

PRUDENTIAL BANCORP, INC.
Form 10-K/A
January 30, 2015

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

FORM 10-K/A
(Amendment No. 1)

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

For the fiscal year ended SEPTEMBER 30, 2014

-or-

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

For the transition period from to

Commission File Number: 000-55084

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

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

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

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (par value \$0.01 per share)	The Nasdaq Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: NONE

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

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

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

Smaller Reporting Company

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

EXPLANATORY NOTE

This Amendment No. 1 (the “Amendment”) to the Registrant's Annual Report on Form 10-K amends the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2014 originally filed with the Securities and Exchange Commission on December 15, 2014 (“Initial Filing”). The Registrant is filing the Amendment to correct certain inadvertent errors contained in Note 6 (on pages 84, 85 and 86 of the Initial Filing) primarily related to the transposition of two tables in the Registrant’s consolidated financial statements for the fiscal year ended September 30, 2014 set forth as Item 8 in the Initial Filing. Except as described in this Explanatory Note, no other changes have been made to the Initial Filing and the Amendment does not amend or update any other information set forth in the Initial Filing.

Prudential Bancorp, Inc. and Subsidiaries
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For the Fiscal Year Ended September 30, 2014

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Item 8. Financial Statements on Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Prudential Bancorp, Inc.

We have audited the accompanying consolidated statements of financial condition of Prudential Bancorp, Inc. and subsidiary as of September 30, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of Prudential Bancorp, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prudential Bancorp, Inc. and subsidiary as of September 30, 2014 and 2013, and the results of their operations and their cash flows for each of the two years in the period ended September 30, 2014, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Prudential Bancorp, Inc. and subsidiary's internal control over financial reporting as of September 30, 2014, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992, and our report dated December 15, 2014, we expressed an unqualified opinion on the effectiveness of Prudential Bancorp, Inc. and subsidiary's internal control over financial reporting.

/s/ S.R. Snodgrass, P.C.

Wexford, Pennsylvania
December 15, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Prudential Bancorp, Inc.

We have audited Prudential Bancorp Inc. and subsidiary's internal control over financial reporting as of September 30, 2014, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. Prudential Bancorp, Inc. and subsidiary's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Prudential Bancorp, Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Prudential Bancorp, Inc. and subsidiary maintained, in all material respects, effective internal control over financial reporting as of September 30, 2014, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated statements of financial condition of Prudential Bancorp, Inc. and subsidiary as of September 30, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and our report dated December 15, 2014, expressed an unqualified opinion.

/s/ S.R. Snodgrass, P.C.

Wexford, Pennsylvania
December 15, 2014

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PRUDENTIAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	September 30, 2014 2013 (Dollars in Thousands)	
ASSETS		
Cash and amounts due from depository institutions	\$2,025	\$2,670
Interest-bearing deposits	43,357	156,314
Total cash and cash equivalents	45,382	158,984
Investment and mortgage-backed securities available for sale (amortized cost—September 30, 2014, \$59,262; September 30, 2013, \$43,744)	57,817	41,781
Investment and mortgage-backed securities held to maturity (fair value—September 30, 2014, \$79,092; September 30, 2013, \$80,582)	80,840	83,732
Loans receivable—net of allowance for loan losses (September 30, 2014, \$2,425; September 30, 2013, \$2,353)	321,063	306,517
Accrued interest receivable	1,748	1,791
Real estate owned	360	406
Federal Home Loan Bank stock—at cost	1,221	1,181
Office properties and equipment—net	1,331	1,525
Bank owned life insurance	12,377	7,119
Deferred income taxes, net	1,131	1,306
Prepaid expenses and other assets	2,213	3,555
TOTAL ASSETS	\$525,483	\$607,897

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:

Deposits:

Non-interest-bearing	\$2,327	\$3,474
Interest-bearing	388,698	539,274
Total deposits	391,025	542,748
Advances from Federal Home Loan Bank	340	340
Accrued interest payable	1,486	1,666
Advances from borrowers for taxes and insurance	1,240	1,480
Accounts payable and accrued expenses	1,967	1,751
Total liabilities	396,058	547,985

COMMITMENTS AND CONTINGENCIES (Note 13)

STOCKHOLDERS' EQUITY:

Preferred stock, \$.01 par value, 10,000,000 shares authorized; none issued	-	-
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Common stock, \$.01 par value, 40,000,000 shares authorized; 9,544,809 issued and outstanding at September 30, 2014; 11,862,693 issued and 9,464,184 outstanding at September 30, 2013	95	118
Additional paid-in capital	94,397	55,297
Unearned Employee Stock Ownership Plan ("ESOP") shares	(5,302)	(2,565)
Treasury stock, at cost: 2,398,509 shares at September 30, 2013	-	(31,625)
Retained earnings	41,188	39,979
Accumulated other comprehensive loss	(953)	(1,292)
Total stockholders' equity	129,425	59,912
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$525,483	\$607,897

See notes to consolidated financial statements.

PRUDENTIAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended September 30,	
	2014	2013
	(Dollars in Thousands Except Per Share Amounts)	
INTEREST INCOME:		
Interest and fees on loans	\$ 12,737	\$ 12,609
Interest on mortgage-backed securities	1,411	1,922
Interest and dividends on investments	2,199	2,147
Interest on interest-bearing deposits	118	95
Total interest income	16,465	16,773
INTEREST EXPENSE:		
Interest on deposits	3,401	4,344
Total interest expense	3,401	4,344
NET INTEREST INCOME	13,064	12,429
PROVISION (RECOVERY) FOR LOAN LOSSES	240	(500)
NET INTEREST INCOME AFTER PROVISION (RECOVERY) FOR LOAN LOSSES	12,824	12,929
NON-INTEREST INCOME:		
Gain on sale of mortgage-backed securities available for sale, net	416	868
Fees and other service charges	385	410
Total other-than-temporary impairment losses	(16)	(38)
Portion of loss recognized in other comprehensive income, before taxes	-	6
Net impairment losses recognized in earnings	(16)	(32)
Income from BOLI	258	200
Other	68	328
Total non-interest income	1,111	1,774
NON-INTEREST EXPENSES:		
Salaries and employee benefits	6,374	5,823

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Data processing	432	429
Professional services	1,190	927
Office occupancy	477	392
Depreciation	320	337
Payroll taxes	367	340
Director compensation	330	311
Federal Deposit Insurance Corporation premiums	258	624
Real estate owned expense	146	447
Advertising	186	335
Other	1,385	1,285
Total non-interest expenses	11,465	11,250
INCOME BEFORE INCOME TAXES	2,470	3,453
INCOME TAXES:		
Current	690	(1,072)
Deferred expense	-	2,770
Total	690	1,698
NET INCOME	\$ 1,780	\$ 1,755
BASIC EARNINGS PER SHARE	\$ 0.20	\$ 0.19
DILUTED EARNINGS PER SHARE	\$ 0.19	\$ 0.19
DIVIDENDS PER SHARE	\$ 0.06	\$ 0.00

See notes to consolidated financial statements.

PRUDENTIAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended September 30,	
	2014	2013
	(Dollars in thousands)	
Net income	\$ 1,780	\$ 1,755
Unrealized holding gain (loss) on available-for-sale securities	918	(3,066)
Tax effect	(312)	1,042
Reclassification adjustment for net gains realized in net income	(416)	(868)
Tax effect	138	296
Reclassification adjustment for other than temporary impairment losses on debt securities	16	32
Tax effect	(5)	(11)
Total Other Comprehensive Income (Loss)	339	(2,575)
Comprehensive Income (Loss)	\$ 2,119	\$ (820)

See notes to consolidated financial statements.

PRUDENTIAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	(Dollars in Thousands)						
BALANCE, OCTOBER 1, 2012	\$ 118	\$ 54,618	\$ (2,787)	\$ (31,625)	\$ 38,224	\$ 1,283	\$ 59,831
Net income					1,755		1,755
Other comprehensive loss						(2,575)	(2,575)
Excess tax benefit from stock compensation plans		139					139
Stock option expense		231					231
Recognition and Retention Plan expense		347					347
ESOP shares committed to be released (16,018 shares)		(38)	222				184
BALANCE, September 30, 2013	118	55,297	(2,565)	(31,625)	39,979	(1,292)	59,912
Net income					1,780		1,780
Other comprehensive income						339	339
Dividends paid (\$0.06 per share)					(571)		(571)

Second-step conversion offering	(23)	38,725		31,625		70,327
Excess tax benefit from stock compensation plans		79				79
Stock option expense		138				138
Recognition and Retention Plan expense		121				121
Purchase of ESOP Shares (285,664)			(3,089)			(3,089)
ESOP shares committed to be released (32,064 shares)		37	352			389
BALANCE, September 30, 2014	\$ 95	\$ 94,397	\$ (5,302)	\$ -	\$ 41,188	\$ (953) \$ 129,425

See notes to consolidated financial statements.

PRUDENTIAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF CHANGES OF CASH FLOWS

	Years Ended September 30,	
	2014	2013
	(Dollars in Thousands)	
OPERATING ACTIVITIES:		
Net income	\$1,780	\$1,755
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (recovery) for loan losses	240	(500)
Depreciation	320	337
Net accretion of premiums/discounts	(282)	(540)
Income from bank owned life insurance	(258)	(200)
Accretion of deferred loan fees	211	11
Compensation expense of ESOP	389	184
Loss on sale of real estate owned	-	3
Gain on sale of investment and mortgage-backed securities	(416)	(868)
Impairment charge on investment and mortgage-backed securities	16	32
Impairment charge on real estate owned	-	306
Share-based compensation expense	338	717
Deferred income tax expense	-	2,770
Excess tax benefit related to stock compensation	(79)	(139)
Changes in assets and liabilities which (used) provided cash:		
Accounts payable and accrued expenses	216	818
Accrued interest payable	(180)	(716)
Prepaid expenses and other assets	1,338	(1,321)
Accrued interest receivable	43	(130)
Net cash provided by operating activities	3,676	2,519
INVESTING ACTIVITIES:		
Purchase of investment and mortgage-backed securities held to maturity	(10,977)	(36,488)
Purchase of investment and mortgage-backed securities available for sale	(22,669)	(16,955)
Principal collected on loans	53,554	48,581
Principal payments received on investment and mortgage-backed securities:		
Held-to-maturity	13,922	15,892
Available for sale	4,543	22,439
Loans originated or acquired	(68,634)	(103,447)
Purchase of Federal Home Loan Bank stock	(40)	-
Proceeds from redemption of Federal Home Loan Bank stock	-	1,058
Proceeds from sale of mortgage-backed securities	3,237	16,158
Proceeds from sale of real estate owned	129	1,539
Proceeds from sale of loans	-	9,240
Purchase of bank owned life insurance	(5,000)	-
Purchases of equipment	(126)	(174)
Net cash used in investing activities	(32,061)	(42,157)

FINANCING ACTIVITIES:

Net (decrease) increase in demand deposits, NOW accounts, and savings accounts	(4,389)	4,587
Funds (redemption) held in escrow related to second-step offering	(145,675)	145,675
Net decrease in certificates of deposit	(1,659)	(33,116)
Repayment of borrowing from Federal Home Loan Bank	-	(143)
Issuance of common stock from second-step conversion	38,702	-
Cancellation of treasury stock	31,625	-
Cash dividends paid	(571)	-
(Decrease) increase in advances from borrowers for taxes and insurance	(240)	207
Purchase of stock for ESOP	(3,089)	-
Excess tax benefit related to stock compensation	79	139
Net cash (used in) provided by in financing activities	(85,217)	117,349
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(113,602)	77,711

CASH AND CASH EQUIVALENTS—Beginning of year	158,984	81,273
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CASH AND CASH EQUIVALENTS—End of year	\$45,382	\$158,984
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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Interest paid on deposits and advances from Federal Home Loan Bank	\$3,581	\$5,060
Income taxes paid	\$-	\$-

SUPPLEMENTAL DISCLOSURES OF NONCASH ITEMS:

Real estate acquired in settlement of loans	\$83	\$282
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See notes to consolidated financial statements.

PRUDENTIAL BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Prudential Bancorp, Inc. (the “Company”) is a Pennsylvania corporation that was incorporated in June 2013 to be the successor corporation of Prudential Bancorp, Inc. of Pennsylvania (“Old Prudential Bancorp”), the former stock holding company for Prudential Savings Bank (the “Bank”), is a Pennsylvania-chartered, FDIC-insured savings bank with eight full service branches in the Philadelphia area. As of September 30, 2013, the Company was in organization and had not commenced operations, accordingly, the financial statements included as of and for the year ended September 30, 2013 are of Prudential Bancorp, Inc. of Pennsylvania (“Old Prudential Bancorp”). The Bank’s primary federal banking regulator is the Federal Deposit Insurance Corporation. The Bank is principally in the business of attracting deposits from its community through its branch offices and investing those deposits, together with funds from borrowings and operations, primarily in single-family residential loans. The Bank’s sole subsidiary as of September 30, 2014 was PSB Delaware, Inc. (“PSB”), a Delaware-chartered corporation established to hold certain investments. As of September 30, 2014, PSB had assets of \$113.4 million primarily consisting of investment and mortgage-backed securities.

The Company’s primary market area is Philadelphia, in particular South Philadelphia and Center City, as well as Delaware County. The Company also conducts business in Bucks, Chester and Montgomery Counties which, along with Delaware County, comprise the suburbs of Philadelphia. We also make loans in contiguous counties in southern New Jersey.

Prudential Mutual Holding Company (the “MHC”), a Pennsylvania corporation, was the mutual holding company parent of Old Prudential Bancorp. As of September 30, 2013, MHC owned 74.6% (7,478,062 shares) of Old Prudential Bancorp’s outstanding common stock.

The second step conversion of the MHC was completed on October 9, 2013. In connection with the conversion, the Company issued an aggregate of 9,544,809 shares of common stock through a public offering and the exchange of Old Prudential Bancorp’s common stock owned by the public other than the MHC which was exchanged for 0.9442 shares of the Company’s common stock for each share of Old Prudential Bancorp. Share amounts and per share data in the consolidated financial statements and notes to consolidated financial statements have been adjusted to reflect the exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation—The accompanying 2014 consolidated financial statements include the accounts of the Company and the Bank. The 2013 consolidated financial statements include accounts of Old Prudential Bancorp and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. 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 revenue and expenses during the reporting period. The most significant estimates and assumptions in the consolidated financial statements are recorded in the allowance for loan losses, the fair value of financial instruments, other than temporary impairment of securities and valuation of deferred tax assets. Actual results could differ from those estimates.

Cash and Cash Equivalents—For purposes of reporting cash flows, cash and cash equivalents include cash and amounts due from depository institutions and interest-bearing deposits with original maturities of less than 90 days.

Investment Securities and Mortgage-Backed Securities—Management classifies and accounts for debt and equity securities as follows:

Held to Maturity—Debt securities that management has the positive intent and ability to hold until maturity are classified as held to maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the interest method over the estimated remaining term of the underlying security.

Available for Sale—Debt and equity securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity, and changes in the availability and the yield of alternative investments, are classified as available for sale. These assets are carried at fair value. Fair value is determined using public market prices, dealer quotes, and prices obtained from independent pricing services that may be derivable from observable and unobservable market inputs. Unrealized gains and losses are excluded from earnings and are reported net of tax as a separate component of stockholders' equity until realized. Realized gains or losses on the sale of investment and mortgage-backed securities are reported in earnings as of the trade date and determined using the adjusted cost of the specific security sold.

Other-than-temporary impairment —Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. For all securities that are in an unrealized loss position for an extended period of time and for all securities whose fair value is significantly below amortized cost, Management performs an evaluation of the specific events attributable to the market decline of the security. Management considers the length of time and extent to which the security's market value has been below cost as well as the general market conditions, industry characteristics, and the fundamental operating results of the issuer to determine if the decline is other-than-temporary. Management also considers as part of the evaluation its intention whether or not to sell the security until its market value has recovered to a level at least equal to the amortized cost. When Management determines that a security's unrealized loss is other-than-temporary, a realized loss is recognized in the period in which the decline in value is determined to be other-than-temporary. The write-down is measured based on the fair value of the security at the time the Company determines the decline in value is determined other-than-temporary.

Loans Receivable— Lending consists of various loan types including single-family residential mortgage loans, construction and land development loans, non-residential or commercial real estate mortgage loans, home equity loans and lines of credit, commercial business loans, and consumer loans and are stated at their unpaid principal balances net of unamortized net fees/costs. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balance adjusted for unearned income, the allowance for loan losses and any unamortized deferred fees or costs.

Loan Origination and Commitment Fees—Management defers loan origination and commitment fees, net of certain direct loan origination costs. The balance is accreted into income as a yield adjustment over the life of the loan using the level-yield method.

Interest on Loans—Management recognizes interest on loans on the accrual basis. Income recognition is discontinued when a loan becomes 90 days or more delinquent. Any interest previously accrued is deducted from interest income. Such interest ultimately collected is credited to income when loans are no longer 90 days or more delinquent.

Allowance for Loan Losses— The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses inherent in its loan portfolio as of the Consolidated Statement of Financial Condition date. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses charged to operations. The provision for loan losses is based on management's periodic evaluation of individual loans, economic factors, past loan loss experience, changes in the composition and volume of the portfolio, and other relevant factors, both qualitative and quantitative. The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to changes in the near term.

Impaired loans are loans for which it is not probable to collect all amounts due according to the contractual terms of the loan agreements. Management individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for impaired loans is determined by the difference between the present value of the expected cash flows related to the loans, using the original interest rate, and their recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Mortgage loans and consumer loans are comprised of large groups of smaller balance homogeneous loans which are evaluated for impairment collectively. Loans that experience insignificant payment delays, which are defined as less than 90 days, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all of the circumstances surrounding the loan and the borrower including the length of the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed.

Real Estate Owned—Real estate acquired through, or in lieu of, loan foreclosure is initially recorded at the lower of book value or the estimated fair value at the date of acquisition, less estimated selling costs, establishing a new cost basis. Costs related to the development and improvement of real estate owned properties are capitalized and those relating to holding the properties are charged to expense. After foreclosure, a valuation is periodically performed by management and a write-down is recorded, if necessary, by a charge to operations if the carrying value of a property exceeds its estimated fair value less estimated costs to sell.

Federal Home Loan Bank of Pittsburgh ("FHLB") Stock – FHLB stock is classified as a restricted equity security because ownership is restricted and there is no 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 with 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 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.

The Federal Home Loan Bank continues to report net income, initiated the payment of cash dividends and had its Aaa bond rating affirmed by Moody's and AA+ rating affirmed by Standard and Poor's during 2014 and 2013. With consideration given to these factors, management concluded that the stock was not impaired at September 30, 2014 or 2013.

Office Properties and Equipment—Land is carried at cost. Office properties and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the expected useful lives of the assets. The costs of maintenance and repairs are expensed as they are incurred, and renewals and betterments are capitalized and depreciated over their useful lives. The estimated useful life is generally 10-39 years for buildings and 1-7 years for furniture and equipment.

Cash Surrender Value of Life Insurance—The Company funds the policy premiums for the lives of certain officers and directors of the Bank. The Bank owned life insurance policies ("BOLI") provide an attractive tax-exempt return to the Company and is being used by the Company to fund various employee benefit plans. The BOLI is recorded at its cash surrender value.

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 September 30, 2014 or 2013. The Company paid \$571,000 in cash dividends during the year ended September 30, 2014. There were no dividends paid during 2013.

Employee Stock Ownership Plan – The Bank established an employee stock ownership plan ("ESOP") for substantially all of its full-time employees. In 2005, the ESOP purchased 427,057 shares of the Old Prudential Bancorp's common stock on the open market for approximately \$4.5 million with a loan from the Old Prudential Bancorp. In October 2013, the Company purchased an additional 285,664 shares for approximately \$3.1 million from the shares available from the second-step conversion offering funded with a loan from the Company. Shares of the Company's common stock purchased by the ESOP are held in a suspense account until released for allocation to participants as the loans are repaid. Shares released 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 in the ESOP. As the unearned shares are released from suspense, 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 recorded to equity as an adjustment to additional paid-in

capital.

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Share-Based Compensation – The Company accounts for stock-based compensation issued to employees, directors, and where appropriate non-employees, in accordance with U.S. GAAP. 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. See Note 12 of the Notes to Consolidated Financial Statements for additional information regarding stock-based compensation.

Treasury Stock – Common stock held in treasury is accounted for using the cost method, which treats stock held in treasury as a reduction to total stockholders' equity. At September 30, 2013 the average cost per share of the approximately 2.5 million shares repurchased by the Old Prudential Bancorp was \$13.85 (on a converted basis). As a result of the second-step conversion offering, the shares held in treasury were extinguished. On September 17, 2014 the Company announced a plan to repurchase up to 950,000 shares or approximately 10% of its issued and outstanding common stock. The shares may be purchased in the open market or in privately negotiated transactions depending upon market conditions and other factors for a period necessary to complete such repurchases. The repurchases are expected to commence after the one-year anniversary of the completion of the second-step conversion offering on October 9, 2013.

Comprehensive Income—Management presents in the consolidated statement of comprehensive income 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 years ended September 30, 2014 and 2013, the only components of comprehensive income were net income, unrealized holding (loss) gains, net of income tax (benefit) expense, on available for sale securities and reclassifications related to realized gains on sale of securities recognized in earnings, net of tax and realized losses due to other than temporary impairment, net of tax. Reclassifications are made to avoid double counting in comprehensive income items which are displayed as part of net income for the period.

Income Taxes— Management 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 expense will not be required in future periods.

In evaluating the Company's ability to recover deferred tax assets, management considers all available positive and negative evidence, including past operating results and forecast of future taxable income. In determining future taxable income, management makes assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require management to make judgments about future taxable income and are consistent with the plans and estimates the Company uses to manage the business. Any reduction in estimated future taxable income may

require management to record an additional valuation allowance against the 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.

Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—Management recognizes the financial and servicing assets it controls and the liabilities it has incurred, and will derecognize financial assets when control has been surrendered, and derecognize liabilities when extinguished. Servicing assets and other retained interests in the transferred assets are measured by allocating the previous carrying amount between the assets sold, if any, and retained interests, if any, based on their relative fair values at the date of transfer.

Advertising Costs—Advertising costs are expensed as incurred. Advertising expense was \$186,000 and \$335,000 for the years ended September 30, 2014 and 2013, respectively.

Recent Accounting Pronouncements

In June 2013, the FASB issued ASU 2013-08, Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements. The amendments in this Update affect the scope, measurement, and disclosure requirements for investment companies under U.S. GAAP. The amendments do all of the following: (1) change the approach to the investment company assessment in Topic 946, clarify the characteristics of an investment company, and provide comprehensive guidance for assessing whether an entity is an investment company. (2) require an investment company to measure non-controlling ownership interests in other investment companies at fair value rather than using the equity method of accounting. (3) require the following additional disclosures: (a) the fact that the entity is an investment company and is applying the guidance in Topic 946, (b) information about changes, if any, in an entity's status as an investment company, and (c) information about financial support provided or contractually required to be provided by an investment company to any of its investees. The amendments in this ASU are effective for an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited. This ASU is not expected to have a significant impact on the Company's financial statements.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This Update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

In January 2014, the FASB issued ASU 2014-01, Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. The amendments in this Update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this Update should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this Update are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company’s financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments in this Update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. This ASU is not expected to have a significant impact on the Company’s financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (a new revenue recognition standard). The Update’s core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is evaluating the effect of adopting this new accounting Update.

In June 2014, the FASB issued ASU 2014-10, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in this Update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. For repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments also require enhanced disclosures. The accounting changes in this Update are effective for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application is prohibited. The disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and

repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date. This ASU is not expected to have a significant impact on the Company's financial statements.

In June 2014, the FASB issued ASU 2014-12, Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments when the Terms of an Award Provide that a Performance Target Could Be Achieved After the Requisite Service Period. The amendments in this Update require that a performance target that affects vesting and that could be achieved after the requisite service period has elapsed be treated as a performance condition. The amendments in this Update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Entities may apply the amendments in this Update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this Update as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. This ASU is not expected to have a significant impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-14, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40). The amendments in this Update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. This ASU is not expected to have a significant impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40). The amendments in this Update provide guidance in accounting principles generally accepted in the United States of America about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The amendments in this ASU are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

3. EARNINGS PER SHARE

Basic earnings per share is computed based on the weighted average number of common shares outstanding. Diluted earnings per share is computed based on the weighted average number of common shares outstanding and common share equivalents (“CSEs”) that would arise from the exercise of dilutive securities.

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

	Year Ended September 30,			
	2014		2013	
	(Dollars in Thousands Except Per Share Data)			
	Basic	Diluted	Basic	Diluted
Net income	\$ 1,780	\$ 1,780	\$ 1,755	\$ 1,755
Weighted average shares outstanding	9,061,193	9,061,193	9,118,618	9,118,618
Effect of CSEs	-	216,885	-	104,422
Adjusted weighted average shares used in earnings per share computation	9,061,193	9,278,078	9,118,618	9,223,040
Earnings per share - basic and diluted	\$ 0.20	\$ 0.19	\$ 0.19	\$ 0.19

Options to purchase 284,045 shares and 383,345 shares of common stock at an exercise price greater than the current market value were outstanding at September 30, 2014 and 2013, respectively, but were not included in the computation of diluted earnings per share because to do so would have been antidilutive. The exercise prices for the stock options representing the anti-dilutive shares were \$11.83 at September 30, 2014 and \$8.79 to \$11.83 at September 30, 2013. The shares presented in this table for 2013 have been adjusted to reflect the second-step conversion offering completed in October 2013.

4. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in accumulated other comprehensive income by component net of tax:

	Year Ended September 30,	
	2014	2013
	Unrealized gains on available for sale securities (a)	Unrealized gains on available for sale securities (a)
Beginning Balance	\$ (1,292)	\$ 1,283
Other comprehensive (loss) income before reclassification	606	(2,024)
Amount reclassified from accumulated other comprehensive loss	(267)	(551)
Total other comprehensive income (loss)	339	(2,575)
Ending Balance	\$ (953)	\$ (1,292)

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive loss for the year ended September 30, 2014 and 2013:

Details about other comprehensive income	Year Ended September 30,		Affected Line Item in the Statement Where Net Income is Presented
	2014	2013	
	Amount Reclassified from Accumulated Other Comprehensive Income (a)	Amount Reclassified from Accumulated Other Comprehensive Income (a)	
Unrealized gains on available for sale securities			
Reclassification for net gains in net income	\$ 416	\$ 868	Gain on sale of mortgage-backed securities available-for-sale, net
Tax effect	(138)	(296)) Income taxes
Reclassification adjustment for other than temporary impairment losses	(16)	(32)) Total other-than-temporary impairment losses
Tax effect	5	11	Income taxes
Comprehensive income	\$ 267	\$ 551	

(a) Amounts in parentheses indicate debits to net income

5. INVESTMENT AND MORTGAGE-BACKED SECURITIES

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

		September 30, 2014		
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
		(Dollars in Thousands)		
Securities Available for Sale:				
U.S. government and agency obligations	\$ 18,987	\$ -	\$ (1,143)	\$ 17,844
Mortgage-backed securities - U.S. government agencies	40,269	188	(554)	39,903
Total debt securities available for sale	59,256	188	(1,697)	57,747
FHLMC preferred stock	6	64	-	70
Total securities available for sale	\$ 59,262	\$ 252	\$ (1,697)	\$ 57,817
Securities Held to Maturity:				
U.S. government and agency obligations	\$ 66,919	\$ 502	\$ (3,270)	\$ 64,151
Mortgage-backed securities - U.S. government agencies	13,921	1,130	(110)	14,941
Total securities held to maturity	\$ 80,840	\$ 1,632	\$ (3,380)	\$ 79,092

		September 30, 2013		
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
		(Dollars in Thousands)		
Securities Available for Sale:				
U.S. government and agency obligations	\$ 18,986	\$ -	\$ (1,727)	\$ 17,259
Mortgage-backed securities - U.S. government agencies	21,433	230	(704)	20,959
Mortgage-backed securities - non-agency	3,319	301	(90)	3,530
Total debt securities	43,738	531	(2,521)	41,748
FHLMC preferred stock	6	27	-	33
Total securities available for sale	\$ 43,744	\$ 558	\$ (2,521)	\$ 41,781
Securities Held to Maturity:				
U.S. government and agency obligations	\$ 66,934	\$ 559	\$ (4,855)	\$ 62,638
Mortgage-backed securities - U.S. government agencies	16,798	1,222	(76)	17,944
Total securities held to maturity	\$ 83,732	\$ 1,781	\$ (4,931)	\$ 80,582

The following table shows the gross unrealized losses and related fair values of the Company's investment securities, aggregated by investment category and the length of time that individual securities had been in a continuous loss position at September 30, 2014:

	Less than 12 months		More than 12 months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses (Dollars in Thousands)	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available for Sale:						
U.S. government and agency obligations	\$ -	\$ -	\$ (1,143)	\$ 17,843	\$ (1,143)	\$ 17,843
Mortgage-backed securities -U.S. government agency	(184)	16,437	(370)	13,303	(554)	29,740
Total securities available for sale	\$ (184)	\$ 16,437	\$ (1,513)	\$ 31,146	\$ (1,697)	\$ 47,583
Securities Held to Maturity:						
U.S. government and agency obligations	\$ (73)	\$ 6,408	\$ (3,197)	\$ 49,243	\$ (3,270)	\$ 55,651
Mortgage-backed securities -U.S. government agency	-	-	(110)	4,542	(110)	4,542
Total securities held to maturity	\$ (73)	\$ 6,408	\$ (3,307)	\$ 53,785	\$ (3,380)	\$ 60,193
Total	\$ (257)	\$ 22,845	\$ (4,820)	\$ 84,931	\$ (5,077)	\$ 107,776

Management evaluates securities for other-than-temporary impairment ("OTTI") at least once per quarter, and more frequently when economic or market conditions warrant such evaluation. 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.

Management has reviewed its investment securities and determined that during the year ended September 30, 2014, unrealized losses of \$16,000 on a pre-tax basis for certain securities in the non-agency mortgage-backed portfolio classified as available for sale were deemed other than temporarily impaired. As of September 30, 2014, management sold the remaining balance of its non-agency mortgage-backed securities.

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 the open market and other sources as appropriate for the 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 year ended September 30, 2014 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, 2013	\$ 1,599
Additions for credit-related OTTI charges on previously unimpaired securities	-
Reductions for securities liquidated	(1,615)
Additional losses as a result of impairment charges recognized on investments for which an OTTI was previously recognized	16
Credit component of OTTI as of September 30, 2014	\$ -

The following is a rollforward for the year ended September 30, 2013 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, 2012	\$ 2,103
Additions for credit-related OTTI charges on previously unimpaired securities	-
Reductions for securities liquidated	(542)
Additional losses as a result of impairment charges recognized on investments for which an OTTI was previously recognized	38
Credit component of OTTI as of September 30, 2013	\$ 1,599

U.S. Government and agency obligations – The Company’s investments reflected in the tables above in U.S. Government sponsored enterprise notes consist of debt obligations of the FHLB and Federal Farm Credit System (“FFCS”). These securities are typically rated AAA by one of the internationally recognized credit rating services. At September 30, 2014, U.S. Government and agency obligations in a gross unrealized loss position for more than twelve months consisted of 27 securities having an aggregate depreciation of \$4.3 million or 6.1% from the Company’s amortized cost basis. There were four securities in a gross unrealized loss position for less than twelve months having an aggregate depreciation of \$73,000 or 1.1% from the Company’s amortized cost basis. The unrealized losses on these debt securities relates principally to the changes in market interest rates 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 September 30, 2014.

U.S. government agency issued mortgage-backed securities — At September 30, 2014, the gross unrealized loss in U.S. government agency issued mortgage-backed securities in the category of experiencing a gross unrealized loss for greater than 12 months was \$480,000 or 2.6% from the Company's amortized cost basis and consisted of eight securities. The securities in a gross unrealized loss position experiencing a gross unrealized loss for less than 12 months was \$184,000 or 1.1% from the Company's amortized cost basis and consisted of nine securities at September 30, 2014. 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 U.S. Department of 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.

Mortgage-backed securities non-agency – The Company sold the remaining portfolio of non-agency collateralized mortgage obligation (“CMO's”), and recorded a gain of \$416,000 during the year period ended September 30, 2014. During the year the Company held the CMO's in its portfolio, management recognized an OTTI charge related to a portion of the portfolio securities in the amount of \$16,000 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 consisted primarily of securities with underlying collateral consisting of Alt-A loans and those collateralized by home equity lines of credit and other receivables as well as whole loans with more significant exposure to depressed real estate markets in the United States. Of the recorded charge, a total of \$16,000 was concluded to be credit related and recognized currently in earnings and no portion was concluded to be attributable to other factors and recognized in accumulated other comprehensive (loss) income.

The following table shows the gross unrealized losses and related fair values of the investment securities, aggregated by investment category and length of time that individual securities have been in a continuous loss position at September 30, 2013:

	Less than 12 months		More than 12 months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses (Dollars in Thousands)	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available for Sale:						
U.S. government and agency obligations	\$ (1,727)	\$ 17,259	\$ -	\$ -	\$ (1,727)	\$ 17,259
Mortgage-backed securities - US government agency	(704)	17,449			(704)	17,449
Mortgage-backed securities - non-agency	(10)	415	(80)	460	(90)	875
Total securities available for sale	\$ (2,441)	\$ 35,123	\$ (80)	\$ 460	\$ (2,521)	\$ 35,583
Securities Held to Maturity:						
U.S. government and agency obligations	\$ (3,817)	\$ 40,126	\$ (1,037)	\$ 9,956	\$ (4,854)	\$ 50,082
Mortgage-backed securities - US government agency	(76)	5,253			(76)	5,253
Total securities held to maturity	\$ (3,893)	\$ 45,379	\$ (1,037)	\$ 9,956	\$ (4,930)	\$ 55,335
Total	\$ (6,334)	\$ 80,502	\$ (1,117)	\$ 10,416	\$ (7,451)	\$ 90,918

Management had reviewed its investment securities and determined that for the year ended September 30, 2013, unrealized losses of \$38,000 on a pre-tax basis for certain securities in the non-agency mortgage-backed portfolio classified as available for sale were deemed other than temporarily impaired.

The amortized cost and estimated fair value of U.S. government and agency obligations by contractual maturity are shown below. Expected maturities will differ from contractual maturities because of call provisions in the securities. Mortgage-backed securities were not included as the contractual maturity is generally irrelevant due to the borrowers' right to prepay without pre-payment penalty which results in significant prepayments.

	September 30, 2014
Held to Maturity	Available for Sale

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	Amortized Cost	Fair Value (Dollars in Thousands)	Amortized Cost	Fair Value
Due within one year	\$ -	\$ -	\$ -	\$ -
Due after one through five years	3,999	4,310	-	-
Due after five through ten years	12,480	12,234	3,998	3,786
Due after ten years	50,440	47,607	14,989	14,058
Total	\$ 66,919	\$ 64,151	\$ 18,987	\$ 17,844

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For the years ended September 30, 2014 and 2013, there were realized gross gains of \$416,000 and \$868,000, respectively, and gross proceeds from the sale of investment and mortgage-backed securities of \$3.2 million and \$16.1 million, respectively.

6. LOANS RECEIVABLE

Loans receivable consist of the following:

	September 30,	
	2014	2013
	(Dollars in Thousands)	
One-to four-family residential	\$ 282,637	\$ 270,791
Multi-family residential	7,174	5,716
Commercial real estate	16,113	19,506
Construction and land development	22,397	11,356
Commercial business	1,976	588
Consumer	399	438
 Total loans	 330,696	 308,395
Undisbursed portion of loans-in-process	(9,657)	(1,676)
Deferred loan costs	2,449	2,151
Allowance for loan losses	(2,425)	(2,353)
 Net loans	 \$ 321,063	 \$ 306,517

The Company originates loans to customers located primarily in its local market area. The ultimate repayment of these loans at September 30, 2014 and 2013 is dependent, to a certain degree, on the local economy and real estate market.

The following table summarizes the loans individually evaluated for impairment by loan segment at September 30, 2014:

	One- to four- family residential	Multi-family residential	Commercial real estate	Construction and land development	Commercial business	Consumer	Total
	(Dollars in Thousands)						
Individually evaluated for impairment	\$ 10,436	\$ 368	\$ 3,777	\$ 7,399	\$ -	\$ -	\$ 21,980
Collectively evaluated for impairment	272,201	6,806	12,336	14,998	1,976	399	308,716
Total loans	\$ 282,637	\$ 7,174	\$ 16,113	\$ 22,397	\$ 1,976	\$ 399	\$ 330,696

The following table summarizes the loans individually evaluated for impairment by loan segment at September 30, 2013:

	One- to four- family residential	Multi-family residential	Commercial real estate	Construction and land development	Commercial business	Consumer	Total
	(Dollars in Thousands)						
Individually evaluated for impairment	\$ 10,754	\$ 383	\$ 2,776	\$ 1,205	\$ -	\$ -	\$ 15,118
Collectively evaluated for impairment	260,037	5,333	16,730	10,151	588	438	\$ 293,277
Total loans	\$ 270,791	\$ 5,716	\$ 19,506	\$ 11,356	\$ 588	\$ 438	\$ 308,395

The loan portfolio is segmented at a level that allows management to monitor risk and performance. Management evaluates all loans classified as substandard or lower and loans delinquent 90 plus days 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 September 30, 2014:

	Impaired Loans with Specific Allowance		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	\$ -	\$ -	\$ 10,436	\$ 10,436	\$ 11,135
Multi-family residential	-	-	368	368	368
Commercial real estate	-	-	3,777	3,777	3,777
Construction and land development	-	-	7,399	7,399	7,399
Total Loans	\$ -	\$ -	\$ 21,980	\$ 21,980	\$ 22,679

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, 2013:

	Impaired Loans with Specific Allowance		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	\$ -	\$ -	\$ 10,754	\$ 10,754	\$ 11,349
Multi-family residential	-	-	383	383	383
Commercial real estate	-	-	2,776	2,776	2,776
Construction and land development	-	-	1,205	1,205	1,205
Total Loans	\$ -	\$ -	\$ 15,118	\$ 15,118	\$ 15,713

The following tables present the average investment in impaired loans and related interest income recognized for the periods indicated:

	September 30, 2014		
	Average Recorded Investment	Income Recognized on Accrual Basis	Income Recognized on Cash Basis
	(Dollars in Thousands)		
One-to four-family residential	\$ 10,802	\$ 305	\$ 53
Multi-family residential	376	26	-
Commercial Real Estate	2,585	70	19
Construction and Land Development	3,582	247	-
Total	\$ 17,345	\$ 648	\$ 72

	September 30, 2013		
	Average Recorded Investment	Income Recognized on Accrual Basis	Income Recognized on Cash Basis
	(Dollars in Thousands)		
One-to four-family residential	\$ 13,308	\$ 400	\$ 82
Multi-family residential	647	46	-
Commercial Real Estate	5,063	218	33
Construction and Land Development	1,518	108	-
Total	\$ 20,536	\$ 772	\$ 115

Federal banking regulations and our policies require that the Bank utilize an internal asset classification system as a means of reporting problem and potential problem assets. The Bank has incorporated an internal asset classification system, consistent with Federal banking regulations, as a part of the credit monitoring system. Management currently classifies 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 is utilized summarized by the aggregate “Pass” and the criticized category of “special mention”, and the classified categories of “substandard” and “doubtful” within the Bank’s risk rating system. The Bank had no loans classified as “loss” at the dates presented.

	September 30, 2014				Total Loans
	Pass	Special Mention	Substandard	Doubtful	
	(Dollars in Thousands)				
One-to-four residential	\$ -	\$ 1,509	\$ 10,436	\$ -	\$ 11,945
Consumer	-	119	-	-	119
Multi-family residential	6,806	-	368	-	7,174
Commercial real estate	11,347	989	3,777	-	16,113
Construction and land development	14,998	-	7,399	-	22,397
Commercial business	1,976	-	-	-	1,976
Total Loans	\$ 35,127	\$ 2,617	\$ 21,980	\$ -	\$ 59,724

	September 30, 2013				Total Loans
	Pass	Special Mention	Substandard	Doubtful	
	(Dollars in Thousands)				
One-to-four residential	\$ -	\$ -	\$ 10,754	\$ -	\$ 10,754
Consumer	-	95	-	-	95
Multi-family residential	5,333	-	383	-	5,716
Commercial real estate	15,273	1,457	2,776	-	19,506
Construction and land development	2,633	7,518	1,205	-	11,356
Commercial business	588	-	-	-	588
Total Loans	\$ 23,827	\$ 9,070	\$ 15,118	\$ -	\$ 48,015

The following tables present loans in which a formal risk rating system is not utilized, but loans are segregated between performing and non-performing based primarily on delinquency status:

	September 30, 2014		Total Loans
	Performing	Non- Performing	
	(Dollars in Thousands)		
One-to-four family residential	\$ 270,692	\$ -	\$ 270,692
Consumer	280	-	280
Total Loans	\$ 270,972	\$ -	\$ 270,972

	September 30, 2013		Total Loans
	Performing	Non- Performing	
	(Dollars in Thousands)		
One-to-four family residential	\$ 260,037	\$ -	\$ 260,037
Consumer	343	-	343
Total Loans	\$ 260,380	\$ -	\$ 260,380

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 tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans:

	September 30, 2014						
	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	\$ 278,716	\$ 475	\$ 3,446	\$ -	\$ 475	\$ 282,637	\$ 5,002
Multi-family residential	7,174	-	-	-	-	7,174	-
Commercial real estate	16,113	-	-	-	-	16,113	877
Construction and land development	22,397	-	-	-	-	22,397	-
Commercial business	1,976	-	-	-	-	1,976	-
Consumer	399	-	-	-	-	399	-
Total Loans	\$ 326,775	\$ 475	\$ 3,446	\$ -	\$ 475	\$ 330,696	\$ 5,879

	September 30, 2013						
	Current	30-89 Days Past Due	90 Days + Past Due	90 Days+ Past Due and Accruing (Dollars in Thousands)	Total Past Due and Accruing	Total Loans	Non- Accrual
One-to-four family residential	\$ 264,272	\$ 3,589	\$ 2,930	\$ -	\$ 3,589	\$ 270,791	\$ 4,259
Multi-family residential	5,716	-	-	-	-	5,716	-
Commercial real estate	18,686	355	465	-	355	19,506	2,375
Construction and land development	11,356	-	-	-	-	11,356	-
Commercial business	588	-	-	-	-	588	-
Consumer	437	1	-	-	1	438	-
Total Loans	\$ 301,055	\$ 3,945	\$ 3,395	\$ -	\$ 3,945	\$ 308,395	\$ 6,634

The allowance for loan losses is established through a provision for loan losses charged to expense. Management 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 no less than quarterly in order to identify those inherent losses and to assess the overall collection probability for the loan portfolio in view of these inherent losses. 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 loans, 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 generally 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 the effects of adverse conditions in the real estate market and in the economy in general. Commercial business loans typically 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.

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The following tables summarize 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 as of September 30, 2014 and 2013. Activity in the allowance is presented for the years ended September 30, 2014 and 2013:

	September 30, 2014							Unallocated Total
	One- to four-family residential	Multi-family residential	Commercial real estate	Construction and land development	Commercial business	Consumer		
ALLL balance at September 30, 2013	\$ 1,384	\$ 22	\$ 70	\$ 653	\$ 4	\$ 2	\$ 218	\$ 2,353
Charge-offs	(215)	-	-	-	-	-	-	(215)
Recoveries	47	-	-	-	-	-	-	47
Provision	447	45	52	(330)	11	2	13	240
ALLL balance at September 30, 2014	\$ 1,663	\$ 67	\$ 122	\$ 323	\$ 15	\$ 4	\$ 231	\$ 2,425
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	1,663	67	122	323	15	4	231	2,425
	September 30, 2013							Unallocated Total
	One- to four-family residential	Multi-family residential	Commercial real estate	Construction and land development	Commercial business	Consumer		
ALLL balance at September 30, 2012	\$ 830	\$ 7	\$ 125	\$ 745	\$ 3	\$ 1	\$ 170	\$ 1,881
Charge-offs	(154)	-	-	-	-	-	-	(154)
Recoveries	227	-	-	899	-	-	-	1,126
Provision	481	15	(55)	(991)	1	1	48	(500)
ALLL balance at September 30, 2013	\$ 1,384	\$ 22	\$ 70	\$ 653	\$ 4	\$ 2	\$ 218	\$ 2,353
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for	1,384	22	70	653	4	2	218	2,353

impairment

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Management established a provision for loan losses of \$240,000 during the year ended September 30, 2014, while a recovery for loan losses of \$500,000 was recorded for the year ended September 30, 2013. The provision for loan losses was deemed necessary for fiscal 2014 due to the growth in the loan portfolio combined with an increase in the level of classified assets. The construction and land development provision decreased during year ended September 30, 2014 resulting from a reduction in the historical loss factor which in prior periods included a large charge-off as part of the allowance calculation which has expired during the year. No provision for loan losses was deemed necessary for fiscal 2013 in part due to the recovery of previously charged off loans amounts aggregating \$1.1 million during the year ended September 30, 2013. The Company believes that the allowance for loan losses at September 30, 2014 is sufficient to cover all inherent and known losses associated with the loan portfolio at such date. At September 30, 2014, the Bank's non-performing assets totaled \$6.2 million or 1.2% of total assets as compared to \$7.0 million or 1.2% of total assets at September 30, 2013. Non-performing assets at September 30, 2014 included \$5.9 million in non-performing loans consisting of \$3.5 million of one-to-four family residential loans, \$1.5 million of single-family residential investment property and one \$877,000 of commercial real estate loans. Non-performing assets also included a one-to-four family residential real estate owned property with an aggregate carrying value of \$360,000. As of September 30, 2014, the Bank had eight loans that were classified as trouble debt restructurings ("TDRs") aggregating \$3.9 million of which two loans aggregating \$2.3 million were classified as non-performing and included in the \$5.9 million of non-performing loans, although all eight loans have performed in accordance with the terms of their revised agreements. As of September 30, 2014, the Bank's classified assets totaled \$22.0 million as compared to \$15.1 million as of September 30, 2013 with the increase primarily due to the classification of seven loans aggregating \$9.0 million to one borrower as a result of the termination of a commitment to the borrower from an investor that would have provided the borrower sufficient funds to allow the borrower to be able to continue to make the payments required by in the applicable loan agreements. All of such loans were current as of September 30, 2014.

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

The following tables set forth a summary of the TDRs activity for the years ended September 30, 2014 and 2013. All of the TDRs involved changes in the interest rates on the loans; no debt was forgiven. At September 30, 2014, the TDRs were performing in accordance with their modified terms:

As of and for the Year Ended September 30, 2014

(amount in thousands)	Number of Loans	Restructured Current Period		TDR's that Defaulted in the Current Period that were Restructured in Prior Period	
		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Post-Modification Outstanding Recorded Investment
One-to four- family	1	\$ 1,455	\$ 1,455	-	\$ -

Commerical real estate	1	877	877	-	-
	2	\$ 2,332	\$ 2,332	-	\$ -

As of and for the Year Ended September 30, 2013

(amount in thousands)	Restructured Current Period			TDR's that Defaulted in the Current Period that were Restructured in Prior Period	
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Post-Modification Outstanding Recorded Investment
One-to four- family	1	\$ 157	\$ 157	-	\$ -
Commerical real estate	5	1,910	1,910	-	-
	6	\$ 2,067	\$ 2,067	-	\$ -

7. OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment are summarized by major classifications as follows:

	September 30,	
	2014	2013
	(Dollars in Thousands)	
Land	\$ 247	\$ 247
Buildings and improvements	2,565	2,565
Furniture and equipment	2,423	2,297
Automobiles	135	135
Total	5,370	5,244
Accumulated depreciation	(4,039)	(3,719)
Total office properties and equipment, net of accumulated depreciation	\$ 1,331	\$ 1,525

For the years ended September 30, 2014 and 2013, depreciation expense amounted to \$320,000 and \$337,000, respectively. During 2013, \$1.6 million of fully depreciated assets no longer in use were disposed of.

8. DEPOSITS

Deposits consist of the following major classifications:

	2014		September 30,		2013	
	Amount	Percent (Dollars in Thousands)	Amount	Percent	Amount	Percent
Money market deposit accounts	\$ 64,665	16.5 %	\$ 65,298	12.0 %		
Interest-bearing checking accounts	38,119	9.8	36,063	6.6		
Non-interest-bearing checking accounts	2,327	0.6	3,474	0.6		
Passbook, club and statement savings (1)	73,275	18.8	223,615	41.3		
Certificates maturing in six months or less	48,359	12.4	65,831	12.1		
Certificates maturing in more than six months	164,280	41.9	148,467	27.4		
Total	\$ 391,025	100.0 %	\$ 542,748	100.0 %		

(1) Includes \$145.7 million of funds held in escrow at September 30, 2013 as payment for subscriptions from the Company's second-step conversion.

The amount of scheduled maturities of certificate accounts was as follows:

	September 30, 2014 (Dollars in Thousands)
One year or less	\$ 90,825
One through two years	33,392
Two through three years	24,645
Three through four years	28,697
Four through five years	35,080
Total	\$ 212,639

Certificates of deposit of \$100,000 or more at September 30, 2014 and 2013 totaled \$90.7 million and \$78.7 million, respectively.

Interest expense on deposits was comprised of the following:

Year Ended September 30,	
2014	2013
(Dollars in Thousands)	

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Checking and money market deposit accounts	\$ 348	\$ 358
Passbook, club and statement savings accounts	262	265
Certificate accounts	2,791	3,721
Total	\$ 3,401	\$ 4,344

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9. ADVANCES FROM FEDERAL HOME LOAN BANK

Advances from the FHLB totaled \$340,000 at both September 30, 2014 and 2013. These advances were obtained in connection with the Bank's participation in a community housing program and mature in 2015.

The advances held by the Bank are collateralized by all of the Bank's holdings of FHLB stock, U.S. government and agency investment securities and substantially all qualifying first mortgage loans held by the Bank. At September 30, 2014, the Bank had the ability to obtain \$194.0 million of additional FHLB advances.

10. INCOME TAXES

The Company files a consolidated federal income tax return. The Company uses the specific charge-off method for computing reserves for bad debts. Generally this method allows the Company to deduct an annual addition to the reserve for bad debt equal to its net charge-offs.

The provision for income taxes for the years ended September 30, 2014 and 2013 consists of the following:

	Year Ended September 30,	
	2014	2013
	(Dollars in Thousands)	
Current:		
Federal expense (benefit)	\$ 690	\$ (1,072)
Total current taxes	690	(1,072)
Deferred income tax expense	-	2,770
Total income tax provision	\$ 690	\$ 1,698

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

	September 30,	
	2014	2013
	(Dollars in Thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 1,123	\$ 1,037
Non-accrual interest	125	125
Accrued vacation	108	86
Capital loss carryforward	1,211	1,423
Impairment loss	-	1,117
Post-retirement benefit plans	137	136
Split dollar life insurance	20	21
Unrealized losses on available for sale securities	491	666
Employee benefit plans	382	455
Total deferred tax assets	3,597	5,066
Valuation allowance	(1,211)	(2,540)
Total deferred tax assets, net of valuation allowance	2,386	2,526
Deferred tax liabilities:		
Property	422	461
Deferred loan fees	833	759
Total deferred tax liabilities	1,255	1,220
Net deferred tax asset	\$ 1,131	\$ 1,306

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 valuation allowance totaled \$1.2 million at September 30, 2014. The gross deferred tax assets related to impairment losses and capital loss carryforwards decreased in the aggregate by \$1.3 million during the year ended September 30, 2014, primarily due to the sale of available-for-sale securities during the period and the expiration of capital loss carryforwards. During 2013, the Company determined to increase the valuation allowance by \$494,000 due to declines in the value of available-for-sale investment securities. As a result of the increased valuation allowance, management believes that on an ongoing basis, our effective tax rate will have less volatility and be within a more normalized range.

The income tax expense differs from that computed at the statutory federal corporate tax rate as follows:

	Year Ended September 30,					
	2014			2013		
	Amount	Percentage of Pretax Income (Dollars in Thousands)		Amount	Percentage of Pretax Income (Loss)	
Tax at statutory rate	\$ 840	34.0 %		\$ 1,174	34.0 %	
Adjustments resulting from:						
Valuation allowance	(144)	(5.8)		494	14.3	
Income from bank owned life insurance	(87)	(3.5)		(67)	(1.9)	
Employee benefit plans	74	3.0		90	2.6	
Other	7	0.2		7	0.2	
Income tax expense	\$ 690	28.0 %		\$ 1,698	49.2 %	

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 Statements of Operations as a component of income tax expense. As of September 30, 2014, the Internal Revenue Service conducted an audit of the Company's tax returns for the year ended September 30, 2010, and no adverse findings were reported. The Company's federal and state income tax returns for taxable years through September 30, 2010 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

11. REGULATORY CAPITAL REQUIREMENTS

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Tier 1 capital (as defined in the regulations) to average assets (as defined) and risk-weighted assets (as defined), and of total capital (as defined) to risk-weighted assets. Management believes, as of September 30, 2014 and 2013, that the Company and the Bank met all regulatory capital adequacy requirements to which they each are subject.

To be categorized as well capitalized, the Bank must maintain the minimum Tier 1 capital, Tier 1 risk-based and total risk-based ratios as set forth in the table below.

The Company's and the Bank's actual capital amounts and ratios are also presented in the following table:

	Actual		Required for Capital Adequacy Purposes (Dollars in Thousands)				To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
September 30, 2014:								
Tier 1 capital (to average assets)								
Company	\$ 130,378	25.39 %	\$ 20,544	4.0 %	N/A	N/A		
Bank	92,090	17.95	20,519	4.0	\$ 25,649	5.0	%	
Tier 1 capital (to risk-weighted assets)								
Company	130,378	57.21	9,115	4.0	N/A	N/A		
Bank	92,090	40.52	9,091	4.0	13,636	6.0		
Total capital (to risk-weighted assets)								
Company	132,803	58.28	18,231	8.0	N/A	N/A		
Bank	94,515	41.59	18,182	8.0	22,727	10.0		
September 30, 2013:								
Tier 1 capital (to average assets)								
Old Prudential								
Bancorp	\$ 61,204	12.54 %	\$ 19,523	4.0 %	N/A	N/A		
Bank	57,568	11.81	19,505	4.0	\$ 24,382	5.0	%	
Tier 1 capital (to risk-weighted assets)								
Old Prudential								
Bancorp	61,204	26.69	9,172	4.0	N/A	N/A		
Bank	57,568	25.15	9,154	4.0	13,732	6.0		
Total capital (to risk-weighted assets)								
Old Prudential								
Bancorp	63,558	27.72	18,344	8.0	N/A	N/A		
Bank	59,922	26.18	18,309	8.0	22,886	10.0		

12.

EMPLOYEE BENEFITS

The Bank is a member of a multi-employer (under the provisions of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986) defined benefit pension plan covering all employees meeting certain eligibility requirements. The Bank's policy is to fund pension costs accrued. The expense relating to this plan for the years ended September 30, 2014 and 2013 was \$663,000 and \$407,000, respectively. There are no collective bargaining agreements in place that require contributions to the plan. Additional information regarding the plan as of September 30, 2014 is noted below:

Legal Name of Plan	Pentegra Defined Benefit Plan for Financial Institutions
Plan Employer Identification Number	13-5645888
The Company's Contribution for the year ended September 30, 2014	\$614,000
Are Company's Contributions more than 5% of total contributions?	No
Funded Status	101.92%

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The Pentegra Defined Benefits Plan for Financial Institutions is a single plan under Internal Revenue Code Section 413 (c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, under the plan, contributions made by a participating employer may be used to provide benefits to participants of other participating employers.

The Bank also has a defined contribution plan for employees meeting certain eligibility requirements. The defined contribution plan may be terminated at any time at the discretion of the Bank. There was no expense relating to this plan for the years ended September 30, 2014 and 2013. The Company eliminated the employer match in conjunction with the establishment of the employee stock ownership plan (“ESOP”) discussed below.

The Bank maintains an ESOP for substantially all of its full-time employees meeting certain eligibility requirements. The purchase of shares of the Company’s common stock by the ESOP was funded by loans from the Company. The loans will be repaid principally from the Bank’s contributions to the ESOP. Shares of the Company’s common stock purchased by the ESOP are held in a suspense account and released for allocation to participants on a pro rata basis as debt service payments are made on the loans. Shares released are allocated to each eligible participant based on the ratio of each such participant’s base compensation, as defined in the ESOP, to the total base compensation of all eligible plan participants. As the unearned shares are released and allocated among participants, the Bank recognizes compensation expense based on the current market price of the shares released. The ESOP purchased 427,057 (on a converted basis) shares of the Company’s common stock for an aggregate cost of approximately \$4.5 million in fiscal 2005. The ESOP purchased an additional 255,564 shares during December 2013 and an additional 30,100 shares at the beginning January 2014, of the Company’s stock for an aggregate cost of approximately \$3.1 million. As of September 30, 2014, the Company had allocated a total of 186,871 shares from the suspense account to participants and committed to release an additional 26,730 shares. The expense relating to the ESOP for the years ended September 30, 2014 and 2013 was \$389,000 and \$184,000, respectively.

The Company maintains a Recognition and Retention Plan (“RRP”) which is administered by a committee of the Board of Directors of the Company. 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 213,528 (on a converted basis) shares of the Company’s common stock in the open market for approximately \$2.5 million, at an average purchase price per share of \$11.49. The Company made sufficient contributions to the RRP Trust to fund these purchases.