$ 100   | \$ (36 )                      | \$ 9,424          |
| Mortgage-backed securities - U.S.<br>government agencies | 57,340            | 4,243  | -                             | 61,583            |
| Mortgage-backed securities - non-agency                  | 5,249             | 29   | (921 )                        | 4,357             |
| <b>Total debt securities</b>                             | <b>71,949</b>     | <b>4,372</b>   | <b>(957 )</b>                 | <b>75,364</b>     |
| FHLMC preferred stock                                    | 6                 | -  | -                             | 6                 |
| <b>Total securities available for sale</b>               | <b>\$ 71,955</b>  | <b>\$ 4,372</b>  | <b>\$ (957 )</b>              | <b>\$ 75,370</b>  |

The following table shows the gross unrealized losses and related fair values of the Company's investment securities, aggregated by investment category and length of time that individual securities had been in a continuous loss position at December 31, 2011:

|   | Less than 12 months           |               | More than 12 months           |               | Total                         |               |
|---|-------------------------------|---------------|-------------------------------|---------------|-------------------------------|---------------|
|   | Gross<br>Unrealized<br>Losses | Fair<br>Value | Gross<br>Unrealized<br>Losses | Fair<br>Value | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| (Dollars in Thousands)                                      |                               |               |                               |               |                               |               |
| <b>Securities Held to Maturity:</b>                         |                               |               |                               |               |                               |               |
| U.S. Government<br>agency obligations                       | \$ (13 )                      | \$ 5,984      | \$ -                          | \$ -          | \$ (13 )                      | \$ 5,984      |
| <b>Total securities held<br/>to maturity</b>                | <b>(13 )</b>                  | <b>5,984</b>  | <b>-</b>                      | <b>-</b>      | <b>(13 )</b>                  | <b>5,984</b>  |
| <b>Securities Available<br/>for Sale:</b>                   |                               |               |                               |               |                               |               |
| Mortgage-backed<br>securities - U.S.<br>Government agencies | (1 )                          | 701           | -                             | -             | (1 )                          | 701           |
| Mortgage-backed<br>securities -<br>Non-agency               | (116 )                        | 934           | (911 )                        | 2,536         | (1,027 )                      | 3,470         |

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|  |           |          |           |          |             |           |
|--|-----------|----------|-----------|----------|-------------|-----------|
| Total securities<br>available for sale | (117 )    | 1,635    | (911 )    | 2,536    | (1,028 )    | 4,171     |
| Total                                  | \$ (130 ) | \$ 7,619 | \$ (911 ) | \$ 2,536 | \$ (1,041 ) | \$ 10,155 |

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The following table shows the gross unrealized losses and related fair values of the Company's investment securities, aggregated by investment category and length of time that individual securities had been in a continuous loss position at September 30, 2011:

|   | Less than 12 months     |            | More than 12 months     |            | Total                   |            |
|---|-------------------------|------------|-------------------------|------------|-------------------------|------------|
|   | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| (Dollars in Thousands)                  |                         |            |                         |            |                         |            |
| <b>Securities Held to Maturity:</b>     |                         |            |                         |            |                         |            |
| U.S. government and agency obligations  | \$ (81 )                | \$ 18,911  | \$ -                    | \$ -       | \$ (81 )                | \$ 18,911  |
| Total securities held to maturity       | \$ (81 )                | \$ 18,911  | \$ -                    | \$ -       | \$ (81 )                | \$ 18,911  |
| <b>Securities Available for Sale:</b>   |                         |            |                         |            |                         |            |
| U.S. government and agency obligations  | \$ (36 )                | \$ 4,961   | \$ -                    | \$ -       | \$ (36 )                | \$ 4,961   |
| Mortgage-backed securities - non-agency | (50 )                   | 1,108      | (871 )                  | 2,663      | (921 )                  | 3,771      |
| Total securities available for sale     | \$ (86 )                | \$ 6,069   | \$ (871 )               | \$ 2,663   | \$ (957 )               | \$ 8,732   |
| Total                                   | \$ (167 )               | \$ 24,980  | \$ (871 )               | \$ 2,663   | \$ (1,038 )             | \$ 27,643  |

Management evaluates securities for other-than-temporary impairment ("OTTI") at least once each quarter, and more frequently when economic or market concerns warrant such evaluation. The Company determines whether the unrealized losses are temporary. The evaluation is based upon factors such as the creditworthiness of the issuers/guarantors, the underlying collateral, if applicable, and the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an OTTI condition. This includes, but is not limited to, an evaluation of the type of security, the length of time and extent to which the fair value of the security has been less than cost, and the near-term prospects of the issuer.

The Company assesses whether the credit loss existed by considering whether (1) the Company has the intent to sell the security, (2) it is more likely than not that it will be required to sell the security before recovery, or (3) it does not expect to recover the entire amortized cost basis of the security. The Company bifurcates the OTTI impact on impaired securities where impairment in value was deemed to be other than temporary between the component representing credit loss and the component representing loss related to other factors. The portion of the fair value decline attributable to credit loss must be recognized through a charge to earnings. The credit component is determined by comparing the present value of the cash flows expected to be collected, discounted at the rate in effect before recognizing any OTTI, with the amortized cost basis of the debt security. The Company uses the cash flow expected to be realized from the security, which includes assumptions about interest rates, timing and severity of defaults, estimates of potential recoveries, the cash flow distribution from the bond indenture and other factors, then applies a discount rate equal to the effective yield of the security. The difference between the present value of the expected cash flows and the amortized book value is considered a credit loss. The fair market value of the security is determined using the same expected cash flows; the discount rate is a rate the Company determines from open market and other sources as appropriate for the particular security. The difference between the fair market value and the security's remaining amortized cost is recognized in other comprehensive income.



The following is a rollforward for the three months ended December 31, 2011 of the amounts recognized in earnings related to credit losses on securities which the Company has recorded OTTI charges through earnings and other comprehensive income.

|  | (Dollars in thousands) |
|--|------------------------|
| Credit component of OTTI as of October 1, 2011   | \$ 2,404               |
| Additions for credit-related OTTI charges on previously unimpaired securities  | -                      |
| Additional increases as a result of impairment charges recognized on investments for which an OTTI was previously recognized | 37                     |
| Credit component of OTTI as of December 31, 2011   | \$ 2,441               |

U.S. Government Agency Obligations - The Company's investments in U.S. Government sponsored enterprise notes consist of debt obligations of the Federal Home Loan Bank ("FHLB") and Federal Farm Credit System ("FFCS"). These securities are typically rated AAA by one of the internationally recognized credit rating services. At December 31, 2011, securities in a gross unrealized loss for less than twelve months consisted of two securities having an aggregate depreciation of \$13,000 or 0.02% from the Company's amortized cost basis. There were no securities in a gross unrealized loss for more than twelve months. The unrealized losses on these debt securities relates principally to the changes in market interest rates and a lack of liquidity currently in the financial markets and are not as a result of projected shortfall of cash flows. In addition, the Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell the securities. As such, the Company anticipates it will recover the entire amortized cost basis of the securities. As a result, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2011.

U.S. Agency Issued Mortgage-Backed Securities - At December 31, 2011, the gross unrealized loss in U.S. agency issued mortgage-backed securities in the category of less than 12 months was \$1,000 or 0.1% from the Company's amortized cost basis and consisted of one security. There were no securities in a gross unrealized loss in the category of more than 12 months. These securities represent asset-backed issues that are issued or guaranteed by a U.S. Government sponsored agency or carry the full faith and credit of the United States through a government agency and are currently rated AAA by at least one bond credit rating agency. In September 2008, the U.S. Department of the Treasury announced the establishment of the Government-Sponsored Enterprise Credit Facility to ensure credit availability to Fannie Mae and Freddie Mac. The Treasury also entered into senior preferred stock purchase agreements, which ensure that each entity maintains a positive net worth and effectively support the holders of debt and mortgage-backed securities issued or guaranteed by Fannie Mae and Freddie Mac. The preferred stock agreements enhance market stability by providing additional security to debt holders, senior and subordinated, thereby alleviating the concern of the credit driven impairment of the securities.

Non-Agency Issued Mortgage-Backed Securities and Collateralized Mortgage Obligations - This portfolio was acquired through the redemption-in-kind of an investment in a mutual fund and includes 58 collateralized mortgage obligations ("CMO") and mortgage-backed securities issued by large commercial financial institutions. For the quarter ended December 31, 2011, management recognized an OTTI charge related to a portion of these securities in the amount of \$144,000 on a pre-tax basis due to the fact that, in management's judgment, the credit quality of the collateral pool underlying such securities had deteriorated during recent periods to the point that full recovery of the entire amortized cost of the investment was considered to be uncertain. This portfolio consists primarily of securities collateralized by Alt-A loans, home equity lines of credit and other receivables as well as whole loans with more significant exposure to declining real estate markets. For the overall portfolio of the securities, there was exposure to the declining real estate markets such as California, Nevada, Arizona and Florida and consequently, an additional

OTTI charge was deemed to be warranted as of December 31, 2011. Of the recorded charge, a total of \$37,000 was concluded to be credit related and recognized currently in earnings and \$107,000 was concluded to be attributable to other factors and recognized in other accumulated comprehensive income. The unrealized loss on these debt securities relates principally to the effects of changes in market interest rates and a lack of liquidity for these securities currently in the financial markets and are not as a result of projected shortfall in cash flows. In addition, the Company does not intend to sell the securities and it is more likely than not that the Company will not be required to sell the securities. As such, the Company expects to recover the entire amortized cost basis of the securities. As a result, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2011.

As of December 31, 2011, with the exception of securities discussed above, there are no securities for which the Company currently believes it is not probable that it will collect all amounts due according to the contractual terms of the investment. Management concluded that an other-than-temporary impairment did not exist and the decline in value was attributed to the illiquidity in the financial markets. With respect to the \$1.0 million in gross unrealized losses related to this portfolio, 24 securities had been in a loss position for longer than 12 months while 14 securities had been in a loss position for less than 12 months. In addition, the Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities.

The amortized cost and fair value of debt securities, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

|                                  | December 31, 2011      |               |                    |               |
|----------------------------------|------------------------|---------------|--------------------|---------------|
|                                  | Held to Maturity       |               | Available for Sale |               |
|                                  | Amortized<br>Cost      | Fair<br>Value | Amortized<br>Cost  | Fair<br>Value |
|                                  | (Dollars in Thousands) |               |                    |               |
| Due within one year              | \$ -                   | \$ -          | \$ -               | \$ -          |
| Due after one through five years | 9,000                  | 9,102         | -                  | -             |
| Due after five through ten years | 43,958                 | 44,830        | -                  | -             |
| Due after ten years              | 23,177                 | 23,775        | 7,997              | 8,091         |
| Total                            | \$ 76,135              | \$ 77,707     | \$ 7,997           | \$ 8,091      |

The maturity table above excludes mortgage-backed securities because the contractual maturities are not indicative of actual maturities due to significant prepayments.

4. LOANS RECEIVABLE

Loans receivable consist of the following:

|   | December 31,<br>2011   | September 30,<br>2011 |
|---|------------------------|-----------------------|
|   | (Dollars in Thousands) |                       |
| One-to-four family residential          | \$ 195,948             | \$ 196,533            |
| Multi-family residential                | 5,843                  | 5,723                 |
| Commercial real estate                  | 22,312                 | 21,175                |
| Construction and land development       | 19,286                 | 22,226                |
| Commercial business                     | 657                    | 814                   |
| Consumer                                | 583                    | 613                   |
| <br>Total loans                         | <br>244,629            | <br>247,084           |
| Undisbursed portion of loans-in-process | (2,466 )               | (3,773 )              |
| Deferred loan costs, net                | 547                    | 564                   |
| Allowance for loan losses               | (3,413 )               | (3,364 )              |
| <br>Net loans                           | <br>\$ 239,297         | <br>\$ 240,511        |

The following table summarizes the loans individually evaluated for impairment by loan segment at December 31, 2011:

|   | One- to<br>four-<br>family<br>residential<br>(Dollars in Thousands) | Multi-family<br>residential | Commercial<br>real<br>estate | Construction<br>and land<br>development | Commercial<br>business | Consumer | Total      |
|---|---|-----------------------------|------------------------------|---|------------------------|----------|------------|
| Individually<br>evaluated for<br>impairment | \$ 7,749  | \$ -                        | \$ 603                       | \$ 2,511                                | \$ -                   | \$ -     | \$ 10,863  |
| Collectively<br>evaluated for<br>impairment | 188,199   | 5,843                       | 21,709                       | 16,775                                  | 657                    | 583      | 233,766    |
| Total loans                                 | \$ 195,948  | \$ 5,843                    | \$ 22,312                    | \$ 19,286                               | \$ 657                 | \$ 583   | \$ 244,629 |

The following table summarizes the loans individually evaluated for impairment by loan segment at September 30, 2011:

|  | One- to<br>four-<br>family<br>residential<br>(Dollars in Thousands) | Multi-family<br>residential | Commercial<br>real<br>estate | Construction<br>and land<br>development | Commercial<br>business | Consumer | Total    |
|--|---|-----------------------------|------------------------------|---|------------------------|----------|----------|
|  | \$7,652   | \$ -                        | \$ 545                       | \$ 3,235                                | \$ -                   | \$ -     | \$11,432 |

|  |            |          |           |           |        |        |            |
|--|------------|----------|-----------|-----------|--------|--------|------------|
| Individually evaluated<br>for impairment |            |          |           |           |        |        |            |
| Collectively evaluated<br>for impairment | 188,881    | 5,723    | 20,630    | 18,991    | 814    | 613    | 235,652    |
| Total loans                              | \$ 196,533 | \$ 5,723 | \$ 21,175 | \$ 22,226 | \$ 814 | \$ 613 | \$ 247,084 |

The loan portfolio is segmented at a level that allows management to monitor risk and performance. Management evaluates all construction loans and 90 plus day delinquent commercial real estate and commercial business loans for potential impairment. Loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

Once the determination is made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is generally measured by comparing the recorded investment in the loan to the fair value of the loan using one of the following three methods: (a) the present value of the expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs. Management primarily utilizes the fair value of collateral method as a practically expedient alternative.

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2011:

|                                   | Impaired Loans with Specific Allowance<br>(Dollars in Thousands) |                   | Impaired Loans with No Specific Allowance | Total Impaired Loans |                          |
|-----------------------------------|--|-------------------|---|----------------------|--------------------------|
|                                   | Recorded Investment  | Related Allowance | Recorded Investment                       | Recorded Investment  | Unpaid Principal Balance |
| One-to-four family residential    | \$ 7,749   | \$ 494            | \$ -                                      | \$ 7,749             | \$ 8,600                 |
| Commercial real estate            | -  | -                 | 603                                       | 603                  | 603                      |
| Construction and land development | -  | -                 | 2,511                                     | 2,511                | 6,122                    |
| Total Loans                       | \$ 7,749   | \$ 494            | \$ 3,114                                  | \$ 10,863            | \$ 15,325                |

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of September 30, 2011:

|                                   | Impaired Loans with Specific Allowance<br>(Dollars in Thousands) |                   | Impaired Loans with No Specific Allowance | Total Impaired Loans |                          |
|-----------------------------------|--|-------------------|---|----------------------|--------------------------|
|                                   | Recorded Investment  | Related Allowance | Recorded Investment                       | Recorded Investment  | Unpaid Principal Balance |
| One-to-four family residential    | \$ 7,652   | \$ 495            | \$ -                                      | \$ 7,652             | \$ 8,402                 |
| Commercial real estate            | -  | -                 | 545                                       | 545                  | 545                      |
| Construction and land development | -  | -                 | 3,235                                     | 3,235                | 6,846                    |
| Total Loans                       | \$ 7,652   | \$ 495            | \$ 3,780                                  | \$ 11,432            | \$ 15,793                |



The following table presents the average recorded investment in impaired loans and related interest income recognized for the periods indicated:

|  | Three months ended<br>December 31, |          |
|--|------------------------------------|----------|
|  | 2011                               | 2010     |
|  | (Dollars in Thousands)             |          |
| Average recorded investment in impaired loans                    | \$ 10,835                          | \$ 6,850 |
| Interest income recognized on an accrual basis on impaired loans | 9                                  | 68       |
| Interest income recognized on a cash basis on impaired loans     | 66                                 | 15       |

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

The following tables present the classes of the loan portfolio in which a formal risk weighting system was utilized summarized by the aggregate “Pass” and the criticized category of “special mention”, and the classified category of “substandard” and “doubtful” within the Company’s risk rating system. The Company had no loans classified as “loss” at the dates presented.

|                                      | December 31, 2011      |                    |             |          | Total     |
|--------------------------------------|------------------------|--------------------|-------------|----------|-----------|
|                                      | Pass                   | Special<br>Mention | Substandard | Doubtful | Loans     |
|                                      | (Dollars in Thousands) |                    |             |          |           |
| Multi-family residential             | \$ 5,843               | \$ -               | \$ -        | \$ -     | \$ 5,843  |
| Commercial real estate               | 21,709                 | -                  | 603         | -        | 22,312    |
| Construction and land<br>development | 13,964                 | -                  | 5,322       | -        | 19,286    |
| Commercial business                  | 657                    | -                  | -           | -        | 657       |
| Total Loans                          | \$ 42,173              | \$ -               | \$ 5,925    | \$ -     | \$ 48,098 |

|                                      | September 30, 2011             |                    |             |          | Total<br>Loans |
|--------------------------------------|--------------------------------|--------------------|-------------|----------|----------------|
|                                      | Pass<br>(Dollars in Thousands) | Special<br>Mention | Substandard | Doubtful |                |
| Multi-family residential             | \$ 5,723                       | \$ -               | \$ -        | \$ -     | \$ 5,723       |
| Commercial real estate               | 20,630                         | -                  | 545         | -        | 21,175         |
| Construction and land<br>development | 11,917                         | 3,901              | 6,408       | -        | 22,226         |
| Commercial business                  | 814                            | -                  | -           | -        | 814            |
| Total Loans                          | \$ 39,084                      | \$ 3,901           | \$ 6,953    | \$ -     | \$ 49,938      |

The following tables represent loans in which a formal risk rating system was not utilized, but loans were segregated between performing and non-performing based on delinquency status:

|                                | December 31, 2011      |                    |                |
|--------------------------------|------------------------|--------------------|----------------|
|                                | Performing             | Non-<br>Performing | Total<br>Loans |
|                                | (Dollars in Thousands) |                    |                |
| One-to-four family residential | \$ 184,538             | \$ 11,410          | \$ 195,948     |
| Consumer                       | 583                    | -                  | 583            |
| Total Loans                    | \$ 185,121             | \$ 11,410          | \$ 196,531     |

|                                | September 30, 2011     |                    |                |
|--------------------------------|------------------------|--------------------|----------------|
|                                | Performing             | Non-<br>Performing | Total<br>Loans |
|                                | (Dollars in Thousands) |                    |                |
| One-to-four family residential | \$ 186,219             | \$ 10,314          | \$ 196,533     |
| Consumer                       | 613                    | -                  | 613            |
| Total Loans                    | \$ 186,832             | \$ 10,314          | \$ 197,146     |

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

|                                   | December 31, 2011      |                     |                    |                                |                             |                   |                  |
|-----------------------------------|------------------------|---------------------|--------------------|--------------------------------|-----------------------------|-------------------|------------------|
|                                   | Current                | 30-89 Days Past Due | 90 Days + Past Due | 90 Days+ Past Due and Accruing | Total Past Due and Accruing | Total Loans       | Non-Accrual      |
|                                   | (Dollars in Thousands) |                     |                    |                                |                             |                   |                  |
| One-to-four family residential    | \$ 189,967             | \$ 2,195            | \$ 3,786           | \$ -                           | \$ 2,195                    | \$ 195,948        | \$ 11,410        |
| Multi-family residential          | 5,843                  | -                   | -                  | -                              | -                           | 5,843             | -                |
| Commercial real estate            | 21,352                 | 357                 | 603                | -                              | 357                         | 22,312            | 603              |
| Construction and land development | 17,498                 | -                   | 1,788              | -                              | -                           | 19,286            | 1,788            |
| Commercial business               | 657                    | -                   | -                  | -                              | -                           | 657               | -                |
| Consumer                          | 583                    | -                   | -                  | -                              | -                           | 583               | -                |
| <b>Total Loans</b>                | <b>\$ 235,900</b>      | <b>\$ 2,552</b>     | <b>\$ 6,177</b>    | <b>\$ -</b>                    | <b>\$ 2,552</b>             | <b>\$ 244,629</b> | <b>\$ 13,801</b> |

|                                   | September 30, 2011     |                     |                    |                                |                             |                   |                  |
|-----------------------------------|------------------------|---------------------|--------------------|--------------------------------|-----------------------------|-------------------|------------------|
|                                   | Current                | 30-89 Days Past Due | 90 Days + Past Due | 90 Days+ Past Due and Accruing | Total Past Due and Accruing | Total Loans       | Non-Accrual      |
|                                   | (Dollars in Thousands) |                     |                    |                                |                             |                   |                  |
| One-to-four family residential    | \$ 190,822             | \$ 3,048            | \$ 2,663           | \$ -                           | \$ 3,048                    | \$ 196,533        | \$ 10,314        |
| Multi-family residential          | 5,723                  | -                   | -                  | -                              | -                           | 5,723             | -                |
| Commercial real estate            | 20,272                 | 358                 | 545                | -                              | 358                         | 21,175            | 545              |
| Construction and land development | 20,454                 | -                   | 1,772              | -                              | -                           | 22,226            | 1,772            |
| Commercial business               | 814                    | -                   | -                  | -                              | -                           | 814               | -                |
| Consumer                          | 613                    | -                   | -                  | -                              | -                           | 613               | -                |
| <b>Total Loans</b>                | <b>\$ 238,698</b>      | <b>\$ 3,406</b>     | <b>\$ 4,980</b>    | <b>\$ -</b>                    | <b>\$ 3,406</b>             | <b>\$ 247,084</b> | <b>\$ 12,631</b> |

The allowance for loan losses is established through a provision for loan losses charged to expense. The Company maintains the allowance at a level believed 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, a loss factor is established 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. The 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.

Commercial real estate loans entail significant additional credit risks compared to one- to four-family residential mortgage loans, as they involve large loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties typically depends on the successful operation of the related real estate project and/or business operation of the borrower who is also the primary occupant, and thus may be subject to a greater extent to adverse conditions in the real estate market and in the general economy. Commercial business loans involve a higher risk of default than residential loans of like duration since their repayment is generally dependent on the successful operation of the borrower's business and the sufficiency of collateral, if any. Land acquisition, development and construction lending exposes us to greater credit risk than permanent mortgage financing. The repayment of land acquisition, development and construction loans depends upon the sale of the property to third parties or the availability of permanent financing upon completion of all improvements. These events may adversely affect the borrower and the value of the collateral property.

The following table summarizes the primary segments of the allowance for loan losses, segmented into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment. Activity in the allowance is presented for the quarters ended December 31, 2011 and 2010:

December 31, 2011

|                                       | One- to<br>four-family<br>residential | Multi-<br>family<br>residential | Commercial<br>real<br>estate | Construction<br>and<br>land<br>development | Commercial<br>business | Consumer<br>lending | Other<br>allocated | Total    |
|---------------------------------------|---------------------------------------|---------------------------------|------------------------------|--|------------------------|---------------------|--------------------|----------|
| ALLL balance at September 30, 2011    | \$ 1,651                              | \$ 7                            | \$ 221                       | \$ 1,481                                   | \$ 3                   | \$ 1                | \$ -               | \$ 3,364 |
| Charge-offs                           | (101 )                                | -                               | -                            | -  | -                      | -                   | -                  | (101 )   |
| Recoveries                            | -                                     | -                               | -                            | -  | -                      | -                   | -                  | -        |
| Provision                             | 588                                   | 1                               | (162 )                       | (396 )                                     | (1 )                   | -                   | 120                | 150      |
| ALLL balance at December 31, 2011     | \$ 2,138                              | \$ 8                            | \$ 59                        | \$ 1,085                                   | \$ 2                   | \$ 1                | \$ 120             | \$ 3,413 |
| Individually evaluated for impairment | \$ 494                                | \$ -                            | \$ -                         | \$ -                                       | \$ -                   | \$ -                | \$ -               | \$ 494   |
| Collectively evaluated for impairment | 1,644                                 | 8                               | 59                           | 1,085                                      | 2                      | 1                   | 120                | 2,919    |

The provision credit in the construction and land development loans category related to payoffs and the reclassification to "pass" of certain loans. The credit in commercial real estate loan category was due to the re-evaluation of certain impaired loans which were, upon re-evaluation, determined to have no impairment.

December 31, 2010

|                                    | One- to<br>four-family<br>residential | Multi-<br>family<br>residential | Commercial<br>real<br>estate | Construction<br>and<br>land<br>development | Commercial<br>business | Consumer<br>lending | Other<br>allocated | Total    |
|------------------------------------|---------------------------------------|---------------------------------|------------------------------|--|------------------------|---------------------|--------------------|----------|
| ALLL balance at September 30, 2010 | \$ 672                                | \$ 4                            | \$ 560                       | \$ 1,909                                   | \$ 3                   | \$ 1                | \$ 2               | \$ 3,151 |
| Charge-offs                        | -                                     | -                               | -                            | -  | -                      | -                   | -                  | -        |
| Recoveries                         | -                                     | -                               | -                            | -  | -                      | -                   | -                  | -        |
| Provision                          | 520                                   | -                               | (232 )                       | 292  | -                      | -                   | -                  | 580      |
| ALLL balance at December 31, 2010  | \$ 1,192                              | \$ 4                            | \$ 328                       | \$ 2,201                                   | \$ 3                   | \$ 1                | \$ 2               | \$ 3,731 |

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|                                       |       |      |      |          |      |      |      |          |
|---------------------------------------|-------|------|------|----------|------|------|------|----------|
| Individually evaluated for impairment | \$ 16 | \$ - | \$ - | \$ 1,166 | \$ - | \$ - | \$ - | \$ 1,182 |
| Collectively evaluated for impairment | 1,176 | 4    | 328  | 1,035    | 3    | 1    | 2    | 2,549    |

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The following tables summarize information in regards to troubled debt restructurings at the date presented:

|                                | December 31, 2011                                |  | Post-Modification<br>Outstanding |
|--------------------------------|--|--|----------------------------------|
|                                | Number of<br>Contracts<br>(Dollars in Thousands) | Pre-Modification<br>Outstanding<br>Recorded<br>Investments | Recorded<br>Investments          |
| One-to-four family residential | 5  | \$ 7,824   | \$ 7,824                         |
|                                | September 30, 2011                               |  | Post-Modification<br>Outstanding |
|                                | Number of<br>Contracts<br>(Dollars in Thousands) | Pre-Modification<br>Outstanding<br>Recorded<br>Investments | Recorded<br>Investments          |
| One-to-four family residential | 5  | \$ 7,824   | \$ 7,824                         |

At December 31, 2011, the Company had five one-to-four family residential loans classified as troubled debt restructurings. These loans were all to the same borrower and are related to a 132-unit completed condominium project in Philadelphia. The loans were originally classified as construction loans but reclassified upon the completion of construction. There was a \$33,000 decrease in interest income during the quarter ended December 31, 2011 as a result of the restructuring. These loans have a specific allocation of \$494,000 and are on non-accrual. All of the troubled debt restructurings involved changes in the interest rates on the loans; no debt was forgiven. At December 31, 2011, the troubled debt restructurings were performing in accordance with the modified terms.

## 5. DEPOSITS

Deposits consist of the following major classifications:

|  | December 31,<br>2011   |         | September 30,<br>2011 |         |
|--|------------------------|---------|-----------------------|---------|
|  | Amount                 | Percent | Amount                | Percent |
|  | (Dollars in Thousands) |         |                       |         |
| Money market deposit accounts                    | \$ 73,427              | 16.7%   | \$ 75,649             | 17.4%   |
| Interest bearing checking<br>accounts            | 31,850                 | 7.2     | 29,658                | 6.8     |
| Non-interest bearing checking<br>accounts        | 4,100                  | 0.9     | 3,847                 | 0.9     |
| Passbook, club and statement<br>savings          | 70,004                 | 15.9    | 70,623                | 16.2    |
| Certificates maturing in six<br>months or less   | 59,799                 | 13.6    | 52,539                | 12.0    |
| Certificates maturing in more<br>than six months | 200,322                | 45.7    | 203,698               | 46.7    |
| Total  | \$ 439,502             | 100.0%  | \$ 436,014            | 100.0%  |

Certificates of \$100,000 and over totaled \$100.6 million as of December 31, 2011 and \$97.4 million as of September 30, 2011.



## 6. INCOME TAXES

Items that gave rise to significant portions of deferred income taxes are as follows:

|   | December 31,<br>2011   | September 30,<br>2011 |
|---|------------------------|-----------------------|
|   | (Dollars in Thousands) |                       |
| Deferred tax assets:                                  |                        |                       |
| Deposit premium                                       | \$ 57                  | \$ 69                 |
| Allowance for loan losses                             | 2,744                  | 2,695                 |
| Real estate owned expenses                            | 161                    | 101                   |
| Nonaccrual interest                                   | 170                    | 128                   |
| Accrued vacation                                      | 81                     | 78                    |
| Capital loss carryforward                             | 1,986                  | 1,986                 |
| Impairment loss                                       | 1,522                  | 1,510                 |
| Split dollar life insurance                           | 31                     | 31                    |
| Post-retirement benefits                              | 174                    | 176                   |
| Employee benefit plans                                | 388                    | 345                   |
| <br>  |                        |                       |
| Total deferred tax assets                             | 7,314                  | 7,119                 |
| Valuation allowance                                   | (2,020 )               | (2,009 )              |
| Total deferred tax assets, net of valuation allowance | 5,294                  | 5,110                 |
| <br>  |                        |                       |
| Deferred tax liabilities:                             |                        |                       |
| Unrealized gain on available for sale securities      | 1,138                  | 1,161                 |
| Property  | 545                    | 545                   |
| Mortgage servicing rights                             | 1                      | 1                     |
| Deferred loan fees                                    | 186                    | 192                   |
| <br>  |                        |                       |
| Total deferred tax liabilities                        | 1,870                  | 1,899                 |
| <br>  |                        |                       |
| Net deferred tax asset                                | \$ 3,424               | \$ 3,211              |

The Company establishes a valuation allowance for deferred tax assets when management believes that the deferred tax assets are not likely to be realized either through a carry back to taxable income in prior years, future reversals of existing taxable temporary differences, and, to a lesser extent, future taxable income. The tax deduction generated by the redemption of the shares of the mutual fund and the subsequent impairment charge on the assets acquired through the redemption in kind are considered a capital loss and can only be utilized to the extent of capital gains over a five year period, resulting in the establishment of a valuation allowance for the carryforward period which expires beginning in 2013. The valuation allowance totaled \$2.0 million at December 31, 2011. The gross deferred asset related to impairment losses increased by \$12,000 during the three months ended December 31, 2011 while the corresponding valuation allowance increased by \$11,000, resulting in a reduction in income tax expense of \$1,000 corresponding to the decrease in value of available for sale mortgage-backed securities which may be sold in the future to generate capital gains.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Operations as a component of income tax expense. As of December 31, 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 Company's federal and state income tax returns for taxable years through September 30,

2007 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

## 7. STOCK COMPENSATION PLANS

The Company maintains a Recognition and Retention Plan (“RRP”) which is administered by a committee of the Board of Directors. The RRP provides for the grant of shares of common stock of the Company to certain officers, employees and directors of the Company. In order to fund the grant of shares under the RRP, the RRP Trust purchased 226,148 shares of the Company’s common stock in the open market for approximately \$2.5 million, at an average price per share of \$10.85. The Company made sufficient contributions to the RRP Trust to fund these purchases. No additional purchases are expected to be made by the RRP Trust under the RRP. As of December 31, 2011, grants covering 178,882 shares had been awarded as part of the RRP. The remaining 47,266 shares in the RRP Trust are available for future awards. Shares subject to awards under the RRP generally vest at the rate of 20% per year over five years. As of December 31, 2011, 70,422 shares had become fully vested and no shares had been forfeited.

Compensation expense related to the shares subject to restricted stock awards granted is recognized ratably over the five-year vesting period in an amount which totals the share price at the grant date multiplied by the number of shares subject to the grant. During both the three months ended December 31, 2011 and 2010, approximately \$97,000 was recognized in compensation expense for the RRP. A tax benefit of \$33,000 was recognized during both the three months ended December 31, 2011 and 2010. At December 31, 2011, approximately \$794,000 in additional compensation expense for the shares awarded related to the RRP remained unrecognized.

A summary of the Company’s non-vested stock award activity for the three months ended December 31, 2011 is presented in the following table:

|   | Three Months Ended<br>December 31, 2011 |   |
|---|---|---|
|   | Number of<br>Shares                     | Weighted<br>Average<br>Grant Date Fair<br>Value |
| Nonvested stock awards at October 1, 2011       | 108,460                                 | \$ 11.10  |
| Issued  | -                                       | -   |
| Vested  | -                                       | -   |
| Nonvested stock awards at the December 31, 2011 | 108,460                                 | \$ 11.10  |

The Company also maintains a Stock Option Plan. The Stock Option Plan authorizes the grant of stock options to officers, employees and directors of the Company to acquire shares of common stock with an exercise price at least equal to the market value of the common stock on the grant date. Options will generally become vested and exercisable at the rate of 20% per year over five years and are generally exercisable for a period of ten years after the grant date. A total of 565,369 shares of common stock are available for issuance pursuant to the Stock Option Plan. As of December 31, 2011, 315,194 incentive stock options and 127,206 non-qualified stock options had been awarded under the plan. As of December 31, 2010, 174,133 options were vested and none had been forfeited.

A summary of the status of the Company's stock options under the Stock Option Plan as of December 31, 2011 and changes during the three month period ended December 31, 2011 are presented below:

|                                  | Three Months Ended<br>December 31, 2011 |                                    |
|----------------------------------|---|------------------------------------|
|                                  | Number of<br>Shares                     | Weighted Average<br>Exercise Price |
| Outstanding at October 1, 2011   | 442,400                                 | \$ 11.12                           |
| Granted                          | -                                       | -                                  |
| Exercised                        | -                                       | -                                  |
| Forfeited                        | -                                       | -                                  |
| Outstanding at December 31, 2011 | 442,400                                 | \$ 11.12                           |
| Exercisable at December 31, 2011 | 174,133                                 | \$ 11.14                           |

The weighted average remaining contractual term was approximately 7 years for options outstanding as of December 31, 2011.

The estimated fair value of options granted during fiscal 2009 was \$2.81 per share, while options granted during fiscal 2010 were estimated to have a fair value of \$2.76. The fair value was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions used:

|                          | Granted Fiscal Year<br>Ended |           |
|--------------------------|------------------------------|-----------|
|                          | 2009                         | 2010      |
| Dividend yield           | 1.79 %                       | 2.10 %    |
| Expected volatility      | 27.94 %                      | 28.95 %   |
| Risk-free interest rate  | 1.96 %                       | 3.10 %    |
| Expected life of options | 6.5 years                    | 6.5 years |

During both the three months ended December 31, 2011 and 2010, \$61,000 was recognized in compensation expense for the Stock Option Plan. A tax benefit of \$6,000 was recognized during both the three months ended December 31, 2011 and 2010. At December 31, 2011, approximately \$497,000 in additional compensation expense for awarded options remained unrecognized. The weighted average period over which this expense will be recognized is approximately 2 years.

## 8. COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 2011, the Company had \$8.7 million in outstanding commitments to originate fixed and variable-rate loans with market interest rates ranging from 3.75% to 6.75%. At September 30, 2011, the Company had \$7.2 million in outstanding commitments to originate fixed and variable-rate loans with market interest rates ranging from 4.125% to 7.25%.

The aggregate undisbursed portion of loans-in-process amounted to \$2.5 million and \$3.8 million, respectively, at December 31, 2011 and September 30, 2011.

The Company also had commitments under unused lines of credit of \$7.6 million and \$7.8 million, respectively, at December 31, 2011 and September 30, 2011 and letters of credit outstanding of \$676,000 at both December 31, 2011 and September 30, 2011.



Among the Company's contingent liabilities are exposures to limited recourse arrangements with respect to the Company's sales of whole loans and participation interests. At December 31, 2011, the exposure, which represents a portion of credit risk associated with the interests sold, amounted to \$64,000. This exposure is for the life of the related loans and payables, on our proportionate share, as actual losses are incurred.

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, believes that such proceedings will not have a material adverse effect on the financial condition, operations or cash flows 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.

## 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value.

Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

|  | December 31,<br>2011 |   | September 30<br>2011 |               |
|--|----------------------|---|----------------------|---------------|
|  | Carrying<br>Amount   | Fair<br>Value<br>(Dollars in Thousands) | Carrying<br>Amount   | Fair<br>Value |
| <b>Assets:</b>   |                      |   |                      |               |
| Cash and cash equivalents                                    | \$ 65,977            | \$ 65,977                               | \$ 53,829            | \$ 53,829     |
| Investment and mortgage-backed securities held to maturity   | 98,825               | 102,865                                 | 108,956              | 112,721       |
| Investment and mortgage-backed securities available for sale | 76,011               | 76,011                                  | 75,370               | 75,370        |
| Loans receivable, net  | 239,297              | 247,641                                 | 240,511              | 248,382       |
| Accrued interest receivable                                  | 2,027                | 2,027                                   | 2,026                | 2,026         |
| Federal Home Loan Bank stock                                 | 2,743                | 2,743                                   | 2,887                | 2,887         |
| Bank owned life insurance                                    | 6,225                | 6,225                                   | 6,180                | 6,180         |
| <b>Liabilities:</b>  |                      |   |                      |               |
| Checking accounts  | 35,950               | 35,950                                  | 33,505               | 33,505        |
| Money market deposit accounts                                | 73,427               | 73,427                                  | 75,649               | 75,649        |
| Passbook, club and statement savings accounts                | 70,004               | 70,004                                  | 70,623               | 70,623        |
| Certificates of deposit                                      | 260,121              | 266,137                                 | 256,237              | 262,489       |
| Advances from Federal Home Loan Bank                         | 560                  | 559                                     | 570                  | 570           |
| Accrued interest payable                                     | 41                   | 41                                      | 2,420                | 2,420         |
| Advances from borrowers for taxes and insurance              | 1,751                | 1,751                                   | 1,090                | 1,090         |

Cash and Cash Equivalents—For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

Investments and Mortgage-Backed Securities—The fair value of investment securities and mortgage-backed securities is based on quoted market prices, dealer quotes, and prices obtained from independent pricing services that may be derivable from observable and unobservable market inputs.

Loans Receivable—The fair value of loans is estimated based on present value using the current market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Accrued Interest Receivable – For accrued interest receivable, the carrying amount is a reasonable estimate of fair value.

Federal Home Loan Bank (FHLB) Stock—Although FHLB stock is an equity interest in an FHLB, it is carried at cost because it does not have a readily determinable fair value as its ownership is restricted and it lacks a market. The estimated fair value approximates the carrying amount.

Bank Owned Life Insurance—The fair value of bank owned life insurance is based on the cash surrender value obtained from an independent advisor that may be derivable from observable and unobservable market inputs.

Checking Accounts, Money Market Deposit Accounts, Passbook Accounts, Club Accounts, Statement Savings Accounts, and Certificates of Deposit—The fair value of passbook accounts, club accounts, statement savings accounts, checking accounts, and money market deposit accounts is the amount reported in the financial statements. The fair value of certificates of deposit is based on a present value estimate using market rates currently offered for deposits of similar remaining maturity.

Advances from Federal Home Loan Bank—The fair value of advances from FHLB is the amount payable on demand at the reporting date.

Accrued Interest Payable – For accrued interest payable, the carrying amount is a reasonable estimate of fair value.

Advances from borrowers for taxes and insurance – For advances from borrowers for taxes and insurance, the carrying amount is a reasonable estimate of fair value.

Commitments to Extend Credit and Letters of Credit—The majority of the Bank's commitments to extend credit and letters of credit carry current market interest rates if converted to loans. Because commitments to extend credit and letters of credit are generally unassignable by either the Bank or the borrower, they only have value to the Bank and the borrower. The estimated fair value approximates the recorded deferred fee amounts, which are not significant.

## 10. FAIR VALUE MEASUREMENT

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2011 and September 30, 2011, respectively. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Generally accepted accounting principles used in the United States establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.





The three broad levels of hierarchy are as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Those assets as of December 31, 2011 which will continue to be measured at fair value on a recurring basis are as follows:

|   | Category Used for Fair Value Measurement |           |         | Total     |
|---|--|-----------|---------|-----------|
|   | Level 1                                  | Level 2   | Level 3 |           |
|   | (Dollars in Thousands)                   |           |         |           |
| Assets:                                 |  |           |         |           |
| Securities available for sale:          |  |           |         |           |
| U.S. Government and agency obligations  | \$ -                                     | \$ 8,091  | \$ -    | \$ 8,091  |
| Mortgage-backed securities - U.S.       |  |           |         |           |
| Government agencies                     | -  | 63,876    | -       | 63,876    |
| Mortgage-backed securities - Non-agency | -  | 4,038     | -       | 4,038     |
| FHLMC preferred stock                   | 6  | -         | -       | 6         |
| Total                                   | \$ 6                                     | \$ 76,005 | \$ -    | \$ 76,011 |

Those assets as of September 30, 2011 which will continue to be measured at fair value on a recurring basis are as follows:

|   | Category Used for Fair Value Measurement |           |         | Total     |
|---|--|-----------|---------|-----------|
|   | Level 1                                  | Level 2   | Level 3 |           |
|   | (Dollars in Thousands)                   |           |         |           |
| Assets:                                 |  |           |         |           |
| Securities available for sale:          |  |           |         |           |
| U.S. Government and agency obligations  | \$ -                                     | \$ 9,424  | \$ -    | \$ 9,424  |
| Mortgage-backed securities - U.S.       |  |           |         |           |
| Government agencies                     | -  | 61,583    | -       | 61,583    |
| Mortgage-backed securities - Non-agency | -  | 4,357     | -       | 4,357     |
| FHLMC preferred stock                   | 6  | -         | -       | 6         |
| Total                                   | \$ 6                                     | \$ 75,364 | \$ -    | \$ 75,370 |

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



## Impaired Loans

The Company considers loans to be impaired when it becomes more likely than not that the Company will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement. Collateral dependent impaired loans are based on the fair value of the collateral which is based on appraisals and would be categorized as Level 2 measurement. In some cases, adjustments are made to the appraised values for various factors including the age of the appraisal, age of the comparables included in the appraisal, and known changes in the market and in the collateral. These adjustments are based upon unobservable inputs, and therefore, the fair value measurement has been categorized as a Level 3 measurement. Specific allocations were calculated for impaired loans with carrying amounts totaling \$10.9 million at December 31, 2011. The collateral underlying these loans had a fair value of \$10.4 million resulting in specific reserves in the allowance for loan losses of \$494,000.

## Transfer of Impaired Loans into Real Estate Owned

Once an asset is determined to be uncollectible, the underlying collateral is repossessed and reclassified to foreclosed real estate and repossessed assets. These assets are carried at lower of cost or fair value of the collateral, based on independent appraisals, less cost to sell and would be categorized as Level 2 measurement. Thus the evaluations are based upon observable inputs, and therefore, the fair value measurement has been categorized as a Level 2 measurement.

## Summary of Non-Recurring Fair Value Measurements

|                   | At December 31, 2011<br>(Dollars in Thousands) |          |           |           |
|-------------------|--|----------|-----------|-----------|
|                   | Level 1  | Level 2  | Level 3   | Total     |
| Impaired loans    | \$ -   | \$ -     | \$ 10,369 | \$ 10,369 |
| Real estate owned | -  | 2,143    | -         | \$ 2,143  |
| Total             | \$ -   | \$ 2,143 | \$ 10,369 | \$ 12,512 |

|                   | At September 30, 2011<br>(Dollars in Thousands) |          |           |           |
|-------------------|---|----------|-----------|-----------|
|                   | Level 1   | Level 2  | Level 3   | Total     |
| Impaired loans    | \$ -  | \$ -     | \$ 10,937 | 10,937    |
| Real estate owned | -   | 2,268    | -         | 2,268     |
| Total             | \$ -  | \$ 2,268 | \$ 10,937 | \$ 13,205 |

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our unaudited consolidated financial statements included elsewhere in this Form 10-Q and with our Annual Report on Form 10-K for the year ended September 30, 2011 (the "Form 10-K").

**Overview.** Prudential Bancorp, Inc. of Pennsylvania (the "Company") was formed by Prudential Savings Bank (the "Bank") in connection with the Bank's reorganization into the mutual holding company form of organization in 2005. The Company's results of operations are primarily dependent on the results of the Bank, which is a wholly owned subsidiary of the Company. The Company's results of operations depend to a large extent on net interest income, which primarily is the difference between the income earned on its loan and securities portfolios and the cost of funds, which is the interest paid on deposits and borrowings. Results of operations are also affected by our provisions for loan losses, non-interest income (which includes impairment charges) and non-interest expense. Non-interest expense principally consists of salaries and employee benefits, office occupancy, depreciation, data processing expense, payroll taxes and other expense. Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable laws, regulations or government policies may materially impact our financial condition and results of operations. The Bank is subject to regulation by the Federal Deposit Insurance Corporation ("FDIC") and the Pennsylvania Department of Banking (the "Department"). The Bank's main office is in Philadelphia, Pennsylvania, with six additional banking offices located in Philadelphia and Delaware Counties in Pennsylvania. The Bank's primary business consists of attracting deposits from the general public and using those funds together with borrowings to originate loans and to invest primarily in U.S. Government and agency securities and mortgage-backed securities. In November 2005, the Bank formed PSB Delaware, Inc., a Delaware corporation, as a subsidiary of the Bank. In March 2006, all mortgage-backed securities owned by the Company were transferred to PSB Delaware, Inc. PSB Delaware, Inc.'s activities are included as part of the consolidated financial statements.

**Critical Accounting Policies.** In reviewing and understanding financial information for the Company, you are encouraged to read and understand the significant accounting policies used in preparing our financial statements. These policies are described in Note 2 of the Notes to Consolidated Financial Statements included in the Form 10-K. The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP") and to general practices within the banking industry. The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Management evaluates these estimates and assumptions on an ongoing basis. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may significantly affect our reported results and financial condition for the period or in future periods.

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



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

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

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

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

While management uses the best information available to make loan loss allowance evaluations, adjustments to the allowance may be necessary based on changes in economic and other conditions or changes in accounting guidance. Historically, our estimates of the allowance for loan loss have not required significant adjustments from management's initial estimates. In addition, the Department and the FDIC, as an integral part of their examination processes, periodically review our allowance for loan losses. The Department and the FDIC may require the recognition of adjustments to the allowance for loan losses based on their judgment of information available to them at the time of their examinations. To the extent that actual outcomes differ from management's estimates, additional provisions to the allowance for loan losses may be required that would adversely impact earnings in future periods.

Investment and mortgage-backed securities available for sale. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated using quoted prices of securities with similar characteristics or discounted cash flows and are classified within Level 2 of the fair value hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Management evaluates securities for other-than-temporary impairment no less frequently than quarterly, and more frequently when economic or market concerns warrant such evaluation. The Company determines whether the

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



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

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

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

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

The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the consolidated income statement. Assessment of uncertain tax positions requires careful consideration of the technical merits of a position based on management's analysis of tax regulations and interpretations. Significant judgment may be involved in the assessment of the tax position.

**Forward-looking Statements.** In addition to historical information, this Quarterly Report on Form 10-Q includes certain "forward-looking statements" based on management's current expectations. The Company's 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 and investment 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 unless required by law or regulations.

Market Overview. The market dislocations experienced in the financial market beginning in 2007 have continued through 2011. One of the primary sources of the difficulties in the market is the significant declines experienced in the housing market throughout the country. While the Philadelphia area has not suffered the wholesale declines in the value of residential real estate as have other areas of the country, this downturn has rippled through many parts of the local economy, especially condominium sales, construction lending and lending to contractors. The significant deterioration during the fiscal year ended 2011 necessitated large charge-offs and loan loss provision expense.

The Company continues to focus on the credit quality of its customers – closely monitoring the financial status of borrowers throughout the Company's markets, gathering information, working on early detection of potential problems, taking pre-emptive steps where necessary and performing the analysis required to maintain adequate reserves for loan losses.

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

The following discussion provides further details on the financial condition and results of operations of the Company at and for the three month periods ended December 31, 2011 and 2010.

#### COMPARISON OF FINANCIAL CONDITION AT DECEMBER 31, 2011 AND SEPTEMBER 30, 2011

At December 31, 2011, the Company had total assets of \$500.7 million, an increase of \$1.2 million from \$499.5 million at September 30, 2011. The increase was primarily attributable to increases during the first quarter of fiscal 2012 of \$12.1 million in cash and cash equivalents. This increase was partially offset by a \$9.5 million decrease in the investment and mortgage-backed securities portfolio as the proceeds from securities called during the first quarter had not been fully reinvested as of December 31, 2011 as we continue to manage our exposure to interest rate risk.

Total liabilities increased \$643,000 to \$442.7 million at December 31, 2011 from \$442.1 million at September 30, 2011. The increase was primarily the result of a \$3.5 million increase in deposits substantially offset by a \$2.4 million decrease in accrued interest related to certificates of deposit as interest on such deposits is generally distributed at the end of the calendar year.

Stockholders' equity increased by \$548,000 to \$58.0 million at December 31, 2011. The increase primarily reflected net income of \$404,000 for the first quarter of fiscal 2012.

#### COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2011 AND 2010

Net income. The Company reported net income of \$404,000 for the quarter ended December 31, 2011 as compared to a net loss of \$94,000 for the quarter ended December 31, 2010. The improved results primarily reflected the effect of the substantial decrease in the provision for loan losses, which decreased from \$580,000 for the quarter ended December 31, 2010 to \$150,000 for the same period in 2011.

Net interest income. Net interest income decreased \$162,000 or 4.5% to \$3.5 million for the three months ended December 31, 2011 as compared to \$3.6 million for the same period in 2010. The decrease was due to a \$670,000 or 11.9% decrease in interest income partially offset by a \$508,000, or 25.1% decrease in interest expense. The decrease in interest income resulted from a 31 basis point decrease to 4.16% in the weighted average yield earned on interest-earning assets combined with a \$27.4 million or 5.4% decrease in the average balance of interest-earning assets for the three months ended December 31, 2011, as compared to the same period in 2010. The decrease in the weighted average yield earned was primarily due to the reinvestment of the proceeds from called investment securities at lower current market rates. The decrease in interest expense resulted primarily from an 36 basis point decrease to 1.39% in the weighted average rate paid on interest-bearing liabilities, reflecting the continued repricing downward of interest-bearing liabilities during the year and a \$27.7 million or 6.0% decrease in the average balance of interest-bearing liabilities, primarily in certificates of deposit, for the three months ended December 31, 2011, as compared to the same period in 2010. The decline in the weighted average rate paid reflected the continued effect of the low interest rate environment on the Bank's cost of funds as deposits, in particular, certificates of deposit, repriced downward. The decrease in the average balance of certificates of deposit was also the primary cause for the decrease in interest-earning assets as funds were used to fund the deposit withdrawals.

For the quarter ended December 31, 2011, the net interest margin was 2.90%, as compared to 2.87% for the same period in 2010. The increase in the net interest margin was primarily due to a decrease in the cost of funds.

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

|  | Three Months<br>Ended December 31, |                  |                       |                    |                  |                               | Average<br>Yield/Rate |   |
|--|------------------------------------|------------------|-----------------------|--------------------|------------------|-------------------------------|-----------------------|---|
|  | 2011<br>Average<br>Balance         | 2011<br>Interest | Average<br>Yield/Rate | Average<br>Balance | 2010<br>Interest | 2010<br>Average<br>Yield/Rate |                       |   |
| (Dollars in Thousands)                             |                                    |                  |                       |                    |                  |                               |                       |   |
| Interest-earning assets:                           |                                    |                  |                       |                    |                  |                               |                       |   |
| Investment securities                              | \$93,766                           | \$646            | 2.76                  | % \$99,371         | \$932            | 3.75                          | %                     |   |
| Mortgage-backed securities                         | 88,405                             | 1,044            | 4.72                  | 88,339             | 1,065            | 4.82                          |                       |   |
| Loans receivable(1)                                | 237,841                            | 3,268            | 5.50                  | 255,129            | 3,623            | 5.68                          |                       |   |
| Other interest-earning assets                      | 58,752                             | 25               | 0.17                  | 63,362             | 33               | 0.21                          |                       |   |
| Total interest-earning assets                      | 478,764                            | 4,983            | 4.16                  | 506,201            | 5,653            | 4.47                          |                       |   |
| Cash and non-interest-bearing<br>balances          | 2,856                              |                  |                       | 3,160              |                  |                               |                       |   |
| Other non-interest-earning<br>assets               | 18,174                             |                  |                       | 18,620             |                  |                               |                       |   |
| Total assets                                       | \$499,794                          |                  |                       | \$527,981          |                  |                               |                       |   |
| Interest-bearing liabilities:                      |                                    |                  |                       |                    |                  |                               |                       |   |
| Savings accounts                                   | \$69,572                           | 113              | 0.65                  | \$69,391           | 229              | 1.32                          |                       |   |
| Money market deposit and<br>NOW accounts           | 104,789                            | 143              | 0.55                  | 103,262            | 202              | 0.78                          |                       |   |
| Certificates of deposit                            | 258,003                            | 1,256            | 1.95                  | 287,327            | 1,588            | 2.21                          |                       |   |
| Total deposits                                     | 432,364                            | 1,512            | 1.40                  | 459,980            | 2,019            | 1.76                          |                       |   |
| Advances from Federal Home<br>Loan Bank            | 563                                | 1                | 0.71                  | 608                | 2                | 1.32                          |                       |   |
| Advances from borrowers for<br>taxes and insurance | 1,366                              | 1                | 0.29                  | 1,429              | 1                | 0.28                          |                       |   |
| Total interest-bearing liabilities                 | 434,293                            | 1,514            | 1.39                  | 462,017            | 2,022            | 1.75                          |                       |   |
| Non-interest-bearing liabilities:                  |                                    |                  |                       |                    |                  |                               |                       |   |
| Non-interest-bearing demand<br>accounts            | 4,153                              |                  |                       | 2,768              |                  |                               |                       |   |
| Other liabilities                                  | 3,622                              |                  |                       | 6,725              |                  |                               |                       |   |
| Total liabilities                                  | 442,068                            |                  |                       | 471,510            |                  |                               |                       |   |
| Stockholders' equity                               | 57,726                             |                  |                       | 56,471             |                  |                               |                       |   |
| Total liabilities and<br>stockholders' equity      | \$499,794                          |                  |                       | \$527,981          |                  |                               |                       |   |
| Net interest-earning assets                        | \$44,471                           |                  |                       | \$44,184           |                  |                               |                       |   |
| Net interest income; interest<br>rate spread       |                                    | \$3,469          | 2.77                  | %                  |                  | \$3,631                       | 2.72                  | % |
| Net interest margin(2)                             |                                    |                  | 2.90                  | %                  |                  |                               | 2.87                  | % |

|   |          |          |
|---|----------|----------|
| Average interest-earning assets<br>to average interest-bearing<br>liabilities | 110.24 % | 109.56 % |
|---|----------|----------|

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(1) Includes non-accrual loans. Calculated net of unamortized deferred fees, undisbursed portion of loans-in-process and allowance for loan losses.

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

Provisions for loan losses. The allowance is maintained at a level sufficient to provide for estimated probable losses in the loan portfolio at each reporting date. At least quarterly, management performs an analysis to identify the inherent risk of loss in the Company's loan portfolio. This analysis includes a qualitative evaluation of concentrations of credit, past loss experience, current economic conditions, amount and composition of the loan portfolio (including loans being specifically monitored by management), estimated fair value of underlying collateral, delinquencies, and other factors.

Our methodology for assessing the adequacy of the allowance establishes both specific and general pooled allocations of the allowance. To determine the adequacy of the allowance and the need for potential changes to the allowance, we conduct a formal analysis at least quarterly to assess the risk within the loan portfolio. This assessment includes analyses of historical performance, past due trends, the level of nonperforming loans, reviews of certain impaired loans, loan activity since the last quarter, consideration of current economic conditions, and other pertinent information. Loans are assigned ratings, either individually for larger credits or in homogeneous pools, based on an internally developed grading system. The resulting conclusions are reviewed and approved by senior management.

The Company established a provision for loan losses of \$150,000 for the quarter ended December 31, 2011, compared to \$580,000 for the same quarter in 2010. The provision for the 2010 period was higher primarily due to the establishment of a specific allocation with respect to an 33-unit condominium project located in Philadelphia. At December 31, 2011, the Company's non-performing assets totaled \$15.9 million or 3.2% of total assets as compared to \$14.9 million or 3.0% at September 30, 2011. Non-performing assets included \$13.8 million in non-performing loans of which \$11.4 million were one-to-four family residential loans, \$1.8 million were construction and land development loans and \$603,000 were commercial real estate loans. Included in non-performing one-to-four family residential loans were \$7.6 million in troubled debt restructurings which are performing in accordance with the revised contractual terms of the loans but that were placed on non-accrual at the time the restructuring was completed during the first quarter of fiscal 2011. These troubled debt restructurings relate to a 133-unit completed condominium project in Philadelphia and consist of five loans. The loans were originally classified as construction loans but were reclassified as single-family residential loans upon completion of construction. Non-performing assets also included six one-to-four family residential real estate owned properties totaling \$2.1 million. During January 2012, a one-to-four family relationship totaling \$963,000 that was a non-performing asset at December 31, 2011 was subsequently paid current and transferred to performing status. The allowance for loan losses totaled \$3.4 million, or 1.4% of total loans and 24.7% of non-performing loans at December 31, 2011. The allowance for loan losses totaled \$3.7 million, or 1.4% of total loans and 50.2% of non-performing loans at December 31, 2010.

Non-interest income. Non-interest income amounted to \$173,000 for the three months ended December 31, 2011, compared with \$79,000 for the same period in 2010. The improvement compared to the 2010 period was due to the reduced level of other than temporary impairment ("OTTI") charges related to securities received in connection with the Company's redemption in kind of its entire investment in a mutual fund. The decline in the amount of losses recognized between the 2010 and 2011 periods reflected the decline in the amount of the OTTI charges from \$95,000 for the three months ended December 31, 2010 to \$37,000 for the three months ended December 31, 2011 related to the non-agency mortgage-backed securities acquired as part of the redemption as the market for such securities stabilized in 2011.

Non-interest expenses. For the quarter ended December 31, 2011, non-interest expense increased \$59,000 compared to the same period in 2010. The most significant components of the increase were expenses associated with professional services and salaries and employee benefits. These increases were partially offset by decreases in FDIC deposit insurance.

Income tax expense. The Company recognized income tax expense for the quarter ended December 31, 2011 of \$221,000 compared to income tax expense of \$416,000 for the three months ended December 31, 2010. The decrease

in income tax expense in the 2011 period was primarily attributable to a decrease in the valuation allowance related to a deferred tax asset associated with the capital loss carryforward created in connection with the redemption in kind referenced above.



## LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity, represented by cash and cash equivalents, is a product of its operating, investing and financing activities. Our primary sources of funds are from deposits, scheduled principal and interest payments on loans, loan prepayments and the maturity of loans, mortgage-backed securities and other investments, and other funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan and securities prepayments can be greatly influenced by market rates of interest, economic conditions and competition. We also maintain excess funds in short-term, interest-bearing assets that provide additional liquidity. At December 31, 2011, our cash and cash equivalents amounted to \$66.0 million. In addition, our available for sale investment and mortgage-backed securities amounted to an aggregate of \$76.0 million at such date.

We use our liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. At December 31, 2011, the Company had \$8.7 million in outstanding commitments to originate fixed and variable-rate loans, not including loans in process. The Company also had commitments under unused lines of credit of \$7.6 million and letters of credit outstanding of \$676,000 at December 31, 2011. Certificates of deposit at December 31, 2011 maturing in one year or less totaled \$132.6 million. Based upon historical experience, we anticipate that a significant portion of the maturing certificates of deposit will be redeposited with us.

In addition to cash flows from loan and securities payments and prepayments as well as from sales of available for sale securities, we have significant borrowing capacity available to fund liquidity needs should the need arise. Our borrowings consist solely of advances from the Federal Home Loan Bank of Pittsburgh ("FHLB"), of which we are a member. Under terms of the collateral agreement with the FHLB, we pledge residential mortgage loans as well as our stock in the Federal Home Loan Bank as collateral for such advances. However, use of FHLB advances has been modest. At December 31, 2011, we had \$560,000 in outstanding FHLB advances and had the ability to obtain an additional \$123.1 million in FHLB advances. Additional borrowing capacity with the FHLB could be obtained with the pledging of certain investment securities. The Company has also obtained approval to borrow from the Federal Reserve Bank discount window.

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

The following table summarizes the Company's and Bank's regulatory capital ratios as of December 31, 2011 and September 30, 2011 and compares them to current regulatory guidelines.

|  | Actual Ratio |   | Required for<br>Capital<br>Adequacy<br>Purposes |   | To Be<br>Well<br>Capitalized<br>Under Prompt<br>Corrective<br>Action<br>Provisions |   |
|--|--------------|---|---|---|--|---|
| December 31, 2011:                       |              |   |   |   |  |   |
| Tier 1 capital (to average assets)       |              |   |   |   |  |   |
| The Company                              | 11.16        | % | 4.0   | % | N/A  |   |
| The Bank                                 | 10.35        | % | 4.0   | % | 5.0  | % |
| Tier 1 capital (to risk weighted assets) |              |   |   |   |  |   |
| The Company                              | 26.33        | % | 4.0   | % | N/A  |   |
| The Bank                                 | 24.42        | % | 4.0   | % | 6.0  | % |
| Total capital (to risk weighted assets)  |              |   |   |   |  |   |
| The Company                              | 27.59        | % | 8.0   | % | N/A  |   |
| The Bank                                 | 25.67        | % | 8.0   | % | 10.0   | % |
| September 30, 2011:                      |              |   |   |   |  |   |
| Tier 1 capital (to average assets)       |              |   |   |   |  |   |
| Company                                  | 11.06        | % | 4.0   | % | N/A  |   |
| Bank                                     | 10.23        | % | 4.0   | % | 5.0  | % |
| Tier 1 capital (to risk-weighted assets) |              |   |   |   |  |   |
| Company                                  | 25.54        | % | 4.0   | % | N/A  |   |
| Bank                                     | 23.62        | % | 4.0   | % | 6.0  | % |
| Total capital (to risk-weighted assets)  |              |   |   |   |  |   |
| Company                                  | 26.79        | % | 8.0   | % | N/A  |   |
| Bank                                     | 24.87        | % | 8.0   | % | 10.0   | % |

#### IMPACT OF INFLATION AND CHANGING PRICES

The financial statements, accompanying notes, and related financial data of the Company presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, substantially all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services, since such prices are affected by inflation to a larger extent than interest rates. In the current interest rate environment, liquidity and the maturity structure of the Company's assets and liabilities are critical

to the maintenance of acceptable performance levels.

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**How We Manage Market Risk.** Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from interest rate risk which is inherent in our lending, investment and deposit gathering activities. To that end, management actively monitors and manages interest rate risk exposure. In addition to market risk, our primary risk is credit risk on our loan portfolio. We attempt to manage credit risk through our loan underwriting and oversight policies.

The principal objective of our interest rate risk management function is to evaluate the interest rate risk embedded in certain balance sheet accounts, determine the level of risk appropriate given our business strategy, operating environment, capital and liquidity requirements and performance objectives, and manage the risk consistent with approved guidelines. We seek to manage our exposure to risks from changes in interest rates while at the same time trying to improve our net interest spread. We monitor interest rate risk as such risk relates to our operating strategies. We have established an Asset/Liability Committee which is comprised of our President and Chief Executive Officer, Chief Financial Officer, Chief Lending Officer, Treasurer and Controller. The Asset/Liability Committee meets on a regular basis and is responsible for reviewing our asset/liability policies and interest rate risk position. Both the extent and direction of shifts in interest rates are uncertainties that could have a negative impact on future earnings.

In recent years, we primarily have reduced our investment in longer term fixed rate callable agency bonds and increased our portfolio of step-up callable agency bonds and agency issued mortgage-backed securities. However, notwithstanding the foregoing steps, we remain subject to a significant level of interest rate risk in a low interest rate environment due to the high proportion of our loan portfolio that consists of fixed-rate loans as well as our decision to invest a significant amount of our assets in long-term, fixed-rate investment and mortgage-backed securities.

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

The following table sets forth the amounts of our interest-earning assets and interest-bearing liabilities outstanding at December 31, 2011, which we expect, based upon certain assumptions, to reprice or mature in each of the future time periods shown (the “GAP Table”). Except as stated below, the amounts of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at December 31, 2011, on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable-rate loans and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans. Annual prepayment rates for variable-rate and fixed-rate single-family and multi-family residential and commercial mortgage loans are assumed to range from 10.5% to 22.9%. The annual prepayment rate for mortgage-backed securities is assumed to range from 0.4% to 43.9%. For savings accounts, checking accounts and money markets, the decay rates vary on annual basis over a ten year period.



|  | 3 Months<br>or Less | More than<br>3 Months<br>to 1 Year | More than<br>1 Year<br>to 3 Years | More<br>than<br>3 Years<br>to 5<br>Years | More<br>than<br>5 Years | Total<br>Amount |
|--|---------------------|------------------------------------|-----------------------------------|--|-------------------------|-----------------|
| (Dollars in Thousands)   |                     |                                    |                                   |  |                         |                 |
| Interest-earning assets(1):  |                     |                                    |                                   |  |                         |                 |
| Investment and mortgage-backed securities(2)   | \$ 26,338           | \$ 25,279                          | \$ 42,220                         | \$ 13,888                                | \$ 63,763               | \$ 171,488      |
| Loans receivable(3)  | 25,045              | 46,667                             | 88,117                            | 42,914                                   | 39,420                  | 242,163         |
| Other interest-earning assets(4)   | 68,720              | -                                  | -                                 | -  | -                       | 68,720          |
| Total interest-earning assets  | \$ 120,103          | \$ 71,946                          | \$ 130,337                        | \$ 56,802                                | \$ 103,183              | \$ 482,371      |
| Interest-bearing liabilities:  |                     |                                    |                                   |  |                         |                 |
| Savings accounts   | \$ 1,714            | \$ 4,901                           | \$ 9,551                          | \$ 8,764                                 | \$ 45,885               | \$ 70,815       |
| Money market deposit and NOW accounts  | 4,064               | 12,191                             | 24,289                            | 18,130                                   | 45,791                  | 104,465         |
| Certificates of deposit  | 28,991              | 103,601                            | 97,340                            | 30,190                                   | -                       | 260,122         |
| Advances from Federal Home Loan Bank   | 76                  | 144                                | -                                 | 340                                      | -                       | 560             |
| Advances from borrowers for taxes and insurance  | 1,751               | -                                  | -                                 | -  | -                       | 1,751           |
| Total interest-bearing liabilities   | \$ 36,596           | \$ 120,837                         | \$ 131,180                        | \$ 57,424                                | \$ 91,676               | \$ 437,713      |
| Interest-earning assets less interest-bearing liabilities  | \$ 83,507           | (\$ 48,891 )                       | (\$ 843 )                         | (\$ 622 )                                | \$ 11,507               | \$ 44,658       |
| Cumulative interest-rate sensitivity gap (5)   | \$ 83,507           | \$ 34,616                          | \$ 33,773                         | \$ 33,151                                | \$ 44,658               |                 |
| Cumulative interest-rate gap as a percentage of total assets at December 31, 2011                                  | 16.68 %             | 6.91 %                             | 6.74 %                            | 6.62 %                                   | 8.92 %                  |                 |
| Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities at December 31, 2011 | 328.19 %            | 121.99 %                           | 111.70 %                          | 109.58 %                                 | 110.20 %                |                 |

(1) Interest-earning assets are included in the period in which the balances are expected to be redeployed and/or repriced as a result of anticipated prepayments, scheduled rate adjustments and contractual maturities.

(2) For purposes of the gap analysis, investment securities are stated at amortized cost.

(3) For purposes of the gap analysis, loans receivable includes non-performing loans and is gross of the allowance for loan losses and unamortized deferred loan fees, but net of the undisbursed portion of loans-in-process.

(4) Includes FHLB stock.

(5) Cumulative interest-rate sensitivity gap represents the difference between interest-earning assets and interest-bearing liabilities.

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to

changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as variable-rate loans, have features which restrict changes in interest rates both on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. Finally, the ability of many borrowers to service their variable-rate loans may be adversely affected in the event of an interest rate increase.

Net Portfolio Value Analysis. Our interest rate sensitivity also is monitored by management through the use of a model which generates estimates of the changes in our net portfolio value (“NPV”) over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The “Sensitivity Measure” is the decline in the NPV ratio, in basis points, caused by a 2% increase or decrease in rates, whichever produces a larger decline. The following table sets forth our NPV as of December 31, 2011 and reflects the changes to NPV as a result of immediate and sustained changes in interest rates as indicated.

| Change in<br>Interest Rates<br>In Basis Points<br>(Rate Shock) | Net Portfolio Value |              |           | NPV as % of Portfolio<br>Value of Assets |          |  |
|--|---------------------|--------------|-----------|--|----------|--|
|  | Amount              | \$ Change    | % Change  | NPV Ratio                                | Change   |  |
| (Dollars in Thousands)   |                     |              |           |  |          |  |
| 300  | \$ 56,373           | \$ (24,623 ) | (30.40 )% | 12.27 %                                  | (3.53 )% |  |
| 200  | 66,611              | (14,385 )    | (17.76 )% | 13.91 %                                  | (1.89 )% |  |
| 100  | 77,601              | (3,395 )     | (4.19 )%  | 15.54 %                                  | (0.26 )% |  |
| Static   | 80,996              | -            | -         | 15.80 %                                  | -        |  |
| (100)  | 76,543              | (4,453 )     | (5.50 )%  | 14.77 %                                  | (1.03 )% |  |
| (200)  | 75,973              | (5,023 )     | (6.20 )%  | 14.52 %                                  | (1.28 )% |  |
| (300)  | 79,972              | (1,024 )     | (1.26 )%  | 15.08 %                                  | (0.72 )% |  |

At December 31, 2011, the Company’s NPV was \$81.0 million or 15.80% of the market value of assets. Following a 200 basis point increase in interest rates, the Company’s “post shock” NPV would be \$66.6 million or 13.9% of the market value of assets. The change in the NPV ratio or Company’s sensitivity measure was a decline of 189 basis points.

At September 30, 2011, the Company’s NPV was \$80.1 million or 15.86% of the market value of assets. Following a 200 basis point increase in interest rates, the Company’s “post shock” NPV would be \$64.6 million or 13.59% of the market value of assets. The change in the NPV ratio or Company’s sensitivity measure was an increase of 226 basis points.

As is the case with the GAP Table, certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV requires the making of certain assumptions which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the models presented assume that the composition of our interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the NPV model provides an indication of interest rate risk exposure at a particular point in time, such model is not intended to and does not provide a precise forecast of the effect of changes in market interest rates on net interest income and will differ from actual results.



ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of the end of period covered by this report, our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and are operating in an effective manner.

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. 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 1A. Risk Factors

Not applicable

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

(a) Not applicable

(b) Not applicable

(c) There were no repurchases of common stock by the Company or purchases of common stock by the MHC during the quarter ended December 31, 2011.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. (Removed and Reserved)

Item 5. Other Information

Not applicable

Item 6. Exhibits

| Exhibit No. | Description   |
|-------------|---|
| 31.1        | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer |
| 31.2        | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer |
| 32.0        | Section 1350 Certifications                                       |

The following Exhibits are being furnished\* as part of this quarterly report:

| No.     | Description  |
|---------|--|
| 101.INS | XBRL Instance Document.*                                 |
| 101.SCH | XBRL Taxonomy Extension Schema Document.*                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.*  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.*        |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.* |
| 101.DEF | XBRL Taxonomy Extension Definitions Linkbase Document.*  |

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\*These interactive data files are being furnished as part of this Quarterly Report, and, in accordance with Rule 402 of Regulation S-T, shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

SIGNATURES

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

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA

Date: February 14, 2012

By: /s/ Thomas A. Vento  
Thomas A. Vento  
President and Chief Executive Officer

Date: February 14, 2012

By: /s/ Joseph R. Corrato  
Joseph R. Corrato  
Executive Vice President and Chief Financial Officer