

PRUDENTIAL BANCORP, INC.
Form 10-Q
August 14, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended June 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
(State or Other Jurisdiction of
Incorporation or Organization)

46-2935427
(I.R.S. Employer Identification No.)

1834 Oregon Avenue Philadelphia,
Pennsylvania
(Address of Principal Executive
Offices)

19145
Zip Code

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

Edgar Filing: PRUDENTIAL BANCORP, INC. - Form 10-Q

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated
filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of the latest practical date: as of August 1, 2014, 9,544,809 shares were issued and outstanding.

PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	PAGE	
PART I	FINANCIAL INFORMATION:	
Item 1.	Consolidated Financial Statements	
	Unaudited Consolidated Statements of Financial Condition June 30, 2014 and September 30, 2013	2
	Unaudited Consolidated Statements of Operations for the Three and Nine months Ended June 30, 2014 and 2013	3
	Unaudited Consolidated Statements of Comprehensive Income(Loss) for for the Three and Nine Months Ended June 30, 2014 and 2013	4
	Unaudited Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended June 30, 2014 and 2013	5
	Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2014 and 2013	6
	Notes to Unaudited Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	9
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	54
Item 4.	Controls and Procedures	54
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	55
Item 1A.	Risk Factors	55
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	55
Item 3.	Defaults Upon Senior Securities	55
Item 4.	Mine Safety Disclosures	55

Item 5.	Other Information	55
Item 6.	Exhibits	55
SIGNATURES		56

PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	June 30, 2014	September 30, 2013
(Dollars in Thousands, Except Per Share Data)		
ASSETS		
Cash and amounts due from depository institutions	\$2,093	\$2,670
Interest-bearing deposits	27,588	156,314
Total cash and cash equivalents	29,681	158,984
Investment and mortgage-backed securities available for sale (amortized cost— June 30, 2014, \$57,509; September 30, 2013, \$43,744)	56,527	41,781
Investment and mortgage-backed securities held to maturity (fair value— June 30, 2014, \$81,691; September 30, 2013, \$80,582)	83,622	83,732
Loans receivable—net of allowance for loan losses (June 30, 2014, \$2,185; September 30, 2013, \$2,353)	321,679	306,517
Accrued interest receivable	1,825	1,791
Real estate owned	460	406
Federal Home Loan Bank stock—at cost	1,221	1,181
Office properties and equipment—net	1,374	1,525
Bank owned life insurance	12,288	7,119
Prepaid expenses and other assets	2,366	3,555
Deferred tax asset-net	902	1,306
TOTAL ASSETS	\$511,945	\$607,897

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:

Deposits:

Noninterest-bearing	\$2,806	\$3,474
Interest-bearing	374,096	539,274
Total deposits	376,902	542,748
Advances from Federal Home Loan Bank	340	340
Accrued interest payable	1,054	1,666
Advances from borrowers for taxes and insurance	2,369	1,480
Accounts payable and accrued expenses	1,824	1,751
Total liabilities	382,489	547,985

STOCKHOLDERS' EQUITY:

Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued	-	-
Common stock, \$.01 par value, 40,000,000 shares authorized; 9,544,809 issued and outstanding at June 30, 2014 and 11,862,693 issued and 9,646,184 outstanding at	95	118

Edgar Filing: PRUDENTIAL BANCORP, INC. - Form 10-Q

September 30, 2013

Additional paid-in capital	94,319	55,297
Unearned ESOP shares	(5,396)	(2,565)
Treasury stock, at cost: 2,398,509 shares at September 30, 2013	-	(31,625)
Retained earnings	41,087	39,979
Accumulated other comprehensive loss	(649)	(1,292)
Total stockholders' equity	129,456	59,912
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$511,945	\$607,897

See notes to unaudited consolidated financial statements.

PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(Dollars in Thousands, Except Per Share Data)			
INTEREST INCOME:				
Interest on loans	\$ 3,184	\$ 3,134	\$ 9,489	\$ 9,522
Interest on mortgage-backed securities	378	405	1,054	1,583
Interest and dividends on investments	553	566	1,639	1,594
Interest on interest-bearing assets	21	21	108	77
Total interest income	4,136	4,126	12,290	12,776
INTEREST EXPENSE:				
Interest on deposits	826	1,037	2,583	3,396
Total interest expense	826	1,037	2,583	3,396
NET INTEREST INCOME	3,310	3,089	9,707	9,380
PROVISION FOR LOAN LOSSES	-	-	-	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,310	3,089	9,707	9,380
NON-INTEREST INCOME:				
Fees and other service charges	103	103	289	298
Gain on sale of securities available for sale, net	-	852	274	868
Total other-than-temporary impairment losses	(1)	(8)	(16)	(33)
Portion of loss recognized in other comprehensive income, before taxes	-	1	-	6
Net impairment losses recognized in earnings	(1)	(7)	(16)	(27)
Other	92	129	221	352
Total non-interest income	194	1,077	768	1,491
NON-INTEREST EXPENSE:				
Salaries and employee benefits	1,578	1,475	4,747	4,433
Data processing	103	106	323	329
Professional services	196	246	719	690

Edgar Filing: PRUDENTIAL BANCORP, INC. - Form 10-Q

Office occupancy	122	100	365	292
Depreciation	81	85	244	257
Payroll taxes	85	79	293	267
Director compensation	70	77	241	249
Deposit insurance	54	154	202	473
Real estate owned expense	87	56	151	442
Advertising	18	67	162	223
Other	362	272	1,066	944
Total non-interest expense	2,756	2,717	8,513	8,599
INCOME BEFORE INCOME TAXES	748	1,449	1,962	2,272
INCOME TAXES:				
Current expense (benefit)	321	43	496	(392)
Deferred (benefit) expense	(94)	721	72	1,693
Total income tax expense	227	764	568	1,301
NET INCOME	\$ 521	\$ 685	\$ 1,394	\$ 971
BASIC EARNINGS PER SHARE	\$ 0.06	\$ 0.08	\$ 0.15	\$ 0.11
DILUTED EARNINGS PER SHARE	\$ 0.06	\$ 0.07	\$ 0.15	\$ 0.11
DIVIDENDS PER SHARE	\$ 0.03	\$ 0.00	\$ 0.03	\$ 0.00

See notes to unaudited consolidated financial statements.

PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three months ended June 30, 2014		Nine months ended June 30, 2014	
	2013		2013	
	(Dollars in Thousands)			
Net income	\$521	\$685	\$1,394	\$971
Unrealized holding gains (losses) on available-for-sale securities	932	(2,117)	1,232	(2,683)
Tax effect	(317)	720	(419)	914
Reclassification adjustment for net gains realized in net income	-	(852)	(274)	(868)
Tax effect	-	290	93	295
Reclassification adjustment for other-than-temporary impairment losses on debt securities	1	7	16	27
Tax effect	-	(2)	(5)	(9)
Total other comprehensive income (loss)	616	(1,954)	643	(2,324)
Comprehensive Income (Loss)	\$1,137	\$(1,269)	\$2,037	\$(1,353)

See notes to unaudited consolidated financial statements

PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares (Dollars in Thousands, Except Per Share Data)	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
BALANCE, OCTOBER 1, 2013	\$ 118	\$ 55,297	\$ (2,565)	\$ (31,625)	\$ 39,979	\$ (1,292)	\$ 59,912
Net income					1,394		1,394
Other comprehensive income						643	643
Dividends Paid (\$0.03 per share)					(286)		(286)
Second-step conversion offering	(23)	38,725		31,625			70,327
Excess tax benefit from stock compensation plans		69					69
Stock option expense		116					116
Recognition and Retention Plan expense		107					107
Purchase of ESOP Shares (285,664 shares)			(3,089)				(3,089)
ESOP shares committed to be released (23,155 shares)		5	258				263

Edgar Filing: PRUDENTIAL BANCORP, INC. - Form 10-Q

BALANCE, June 30, 2014 \$ 95 \$ 94,319 \$ (5,396) \$ - \$ 41,087 \$ (649) \$ 129,456

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares (Dollars in Thousands, Except Per Share Data)	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE, OCTOBER 1, 2012	\$ 126	\$ 54,610	\$ (2,787)	\$ (31,625)	\$ 38,224	\$ 1,283	\$ 59,831
Net income					971		971
Other comprehensive loss						(2,324)	(2,324)
Excess tax benefit from stock compensation plans		90					90
Stock option expense		186					186
Recognition and Retention Plan expense		270					270
ESOP shares committed to be released (16,018 shares)		(38)	166				128
BALANCE, June 30, 2013	\$ 126	\$ 55,118	\$ (2,621)	\$ (31,625)	\$ 39,195	\$ (1,041)	\$ 59,152

See notes to unaudited consolidated financial statements

PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended June 30,	
	2014	2013
	(Dollars in Thousands)	
OPERATING ACTIVITIES:		
Net income	\$1,394	\$971
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	244	257
Net accretion of premiums/discounts	(264)	(508)
Net amortization (accretion) of deferred loan fees and costs	177	(22)
Impairment charge on investment and mortgage-backed securities	16	27
Share-based compensation expense	292	546
Gain on sale of investment and mortgage-backed securities	(274)	(868)
Loss on sale of real estate owned	-	46
Income from bank owned life insurance	(169)	(152)
Compensation expense of ESOP	263	128
Deferred income tax expense	72	1,693
Excess tax benefit related to stock compensation plans	(69)	(90)
Changes in assets and liabilities which used cash:		
Accrued interest receivable	(34)	(208)
Prepaid expenses and other assets	1,183	1,459
Accrued interest payable	(612)	(1,157)
Accounts payable and accrued expenses	73	(788)
Net cash (used) provided by operating activities	2,292	1,334
INVESTING ACTIVITIES:		
Purchase of investment and mortgage-backed securities held to maturity	(7,000)	(33,462)
Purchase of investment and mortgage-backed securities available for sale	(17,452)	(16,955)
Loans originated or acquired	(54,178)	(65,025)
Principal collected on loans	38,756	33,035
Principal payments received on investment and mortgage-backed securities:		
Held-to-maturity	7,142	11,798
Available-for-sale	2,856	21,215
Purchases of FHLB stock	(40)	-
Proceeds from redemption of FHLB stock	-	1,056
Proceeds from sale of investment and mortgage-backed securities	1,321	16,158
Purchase of bank owned life insurance	(5,000)	-
Proceeds from sale of loans	-	9,240
Proceeds from sale of real estate owned	29	1,226
Purchases of equipment	(93)	(80)
Net cash used in investing activities	(33,659)	(21,794)
FINANCING ACTIVITIES:		
Net (decrease) increase in demand deposits, NOW accounts, and savings accounts	(2,382)	2,900
Redemption of funds held in escrow relating to second-step conversion	(145,675)	-

Edgar Filing: PRUDENTIAL BANCORP, INC. - Form 10-Q

Net decrease in certificates of deposit	(17,789)	(25,546)
Repayment of advances from Federal Home Loan Bank	-	(143)
Decrease in advances from borrowers for taxes and insurance	889	958
Cash dividends paid	(286)	
Issuance of common stock relating to second-step conversion	38,702	-
Cancellation of treasury stock	31,625	-
Purchase of stock for ESOP	(3,089)	-
Excess tax benefit related to stock compensation plans	69	90
Net cash used in financing activities	(97,936)	(21,741)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(129,303)	(42,201)
CASH AND CASH EQUIVALENTS—Beginning of period	158,984	81,273
CASH AND CASH EQUIVALENTS—End of period	\$29,681	\$39,072
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid on deposits and advances from Federal Home Loan Bank	\$3,195	\$4,553
Income taxes paid	\$-	\$-
SUPPLEMENTAL DISCLOSURES OF NONCASH ITEMS:		
Real estate acquired in settlement of loans	\$83	\$282

See notes to unaudited consolidated financial statements.

PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Organization –On October 9, 2013, Prudential Mutual Holding Company (“MHC”) and Prudential Bancorp of Pennsylvania, Inc. (“Old Prudential”), the Pennsylvania-chartered mid-tier holding company for Prudential Savings Bank (the “Bank”), completed a reorganization and conversion (the “second-step conversion”), pursuant to which Prudential Bancorp, Inc., a new Pennsylvania corporation (“Prudential” or the “Company”), became the holding company for the Bank and the MHC and Old Prudential ceased to exist. In connection with the second-step conversion, 7,141,602 shares of common stock, par value \$0.01 per share, of Prudential were sold in a subscription offering to certain depositors of the Bank for \$10 per share or in the aggregate (the “Offering”), and 2,403,207 shares of common stock were issued in exchange for the outstanding shares of common stock of Old Prudential, which were held by the “public” shareholders of Old Prudential. Each share of common stock of Old Prudential was converted into right to receive 0.9442 shares of common stock of the Company in the second step conversion. As a result of the second-step conversion, the former MHC and Old Prudential were merged in the Company and 2,540,255 (pre-conversion) treasury shares were cancelled.

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

The Bank is subject to regulation by the Pennsylvania Department of Banking and Securities (the “Department”), as its chartering authority and primary regulator, and by the Federal Deposit Insurance Corporation (the “FDIC”), which insures the Bank’s deposits up to applicable limits. As a bank holding company, Prudential is subject to the regulation of the Board of Governors of the Federal Reserve System.

Basis of presentation –The accompanying unaudited consolidated financial statements were prepared pursuant to the rules and regulations of the U. S. Securities and Exchange Commission (“SEC”) for interim information and therefore do not include all the information or footnotes necessary for a complete presentation of financial condition, results of operations, comprehensive income, changes in equity and cash flows in conformity with accounting principles generally accepted in the United States of America (“GAAP”). However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. The results for the three and nine months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2014, or any other period. These financial statements should be read in conjunction with the audited consolidated financial statements of Prudential Bancorp, Inc. of Pennsylvania and the accompanying notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

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

Employee Stock Ownership Plan – The Company maintains an employee stock ownership plan (“ESOP”) for substantially all of its full-time employees. The ESOP purchased 427,057 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 aggregated cost of approximately \$3.1 million. Shares of the Company’s common stock purchased by the ESOP are held in a suspense account until released for allocation to participants. Shares are allocated to each eligible participant based on the ratio of each such participant’s compensation, as defined in the ESOP, to the total compensation of all eligible plan participants. As the unearned shares are released from the suspense account, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to equity as additional paid-in capital. As of June 30, 2014, the Company had allocated a total of 172,725 shares from the suspense account to participants and committed to release an additional 23,155 shares. For the three and nine months ended June 30, 2014, the Company recognized \$97,000 and \$249,000, respectively, in compensation expense related to the ESOP. At June 30, 2014, 697,302 shares were held in the ESOP.

Share-Based Compensation – The Company accounts for stock-based compensation issued to employees, and where appropriate, non-employees, at fair value. Under fair value provisions, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the appropriate vesting period using the straight-line method. The amount of stock-based compensation recognized at any date must at least equal the portion of the grant date fair value of the award that is vested at that date and as a result it may be necessary to recognize the expense using a ratable method. Determining the fair value of stock-based awards at the date of grant requires judgment, including estimating the expected term of the stock options and the expected volatility of the Company’s stock. In addition, judgment is required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from these estimates or different key assumptions were used, it could have a material effect on the Company’s consolidated financial statements.

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

Treasury Stock – Stock held in treasury by the Company is accounted for using the cost method, which treats stock held in treasury as a reduction to total stockholders’ equity. Effective October 9, 2013, all outstanding treasury stock was cancelled as part of the second-step conversion and related stock offering.

FHLB Stock – FHLB stock is classified as a restricted equity security because ownership is restricted and there is not an established market for its resale. FHLB stock is carried at cost and is evaluated for impairment when certain conditions warrant further consideration. Management concluded that the FHLB stock was not impaired at June 30, 2014.

Recent Accounting Pronouncements

In June 2013, the Financial Accounting Standards Board (“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 noncontrolling ownership interests

in other investment companies at fair value rather than using the equity method of accounting; and (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 Update 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 Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. 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, 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 Update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. This ASU is not expected to have a significant impact on the Company's financial statements.

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 require that a performance target that affects vesting and that could be achieved after the requisite service period 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.

2.

EARNINGS PER SHARE

Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding, net of any treasury shares, during the period. Diluted earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding, net of any treasury shares, after consideration of the potential dilutive effect of common stock equivalents, based upon the treasury stock method using an average market price for the period. The outstanding and dilutive shares amounts for the three and nine month periods ended June 30, 2013 have been adjusted to apply the exchange ratio of 0.9442 shares for every one share as a result of the second-step

conversion.

10

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

	Three Months Ended June 30,			
	2014		2013	
	Basic	Diluted	Basic	Diluted
	(Dollars in Thousands Except Per Share Data)			
Net income	\$ 521	\$ 521	\$ 685	\$ 685
Weighted average shares outstanding	8,971,874	8,971,874	9,130,332	9,130,332
Effect of common stock equivalents	-	216,541	-	84,433
Adjusted weighted average shares used in earnings per share computation	8,971,874	9,188,415	9,130,332	9,214,765
Earnings per share - basic and diluted	\$ 0.06	\$ 0.06	\$ 0.08	\$ 0.07

	Nine Months Ended June 30,			
	2014		2013	
	Basic	Diluted	Basic	Diluted
	(Dollars in Thousands Except Per Share Data)			
Net income	\$ 1,394	\$ 1,394	\$ 971	\$ 971
Weighted average shares outstanding	9,088,086	9,088,086	9,112,866	9,112,866
Effect of common stock equivalents	-	211,429	-	83,583
Adjusted weighted average shares used in earnings per share computation	9,088,086	9,299,515	9,112,866	9,196,449
Earnings per share - basic and diluted	\$ 0.15	\$ 0.15	\$ 0.11	\$ 0.11

Options to purchase 383,015 shares and 523,650 shares (in each case, on a converted basis) of common stock at an exercise price greater than the current market value were outstanding at June 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 price for the stock options representing the anti-dilutive shares was \$11.84 at June 30, 2014 and ranged from \$7.68 to \$11.84 at June 30, 2013.

3. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended June 30,	
	2014	2013
	(Dollars in Thousands)	
	Unrealized gains (losses) on available for sale securities (a)	Unrealized gains (losses) on available for sale securities (a)
Beginning Balance	\$ (1,265)	\$ 913
Other comprehensive income (loss) before reclassification	615	(1,397)
Amount reclassified from accumulated other comprehensive income (loss)	1	(557)
Total other comprehensive income(loss)	616	(1,954)
Ending Balance	\$ (649)	\$ (1,041)

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

	Nine Months Ended June 30,	
	2014	2013
	(Dollars in Thousands)	
	Unrealized gains (losses) on available for sale securities (a)	Unrealized gains (losses) on available for sale securities (a)
Beginning Balance	\$ (1,292)	\$ 1,283
Other comprehensive income (loss) gain before reclassification	813	(1,769)
Amount reclassified from accumulated other comprehensive income (loss)	(170)	(555)
Total other comprehensive income(loss)	643	(2,324)
Ending Balance	\$ (649)	\$ (1,041)

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive income (loss):

	Three Months Ended June 30,		
	2014	2013	
	Amount	Amount	
	Reclassified	Reclassified	
	from	from	
	Accumulated	Accumulated	Affected Line Item in
	Other	Other	the Statement Where
	Comprehensive	Comprehensive	Net Income(Loss) is
	Income(Loss)	Income(Loss)	
Details about other comprehensive income (loss)	(a)	(a)	Presented
	(Dollars in Thousands)		
Unrealized gains on available for sale securities			
	\$ -	\$ 852	Gain on sale of securities available for sale, net
	-	(289)) Income taxes
	(1)	(7)	Net impairment losses recognized in earnings
	-	2) Income taxes
	\$ (1)	\$ 558	Net income

(a) Amounts in parentheses indicate debits to net income

	Nine Months Ended June 30,		
	2014	2013	
	Amount	Amount	
	Reclassified	Reclassified	
	from	from	
	Accumulated	Accumulated	Affected Line Item in
	Other	Other	the Statement Where
	Comprehensive	Comprehensive	Net Income(Loss) is
	Income(Loss)	Income(Loss)	
Details about other comprehensive income	(a)	(a)	Presented
	(Dollars in Thousands)		
Unrealized gains on available for sale securities			
	\$ 274	\$ 868	Gain on sale of securities available for sale, net
	(93)	(295)) Income taxes
	(16)	(27)	Net impairment losses recognized in earnings
	5	9) Income taxes
	\$ 170	\$ 555	Net income

(a) Amounts in parentheses indicate debits to net income

13

4. INVESTMENT AND MORTGAGE-BACKED SECURITIES

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

	June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)			
Securities Available for Sale:				
U.S. government and agency obligations	\$ 18,987	\$ -	\$ (1,161)	\$ 17,826
Mortgage-backed securities - U.S. government agencies	36,598	245	(389)	36,454
Mortgage-backed securities - non-agency (1)	1,918	237	(11)	2,144
Total debt securities available for sale	57,503	482	(1,561)	56,424
FHLMC preferred stock	6	97	-	103
Total securities available for sale	\$ 57,509	\$ 579	\$ (1,561)	\$ 56,527
Securities Held to Maturity:				
U.S. government and agency obligations	\$ 68,933	\$ 555	\$ (3,576)	\$ 65,912
Mortgage-backed securities - U.S. government agencies	14,689	1,164	(74)	15,779
Total securities held to maturity	\$ 83,622	\$ 1,719	\$ (3,650)	\$ 81,691

(1) Includes impaired securities.

	September 30, 2013			
	Amortized Cost (Dollars in Thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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 (1)	3,319	301	(90)	3,530
Total debt securities available for sale	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

(1) Includes impaired securities

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

	Less than 12 months		More than 12 months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
(Dollars in Thousands)						
Securities Available for Sale:						
U.S. government and agency obligations	\$ -	\$ -	\$ (1,161)	\$ 17,826	\$ (1,161)	\$ 17,826
Mortgage-backed securities - U.S. government agencies	(52)	9,039	(337)	14,348	(389)	23,387
Mortgage-backed securities - non-agency	(1)	116	(10)	416	(11)	532
Total securities available for sale	(53)	9,155	(1,508)	32,590	(1,561)	41,745
Securities Held to Maturity:						
U.S. government and agency obligations	(4)	1,996	(3,572)	51,367	(3,576)	53,363
Mortgage-backed securities - U.S. government agencies	(74)	4,746	-	-	(74)	4,746
Total securities held to maturity	(78)	6,742	(3,572)	51,367	(3,650)	58,109
Total	\$ (131)	\$ 15,897	\$ (5,080)	\$ 83,957	\$ (5,211)	\$ 99,854

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

	Less than 12 months		More than 12 months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
(Dollars in Thousands)						
Securities Available for Sale:						
U.S. government and agency obligations	\$ (1,727)	\$ 17,259	\$ -	\$ -	\$ (1,727)	\$ 17,259
Mortgage-backed securities - 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	(1,038)	9,956	(4,855)	50,082
Mortgage-backed securities - agency	(76)	5,253	-	-	(76)	5,253
Total securities held to maturity	(3,893)	45,379	(1,038)	9,956	(4,931)	55,335
Total	\$ (6,334)	\$ 80,502	\$ (1,118)	\$ 10,416	\$ (7,452)	\$ 90,918

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

The Company assesses whether a credit loss exists with respect to a security 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 has occurred, 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 flows 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 security and other factors, then applies a discount rate equal to the effective yield of the security. The difference between the present value of the expected cash flows and the amortized book value is considered a credit loss. The fair market value of the security is determined using the same expected cash flows; the discount rate is a rate the Company determines from open market and other sources as appropriate for the particular security. The difference between the fair market value and the security's remaining amortized cost is recognized in other comprehensive income(loss).

The following is a rollforward for the three and nine months ended June 30, 2014 of the amounts recognized in earnings related to credit losses on securities on which the Company has recorded OTTI charges through earnings and comprehensive income.

	Three Months Ended June 30, 2014 (Dollars in Thousands)
Credit component of OTTI as of April 1, 2014	\$ 1,614
Additions for credit-related OTTI charges on previously unimpaired securities	-
Additional increase as a result of impairment charges recognized on investments for which an OTTI charge was previously recognized	1
Credit component of OTTI as of June 30, 2014	\$ 1,615
	Nine Months Ended June 30, 2014 (Dollars in Thousands)
Credit component of OTTI as of October 1, 2013	\$ 1,599
Additions for credit-related OTTI charges on previously unimpaired securities	-
Additional increase as a result of impairment charges recognized on investments for which an OTTI charge was previously recognized	16
Credit component of OTTI as of June 30, 2014	\$ 1,615

U.S. Government Agency Obligations - The Company's investments reflected in the tables above in U.S. Government agency 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 June 30, 2014, U.S. Government and agency obligations in a gross unrealized loss for less than 12 months consisted of two securities having an aggregate depreciation of \$4,000 or 0.2% from the Company's amortized cost basis. There were 28 securities in a gross unrealized loss for more than 12 months at such date having an aggregate depreciation of \$4.7 million or 6.4% from the Company's amortized cost basis. The unrealized losses on these debt securities relate principally to the changes in market interest rates and a lack of liquidity currently in the financial markets and are not a result of a 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 June 30, 2014.

U.S. Agency Issued Mortgage-Backed Securities - At June 30, 2014, the gross unrealized loss in U.S. agency issued mortgage-backed securities in the category of experiencing a gross unrealized loss for less than 12 months was \$126,000 or 0.9% from the Company's amortized cost basis and consisted of seven securities. There were eight securities in a gross unrealized loss for more than 12 months at such date having an aggregate depreciation of

\$337,000 or 2.4% from the Company's amortized cost basis. 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 of these two entities 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 purchase agreements enhance market stability by providing additional security to debt holders, senior and subordinated, thereby alleviating the concern of the credit driven impairment of the securities.

Non-Agency Issued Mortgage-Backed Securities and Collateralized Mortgage Obligations - This portfolio was acquired through the redemption-in-kind during 2008 of the Company's entire investment in a mutual fund and at June 30, 2014 included 43 collateralized mortgage obligations ("CMO") and mortgage-backed securities issued by large commercial financial institutions. For the three and nine month period ended June 30, 2014, management recognized an OTTI charge related to a portion of the portfolio securities in the amount of \$1,000 and \$16,000, respectively, 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 to the point that full recovery of the entire amortized cost of the investment was considered to be uncertain. This portfolio consists primarily of securities 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. For the overall portfolio of the securities, there was exposure to real estate markets that have experienced significant declines in real estate values. Consequently, an additional OTTI charge was deemed to be warranted as of June 30, 2014. Of the recorded charge, all \$16,000 for the nine month period was concluded to be credit related and recognized currently in earnings and none was concluded to be attributable to other factors which would be recognized in accumulated other comprehensive loss.

As of June 30, 2014, with the exception of securities discussed above, there are no securities for which the Company currently believes it is not probable that it will collect all amounts due according to the contractual terms of the investment. Management concluded that an "other-than-temporary" impairment did not exist and the decline in value was attributed to the illiquidity in the financial markets. With respect to the \$11,000 in gross unrealized losses related to this part of the portfolio, six securities had been in a loss position for longer than 12 months while one security had been in a loss position for less than 12 months. However, the Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities.

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

	June 30, 2014		Available for Sale	
	Held to Maturity			
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in Thousands)			
Due within one year	\$ -	\$ -	\$ -	\$ -
Due after one through five years	5,999	6,338	-	-
Due after five through ten years	12,495	12,233	1,999	1,922
Due after ten years	50,439	47,341	16,988	15,904
Total	\$ 68,933	\$ 65,912	\$ 18,987	\$ 17,826

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

During the three month period ended June 30, 2014, no securities were sold and for the nine month period ended June 30, 2014, the Company sold five mortgage-backed securities with an aggregate amortized cost of \$1.0 million and recognized gains of \$274,000. During the three and nine month periods ended June 30, 2014, no securities were sold at a loss. During the three month period ended June 30, 2013, the Company sold 19 mortgage-backed securities and one agency security with an aggregate amortized cost of \$14.0 million and recognized gains of \$852,000. During the nine months period ended June 30, 2013, the Company sold 21 mortgage-backed securities and one agency security with an aggregate amortized cost of \$15.3 million and recognized gains of \$868,000. During the three and nine month periods ended June 30, 2013, no securities were sold at a loss.

5. LOANS RECEIVABLE

Loans receivable consist of the following:

	June 30, 2014	September 30, 2013
	(Dollars in Thousands)	
One-to-four family residential	\$ 282,674	\$ 270,791
Multi-family residential	6,740	5,716
Commercial real estate	16,469	19,506
Construction and land development	23,863	11,356
Commercial business	569	588
Consumer	404	438
Total loans	330,719	308,395
Undisbursed portion of loans-in-process	(9,265)	(1,676)
Deferred loan costs	2,410	2,151
Allowance for loan losses	(2,185)	(2,353)
Net loans	\$ 321,679	\$ 306,517

The following table summarizes the loans individually and collectively evaluated for impairment by loan segment at June 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	\$ 10,798	\$ 370	\$ 3,351	\$ 7,414	\$ -	\$ -	\$ 21,933
Collectively evaluated for impairment	271,876	6,370	13,118	16,449	569	404	308,786
Total loans	\$ 282,674	\$ 6,740	\$ 16,469	\$ 23,863	\$ 569	\$ 404	\$ 330,719

The following table summarizes the loans individually and collectively 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 for potential impairment all construction loans, commercial real estate and commercial business loans and all loans 90 plus days delinquent as to principal and/or interest. 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. On collateral based loans, any portion of the loan deemed uncollectible is charged-off against the loan loss allowance.

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 required as of June 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	\$ -	\$ -	\$ 10,798	\$ 10,798	\$ 11,497
Multi-family residential	-	-	370	370	370
Commercial real estate	-	-	3,351	3,351	3,351
Construction and land development	-	-	7,414	7,414	7,414
Total Loans	\$ -	\$ -	\$ 21,933	\$ 21,933	\$ 22,632

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 required 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	\$ 10,754
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	\$ 15,118

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

	Three Months Ended June 30, 2014		
	Average Recorded Investment	Income Recognized on Accrual Basis	Income Recognized on Cash Basis
One-to-four family residential	\$ 10,030	\$ 78	\$ 85
Multi-family residential	188	7	-
Commercial real estate	1,468	8	7
Construction and land development	4,052	34	-
Total Loans	\$ 15,738	\$ 127	\$ 92

	Nine Months Ended June 30, 2014		
	Average Recorded Investment	Income Recognized on Accrual Basis (Dollars in Thousands)	Income Recognized on Cash Basis
One-to-four family residential	\$ 10,342	\$ 242	\$ 136
Multi-family residential	285	20	7
Commercial real estate	1,926	18	14
Construction and land development	2,628	70	-
Total Loans	\$ 15,181	\$ 350	\$ 157

	Three Months Ended June 30, 2013		
	Average Recorded Investment	Income Recognized on Accrual Basis (Dollars in Thousands)	Income Recognized on Cash Basis
One-to-four family residential	\$ 13,622	\$ 115	\$ 2
Multi-family residential	561	7	-
Commercial real estate	2,614	8	2
Construction and land development	1,295	22	-
Consumer	6	-	-
Total Loans	\$ 18,098	\$ 152	\$ 4

	Nine Months Ended June 30, 2013		
	Average Recorded Investment	Income Recognized on Accrual Basis	Income Recognized on Cash Basis
		(Dollars in Thousands)	
One-to-four family residential	\$ 17,117	\$ 440	\$ 71
Multi-family residential	793	40	-
Commercial real estate	1,917	38	14
Construction and land development	1,585	85	-
Consumer	2	-	-
Total Loans	\$ 21,414	\$ 603	\$ 85

Federal regulations and our policies require that the Company utilize an internal asset classification system as a means of reporting problem and potential problem assets. The Company has incorporated an internal asset classification system, consistent with Federal banking regulations, as a part of its 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 table presents 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”, “doubtful” and “loss” within the Company’s risk rating system as applied to the loan portfolio. The Company had no loans classified as “doubtful” or “loss” at either of the dates presented.

	June 30, 2014			
	Pass	Special Mention	Substandard	Total Loans
	(Dollars in Thousands)			
Multi-family residential	\$ 6,370	\$ -	\$ 370	\$ 6,740
Commercial real estate	12,125	993	3,351	16,469
Construction and land development	16,449	-	7,414	23,863
Commercial business	569	-	-	569
Total Loans	\$ 35,513	\$ 993	\$ 11,135	\$ 47,641

	September 30, 2013			Total Loans
	Pass	Special Mention	Substandard	
	(Dollars in Thousands)			
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	\$ 8,975	\$ 4,364	\$37,166

The Company evaluates the classification of one-to-four family residential and consumer loans primarily on a pooled basis. If the Company becomes aware that adverse or distressed conditions exist that may affect a particular single-family residential loan, the loan is downgraded following the above definitions of special mention, substandard, doubtful and loss.

The following table represents 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. Non-performing loans are those greater than days past due or classified as non-accrual.

	June 30, 2014		
	Performing	Non- Performing	Total Loans
	(Dollars in Thousands)		
One-to-four family residential	\$277,307	\$ 5,367	\$282,674
Consumer	404	-	404
Total Loans	\$277,711	\$ 5,367	\$283,078

	September 30, 2013		
	Performing	Non- Performing	Total Loans
	(Dollars in Thousands)		
One-to-four family residential	\$266,532	\$ 4,259	\$270,791
Consumer	438	-	438
Total Loans	\$266,970	\$ 4,259	\$271,229

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

	June 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	\$ 277,623	\$ 1,401	\$ 3,650	\$ -	\$ 1,401	\$ 282,674	\$ 5,367
Multi-family residential	6,740	-	-	-	-	6,740	-
Commercial real estate	16,021	-	448	-	-	16,469	1,907
Construction and land development	23,863	-	-	-	-	23,863	-
Commercial business	569	-	-	-	-	569	-
Consumer	404	-	-	-	-	404	-
Total Loans	\$ 325,220	\$ 1,401	\$ 4,098	\$ -	\$ 1,401	\$ 330,719	\$ 7,274

	September 30, 2013						
	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	\$ 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
	11,356	-	-	-	-	11,356	-

Construction and land development							
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. The Company maintains the allowance at a level believed to cover all known and inherent losses in the portfolio that are both probable and reasonable to estimate at each reporting date. Management reviews the allowance for loan losses no less than quarterly in order to identify these 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 the Company's loans, the value of collateral securing the loans, the borrowers' 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 borrowers and the value of the collateral property.

The following table summarizes the primary segments of the allowance for loan losses, segmented into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment. Activity in the allowance is presented for the three and nine month periods ended June 30, 2014 and 2013:

Three Months Ended June 30, 2014

	One- to four-family residential	Multi-famil- residential	Commercial real estate	Construction and land development	Commercial business	Consumer	Unallocated	Total
	(Dollars in Thousands)							
ALLL balance at March 31, 2014.	\$ 1,425	\$ 64	\$ 141	\$ 523	\$ 4	\$ 3	\$ 230	\$ 2,390
Charge-offs	(205)	-	-	-	-	-	-	(205)
Recoveries	-	-	-	-	-	-	-	-
Provision	66	(6)	(16)	(11)	(1)	(2)	(30)	-
ALLL balance at June 30, 2014	\$ 1,286	\$ 58	\$ 125	\$ 512	\$ 3	\$ 1	\$ 200	\$ 2,185
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	\$ 1,286	\$ 58	\$ 125	\$ 512	\$ 3	\$ 1	\$ 200	\$ 2,185

Nine Months Ended June 30, 2014

	One- to four-family residential	Multi-famil- residential	Commercial real estate	Construction and land development	Commercial business	Consumer	Unallocated	Total
	(Dollars in Thousands)							
	\$ 1,384	\$ 22	\$ 70	\$ 653	\$ 4	\$ 2	\$ 218	\$ 2,353

ALLL balance
at September
30, 2013.

Charge-offs	(215)	-	-	-	-	-	-	(215)
Recoveries	47	-	-	-	-	-	-	47
Provision	70	36	55	(141)	(1)	(1)	(18)	-
ALLL balance at June 30, 2014	\$ 1,286	\$ 58	\$ 125	\$ 512	\$ 3	\$ 1	\$ 200	\$ 2,185

Individually
evaluated for
impairment

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
------	------	------	------	------	------	------	------	------

Collectively
evaluated for
impairment

\$ 1,286	\$ 58	\$ 125	\$ 512	\$ 3	\$ 1	\$ 200	\$ 2,185
----------	-------	--------	--------	------	------	--------	----------

Three Months Ended June 30, 2013

	One- to four-family residential	Multi-family residential	Commercial real estate	Construction and land development	Commercial business	Consumer	Unallocated	Total
(Dollars in Thousands)								
ALLL balance at March 31, 2013	\$ 801	\$ 7	\$ 175	\$ 1,297	\$ 3	\$ 1	\$ 228	\$ 2,512
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	139	-	-	-	139
Provision	(10)	-	-	-	-	10	-	-
ALLL balance at June 30, 2013	\$ 791	\$ 7	\$ 175	\$ 1,436	\$ 3	\$ 11	\$ 228	\$ 2,651
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10	\$ -	\$ 10
Collectively evaluated for impairment	\$ 791	\$ 7	\$ 175	\$ 1,436	\$ 3	\$ 1	\$ 228	\$ 2,641

Nine Months Ended June 30, 2013

	One- to four-family residential	Multi-family residential	Commercial real estate	Construction and land development	Commercial business	Consumer	Unallocated	Total
(Dollars in Thousands)								
ALLL balance at September 30, 2012	\$ 830	\$ 7	\$ 125	\$ 745	\$ 3	\$ 1	\$ 170	\$ 1,881
Charge-offs	(154)	-	-	-	-	-	-	(154)
Recoveries	25	-	-	899	-	-	-	924
Provision	90	-	50	(208)	-	10	58	-
ALLL balance at June 30, 2013	\$ 791	\$ 7	\$ 175	\$ 1,436	\$ 3	\$ 11	\$ 228	\$ 2,651
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10	\$ -	\$ 10
Collectively evaluated for impairment	\$ 791	\$ 7	\$ 175	\$ 1,436	\$ 3	\$ 1	\$ 228	\$ 2,641

The following tables summarizes information regarding troubled debt restructurings for both three and nine months ended June 30, 2014 and 2013:

Three Months Ended June 30, 2014

(Dollars in Thousands)	Number of Loans	Pre- Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	1	\$ 453	\$ 800
	1	\$ 453	\$ 800

Nine Months Ended June 30, 2014

(Dollars in Thousands)	Number of Loans	Pre- Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
One-to-four family	1	\$ 1,468	\$ 1,468
Commercial	1	453	800
	2	\$ 1,921	\$ 2,268

Three Months Ended June 30, 2013

(Dollars in Thousands)	Number of Loans	Pre- Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
One-to-four family	-	-	-
	-	-	-

Nine Months Ended June 30, 2013

(Dollars in Thousands)	Number of Loans	Pre- Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
One-to-four family	1	\$ 1,321	\$ 1,321
	1	\$ 1,321	\$ 1,321

No troubled debt restructurings defaulted during the three and nine month periods ended June 30, 2014 or 2013 that were restructured in the twelve months preceeding the periods presented.

6. DEPOSITS

Deposits consist of the following major classifications:

	June 30, 2014		September 30, 2013	
	Amount	Percent (Dollars in Thousands)	Amount	Percent
Money market deposit accounts	\$ 66,627	17.7 %	\$ 65,298	12.0 %
Interest-bearing checking accounts	36,929	9.8	36,063	6.6
Non-interest bearing checking accounts	2,806	0.7	3,474	0.6
Passbook, club and statement savings (1)	74,031	19.6	223,615	41.3
Certificates maturing in six months or less	29,714	7.9	65,831	12.1
Certificates maturing in more than six months	166,795	44.3	148,467	27.4
Total	\$ 376,902	100.0 %	\$ 542,748	100.0 %

(1) Includes \$145.7 million of funds held in escrow at September 30, 2013 in connection with the Company's second-step conversion relating to stock subscriptions.

Certificates of \$100,000 and over totaled \$71.7 million as of June 30, 2014 and \$78.7 million as of September 30, 2013.

7. INCOME TAXES

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

	June 30, 2014	September 30, 2013
	(Dollars in Thousands)	
Deferred tax assets:		
Allowance for loan losses	\$1,040	\$ 1,037
Real estate owned expenses	51	-
Nonaccrual interest	125	125
Accrued vacation	96	86
Capital loss carryforward	321	1,423
Impairment loss	938	1,117
Split dollar life insurance	21	21
Post-retirement benefits	132	136
Unrealized loss on available for sale securities	334	666
Employee benefit plans	369	455
Total deferred tax assets	3,427	5,066
Valuation allowance	(1,259)	(2,540)
Total deferred tax assets, net of valuation allowance	2,168	2,526
Deferred tax liabilities:		
Property	447	461
Deferred loan fees	819	759
Total deferred tax liabilities	1,266	1,220
Net deferred tax asset	\$902	\$ 1,306

The Company establishes a valuation allowance for deferred tax assets when management believes that the use of the deferred tax assets is not likely to be realized through a carry back to taxable income in prior years or future reversals of existing taxable temporary differences, and/or to a lesser extent, future taxable income. The tax deduction generated by the redemption of the shares of the mutual fund and the subsequent impairment charge on the assets acquired through the redemption in kind are considered a capital loss and can only be utilized to the extent of capital gains over a five year period, resulting in the establishment of a valuation allowance for the carryforward period. The valuation allowance totaled \$1.3 million at June 30, 2014.

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 June 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.

8. STOCK COMPENSATION PLANS

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 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. No additional purchases of shares are expected to be made by the RRP Trust under this plan. As of June 30, 2014, all the shares had been awarded as part of the RRP. Shares subject to awards under the RRP generally vest at the rate of 20% per year over five years. As of June 30, 2014, 175,474 (on a converted basis) of the awarded shares had become fully vested.

Compensation expense related to the shares subject to restricted stock awards granted is recognized ratably over the five-year vesting period in an amount which totals the grant date fair value multiplied by the number of shares subject to the grant. During the three and nine months ended June 30, 2014, \$21,000 and \$107,000, respectively, was recognized in compensation expense for the RRP. An income tax benefit of \$7,000 was recognized for the three months ended June 30, 2014 while an income tax benefit of \$55,000 was recognized for the nine months ended June 30, 2014. During the three and nine months ended June 30, 2013, \$114,000 and \$270,000, respectively, was recognized in compensation expense for the RRP. A tax benefit of \$39,000 and \$69,000 was recognized for the three and nine months ended June 30, 2013. At June 30, 2014, approximately \$281,000 in additional compensation expense for the shares awarded but not yet vested related to the RRP remained unrecognized.

A summary of the Company’s non-vested stock award activity for the nine months ended June 30, 2014 is presented in the following table:

	Nine Months Ended June 30, 2014	
	Number of Shares (1)	Weighted Average Grant Date Fair Value
Nonvested stock awards at October 1, 2013	79,477	\$ 9.56
Issued	-	-
Forfeited	-	-
Vested	(41,422)	10.93
Nonvested stock awards at the June 30, 2014	38,055	\$ 8.07

(1) Amounts reflected on post-conversion basis.

The Company maintains a Stock Option Plan which authorizes the grant of stock options to officers, employees and directors of the Company to acquire shares of common stock with an exercise price at least equal to the fair market value of the common stock on the grant date. Options generally become vested and exercisable at the rate of 20% per year over five years and are generally exercisable for a period of ten years after the grant date. A total of 533,808 (on a converted basis) shares of common stock were approved for future issuance pursuant to the Stock Option Plan. As of June 30, 2014, all of the options had been awarded under the Plan although 3,717 forfeited shares are available for

grant. As of June 30, 2014, 417,767 (on a converted basis) options were vested.

A summary of the status of the Company's stock options under the Stock Option Plan as of June 30, 2014 and changes during the nine month period ended June 30, 2014 are presented below:

	Nine Months Ended June 30, 2014	
	Number of Shares (1)	Weighted Average Exercise Price
Outstanding at October 1, 2013	516,739	\$ 10.86
Granted	13,545	10.68
Exercised	-	-
Forfeited	-	-
Outstanding at June 30, 2014	530,284	\$ 10.86
Exercisable at June 30, 2014	417,767	\$ 11.57

(1) Amounts reflected on a post-conversion basis.

The weighted average remaining contractual term was approximately 5.5 years for options outstanding as of June 30, 2014.

The estimated fair value of options granted during fiscal 2009 was \$2.98 per share, \$2.92 for options granted during fiscal 2010, \$3.34 for options granted during fiscal 2013 and \$4.67 for options granted during fiscal 2014. The fair value was estimated on the date of grant using the Black-Scholes pricing model. No options were granted in fiscal years 2011 and 2012.

During the three and nine months ended June 30, 2014, \$25,000 and \$116,000, respectively, was recognized in compensation expense for the Stock Option Plan. Tax benefits of \$3,000 and \$14,000, respectively, were recognized for the three and nine months ended June 30, 2014. During the three and nine months ended June 30, 2013, \$78,000 and \$186,000, respectively, was recognized in compensation expense for the Stock Option Plan. Tax benefits of \$7,000 and \$20,000, respectively, were recognized for the three and nine months ended June 30, 2013. At June 30, 2014, approximately \$281,000 in additional compensation expense for awarded options that have not vested remained unrecognized. The weighted average period over which this expense will be recognized is approximately 3.3 years.

9. COMMITMENTS AND CONTINGENT LIABILITIES

At June 30, 2014, the Company had \$8.6 million in outstanding commitments to originate fixed and variable-rate loans with market interest rates ranging from 3.25% to 10.00%. At September 30, 2013, the Company had \$12.8 million in outstanding commitments to originate fixed and variable-rate loans with market interest rates ranging from 3.25% to 6.00%. The aggregate undisbursed portion of loans-in-process amounted to \$9.3 million at June 30, 2014 and \$1.7 million at September 30, 2013.

The Company also had commitments under unused lines of credit of \$5.2 million and \$4.7 million, respectively, at June 30, 2014 and September 30, 2013 and letters of credit outstanding of \$109,000 and \$187,000, respectively, at June 30, 2014 and September 30, 2013.

Among the Company's contingent liabilities are exposures to limited recourse arrangements with respect to the Company's sales of whole loans and participation interests. At June 30, 2014, the exposure, which represents a portion of credit risk associated with the interests sold, amounted to \$69,000. This exposure is for the life of the related loans and payables, on our proportionate share, as actual losses are incurred.

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

10. FAIR VALUE MEASUREMENT

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2014 and September 30, 2013, respectively. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

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

The three broad levels of hierarchy are as follows:

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

Those assets as of June 30, 2014 which are to be measured at fair value on a recurring basis are as follows:

	Category Used for Fair Value Measurement			
	Level 1	Level 2	Level 3	Total
	(Dollars in Thousands)			
Assets:				
Securities available for sale:				
U.S. Government and agency obligations	\$-	\$17,826	\$-	\$17,826
Mortgage-backed securities - U.S. Government agencies	-	36,454	-	36,454
Mortgage-backed securities - Non-agency	-	2,144	-	2,144
FHLMC preferred stock	103	-	-	103
Total	\$103	\$56,424	\$-	\$56,527

Those assets as of September 30, 2013 which are measured at fair value on a recurring basis are as follows:

	Category Used for Fair Value Measurement			Total
	Level 1	Level 2	Level 3	
	(Dollars in Thousands)			
Assets:				
Securities available for sale:				
U.S. Government and agency obligations	\$ -	\$ 17,259	\$ -	\$ 17,259
Mortgage-backed securities - U.S.				
Government agencies	-	20,959	-	20,959
Mortgage-backed securities - Non-agency	-	3,530	-	3,530
FHLMC preferred stock	33	-	-	33
Total	\$ 33	\$ 41,748	\$ -	\$ 41,781

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

Impaired Loans

The Company considers loans to be impaired when it becomes more likely than not that the Company will be unable to collect all amounts due in accordance with the contractual terms of the loan agreements. Collateral dependent impaired loans are based on the fair value of the collateral which is based on appraisals and would be categorized as Level 2 measurement. In some cases, adjustments are made to the appraised values for various factors including the age of the appraisal, age of the comparables included in the appraisal, and known changes in the market and in the collateral. These adjustments are based upon unobservable inputs, and therefore, the fair value measurement has been categorized as a Level 3 measurement. These loans are reviewed for impairment and written down to their net realizable value by charges against the allowance for loan losses. The collateral underlying these loans had a fair value in excess of \$21.9 million.

Real Estate Owned

Once an asset is determined to be uncollectible, the underlying collateral is generally repossessed and reclassified to foreclosed real estate and repossessed assets. These repossessed assets are carried at the lower of cost or fair value of the collateral, based on independent appraisals, less cost to sell and would be categorized as Level 2 measurement. In some cases, adjustments are made to the appraised values for various factors including age of the appraisal, age of the comparables included in the appraisal, and known changes in the market and in the collateral. Thus the evaluations are based upon unobservable inputs, and therefore, the fair value measurement has been categorized as a Level 3 measurement.

Summary of Non-Recurring Fair Value Measurements

At June 30, 2014 (Dollars in Thousands)				
	Level 1	Level 2	Level 3	Total
Impaired loans	\$ -	\$ -	\$ 21,933	\$ 21,933
Real estate owned	-	-	460	\$ 460
Total	\$ -	\$ -	\$ 22,393	\$ 22,393

At September 30, 2013 (Dollars in Thousands)				
	Level 1	Level 2	Level 3	Total
Impaired loans	\$ -	\$ -	\$ 15,118	\$ 15,118
Real estate owned	-	-	406	\$ 406
Total	\$ -	\$ -	\$ 15,524	\$ 15,524

The following table provides information describing the valuation processes used to determine nonrecurring fair value measurements categorized within Level 3 of the fair value hierarchy:

At June 30, 2014 (Dollars in Thousands)				
	Fair Value	Valuation Technique	Unobservable Input	Range
Impaired loans	\$ 21,933	Property appraisals	Management discount for selling costs, property type and market volatility	10% - 20% discount
Real estate owned	\$ 460	Property appraisals	Management discount for selling costs, property type and market volatility	10% - 20% discount

At September 30, 2013 (Dollars in Thousands)				
	Fair Value	Valuation Technique	Unobservable Input	Range
Impaired loans	\$ 15,118	Property appraisals	Management discount for selling costs, property type and market volatility	10% - 20% discount

Real estate owned	\$ 406	Property appraisals	Management discount for selling costs, property type and market volatility	10% - 20% discount
-------------------	--------	---------------------	--	--------------------

36

The fair value of financial instruments amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	Carrying Amount	Fair Value	Fair Value Measurements at June 30, 2014		
			(Level 1)	(Level 2)	(Level 3)
			(Dollars in Thousands)		
Assets:					
Cash and cash equivalents	\$29,681	\$29,681	\$29,681	\$-	\$-
Investment and mortgage-backed securities available for sale	56,527	56,527	103	56,424	-
Investment and mortgage-backed securities held to maturity	83,622	81,691	-	81,691	-
Loans receivable, net	321,679	323,475	-	-	323,475
Accrued interest receivable	1,825	1,825	1,825	-	-
Federal Home Loan Bank stock	1,221	1,221	1,221	-	-
Bank owned life insurance	12,288	12,288	12,288	-	-
Liabilities:					
Checking accounts	39,735	39,735	39,735	-	-
Money market deposit accounts	66,627	66,627	66,627	-	-
Passbook, club and statement savings accounts	74,031	74,031	74,031	-	-
Certificates of deposit	196,509	200,502	-	-	200,502
Advances from Federal Home Loan Bank	340	340	340	-	-
Accrued interest payable	1,054	1,054	1,054	-	-
Advances from borrowers for taxes and insurance	2,369	2,369	2,369	-	-

	Carrying Amount (Dollars in Thousands)	Fair Value	Fair Value Measurements at September 30, 2013		
			(Level 1)	(Level 2)	(Level 3)
Assets:					
Cash and cash equivalents	\$ 158,984	\$ 158,984	\$ 158,984	\$ -	\$ -
Investment and mortgage-backed securities available for sale	41,781	41,781	33	41,748	-
Investment and mortgage-backed securities held to maturity	83,732	80,582	-	80,582	-
Loans receivable, net	306,517	308,606	-	-	308,606
Accrued interest receivable	1,791	1,791	1,791	-	-
Federal Home Loan Bank stock	1,181	1,181	1,181	-	-
Bank owned life insurance	7,119	7,119	7,119	-	-
Liabilities:					
Checking accounts	39,537	39,537	39,537	-	-
Money market deposit accounts	65,298	65,298	65,298	-	-
Passbook, club and statement savings accounts	223,615	223,615	223,615	-	-
Certificates of deposit	214,298	218,572	-	-	218,572
Advances from Federal Home Loan Bank	340	340	340	-	-
Accrued interest payable	1,666	1,666	1,666	-	-
Advances from borrowers for taxes and insurance	1,480	1,480	1,480	-	-

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

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

Loans Receivable—The fair value of loans is estimated based on present value using the current market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The carrying value that fair value is compared to is net of the allowance for loan losses and other associated premiums and discounts. Due to the significant judgment involved in evaluating credit quality, loans are classified within Level 3 of the fair value hierarchy.

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

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

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

Checking Accounts, Money Market Deposit Accounts, Passbook Accounts, Club Accounts, Statement Savings Accounts, Certificates of Deposit—The fair value of passbook accounts, club accounts, statement savings accounts, checking accounts, and money market deposit accounts is the amount reported in the financial statements.

Certificates of Deposit- The fair value of certificates of deposit is based on market rates currently offered for deposits of similar remaining maturity.

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

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

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

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

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

The following discussion should be read in conjunction with our unaudited consolidated financial statements included elsewhere in this Form 10-Q and with our Annual Report on Form 10-K for the year ended September 30, 2013 (the “Form 10-K”).

Overview. Prudential Bancorp, Inc. (the “Company”) was formed by Prudential Bancorp, Inc. of Pennsylvania to become the successor holding company for Prudential Savings Bank (the “Bank”) as a result of the second-step conversion completed in October 2013. The Company’s results of operations are primarily dependent on the results of the Bank, which is a wholly owned subsidiary of the Company. The Company’s results of operations depend to a large extent on net interest income, which primarily is the difference between the income earned on its loan and securities portfolios and the cost of funds, which is the interest paid on deposits and borrowings. Results of operations are also affected by our provisions for loan losses, non-interest income (which includes impairment charges) and non-interest expense. Non-interest expense principally consists of salaries and employee benefits, office occupancy expense, depreciation, data processing expense, payroll taxes and other expense. Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable laws, regulations or government policies may materially impact our financial condition and results of operations. The Bank is subject to regulation by the Federal Deposit Insurance Corporation (“FDIC”) and the Pennsylvania Department of Banking and Securities (the “Department”). The Bank’s main office is in Philadelphia, Pennsylvania, with six additional full-service banking offices located in Philadelphia and Delaware Counties in Pennsylvania. The Bank’s primary business consists of attracting deposits from the general public and using those funds together with borrowings to originate loans and to invest primarily in U.S. Government and agency securities and mortgage-backed securities. In November 2005, the Bank formed PSB Delaware, Inc., a Delaware corporation, as a subsidiary of the Bank. In March 2006, all mortgage-backed securities

then owned by the Company were transferred to PSB Delaware, Inc. PSB Delaware, Inc.'s activities are included as part of the consolidated financial statements.

Critical Accounting Policies. In reviewing and understanding financial information for the Company, you are encouraged to read and understand the significant accounting policies used in preparing our financial statements. These policies are described in Note 1 of the notes to our unaudited consolidated financial statements included in Item 1 hereof as well as in Note 2 to our audited consolidated financial statements included in the Form 10-K. The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”) and to general practices within the banking industry. Accordingly, the financial statements require certain estimates, judgments and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities as well as contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of income and expenses during the periods presented. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may significantly affect our reported results and financial condition for the period or in future periods.

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

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

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

In determining the allowance for loan losses, management has established a general pooled allowance. Values assigned to the qualitative factors and those developed from historic loss experience provide a dynamic basis for the calculation of reserve factors for both pass-rated loans (the general pooled allowance) and those for criticized and classified loans. The amount of the specific allowance is determined through a loan-by-loan analysis of certain large dollar commercial real estate loans. Loans not individually reviewed are evaluated as a group using reserve factor percentages based on historical loss experience and the qualitative factors described above. In determining the

appropriate level of the general pooled allowance, management makes estimates based on internal risk ratings, which take into account such factors as debt service coverage, loan-to-value ratios and external factors. Estimates are periodically measured against actual loss experience.

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

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

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

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

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

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

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

In evaluating our ability to recover deferred tax assets, we consider all available positive and negative evidence, including our past operating results and our forecast of future taxable income. In determining future taxable income, we make assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in

estimated future taxable income may require us to record an additional valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.

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

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

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

Market Overview. Although the economy slowly improved during 2012 and 2013 and the beginning of 2014, we still view the current environment as challenging.

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

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

The following discussion provides further details on the financial condition of the Company at June 30, 2014 and September 30, 2013, and the results of operations for the three and nine months ended June 30, 2014 and 2013.

COMPARISON OF FINANCIAL CONDITION AT JUNE 30, 2014 AND SEPTEMBER 30, 2013

At June 30, 2014, we had total assets of \$511.9 million, as compared to \$607.9 million at September 30, 2013, a decrease of \$96.0 million or 15.8%. The primary reason for the \$96.0 million decrease in assets was the return to subscribers of \$74.3 million in excess subscription funds received in connection with the second-step conversion offering which was completed in October 2013. Cash and cash equivalents decreased \$129.3 million to \$29.7 million

at June 30, 2014 compared to \$159.0 million at September 30, 2013. This decrease was attributable to the \$74.3 million returned to subscribers, the use of cash and cash equivalents to fund the \$15.2 million increase in outstanding net loan balances and a \$20.1 million reduction in deposits (excluding \$145.7 million of subscription funds held in escrow related to the second-step stock offering). Loans receivable increased to \$321.7 million at June 30, 2014 from \$306.5 million at September 30, 2013. The loan growth primarily consisted of the origination of single-family residential loans and short-term construction loans secured by properties located within our immediate market area. During the third quarter, the Company purchased approximately \$9.0 million of mortgage-backed securities guaranteed by the U.S. Government with short effective lives to improve earnings, while mitigating the Company's interest rate risk position.

Total liabilities decreased to \$382.5 million at June 30, 2014 from \$548.0 million at September 30, 2013. The \$165.5 million decrease in total liabilities was primarily due to the return of \$74.3 million to subscribers due to the oversubscription in the second-step conversion offering as well as the transfer to equity of \$69.4 million of net proceeds from the offering. In addition, the Company continued its strategy to allow certain higher costing certificates of deposit to run-off as part of its asset/liability management strategy. The deposit outflows experienced during the third quarter of fiscal 2014 were funded from cash and cash equivalents.

Total stockholders' equity increased by \$69.6 million to \$129.5 million at June 30, 2014 from \$59.9 million at September 30, 2013. The increase reflected the receipt of net proceeds of approximately \$69.4 million from the Company's second-step conversion offering which closed October 9, 2013. Other items that affected stockholders' equity during the nine months ended June 30, 2014 were the recognition of net income of approximately \$1.4 million, the receipt of \$847,000 of cash transferred from the mutual holding company as part of the second-step conversion, a reduction in other comprehensive loss due to a slight increase in the market value of the remaining available for sale securities held in the investment portfolio due to the improvement in market rates since September 30, 2013 and the payment of the Company's first cash dividend subsequent to the completion of the second-step conversion.

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2014 AND 2013

Net income. The Company recognized net income of \$521,000, or \$0.06 per basic and diluted share, for the quarter ended June 30, 2014 as compared to \$685,000, or \$0.08 per basic and diluted share, for the quarter ended June 30, 2013. For the nine months ended June 30, 2014, the Company recognized net income of \$1.4 million, or \$0.15 per basic and diluted share, as compared to net income of \$971,000, or \$0.11 per basic and diluted share for the comparable period in fiscal 2013. The level of earnings for the three month period ended June 30, 2013 was higher than the same quarter in fiscal 2014 primarily due to gains on the sale of investments and mortgage-back securities recognized during the 2013 period. With regard to the nine month period ended June 30, 2014, the \$423,000 increase, or \$0.05 per basic share, was primarily due to an increase in net interest income combined with reductions in non-operating expenses as well as federal income tax expense.

Net interest income. For the three months ended June 30, 2014, net interest income increased \$221,000 or 7.2% to \$3.3 million as compared to \$3.1 million for the same period in 2013 primarily as a result of a decline of \$211,000 or 20.3% in interest expense. The decrease in interest expense resulted primarily from a 15 basis point decrease to 0.87% in the weighted average rate paid on interest-bearing liabilities, reflecting the continued repricing downward of interest-bearing liabilities during the past year combined with a \$28.1 million or 6.9% decrease in the average balance of interest-bearing liabilities, primarily certificates of deposit, for the three months ended June 30, 2014 as compared to the same period in fiscal 2013. The Company also experienced a slight increase in interest income resulting from an increase of the average balance of interest-earning assets of \$35.8 million or 7.8% to \$493.5 million, substantially offset by a decline in the weighted average yield earned of 25 basis points. The increase in the average balance of interest-earning assets reflected the Company's efforts to grow the loan portfolio in a controlled manner. The decrease in the weighted average yield earned was primarily due to the origination of new loans at lower current market rates of interest combined with the reinvestment at lower current market rates of the proceeds received mortgage-backed securities.

For the nine months ended June 30, 2014, net interest income increased \$327,000 or 3.5% to \$9.7 million as compared to \$9.4 million for the same period in 2013. Interest expense declined by \$813,000 or 23.9% and was partially offset by a decrease of \$486,000 or 3.8% in interest income. The decrease in interest expense resulted primarily from a 21 basis point decrease to 0.89% in the weighted average rate paid on interest-bearing liabilities, reflecting the continued repricing downward of interest-bearing liabilities during the past year combined with a \$26.3 million or 6.4% decrease in the average balance of interest-bearing liabilities, primarily certificates of deposit, for the nine months ended June 30, 2014 as compared to the same period in fiscal 2013. The decrease in interest income resulted from a 44 basis point decrease to 3.26% in the weighted average yield earned on interest-earning assets offset in part by a \$43.7 million or 9.5% increase to \$504.7 million in the average balance of interest-earning assets for the nine months ended June 30, 2014 as compared to the same period in fiscal 2013. The decrease in the weighted average yield earned was primarily due to the origination of new loans at lower current market rates of interest combined with the reinvestment at lower current market rates of the proceeds from called investment and mortgage-backed securities. The increase in the average balance of interest-earning assets reflects the Company's efforts to grow primarily the loan portfolio in a controlled manner.

For the three months ended June 30, 2014, the net interest margin was 2.69% as compared to 2.71% for the same period in fiscal 2013. For the nine months ended June 30, 2014, the net interest margin was 2.57% as compared to 2.72% for the same period in fiscal 2013.

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

	Three Months Ended June 30,					
	2014		2013		Average Yield/Rate (1)	
Average Balance	Interest	Average Yield/Rate (1)	Average Balance	Interest		
(Dollars in Thousands)						
Interest-earning assets:						
Investment securities	\$ 87,985	\$ 551	2.51 %	\$ 92,209	\$ 566	2.46 %
Mortgage-backed securities	49,624	378	3.06	46,862	405	3.47
Loans receivable(2)	320,060	3,185	3.99	279,172	3,134	4.50
Other interest-earning assets	35,875	22	0.25	39,458	21	0.21
Total interest-earning assets	493,544	4,136	3.36	457,701	4,126	3.62
Cash and non-interest-bearing balances	2,426			2,639		
Other non-interest-earning assets	17,908			15,922		
Total assets	\$ 513,878			\$ 476,262		
Interest-bearing liabilities:						
Savings accounts	\$ 78,404	62	0.32	\$ 76,571	63	0.33
Money market deposit and NOW accounts	101,031	88	0.35	100,623	88	0.35
Certificates of deposit	199,399	675	1.36	229,933	885	1.54
Total deposits	378,834	825	0.87	407,127	1,036	1.02
Advances from Federal Home Loan Bank	340	-	0.00	340	-	0.00
Advances from borrowers for taxes and insurance	1,865	1	0.22	1,692	1	0.24
Total interest-bearing liabilities	381,039	826	0.87	409,159	1,037	1.02
Non-interest-bearing liabilities:	2,552			3,449		

Non-interest-bearing demand accounts					
Other liabilities	4,665		3,946		
Total liabilities	388,256		416,554		
Stockholders' equity	125,622		59,708		
Total liabilities and stockholders' equity	\$ 513,878		\$ 476,262		
Net interest-earning assets	\$ 112,505		\$ 48,542		
Net interest income; interest rate spread	\$ 3,310	2.49 %	\$ 3,089	2.60 %	
Net interest margin(3)		2.69 %		2.71 %	
Average interest-earning assets to average interest-bearing liabilities		129.53 %		111.86 %	

(1) Yields and rates for the three month periods are annualized.

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

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

	2014		Nine Months Ended June 30,		2013	
	Average Balance	Interest	Average Yield/Rate (1)	Average Balance	Interest	Average Yield/Rate (1)
(Dollars in Thousands)						
Interest-earning assets:						
Investment securities	\$ 86,972	\$ 1,639	2.52 %	\$ 83,415	\$ 1,594	2.55 %
Mortgage-backed securities	44,100	1,054	3.20	57,820	1,583	3.66
Loans receivable(2)	318,410	9,489	3.98	273,416	9,522	4.66
Other interest-earning assets	55,234	108	0.26	46,411	77	0.22
Total interest-earning assets	504,716	12,290	3.26	461,062	12,776	3.70
Cash and non-interest-bearing balances	2,470			2,571		
Other non-interest-earning assets	14,557			16,214		
Total assets	\$ 521,743			\$ 479,847		
Interest-bearing liabilities:						
Savings accounts	\$ 79,420	197	0.33	\$ 72,050	182	0.34
Money market deposit and NOW accounts	100,196	260	0.35	100,780	269	0.36
Certificates of deposit	205,667	2,123	1.38	238,965	2,941	1.65
Total deposits	385,283	2,580	0.90	411,795	3,392	1.10
Advances from Federal Home Loan Bank	340	-	0.00	353	-	0.00
Advances from borrowers for taxes and insurance	2,044	3	0.20	1,798	4	0.30
Total interest-bearing liabilities	387,667	2,583	0.89	413,946	3,396	1.10
Non-interest-bearing liabilities:						
Non-interest-bearing demand accounts	2,528			3,362		
Other liabilities	5,496			3,192		
Total liabilities	395,691			420,500		
Stockholders' equity	126,052			59,347		
	\$ 521,743			\$ 479,847		

Total liabilities and stockholders' equity					
Net interest-earning assets	\$ 117,049		\$ 47,116		
Net interest income; interest rate spread	\$ 9,707	2.36 %	\$ 9,380	2.60 %	
Net interest margin(3)		2.57 %		2.72 %	
Average interest-earning assets to average interest-bearing liabilities		130.19 %		111.38 %	

(1) Yields and rates for the nine month periods are annualized.

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

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

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

The Company's methodology for assessing the adequacy of the allowance establishes both specific and general pooled allocations of the allowance. Loans are assigned ratings, either individually for larger credits or in homogeneous pools, based on an internally developed grading system. The resulting determinations are reviewed and approved by senior management.

The Company determined that a provision for loan loss was not necessary for both the three and the nine month periods ended June 30, 2014. During the quarter, the Company recorded a charge-off in the amount of \$205,000 related to two single-family loans and there were no recoveries during the period. For the nine month period, the Company recorded total charge-offs of \$215,000 which were partially offset by recoveries of \$47,000. The Company believes that the allowance for loan losses at June 30, 2014 was sufficient to cover all inherent and known losses associated with the loan portfolio at such date. At June 30, 2014, the Company's non-performing assets totaled \$7.7 million or 1.5% of total assets as compared to \$7.0 million or 1.2% of total assets at September 30, 2013. Non-performing assets at June 30, 2014 included \$7.3 million in non-performing loans consisting of 11 one-to-four family residential mortgage loans aggregating \$3.5 million, three single-family residential investment property mortgage loans aggregating \$1.9 million and seven commercial real estate mortgage loans aggregating \$1.9 million. Non-performing assets also included three one-to four-family residential real estate owned properties with an aggregate carrying value of \$460,000. During the quarter, one commercial real estate loan in the amount of \$880,000 was added to the Company's non-performing assets. An impairment analysis was performed resulting in management's determination that as of June 30, 2014 no additional reserve was required as a result of the impairment of this credit. The allowance for loan losses totaled \$2.2 million, or 0.7% of total loans and 30.0% of total non-performing loans at June 30, 2014 as compared to \$2.4 million, or 0.8% of total loans and 35.5% of total non-performing loans at September 30, 2013.

At June 30, 2014, we had \$1.4 million of loans delinquent 30-89 days as to interest and/or principal. Such amount consisted of 12 one-to-four family residential mortgage loans.

Our total classified loans and real estate owned at June 30, 2014 amounted to \$22.4 million as compared to \$15.5 million at September 30, 2013. All of such assets were classified "substandard" and consisted of 54 loans and three real estate owned properties. We did not have any assets classified as "doubtful" or "loss" at either of such dates. During the quarter, the Company downgraded seven loans aggregating \$9.0 million to one borrower from "special mention" to "substandard", as a result of an investor terminating a commitment to the borrower that would have provided sufficient cash flow to allow the borrower to continue to make payments in accordance with applicable loan agreements. All of such loans were current as of June 30, 2014. As of August 14, 2014, another investor has agreed to provide \$1.0 million to the borrower for the borrower's primary project if certain sales targets are reached. The borrower has reached the specified sales targets and expects to receive the agreed upon infusion from the investor. If the funds are received from the investor, management will re-evaluate the classification of the loan relationship in subsequent periods. An impairment analysis was performed resulting in management's determination that as of June 30, 2014, the applicable loans were sufficiently collateralized and no additional reserve was required as a result of the impairment of this credit. At June 30, 2014, we also had a total of eight loans aggregating \$2.6 million that had been designated "special mention." These consist of four loans totaling \$1.1 million related to a single borrower which used to purchase

a mixed use property and three loans totaling \$1.5 million also related to a single borrower are secured by real estate. All of the loans were designated “special mention” due to concerns with regard to the borrowers’ cash flow situations. At September 30, 2013, we had a total of six loans aggregating \$8.9 million to one borrower whose loans were criticized as “special mention”.

The following table shows the amounts of non-performing assets (defined as non-accruing loans, accruing loans 90 days or more past and real estate owned) as of June 30, 2014 and September 30, 2013. At neither date did the Company have any accruing loans 90 days or more past due.

	June 30, 2014		September 30, 2013	
	(Dollars in Thousands)			
Non-accruing loans:				
One-to-four family residential	\$ 6,5367		\$ 4,259	
Commercial real estate	1,907		2,375	
Total non-accruing loans	7,274		6,634	
Real estate owned, net: (1)	460		406	
Total non-performing assets	\$ 7,734		\$ 7,040	
Total non-performing loans as a percentage of loans, net	2.26	%	2.15	%
Total non-performing loans as a percentage of total assets	1.42	%	1.09	%
Total non-performing assets as a percentage of total assets	1.51	%	1.12	%

(1) Real estate owned balances are shown net of related loss allowances and consist solely of real property. The Company currently has one loan of approximately \$10 million classified as a TDR which has performed in accordance with the new terms for more than six consecutive months and is reported as a performing loan.

Non-interest income. Non-interest income amounted to \$194,000 and \$768,000 for the three and nine month periods ended June 30, 2014, respectively, compared to \$1.1 million and \$1.5 million for the same periods in 2013. The level of non-interest income in the 2013 periods was primarily due to an \$852,000 gain recorded from the sale of securities from the available-for-sale portfolio which occurred during the third fiscal quarter of 2013.

Non-interest expense. For the three and nine month periods ended June 30, 2014, non-interest expense increased \$39,000 or 1.4% and decreased \$86,000 or 1.0%, respectively, compared to the same periods in the prior year. For the three month period ended June 30, 2014, the increase was primarily due to an increase in salary and benefits, partially offset by a reduction in FDIC deposit insurance premiums and professional services. With respect to the nine month period ended June 30, 2014, the primary reasons for the decreases were a reduction of FDIC deposit insurance premiums combined with decreased expenses related to real estate owned and advertising, partially offset by an increase in salary and benefits expense.

Income tax expense. The Company recorded income tax expense for the three and nine months ended June 30, 2014 of \$227,000 and \$568,000, respectively, compared to income tax expense of \$764,000 and \$1.3 million, respectively, for the three and nine months ended June 30, 2013. The effective tax rates for the three and nine months ended June 30, 2014 were 30.3% and 29.0%, respectively. Income tax expense for the 2013 periods was adversely impacted by the decline in the amount of available unrealized capital gains which resulted in an increase in the valuation allowance recognized during the 2013 period related to the deferred tax asset for the capital loss carryforward created in connection with the redemption in kind of our entire investment in a mutual fund. As of June 30, 2013, the valuation allowance related to the capital loss carryforward was increased by \$154,000 to become fully reserved. As a result, for subsequent periods the Company's effective tax rate has been less volatile and within a more normalized range.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity, represented by cash and cash equivalents, is a product of its operating, investing and financing activities. Our primary sources of funds are from deposits, scheduled principal and interest payments on loans, loan prepayments and the maturity of loans, mortgage-backed securities and other investments, and other funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan and securities prepayments can be greatly influenced by market rates of interest, economic conditions and competition. We also maintain excess funds in short-term, interest-earning assets that provide additional liquidity. At June 30, 2014, our cash and cash equivalents amounted to \$29.7 million. In addition, our available for sale investment and mortgage-backed securities amounted to an aggregate of \$56.5 million at such date.

We use our liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. At June 30, 2014, the Company had \$8.6 million in outstanding commitments to originate fixed and variable-rate loans, not including loans in process. The Company also had commitments under unused lines of credit of \$5.2 million and letters of credit outstanding of \$109,000 at June 30, 2014. Certificates of deposit at June 30, 2014 maturing in one year or less totaled \$88.3 million. Based upon historical experience, we anticipate that a significant portion of the maturing certificates of deposit will be redeposited with us.

In addition to cash flows from loan and securities payments and prepayments as well as from sales of available for sale securities, we have significant borrowing capacity available to fund liquidity needs should the need arise. Our borrowings consist solely of advances from the Federal Home Loan Bank of Pittsburgh ("FHLB"), of which we are a member. Under terms of the collateral agreement with the FHLB, we pledge residential mortgage loans as well as our stock in the FHLB as collateral for such advances. However, use of FHLB advances has been modest. At June 30, 2014, we had \$340,000 in outstanding FHLB advances and had the ability to obtain an additional \$193.9 million in FHLB advances. Additional borrowing capacity with the FHLB could be obtained with the pledging of certain investment securities. The Bank has also obtained approval to borrow from the Federal Reserve Bank discount window.

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

The following table summarizes the Company's and Bank's regulatory capital ratios as of June 30, 2014 and September 30, 2013 and compares them to current regulatory guidelines.

	Actual Ratio		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
June 30, 2014:						
Tier 1 capital (to average assets)						
The Company	25.32	%	4.0	%	N/A	
The Bank	17.82	%	4.0	%	5.0	%
Tier 1 capital (to risk-weighted assets)						
The Company	54.27	%	4.0	%	N/A	
The Bank	38.25	%	4.0	%	6.0	%
Total capital (to risk-weighted assets)						
The Company	55.18	%	8.0	%	N/A	
The Bank	39.16	%	8.0	%	10.0	%
September 30, 2013:						
Tier 1 capital (to average assets)						
Company	12.54	%	4.0	%	N/A	
Bank	11.81	%	4.0	%	5.0	%
Tier 1 capital (to risk-weighted assets)						
Company	26.69	%	4.0	%	N/A	
Bank	25.69	%	4.0	%	6.0	%
Total capital (to risk-weighted assets)						
Company	27.72	%	8.0	%	N/A	
Bank	26.18	%	8.0	%	10.0	%

IMPACT OF INFLATION AND CHANGING PRICES

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

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

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

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

In recent years, we primarily have reduced our investment in longer term fixed-rate callable agency bonds, originated hybrid adjustable-rate single family Residential Mortgage loans and increased our portfolio of step-up callable agency bonds and agency issued collateralized mortgage-backed securities (“CMO’s”) with short effective life. However, notwithstanding the foregoing steps, we remain subject to a significant level of interest rate risk in a low interest rate environment due to the high proportion of our loan portfolio that consists of fixed-rate loans as well as our decision to invest a significant amount of our assets in long-term, fixed-rate investment and mortgage-backed securities held to maturity.

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

The following table sets forth the amounts of our interest-earning assets and interest-bearing liabilities outstanding at June 30, 2014, which we expect, based upon certain assumptions, to reprice or mature during the future time periods shown (the “GAP Table”). Except as stated below, the amounts of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at June 30, 2014, on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated prepayments of variable-rate loans and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans. Annual prepayment rates for variable-rate and fixed-rate single-family and multi-family

residential and commercial mortgage loans are assumed to range from 8.0% to 45.3%. The annual prepayment rate for mortgage-backed securities is assumed to range from 0.4% to 22.7%. For savings accounts, checking accounts and money markets, the decay rates vary on annual basis over a ten year period.

	3 Months or Less	More than 3 Months to 1 Year	More than 1 Year to 3 Years	More than 3 Years to 5 Years	More than 5 Years	Total Amount
(Dollars in Thousands)						
Interest-earning assets(1):						
Investment and mortgage-backed securities(2)	\$5,317	\$ 7,043	\$13,055	\$14,153	\$101,564	\$141,132
Loans receivable(3)	23,938	47,394	83,963	61,168	104,992	321,455
Other interest-earning assets(4)	28,809	-	-	-	-	28,809
Total interest-earning assets	\$58,064	\$ 54,437	\$97,018	\$75,321	\$206,556	\$491,396
Interest-bearing liabilities:						
Savings accounts	\$2,250	\$ 5,689	\$9,646	\$9,310	\$48,482	\$75,377
Money market deposit and NOW accounts	3,763	11,289	18,626	15,048	53,159	101,885
Certificates of deposit	29,714	58,859	62,310	45,951	-	196,834
Advances from Federal Home Loan Bank	-	340	-	-	-	340
Advances from borrowers for taxes and insurance	2,369	-	-	-	-	2,369
Total interest-bearing liabilities	\$38,096	\$ 76,177	\$90,582	\$70,309	\$101,641	\$376,805
Interest-earning assets less interest-bearing liabilities	\$19,968	(\$21,740)	\$6,436	\$5,012	\$104,915	\$114,591
Cumulative interest-rate sensitivity gap (5)	\$19,968	(\$1,772)	\$4,664	\$9,676	\$114,591	
Cumulative interest-rate gap as a percentage of total assets at June 30, 2014	3.90 %	-0.35 %	0.91 %	1.89 %	22.38 %	
Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities at June 30, 2014	152.41 %	98.45 %	102.28 %	103.52 %	130.41 %	

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

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

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

(4) Includes FHLB stock.

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

52

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as variable-rate loans, have features which restrict changes in interest rates both on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. Finally, the ability of many borrowers to service their variable-rate loans may be adversely affected in the event of an interest rate increase.

Net Portfolio Value Analysis. Our interest rate sensitivity also is monitored by management through the use of a model which generates estimates of the changes in our net portfolio value (“NPV”) over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The “Sensitivity Measure” is the decline in the NPV ratio, in basis points, caused by a 2% increase or decrease in rates, whichever produces a larger decline. The following table sets forth our NPV as of June 30, 2014 and reflects the changes to NPV as a result of immediate and sustained changes in interest rates as indicated.

Change in Interest Rates In Basis Points	Net Portfolio Value			NPV as % of Portfolio Value of Assets		
	(Rate Shock)	Amount	\$ Change	% Change	NPV Ratio	Change
(Dollars in Thousands)						
300	\$ 105,629	\$ (38,770)	(26.85)%	23.98 %	(4.48)%	
200	118,073	(26,326)	(18.23)%	25.57 %	(2.89)%	
100	131,255	(13,144)	(9.10)%	27.10 %	(1.36)%	
Static	144,399	-	-	28.46 %	-	
(100)	153,219	8,820	6.11 %	29.11 %	0.65 %	
(200)	154,024	9,625	6.67 %	28.75 %	0.29 %	
(300)	155,510	11,111	7.69 %	28.57 %	0.11 %	

At September 30, 2013, the Company’s NPV was \$80.6 million or 13.26% of the market value of assets. Following a 200 basis point increase in interest rates, the Company’s “post shock” NPV would be \$55.4 million or 9.84% of the market value of assets.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Not applicable

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

(a) Not applicable

(b) Not applicable

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

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

Exhibit No.	Description
10.1	Endorsement Split Dollar Insurance Agreement dated May 14th 2014 between Jeffrey T. Hanuscin and Prudential Savings Bank
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.0	Section 1350 Certifications
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*

101.DEF

XBRL Taxonomy Extension Definitions Linkbase Document.*

55

SIGNATURES

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

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA

Date: August 14, 2014

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

Date: August 14, 2014

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