

PRUDENTIAL BANCORP, INC.
Form 10-K
December 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended SEPTEMBER 30, 2018

-or-

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

For the transition period from to

Commission File Number: 000-55084

PRUDENTIAL BANCORP, INC.

(Exact Name of Registrant as Specified in its Charter)

PENNSYLVANIA

46-2935427

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES NO

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer Smaller Reporting Company
Emerging Growth Company

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The aggregate market value of the voting stock held by non-affiliates of the Registrant based on the closing price of \$18.14 on March 29, 2018, the last business day of the Registrant's second quarter was approximately \$156.4 million (9,007,996) shares issued and outstanding less approximately 389,000 shares held by affiliates at \$18.14 per share). Although directors and executive officers of the Registrant and certain employee benefit plans were assumed to be "affiliates" of the Registrant for purposes of the calculation, the classification is not to be interpreted as an admission of such status.

As of the close of business on December 3, 2018, there were 8,929,129 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Definitive Proxy Statement for the 2018 Annual Meeting of Shareholders are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

Prudential Bancorp, Inc. and Subsidiaries

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Forward-looking Statements.

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

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

PART I

Item 1. Business

General

Prudential Bancorp is a Pennsylvania corporation that was incorporated in June 2013. It is the successor corporation to Prudential Bancorp, Inc. of Pennsylvania ("Old Prudential Bancorp"), the former stock holding company for Prudential

Bank (the “Bank” or “Company” and formally known as “Prudential Savings Bank”), a Pennsylvania-chartered, FDIC-insured savings bank, after the completion in October 2013 of the mutual-to-stock conversion of Prudential Mutual Holding Company (the “MHC”), the former mutual holding company for the Bank.

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

As of January 1, 2017, the Company completed its acquisition of Polonia Bancorp, Inc. (“Polonia Bancorp”) and Polonia Bank, Polonia’s wholly owned subsidiary. Polonia Bancorp and Polonia Bank were merged with and into the Company and the Bank, respectively. Under the terms of the Merger Agreement, shareholders of Polonia had the option to receive \$11.09 per share in cash or 0.7460 of a share of Prudential common stock for each share of Polonia common stock, subject to allocation provisions to assure that, in the aggregate, Polonia shareholders received total merger consideration that consisted of 50% stock and 50% cash. As a result of Polonia shareholder stock and cash elections and the related proration provisions of the Merger Agreement, Prudential Bancorp issued approximately 1,274,197 shares of its common stock and approximately \$18.9 million in the merger.

Financial information as of and for the year ended September 30, 2014 presented in this annual report is derived from the consolidated financial statements of Prudential Bancorp.

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

The Company’s results of operations are primarily dependent on the results of the Bank. As of September 30, 2018, the Company, on a consolidated basis, had total assets of approximately \$1.1 billion, total deposits of approximately \$784.3 million, and total stockholders’ equity of approximately \$128.4 million.

The Bank is a community-oriented savings bank headquartered in South Philadelphia which was originally organized in 1886 as a Pennsylvania-chartered building and loan association known as “The South Philadelphia Building and Loan Association No. 2.” The Bank grew through a number of mergers with other mutual institutions with the last merger being with Polonia Bank in January 2017. 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 9 additional full-service branch offices. Seven of the banking offices are located in Philadelphia (Philadelphia County), one is in Drexel Hill, Delaware County and one is in Huntingdon Valley, Montgomery County, Pennsylvania. The Bank maintains ATMs at all of the banking offices. We also provide on-line and mobile banking services.

We are primarily engaged in attracting deposits from the general public and using those funds to invest in loans and securities. The Company’s principal sources of funds are deposits, repayments of loans and mortgage-backed securities, maturities and calls of investment securities and interest-bearing deposits, funds provided from operations and funds borrowed from the Federal Home Loan Bank of Pittsburgh. These funds are primarily used for the origination of various loan types including single-family residential mortgage loans, construction and land development loans, non-residential or commercial real estate mortgage loans, home equity loans and lines of credit,

commercial business loans and consumer loans. Traditionally, the Bank focused on originating long-term single-family residential mortgage loans for portfolio, although the focus has shifted in recent years to emphasize commercial and construction lending. Construction and land development loans increased from \$22.4 million or 6.8% of the total loan portfolio at September 30, 2014 to \$160.2 million or 24.1% of the total loan portfolio at September 30, 2018. The Company also increased its commercial real estate loans from \$16.1 million or 4.9% of the total loan portfolio at September 30, 2014 to \$119.5 million or 18.0% of the total loan portfolio at September 30, 2018. See “-Asset Quality” and “-Lending Activities”.

The investment and mortgage-backed securities portfolio increased by \$126.3 million to \$366.0 million at September 30, 2018 from \$239.7 million at September 30, 2017. This increase was primarily due to increased purchases of corporate bonds and guaranteed mortgage-backed securities. The Company recorded approximately \$376,000 in losses on sale of investment and mortgage-backed securities during fiscal 2018. At September 30, 2018, the investment and mortgage-backed securities available for sale had an aggregate net unrealized loss of \$10.5 million compared with the unrealized loss of \$1.7 million as of September 30, 2017, which was primarily due to recent increases in the yield on longer term U.S. Treasury bond yields which resulted in a decrease in the fair value of our available-for-sale securities.

At September 30, 2018, the Company's non-performing assets totaled \$14.4 million or 1.3% of total assets as compared to \$15.6 million or 1.7% of total assets at September 30, 2017. Non-performing assets at September 30, 2018 included five construction loans aggregating \$8.8 million, 32 one-to-four family residential loans aggregating \$2.9 million, one single-family residential investment property loan in the amount of \$156,000 and five commercial real estate loans aggregating \$1.7 million. Non-performing assets at September 30, 2018 also included real estate owned consisting of two single-family residential properties with an aggregate carrying value of \$1.0 million. At September 30, 2018, the Company had 10 loans aggregating \$6.2 million that were classified as troubled debt restructurings ("TDRs"). Five of such loans aggregating \$650,000 were performing in accordance with the restructured terms as of September 30, 2018 and were accruing interest. One TDR is on non-accrual and consists of a \$449,000 loan secured by a single-family property. A second TDR is on non-accrual and consists of a \$156,000 loan secured by various commercial and residential properties. The three remaining TDRs totaling \$4.9 million are also classified as non-accrual and are a part of a lending relationship totaling \$10.7 million (after taking into account the previously disclosed \$1.9 million write-down recognized during the quarter ending March 31, 2017 related to this borrowing relationship). The primary project of the borrower (the development of a 169-unit townhouse project in Bristol Borough, Pennsylvania) is the subject of litigation between the Bank and the borrower. Subsequent to the commencement of the litigation previously disclosed, the borrower filed for bankruptcy under Chapter 11 (Reorganization) of the federal bankruptcy code in June 2017. The Bank has moved the underlying litigation noted above with the borrower and the Bank from state court to the federal bankruptcy court in which the bankruptcy proceeding is being heard. The state litigation is stayed pending the resolution of the bankruptcy proceedings. As of September 30, 2018, the Company had reviewed \$14.3 million of loans for possible impairment of which \$13.4 million was classified substandard compared to \$19.7 million reviewed for possible impairment and \$15.0 million of which was classified substandard as of September 30, 2017. The allowance for loan losses totaled \$5.2 million, or 0.9% of total loans and 38.6% of total non-performing loans (which included loans acquired from Polonia Bank at their fair value) at September 30, 2018. See "*Asset Quality*".

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

Market Area and Competition

Most of Prudential Bancorp's business activities are conducted within a few hours' drive from Philadelphia and include eastern Pennsylvania, New Jersey, Delaware and southern New York.

We face substantial competition from other financial institutions in our service area, especially from many local community banks, as well as many local credit unions. Competition among financial institutions is based upon a number of factors, including the quality of services rendered, interest rates offered on deposit accounts, interest rates charged on loans and other credit services, service charges, the convenience of banking facilities, locations and hours of operation and, in the case of loans to larger commercial borrowers, applicable lending limits. Many of the financial institutions with which we compete have greater financial resources than we do, and offer a wider range of deposit and lending products.

We believe that an attractive niche exists serving small to medium-sized business customers not adequately served by our larger competitors, and we will seek opportunities to build commercial relationships to complement our retail strategy. We believe small to medium-sized businesses will continue to respond in a positive manner to the attentive and highly personalized service we provide.

Lending Activities

General. At September 30, 2018, the net loan portfolio totaled \$602.9 million or 55.8% of total assets. The Company has changed its lending philosophy and increased its investment in loans for construction and land development and commercial real estate which comprised 42.0% of the loan portfolio at September 30, 2018. Management believes it has the expertise to underwrite these types of loans which management believes will add to earnings while reducing interest rate risk due to the generally shorter contractual maturity of such loans. The Company still holds \$324.9 million of residential real estate loans collateralized by one-to-four family, also known as "single-family", residential properties secured by properties located primarily in the Company's market area.

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

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

	September 30, 2018		2017		2016		2015		2014	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(Dollars in Thousands)										
Real estate loans:										
One-to-four family residential (1)	\$324,865	48.82 %	\$351,298	53.83 %	\$233,531	66.36 %	\$259,163	78.40 %	\$282,637	85.47 %
Multi-family residential	34,355	5.16 %	21,508	3.30 %	12,478	3.55 %	6,249	1.90 %	7,174	2.17 %
Commercial real estate	119,511	17.96 %	127,644	19.56 %	79,859	22.69 %	25,799	7.80 %	16,113	4.87 %
Construction and land development	160,228	24.08 %	145,486	22.29 %	21,839	6.21 %	38,953	11.78 %	22,397	6.77 %
Total real estate loans	638,959	96.03 %	645,936	98.98 %	347,707	98.81 %	330,164	99.89 %	328,321	99.28 %
Loans to financial institutions	6,000	0.90 %	-	-	-	-	-	-	-	-
Commercial business	17,792	2.67 %	488	0.07 %	99	0.03 %	0	0.00 %	1,976	0.60 %
Leases	1,687	0.25 %	4,240	0.65 %	3,286	0.93 %	0	0.00 %	0	0.00 %
Consumer	953	0.14 %	1,943	0.30 %	799	0.23 %	392	0.12 %	399	0.12 %
Total loans	665,391	100.00 %	652,607	100.00 %	351,891	100.00 %	330,556	100.00 %	330,696	100.00 %
Less:										
Undisbursed portion of loans in process	54,474		73,858		5,371		17,097		9,657	
Deferred loan costs	2,818		2,940		(1,697)		(2,104)		(2,449)	
Allowance for loan losses	5,167		4,466		3,269		2,930		2,425	
Net loans	\$602,932		\$571,343		\$344,948		\$312,633		\$321,063	

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- (1) Includes home equity loans totaling \$4.9 million, \$6.5 million, \$3.8 million, \$4.1 million and \$5.0 million as of September 30, 2018, 2017, 2016, 2015 and 2014, respectively. Also includes lines of credit totaling \$10.2 million, \$14.1 million, \$7.4 million, \$8.5 million and \$10.0 million, as of September 30, 2018, 2017, 2016, 2015 and 2014, respectively.

Contractual Terms to Final Maturities. The following table shows the scheduled contractual maturities of loans as of September 30, 2018, before giving effect to net items. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. The amounts shown below do not take into account loan prepayments.

	One-to-Four Family Residential		Multi-family Residential	Commercial Real Estate	Construction and Land Development	Loans to financial institutions	Commercial Business Leases	Consumer	Total
	(In Thousands)								
Amounts due after September 30, 2018 in:									
One year or less	\$ 13,974	\$ 4,940	\$ 5,113	\$ 95,319	\$ -	\$ 1,483	\$ 392	\$ 31	\$ 121,252
After one year through two years	3,620	956	1,932	33,468	-	-	894	67	40,937
After two years through three years	5,274	1,554	3,065	13,989	-	7,128	401	31	31,442
After three years through five years	28,307	7,273	16,607	-	-	2,315	-	93	54,595
After five years through ten years	77,409	18,205	71,250	3,148	6,000	6,866	-	239	183,117
After ten years through fifteen years	34,225	974	5,690	-	-	-	-	83	40,972
After fifteen years	162,056	453	15,854	14,304	-	-	-	409	193,076
Total	\$ 324,865	\$ 34,355	\$ 119,511	\$ 160,228	\$ 6,000	\$ 17,792	\$ 1,687	\$ 953	\$ 665,391

The following table shows the dollar amount of all loans due after one year from September 30, 2018, as shown in the table above, which have fixed interest rates or which have floating or adjustable interest rates.

	Fixed-Rate	Floating or Adjustable-Rate	Total
	(In Thousands)		
One-to-four family residential (1)	\$233,962	\$ 76,929	\$310,891
Multi-family residential	27,140	2,275	29,415
Commercial real estate	89,693	24,705	114,398
Construction and land development	64,909	-	64,909
Loans to financial institutions	6,000	-	6,000
Commercial business	9,174	7,135	16,309
Leases	1,295	-	1,295
Consumer	858	64	922
Total	\$433,031	\$ 111,108	\$544,139

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

The Bank originates construction and development loans and commercial real estate loans with fixed rates and shorter contractual maturities (than is generally the case for residential mortgage loans). To a lesser extent mortgage loans are originated for sale on the secondary market in order to mitigate interest rate risk and to increase non-interest income.

Loan Originations. The Bank's lending activities are subject to underwriting standards and loan origination procedures established by our board of directors and management. Loan originations are obtained through a variety of sources, including existing customers as well as new customers obtained from referrals and local advertising and promotional efforts. Consumer loan applications are taken at any of our offices while loan applications for all other types of loans, including home equity and home equity line of credits, are taken only at our main office. All loan applications are processed and underwritten centrally at our executive office in Huntingdon Valley, Pennsylvania.

Single-family residential mortgage loans are generally written on standardized documents used by the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") and Federal National Mortgage Association ("FNMA" or "Fannie Mae"). Property valuations of loans secured by real estate are undertaken by independent third-party appraisers approved by the board of directors and are reviewed internally before acceptance. At both September 30, 2018 and September 30, 2017, the Company had no real estate loans in portfolio that would be considered subprime loans, which we define as mortgage loans advanced to borrowers who do not qualify for loans bearing market interest rates because of problems with their credit history. The Bank does not originate and has not in the past originated subprime loans.

We also purchase participation interests in larger balance loans, typically commercial real estate and construction and land development loans, from other financial institutions in our market area. Such participations are reviewed for compliance, are underwritten independently in accordance with our underwriting criteria and are approved before they are purchased by the Management Loan Committee and one of the following: the President's Committee, the Executive Committee or the full board, based upon the dollar amount of the participation being purchased. Generally, loan purchases have been without any recourse to the seller. However, we actively monitor the performance of such loans through the receipt of regular updates, including inspection reports, from the lead lender regarding the loan's performance, discussing the loan with the lead lender on a regular basis and receiving copies of updated financial statements of the borrower from the lead lender. These loans are subjected to regular internal reviews in accordance with our loan policy.

The Bank typically holds a 100% interest in construction and land development loans. The Bank has in the past and currently reserves the option to sell participation interests. We generally have sold participation interests in loans only when a loan would exceed the Bank's internal and/or legal loans to one borrower limits. With respect to the sale of participation interests in loans, we have typically received commitments to purchase the participation interests offered prior to the time the loan is closed. See “-Lending Activities - Construction and Land Development Lending.”

As part of the Bank's loan policy, we are permitted, to make loans to one borrower and related entities in an aggregate amount of up to 15% of the capital accounts of the Bank which consist of the aggregate of its capital, surplus, undivided profits, capital securities and allowance for loan losses. At September 30, 2018, the Bank's internal “guidance” limit is \$15.0 million to one borrower as a threshold. The Bank is permitted to exceed such limit in certain situations subject to the (i) approval of the Board of Directors and (ii) subject to the overall legal/regulatory lending limit which was calculated to be \$17.3 million at September 30, 2018. At September 30, 2018, our three largest loans to one borrower and related entities amounted to \$16.0 million, \$14.4 million and \$14.3 million. The largest relationship consists of a participation interest in a commercial real estate loan secured by a 70 unit residential building in Westfield, New Jersey. The second largest relationship consist of a participation interest in a \$16.0 commercial line of credit secured by commercial real estate in central and northern New Jersey. The third largest relationship consists of a participation interest in a construction loan to construct a 30 story, 102 unit mixed-use luxury apartment building in Manhattan, New York. The three relationships are all performing in accordance with contractual terms. For more information regarding these loans, see “-Lending Activities - Construction and Land Development Lending.”

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

	Year Ended September 30,		
	2018	2017	2016
	(In Thousands)		
Loan originations (1)			
One-to-four family residential	\$ 15,366	\$ 16,643	\$ 12,269
Multi-family residential	17,321	4,426	7,936
Commercial real estate	10,361	43,360	57,630
Construction and land development	58,554	143,001	4,742
Loans to financial institutions	6,000	-	-
Commercial business	15,950	-	99
Leases	-	3,568	3,725
Consumer	56	7,615	863
Total loan originations	123,608	218,613	87,264
Loans acquired from Polonia Bancorp merger	-	160,157	-
Total loans originated and purchased	123,608	378,770	87,264
Loans transferred to real estate owned	1,289	-	581
Loan principal repayments	90,589	149,413	53,965
Total loans sold and principal repayments	91,878	149,413	54,546
Decrease due to other items, net (2)	(141)	(2,959)	(403)
Net increase (decrease) in loan portfolio	\$ 31,589	\$ 226,398	\$ 32,315

(1) Includes loan participations with other lenders.

(2) Other items consist of the undisbursed portion of loans in process, deferred fees and the allowance for loan losses.

One-to-Four Family Residential Mortgage Lending. A primary lending activity continues to be the origination or purchase of loans secured by first mortgages on one-to-four family residential properties located in the Company's market area. Our single-family residential mortgage loans are obtained through the lending department and branch personnel, and to a lesser extent, through correspondents. The balance of such loans increased, on a dollar basis, from \$282.6 million or 85.5% of total loans at September 30, 2014 to \$324.9 million, or 48.8% of total loans at September 30, 2018. The percentage of total loans as well as the total amount that such loans have represented of the loan portfolio has decreased (excluding the effects of the acquisition of Polonia Bank) as our focus has shifted to the origination of commercial real estate loans and construction and land development loans.

Single-family residential mortgage loans generally are underwritten on terms and documentation conforming to guidelines issued by Freddie Mac and Fannie Mae. We have historically retained for portfolio a substantial portion of

the single-family residential mortgage loans that we originate, including our jumbo residential mortgage loans, only selling certain long-term, fixed-rate loans bearing interest rates below certain levels established by the board. We service all loans that we have originated. We currently offer adjustable-rate mortgage and balloon loans, which are structured as shorter term fixed-rate loans (generally 10 years or less) followed by a final payment of the full amount of the principal due at the maturity date. Due to the interest rate environment, originations of such loans have been limited in recent years. At September 30, 2018, \$76.9 million, or 24.7%, of our one-to-four family residential loan portfolio consisted of adjustable-rate loans, including hybrid loans. We also originate fixed-rate, fully amortizing mortgage loans with maturities of 15, 20 or 30 years, for resale in the secondary market.

While continuing to operate in the historically low current interest rate environment and to assist in the implementation of our asset/liability management policy, we have placed an emphasis on the origination of single-family mortgage loans to be sold in the secondary markets.

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

Our single-family residential mortgage loans also include home equity loans and lines of credit, which amounted to \$4.9 million and \$10.2 million, respectively, at September 30, 2018. The unused portion of home equity lines was \$6.2 million at such date. Our home equity loans are fully amortizing and have terms to maturity of up to 20 years. While home equity loans also are secured by the borrower's residence, we generally obtain a second mortgage position on these loans. Our lending policy provides that our home equity loans have loan-to-value ratios, when combined with any first mortgage, of 80% or less at time of origination, although the preponderance of our home equity loans have combined loan-to-value ratios of 75% or less at time of origination. We also offer home equity revolving lines of credit with interest tied to the Wall Street Journal prime rate plus a stipulated margin. Generally, we have a second mortgage on the borrower's residence as collateral on our home equity lines. In addition, our home equity lines generally have loan-to-value ratios (combined with any loan secured by a first mortgage) of 75% or less at time of origination. Our customers may apply for home equity lines as well as home equity loans at any banking office. While there has been decline in some collateral values due to the continued weak real estate market, we believe our conservative underwriting guidelines have minimized our exposure in this regard.

Construction and Land Development Lending. We have maintained our emphasis on construction and land development loans originations because construction loans have shorter terms to maturity, provide an attractive yield and generally have either higher fixed interest rates or adjustable interest rates. At September 30, 2018, our construction and loan development loans amounted to \$160.2 million, or 24.1% of our total loan portfolio. This amount includes \$54.4 million of undisbursed loans in process. The average size of our construction and land development loans, excluding loans to our largest lending relationship, was approximately \$3.9 million at September 30, 2018. Our construction loan portfolio has increased substantially since September 30, 2014 when construction loans amounted to \$22.4 million or 6.8% of our total loan portfolio as compared to \$160.2 million or 24.1% of our total loan portfolio at September 30, 2018.

Loans to finance the construction of condominium projects or single-family homes and subdivisions are generally offered to experienced builders in our primary market area with whom we have an established relationship. Residential construction and development loans are offered with terms of up to 36 months although typically the terms

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

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

The largest construction loan is in the amount of \$14.3 million of which \$1.6 million had been disbursed as of September 30, 2018. This loan was originated in January 2018 and is a participation interest in a \$73.0 million loan purchased from another financial institution. The proceeds were used to construct a 30 story, 102-unit mixed use luxury apartment building in Manhattan, New York. The project was 11.5% complete as of September 30, 2018. The loan is performing in accordance with its contractual terms.

The second largest construction loan is in the amount of \$10.0 million of which \$10.0 million had been disbursed as of September 30, 2018. This loan was originated in March 2017 and is a participation interest in a \$35.1 million loan purchased from another financial institution. The proceeds were used to acquire land and construct a 312 unit garden apartment complex located in Winslow Township, New Jersey. The project was complete as of September 30, 2018. The loan is performing in accordance with its contractual terms.

The third largest construction loan is in the amount of \$10.0 million of which \$9.5 million had been disbursed as of September 30, 2018. This loan was originated in January of 2017. The proceeds are being used to construct 66 residential units and 9,000 square feet of retail space in Jersey City, New Jersey. The project was 99.0% complete as of September 30, 2018. The loan is performing in accordance with its contractual terms.

The fourth largest construction loan is in the amount of \$10.0 million of which \$9.0 million had been disbursed as of September 30, 2018. The loan was originated in March of 2017 and is a participation interest in a \$24.0 million loan purchased from another financial institution. The proceeds are being used to construct a six story building with 150 apartment units and 3,500 square feet of retail space in East Orange, New Jersey. The project was 83.3% complete as of September 30, 2018. The loan is performing in accordance with its contractual terms.

The fifth largest construction loan is in the amount of \$9.0 million of which \$8.2 million had been disbursed as of September 30, 2018. The loan was originated in March 2017 and is a participation interest in a \$18.8 million loan purchased from another financial institution. The proceeds are being used to construct 89 multi-family rental units and seven retail/office units in Newark, New Jersey. The project was 91.0% complete as of September 30, 2018. The loan is performing in accordance with contractual terms.

Construction financing is generally considered to involve a higher degree of credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction compared to the estimated costs, including interest, of construction and other assumptions. Additionally, if the estimate of value proves to be inaccurate, we may

be confronted with a project, when completed, having a value less than the loan amount.

Multi-Family Residential and Commercial Real Estate Loans. At September 30, 2018, multi-family residential and commercial real estate loans amounted in the aggregate to \$153.9 million or 23.1% of the total loan portfolio.

The commercial real estate and multi-family residential real estate loan portfolio consists primarily of loans secured by small office buildings, strip shopping centers, small apartment buildings and other properties used for commercial and multi-family purposes located in the Company's market area. At September 30, 2018, the average commercial and multi-family real estate loan size was approximately \$956,000. The largest relationship consist of a participation interest in a \$16.0 million commercial real estate loan secured by a 70 unit residential building located in Westfield, New Jersey. The second largest multi-family residential or commercial real estate loan at September 30, 2018 was a \$11.7 million fixed-rate loan secured by 38 unit luxury condominium building located in Brooklyn, New York with retail space on the first floor. Substantially all of the properties securing the multi-family residential and commercial real estate loans are located in the Company's primary lending area.

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

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

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

During the past year, the Company has shifted its emphasis to originate for portfolio more multi-family residential and commercial real estate loans, due to their higher yield and shorter duration. Although some delinquencies have existed with respect to these types of loans in our portfolio, no losses have been incurred over the past several years.

Consumer Lending Activities. We offer various types of consumer loans such as loans secured by deposit accounts and unsecured personal loans. Consumer loans are originated primarily through existing and walk-in customers and direct advertising. At September 30, 2018, \$953,000, or 0.1% of the total loan portfolio consisted of consumer loans.

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

Commercial Business Loans. At September 30, 2018, commercial business loans amounted to \$17.8 million, or 2.7% of our loan portfolio.

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

Leases. The Company purchases small business equipment leases through a relationship with a local lender specializing in originating such loans. These leases are purchased based on remaining cash flow's present value on agreed upon yield. This lender provides the servicing for leases purchased.

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

The Company maintains separate loan approval committees with tiered levels of approvals. Management Loan Committee, comprised of the Chief Operating Officer ("COO"), the Chief Lending Officer ("CLO"), the Chief Credit Officer ("CCO"), the Chief Financial Officer ("CFO"), the Compliance Risk Officer ("CRO") and the Controller has lending approval authority up to \$3.0 million. The next tier in the approval process, with an approval range of \$3.0 million to \$7.5 million, is the President's Loan committee, comprised of the Chief Executive Officer ("CEO") and the COO. All loans in excess of \$7.5 million must be presented to the full board of directors for approval. All loans submitted to the top tiers of approval must be recommended for approval by the Management Loan Committee. For single-family residential loans originated for sale into the secondary market are processed through underwriting software and are reviewed for approval by two senior officers in the credit department.

Asset Quality

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

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

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

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

We account for our impaired loans in accordance with generally accepted accounting principles. An impaired loan generally is one for which it is more likely than not, based on current information, that the lender will not collect all the amounts due under the contractual terms of the loan. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Loans collectively evaluated for impairment include smaller balance commercial real estate loans, residential real estate loans and consumer loans. These loans are evaluated as a group because they have similar characteristics and performance experience. Larger commercial real estate, construction and land development and commercial business loans are individually evaluated for impairment on at least a quarterly

basis by management. All loans classified as substandard as part of the loan review process or due to delinquency status are evaluated for potential impairment. There were \$16.0 million of loans evaluated for impairment as of September 30, 2018 (of which \$10.7 million is related to one relationship), consisting of \$8.7 million of construction and land development loans, \$3.3 million of one-to-four family residential loans, \$1.9 million of commercial real estate loans and \$298,000 of multi-family residential loans. Although no specific allocations were applied to these loans, there were partial charge-offs totaling \$137,000 during fiscal 2018. As of September 30, 2018, there were twenty-six loans totaling \$4.7 million designated as special mention loans consisting of eight non-residential real estate loans aggregating \$1.9 million, and 18 single-family residential loans aggregating \$2.8 million. As of September 30, 2017 there were nine loans totaling \$3.1 million designated as special mention loans, consisting of six non-residential real estate loans aggregating \$1.5 million, one residential investment property aggregating \$1.4 million and two single-family residential loans aggregating \$275,000.

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

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

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

We review and classify assets on no less frequently than a quarterly basis and the Board of Directors is provided with reports on our classified and criticized assets. We classify assets in accordance with the management guidelines described above. At September 30, 2018 and 2017, we had no assets classified as “doubtful” or “loss” and \$16.0 million and \$16.6 million, respectively, of assets classified as “substandard.” In addition, there were \$4.7 million and \$3.1 million of loans designated as “special mention” as of September 30, 2018 and 2017, respectively.

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

	September 30, 2018				September 30, 2017			
	30-89 Days Overdue		90 or More Days Overdue		30-89 Days Overdue		90 or More Days Overdue	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
	(Dollars in Thousands)							
One- to-four family residential	10	\$ 1,037	32	\$ 2,079	23	\$ 1,746	21	\$ 2,675
Multi-family residential	-	-	-	-	-	-	-	-
Commercial real estate	1	722	5	1,454	3	1,000	4	1,487
Construction and land development	-	-	5	8,750	-	-	5	8,724
Commercial business	-	-	-	-	-	-	-	-
Consumer	4	116	-	-	2	69	-	-
Total delinquent loans	15	\$ 1,875	42	\$ 12,283	28	\$ 2,815	30	\$ 12,886
Delinquent loans to total net loans	0.31 %		2.04 %		0.49 %		2.26 %	
Delinquent loans to total loans	0.28 %		1.85 %		0.43 %		1.97 %	

Non-Performing Loans and Real Estate Owned. The following table sets forth information regarding non-performing loans and real estate owned. The Company's general policy is to cease accruing interest on loans which are 90 days or more past due and to reverse all accrued interest. At September 30, 2018, all of the loans listed as 90 or more days past due in the table above were in non-accrual status. At September 30, 2018, the Company had ten loans aggregating \$6.2 million that were classified as TDRs. As of September 30, 2018, five of the TDRs were performing in accordance with their restructured terms. Three of such loans aggregating \$4.9 million as of September 30, 2018 were classified as non-performing and are related to one lending relationship. One TDR is on non-accrual and consists of a \$449,000 loan secured by a single-family property. The remaining TDR is on non-accrual and consists of a \$156,000 loan secured by various commercial and residential properties.

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

	September 30,									
	2018		2017		2016		2015		2014	
	(Dollars in Thousands)									
Non-accruing loans:										
One-to-four family residential	\$3,012	(1)	\$5,107	(1)	\$4,244	(1)	\$3,547	(1)	\$5,002	(1)
Multi-family residential	-		-		-		-		-	
Commercial real estate	1,627	(1)	1,566	(1)	1,346	(1)	1,589	(1)	877	(1)
Construction and land development	8,750	(1)	8,724	(1)	10,288	(1)	8,796		-	
Commercial business	-		-		-		-		-	
Consumer	-		-		-		-		-	
Total non-accruing loans	13,389		15,397		15,878		13,932		5,879	
Accruing loans 90 days or more past due:										
One-to-four family residential	-		-		-		-		-	
Multi-family residential	-		-		-		-		-	
Commercial real estate	-		-		-		-		-	
Construction	-		-		-		-		-	
Commercial business	-		-		-		-		-	
Consumer	-		-		-		-		-	
Total accruing loans 90 days or more past due	-		-		-		-		-	
Total non-performing loans (2)	13,389		15,397		15,878		13,932		5,879	
Real estate owned, net (3)	1,026		192		581		869		360	
Total non-performing assets	\$14,415		\$15,589		\$16,459		\$14,801		\$6,239	
Total non-performing loans as a percentage of loans	2.22	%	2.69	%	4.56	%	4.21	%	1.83	%
Total non-performing loans as a percentage of total assets	1.24	%	1.71	%	2.84	%	2.86	%	1.12	%
Total non-performing assets as a percentage of total assets	1.33	%	1.73	%	2.94	%	3.04	%	1.19	%

(1) Includes at: (i) September 30, 2018, \$5.5 million of TDRs that were classified non-performing consisting of two construction and land development loans aggregating \$4.2 million, two one-to-four family loans aggregating \$606,000 and one commercial real estate loans aggregating \$712,000; (ii) September 30, 2017, \$5.7 million of TDRs that were classified non-performing consisting of a \$3.6 million construction and land development loan, a \$1.4 million one-to-four family loan and five commercial real estate loans aggregating \$1.6 million; (iii) September 30, 2016, \$5.7 million of TDRs that were classified non-performing consisting of a \$3.6 million construction and land development loan, a \$1.4 million one-to-four family loan and a \$729,000 commercial real estate loan; (iv) September 30, 2015, \$5.8 million of TDRs that were classified non-performing consisting of a \$3.6 million construction and land development loan, a \$1.4 million one-to-four family loan and a \$737,000 commercial real estate loan; and (v) September 30, 2014, \$2.4 million of TDRs that were classified non-performing consisting of a \$1.5 million one-to-four family loan and a \$877,000 commercial real estate loan.

(2) Non-performing loans consist of non-accruing loans plus accruing loans 90 days or more past due.

(3) Real estate owned balances are shown net of related loss allowances and consist solely of real property.

Interest income on non-accrual loans is recognized on the cash basis until either the loan is paid-in full or the Bank determines after a significant payment history has been achieved to warrant the involved loan being classified as a performing loan and being returned to accruing status. There was \$85,000 of such interest recognized during fiscal 2018 while there was \$161,000 and \$175,000 of such interest recognized for non-accrual loans for fiscal 2017 and fiscal 2016, respectively. Approximately \$744,000 in additional interest income would have been recognized during the year ended September 30, 2018 if these loans had been performing during fiscal 2018.

At September 30, 2018, the Company's non-performing assets totaled \$14.4 million or 1.3% of total assets as compared to \$15.6 million or 1.7% of total assets at September 30, 2017. Non-performing assets at September 30, 2018 included five construction loans aggregating \$8.7 million, 32 one-to-four family residential loans aggregating \$2.9 million, one single-family residential investment property loan in the amount of \$156,000 and five commercial real estate loans aggregating \$1.6 million. Non-performing assets at September 30, 2018 also included real estate owned consisting of two single-family residential properties with an aggregate carrying value of \$1.0 million. At September 30, 2018, the Company had 10 loans aggregating \$6.2 million that were classified as TDRs. Five of such loans aggregating \$650,000 were performing in accordance with the restructured terms as of September 30, 2018 and were accruing interest. One TDR is on non-accrual and consists of a \$449,000 loan secured by a single-family property. A second TDR is on non-accrual and consists of a \$156,000 loan secured by various commercial and residential properties. The three remaining TDRs totaling \$4.9 million are also classified as non-accrual and are a part of a lending relationship totaling \$10.7 million (after taking into account the previously disclosed \$1.9 million write-down recognized during the quarter ending March 31, 2017 related to this borrowing relationship). The primary project of the borrower (the development of a 169 unit townhouse project in Bristol Borough, Pennsylvania) is the subject of litigation between the Bank and the borrower. Subsequent to the commencement of the litigation previously disclosed, the borrower filed for bankruptcy under Chapter 11 (Reorganization) of the federal bankruptcy code in June 2017. The Bank has moved the underlying litigation noted above with the borrower and the Bank from state court to the federal bankruptcy court in which the bankruptcy proceeding is being heard. The state litigation is stayed pending the resolution of the bankruptcy proceedings. As of September 30, 2018, the Company had reviewed \$16.0 million of loans for possible impairment compared to \$19.7 million reviewed for possible impairment as of September 30, 2017.

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

The carrying value of loans is periodically evaluated and the allowance is adjusted accordingly. The establishment of the allowance for loan losses is significantly affected by management judgment and uncertainties and there is a likelihood that different amounts would be reported under different conditions or assumptions. Various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies may require us to make additional provisions for estimated loan losses based upon judgments that differ from those of management. Loans acquired from Polonia Bancorp amounted to \$160.8 million of which there is no allowance for loan losses because these loans were recorded at fair value upon completion of the merger. A general credit mark of \$2.3 million was recorded in connection with completion of the acquisition and is being amortized over 30 years. As of September 30, 2018, our allowance for loan losses of \$5.2 million was 0.9% of total loans receivable and 38.6% of non-performing loans.

Charge-offs on loans totaled \$137,000 and \$2.0 million for the years ended September 30, 2018 and 2017, respectively. The charge-offs during fiscal 2017 were primarily the result of one borrowing relationship described in “-Non-performing Assets and Real Estate Owned” Section. Management took a prudent approach in writing down all substandard loans to the net realizable value of the applicable underlying collateral.

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

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

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	At or For the Year Ended September 30,									
	2018		2017		2016		2015		2014	
	(Dollars in Thousands)									
Total loans outstanding at end of period	\$665,391		\$652,607		\$351,891		\$330,556		\$330,696	
Average loans outstanding	588,493		487,999		327,877		323,398		319,126	
Allowance for loan losses, beginning of period	4,466		3,269		2,930		2,424		2,353	
Provision for loan losses	810		2,990		225		735		240	
Charge-offs:										
One-to-four family residential	114		140		11		384		215	
Multi-family residential and commercial real estate	-		-		-		-		-	
Construction and land development	12		1,819		-		-		-	
Commercial business	-		-		-		-		-	
Consumer	11		16		-		-		-	
Total charge-offs	137		1,975		11		384		215	
Recoveries on loans previously charged off	28		182		125		155		46	
Allowance for loan losses, end of period	\$5,167		\$4,466		\$3,269		\$2,930		\$2,424	
Allowance for loan losses as a percent of total loans	0.85	%	0.78	%	0.94	%	0.93	%	0.75	%
Allowance for loan losses as a percent of non-performing loans	38.59	%	29.01	%	20.59	%	21.03	%	41.24	%
Ratio of net charge-offs during the period to average loans outstanding during the period	0.02	%	0.37	%	-0.03	%	0.07	%	0.05	%

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

	September 30, 2018		2017		2016		2015		2014	
	Loan Category	Amount as a % of Total Loans	Loan Category	Amount as a % of Total Loans	Loan Category	Amount as a % of Total Loans	Loan Category	Amount as a % of Total Loans	Loan Category	Amount as a % of Total Loans
One-to-four family residential	\$1,325	48.80 %	\$1,241	53.80 %	\$1,624	66.40 %	\$1,636	78.40 %	\$1,663	85.47 %
Multi-family residential	347	5.20 %	205	3.30 %	137	3.50 %	66	1.90 %	66	2.17 %
Commercial real estate	1,154	18.00 %	1,201	19.60 %	859	22.70 %	231	7.80 %	122	4.87 %
Construction and land development	1,554	24.10 %	1,358	22.20 %	318	6.20 %	725	11.80 %	323	6.77 %

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Commercial business	187	2.70	%	4	0.10	%	1	0.00	%	-	0.00	%	15	0.60	%
Loans to financial institutions	64	0.90	%	-	0.00	%	-	0.00	%	-	0.00	%	-	0.00	%
Leases	18	0.20	%	23	0.70	%	21	0.90	%	-	0.00	%	-	0.00	%
Consumer	17	0.10	%	24	0.30	%	10	0.30	%	4	0.10	%	4	0.12	%
Unallocated	501	-		410	-		299	-		268	-		231	-	
Total allowance for loan losses	\$5,167	100.00	%	\$4,466	100.00	%	\$3,269	100.00	%	\$2,930	100.00	%	\$2,424	100.00	%

The aggregate allowance for loan losses increased by \$701,000 from September 30, 2017 to September 30, 2018, due to a provision of \$810,000, partially offset by a net charge off of \$109,000 recorded during the period. The aggregate allowance for loan losses increased by \$1.2 million from September 30, 2016 to September 30, 2017, due to a provision of \$3.0 million, partially offset by a net charge off of \$1.8 million recorded during the period. Substantially all of the charge offs for fiscal 2017 related to one borrowing relationship. Fluctuations in the allowance may occur based on management's consideration of the known and inherent losses in the loan portfolio that are reasonably estimable as well as current qualitative and quantitative risk factors at the time of the analysis.

Investment Activities

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

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

Ginnie Mae is a government agency within the Department of Housing and Urban Development which is intended to help finance government-assisted housing programs. Ginnie Mae securities are backed by loans insured by the Federal Housing Administration, or guaranteed by the Department of Veterans Affairs. The timely payment of principal and interest on Ginnie Mae securities is guaranteed by Ginnie Mae and backed by the full faith and credit of the U.S. Government. Freddie Mac is a private corporation chartered by the U.S. Government. Freddie Mac issues participation certificates backed principally by conventional mortgage loans. Freddie Mac guarantees the timely payment of interest and the ultimate return of principal on participation certificates. Fannie Mae is a private corporation chartered by the U.S. Congress with a mandate to establish a secondary market for mortgage loans. Fannie Mae guarantees the timely payment of principal and interest on Fannie Mae securities. Freddie Mac and Fannie Mae securities are not backed by the full faith and credit of the U.S. Government.

Investments in mortgage-backed securities involve the risk that actual prepayments will be greater than estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments thereby changing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or in the event such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates. Further, privately issued mortgage-backed securities and CMOs also have a higher risk of default due to adverse changes in the creditworthiness of the issuer. Management's practice is generally to not invest in such securities. See further discussion in Note 5 of the Notes to Consolidated Financial Statements included in Item 8 herein.

The Company has a portfolio of corporate debt securities with an investment grade rating from at least one national rating agency: Standard and Poors, Moody's, Fitch and/or Kroll. In purchasing these types of securities, the Company looks for known publicly trading entities along with utilizing the credit department to underwrite each issuing entity as if it were a direct commercial loan. The mortgage-backed securities consist both of mortgage pass-through and cmos guaranteed by Ginnie Mae, Fannie Mae or Freddie Mac.

The Company has portfolio municipal and government subdivisions securities which are graded at least "A" by at least one national rating agency. The securities are exempt from taxation.

At September 30, 2018, the investment and mortgage-backed securities portfolio amounted to \$366.0 million or 33.9% of total assets at such date. The largest component of the securities portfolio as of September 30, 2018 consisted of mortgage-backed securities which amounted to \$193.1 million or 52.8% of the securities portfolio at September 30, 2018. In addition, we invest in corporate debt, state and political subdivisions, U.S Government and agency obligations and to a significantly lesser degree, other securities.

The securities are classified at the time of acquisition as available for sale, held to maturity or trading. Securities classified as held to maturity must be purchased with the intent and ability to hold that security until its final maturity, and can be sold prior to maturity only under rare circumstances. Held to maturity securities are accounted for based upon the amortized cost of the security. Available for sale securities can be sold at any time based upon needs or market conditions. Available for sale securities are accounted for at fair value, with unrealized gains and losses on these securities, net of income tax provisions, reflected as accumulated other comprehensive income. At September 30, 2018, we had \$59.9 million of investment and mortgage-backed securities classified as held to maturity, \$306.2 million of investment and mortgage-backed securities classified as available for sale and no securities classified as trading securities. At September 30, 2018, we had no investments in a single issuer other than securities issued by U.S. Government agencies of U.S. Government sponsored enterprises, which had an aggregate Book Value in excess of 10% of the Company's stockholders equity.

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

	September 30, 2018		2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mortgage-backed securities - U.S. Government agencies	\$ 199,229	\$ 193,133	\$ 126,459	\$ 125,423	\$ 97,289	\$ 98,506
U.S. Government and agency obligations	59,062	54,445	59,625	57,840	54,487	54,793
Corporate debt securities	75,622	73,083	34,500	34,400	25,411	26,053
State and political subdivisions	42,652	41,416	20,781	20,842	-	-
Total debt securities	376,565	362,077	241,365	238,505	177,187	179,352
FHLMC preferred stock	6	37	6	76	6	42
Total investment and mortgage-backed securities	\$376,571	\$362,114	\$241,371	\$238,581	\$177,193	\$179,394

The following tables set forth the amortized cost of investment and mortgage-backed securities which mature during each of the periods indicated and the weighted average yields for each range of maturities at September 30, 2018.

	Amounts at September 30, 2018 Which Mature In									
	One Year or Less	Over One Year		Over Five Years		Over Ten Years		Over Total		Weighted Average Yield
Weighted Average Yield		Through Five Years	Weighted Average Yield	Through Ten Years	Weighted Average Yield	Through Ten Years	Weighted Average Yield	Total		
Bonds and other debt securities:										
U.S. Government and agency obligations	\$2,000	5.43 %	\$-	-	\$11,000	2.57 %	\$46,062	2.51 %	\$59,062	2.63 %
Mortgage-backed securities	-	-	2	2.40 %	171	4.09 %	199,056	2.97 %	199,229	2.97 %
Corporate debt securities	1,002	1.74 %	7,541	3.47 %	63,073	3.98 %	4,006	5.63 %	75,622	3.99 %
State and political subdivisions	-	-	-	-	14,483	2.86 %	28,169	4.05 %	42,652	3.64 %
Total	\$3,002	-	\$7,543	3.47 %	\$88,727	3.62 %	\$277,293	3.05 %	\$376,565	3.20 %

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

	At or For the		
	Year Ended September 30,		
	2018	2017	2016
	(Dollars in Thousands)		
Mortgage-backed securities at beginning of period	\$126,459	\$97,289	\$69,917
Purchases of mortgage-backed securities available for sale	98,128	48,212	49,639
Sale of mortgage-backed securities available for sale	(4,840)	(5,421)	(11,560)
Maturities and repayments	(20,411)	(13,871)	(10,768)
Amortizations of premiums and discounts, net	(107)	250	61
Mortgage-backed securities at end of period	\$199,229	\$126,459	\$97,289
Weighted average yield at end of period	2.97 %	2.59 %	2.38 %

Sources of Funds

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

Deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Deposits consist of checking, both interest-bearing and non-interest-bearing, money market, savings and certificate of deposit accounts. At September 30, 2018, 28.1% of the funds deposited with the Bank were in core deposits, which are deposits other than certificates of deposit.

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

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

At September 30, 2018, jumbo CDs (certificates of deposit of \$100,000 or more) amounted to \$444.4 million, of which \$345.5 million are scheduled to mature within twelve months subsequent to such date. At September 30, 2018, the weighted average remaining period until maturity of the certificate of deposit accounts was 8.2 months. During fiscal 2018, jumbo CDs from government agencies and other financial institutions and to a lesser extent, brokered deposits, were utilized to fund growth.

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

	September 30, 2018		2017		2016			
	Amount	% of Total Deposits	Amount	% of Total Deposits	Amount	% of Total Deposits		
(Dollars in Thousands)								
Certificate accounts:								
Less than 1.00%	\$57,843	7.38	% \$62,523	9.83	% \$111,899	28.75	%	
1.00% - 1.99%	264,535	33.73	% 294,860	46.36	% 98,921	25.42	%	
2.00% - 2.99%	222,617	28.39	% 36,942	5.81	% 13,117	3.37	%	
3.00% - 3.99%	18,825	2.40	% -	0.00	% -	0.00	%	
Total certificate accounts	\$563,820	71.90	% \$394,325	62.00	% \$223,937	57.54	%	
Transaction accounts:								
Savings	91,489	11.67	% 101,743	16.00	% 70,924	18.22	%	
Checking:								
Non-Interest-bearing	13,620	1.74	% 9,375	1.47	% 3,804	0.98	%	
Interest-bearing	49,209	6.27	% 54,267	8.53	% 34,984	8.99	%	
Money market	66,120	8.43	% 76,272	11.99	% 55,552	14.27	%	
Total transaction accounts	\$220,438	28.10	% \$241,657	38.00	% \$165,264	42.46	%	
Total deposits	\$784,258	100.00	% \$635,982	100.00	% \$389,201	100.00	%	

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

	Year Ended September 30, 2018			2017			2016		
	Average Balance	Interest Expense	Average Rate Paid	Average Balance	Interest Expense	Average Rate Paid	Average Balance	Interest Expense	Average Rate Paid
(Dollars in Thousands)									
Savings	\$105,665	\$66	0.06 %	\$97,710	\$51	0.05 %	\$73,030	\$83	0.11 %
Interest-bearing checking and money market accounts	121,954	247	0.20 %	127,172	197	0.15 %	92,751	165	0.18 %
Certificate accounts	454,554	7,073	1.56 %	325,824	3,682	1.13 %	211,517	2,613	1.24 %
Total interest-bearing deposits	682,173	\$7,386	1.08 %	550,706	\$3,930	0.71 %	377,298	\$2,861	0.76 %
	12,416		1.06 %	13,390		0.70 %	6,618		0.75 %

Non-interest-bearing
deposits

Total deposits	\$694,589	\$564,096	\$383,916
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The following table shows the deposit cash flows during the periods indicated.

	Year Ended September 30,		
	2018	2017	2016
	(In Thousands)		
Deposits made	\$894,105	\$678,878	\$364,745
Deposits acquired (Polonia Bank)	-	172,243	-
Withdrawals	(749,331)	(606,984)	(343,535)
Interest credited	3,502	2,644	2,917
Total increase in deposits	\$148,276	\$246,781	\$24,127

The following table presents, by various interest rate categories and maturities, the amount of certificates of deposit at September 30, 2018.

Certificates of Deposit	Maturing in the 12 Months Ending September 30,				
	2019	2020	2021	Thereafter	Total
	(In Thousands)				
Less than 1.00%	\$55,775	\$2,068	\$-	\$-	\$57,843
1.00% - 1.99%	194,729	47,832	9,379	12,595	264,535
2.00% - 2.99%	160,427	25,071	9,439	27,680	222,617
3.00% - 3.40%	1,057	450	1,058	16,260	18,825
Total certificate accounts	\$411,988	\$75,421	\$19,876	\$56,535	\$563,820

The following tables show the maturities of our certificates of deposit of \$100,000 or more at September 30, 2018, by time remaining to maturity.

Quarter Ending:	Amount (Dollars in Thousands)	Weighted Avg Rate	
			%
December 31, 2018	\$ 150,162	1.62	%
March 31, 2019	110,825	1.82	%
June 30, 2019	48,828	2.04	%
September 30, 2019	35,674	2.05	%
After September 30, 2019	98,872	2.12	%
Total certificates of deposit with balances of \$100,000 or more	\$ 444,361	1.86	%

Borrowings. From time to time we utilize advances from the Federal Home Loan Bank of Pittsburgh as an alternative to retail deposits to fund the operations as part of the operating and liquidity strategy. See “*Liquidity and Capital Resources*” in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operation. These FHLB advances are collateralized primarily by certain mortgage loans and mortgage-backed securities and secondarily by an investment in capital stock of the Federal Home Loan Bank of Pittsburgh. There are no specific credit covenants associated with these borrowings. FHLB advances are made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. The maximum amount that the Federal Home Loan Bank of Pittsburgh will advance to member institutions, including the Bank, fluctuates from time to time in accordance with the policies of the Federal Home Loan Bank of Pittsburgh. At September 30, 2018, the Company had \$154.7 million in outstanding advances with the FHLB, and in addition had the ability to obtain additional advances in the amount of \$265.7 million. The Bank utilized the FHLB advances to fund an investment leverage strategy along with funding growth in the loan and investment portfolios.

The following table shows certain information regarding short-term borrowings (one year or less) at or for the dates indicated:

	At or For the Year Ended September 30,					
	2018		2017		2016	
	(Dollars in Thousands)					
FHLB advances:						
Average balance outstanding	\$ 18,933		\$ 21,784		\$ 20,000	
Maximum amount outstanding at any month-end during the period	30,200		35,000		8,975	
Balance outstanding at end of period	10,000		20,000		20,000	
Average interest rate during the period	2.31	%	1.31	%	1.17	%
Weighted average interest rate at end of period	1.81	%	0.84	%	1.23	%

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

Long-term FHLB advances: Description	Maturity range		weighted average interest rate	Stated interest rate range		2018		2017	
	from	to		from	to	(Dollars in Thousands)			
Fixed Rate - Advances	15-Nov-18	9-May-24	2.43	% 1.38	% 3.23	% \$ 99,358	\$ 88,795		
Fixed Rate - Amortizing	18-Nov-19	15-Aug-23	2.71	% 1.53	% 3.11	% 45,325	5,523		
Total						\$ 144,683	\$ 94,318		

Subsidiaries

The Company has only one direct subsidiary: Prudential Bank. The Bank's sole subsidiary as of September 30, 2018 was PSB Delaware, Inc. ("PSB"), a Delaware-chartered corporation established to hold investment securities. As of September 30, 2018, PSB had assets of \$155.9 million primarily consisting of mortgage-backed and investment securities. We may consider the establishment of one or more additional subsidiaries in the future.

Employees

At September 30, 2018, we had 79 full-time employees, and four part-time employees. None of such employees are represented by a collective bargaining group, and we believe that the Company's relationship with its employees is good.

REGULATION

General

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

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

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

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

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

2018 Regulatory Reform

In May 2018 the Economic Growth, Regulatory Relief and Consumer Protection Act (the “2018 Act”), was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While the Act maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than \$10 billion and for large banks with assets of more than \$50 billion. Many of these changes could result in meaningful regulatory relief for community banks such as Home Federal Bank.

The 2018 Act, among other matters, expands the definition of qualified mortgages which may be held by a financial institution and simplifies the regulatory capital rules for financial institutions and their holding companies with total consolidated assets of less than \$10 billion by instructing the federal banking regulators to establish a single “Community Bank Leverage Ratio” of between 8 and 10 percent to replace the leverage and risk-based regulatory capital ratios. The Act also expands the category of holding companies that may rely on the “Small Bank Holding Company and Savings and Loan Holding Company Policy Statement” (the “SBHC Policy”) by raising the maximum amount of assets a qualifying holding company may have from \$1 billion to \$3 billion. This expansion also excludes such holding companies from the minimum capital requirements of the Dodd-Frank Act. In addition, the 2018 Act includes regulatory relief for community banks regarding regulatory examination cycles, call reports, the Volcker Rule (proprietary trading prohibitions), mortgage disclosures and risk weights for certain high-risk commercial real estate loans.

It is difficult at this time to predict when or how any new standards under the 2018 Act will ultimately be applied to us or what specific impact the 2018 Act and the yet-to-be-written implementing rules and regulations will have on community banks.

2010 Regulatory Reform

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”). The Dodd-Frank Act imposes new restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions. The law also established an independent federal consumer

protection bureau within the Federal Reserve Board. The following discussion summarizes significant aspects of the law that may affect the Bank and Prudential Bancorp. Many regulations implementing these changes have been promulgated, so we cannot determine the full impact on our business and operations at this time.

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

- A new independent consumer financial protection bureau was established, the Consumer Financial Protection Bureau (“CFPB”) within the Federal Reserve Board, empowered to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws. Smaller financial institutions, like the Bank, are subject to the supervision and enforcement of their primary federal banking regulator with respect to the federal consumer financial protection laws.

- Tier 1 capital treatment for “hybrid” capital items like trust preferred securities was eliminated subject to various grandfathering and transition rules.
- The prohibition on payment of interest on demand deposits was repealed.
- Deposit insurance on most accounts increased to \$250,000.
- The deposit insurance assessment base calculation now equals the depository institution’s total assets minus the sum of its average tangible equity during the assessment period.
- The minimum reserve ratio of the Deposit Insurance Fund increased to 1.35 percent of estimated annual insured deposits or assessment base; however, the FDIC is directed to “offset the effect” of the increased reserve ratio for insured depository institutions with total consolidated assets of less than \$10 billion.

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

- The Federal Deposit Insurance Act was amended to direct federal regulators to require depository institution holding companies to serve as a source of strength for their depository institution subsidiaries.
- The SEC is authorized to adopt rules requiring public companies to make their proxy materials available to shareholders for nomination of their own candidates for election to the board of directors.
- Public companies are now required to provide their shareholders with a non-binding vote: (i) at least once every three years on the compensation paid to executive officers, and (ii) at least once every six years on whether they should have a “say on pay” vote every one, two or three years.
- A separate, non-binding shareholder vote is now required regarding golden parachutes for named executive officers when a shareholder vote takes place on mergers, acquisitions, dispositions or other transactions that would

trigger the parachute payments.

- Securities exchanges are now required to prohibit brokers from using their own discretion to vote shares not beneficially owned by them for certain “significant” matters, which include votes on the election of directors and executive compensation matters.

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

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

- Item 402 of Regulation S-K promulgated by the SEC will be amended to require companies to disclose the ratio of the Chief Executive Officer's annual total compensation to the median annual total compensation of all other employees, commencing with fiscal years starting after January 1, 2017.

Regulation of Prudential Bank

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

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

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

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

The Dodd Frank Act raises the minimum reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% and requires the FDIC to offset the effect of this increase on insured institutions with assets of less than \$10 billion (small

institutions). In March 2016, the FDIC adopted a rule to accomplish this by imposing a surcharge on larger institutions commencing when the reserve ratio reaches 1.15% and ending when it reaches 1.35%. The reserve ratio reached 1.15% effective as of June 30, 2016. This surcharge period became effective July 1, 2016 and is expected to end by December 31, 2018. Small institutions will receive credits for the portion of their regular assessments that contributed to growth in the reserve ratio between 1.15% and 1.35%. The credits will apply to reduce regular assessments by 2.0 basis points for quarters when the reserve ratio is at least 1.38%.

Effective July 1, 2016 the FDIC adopted changes that eliminated its risk-based premium system. The FDIC assesses deposit insurance premiums on the assessment base of a depository institution, which is their average total asset reduced by the amount of its average tangible equity. For a small institution (one with assets of less than \$10 billion) that has been federally insured for at least five years, effective July 1, 2016, the initial base assessment rate ranges from 3 to 30 basis points, based on the institution's CAMELS composite and component ratings and certain financial ratios: its leverage ratio; its ratio of net income before taxes to total assets; its ratio of nonperforming loans and leases to gross assets; its ratio of other real estate owned to gross assets; its brokered deposits ratio (excluding reciprocal deposits if the institution is well capitalized and has a CAMELS composite rating of 1 or 2); its one year asset growth ratio (which penalizes growth adjusted for mergers in excess of 10%); and its loan mix index (which penalizes higher risk loans based on historical industry charge off rates). The initial base assessment rate is subject to downward adjustment (not below 1.5%) based on the ratio of unsecured debt the institution has issued to its assessment base, and to upward adjustment (which can cause the rate to exceed 30 basis points) based on its holdings of unsecured debt issued by other insured institutions. Institutions with assets of \$10 billion or more are assessed using a scorecard method. In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize a predecessor to the Deposit Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2019.

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

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

Regulatory Capital Requirements. Federally insured state-chartered non-member banks and savings banks are required to maintain minimum levels of regulatory capital. Current FDIC capital standards require these institutions to satisfy a common equity Tier 1 capital requirement, a leverage capital requirement and a risk-based capital requirement. The common equity Tier 1 capital component generally consists of retained earnings and common stock instruments and must equal at least 4.5% of risk-weighted assets. Leverage capital, also known as "core" capital, must equal at least 3.0% of adjusted total assets for the most highly rated state-chartered non-member banks and savings banks. Core capital generally consists of common stockholders' equity (including retained earnings). An additional cushion of at least 100 basis points is required for all other non-member banks and savings banks, which effectively increases their minimum Tier 1 leverage ratio to 4.0% or more. Under the FDIC's regulations, the most highly-rated banks are those that the FDIC determines are strong banking organization and are rated composite 1 under the Uniform Financial Institutions Rating System. Under the risk-based capital requirement, "total" capital (a combination of core and "supplementary" capital) must equal at least 8.0% of "risk-weighted" assets. The FDIC also is authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis.

In determining compliance with the risk-based capital requirement, a savings bank is allowed to include both core capital and supplementary capital in its total capital, provided that the amount of supplementary capital included does not exceed the savings bank's core capital. Supplementary capital generally consists of general allowances for loan losses up to a maximum of 1.25% of risk-weighted assets, together with certain other items. In determining the required amount of risk-based capital, total assets, including certain off-balance sheet items, are multiplied by a risk weight based on the risks inherent in the type of assets. The risk weights range from 0% for cash and securities issued by the U.S. Government or unconditionally backed by the full faith and credit of the U.S. Government to 100% for loans (other than qualifying residential loans weighted at 80%) and repossessed assets.

Savings banks must value securities available for sale at amortized cost for regulatory capital purposes. This means that in computing regulatory capital, savings banks should add back any unrealized losses and deduct any unrealized gains, net of income taxes, on debt securities reported as a separate component of capital, as defined by generally accepted accounting principles.

At September 30, 2018, the Bank exceeded all of its regulatory capital requirements, with Tier 1, Tier 1 common equity, Tier 1 (to risk-weighted assets) and total risk-based capital ratios of 11.86%, 18.73%, 18.73% and 19.56%, respectively.

Any savings bank that fails any of the capital requirements is subject to possible enforcement action by the FDIC. Such action could include a capital directive, a cease and desist order, civil money penalties, the establishment of restrictions on the institution's operations, termination of federal deposit insurance and the appointment of a conservator or receiver. The FDIC's capital regulations provide that such actions, through enforcement proceedings or otherwise, could require one or more of a variety of corrective actions.

Department Capital Requirements. The Bank is also subject to more stringent Department capital guidelines. Although not adopted in regulation form, the Department utilizes capital standards requiring a minimum of 6% leverage capital and 10% risk-based capital. The components of leverage and risk-based capital are substantially the same as those defined by the FDIC. At September 30, 2018, the Bank's capital ratios exceeded each of its capital requirements.

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

Capital Category	Total Risk-Based Capital	Tier 1 Risk-Based Capital	Tier 1 Common Equity Capital	Tier 1 Leverage Capital
Well capitalized	10% or more	8% or more	6.5% or more	5% or more
Adequately capitalized	8% or more	6% or more	4.5% or more	4% or more
Undercapitalized	Less than 8%	Less than 6%	Less than 4.5%	Less than 4%
Significantly undercapitalized	Less than 6%	Less than 4%	Less than 3%	Less than 3%

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

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

At September 30, 2018, the Bank was deemed to be a “well capitalized” institution for purposes of the prompt corrective action regulations and as such is not subject to the above mentioned restrictions.

The table below sets forth the Company and the Bank’s capital position relative to its respective regulatory capital requirements at September 30, 2018.

Actual Amount	Ratio	Required for Capital Adequacy Purposes(1)		To Be Well Capitalized Under Prompt Corrective Action Provisions	
		Amount	Ratio	Amount	Ratio
(Dollars in Thousands)					

Tier 1 capital (to average assets)

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Company	\$ 129,890	12.51 %	N/A	N/A	N/A	N/A
Bank	123,199	11.86	\$ 41,542	4.00	% \$ 51,928	5.0 %
Tier 1 Common (to risk-weighted assets)						
Company	129,890	19.74	N/A	N/A	N/A	N/A
Bank	123,199	18.73	29,603	4.5	42,759	6.5
Tier 1 capital (to risk-weighted assets)						
Company	129,890	19.74	N/A	N/A	N/A	N/A
Bank	123,199	18.73	26,313	6.0	39,470	8.0
Total capital (to risk-weighted assets)						
Company	135,374	20.58	N/A	N/A	N/A	N/A
Bank	128,683	19.56	52,627	8.0	65,783	10.0

(1) The Company is not subject to the regulatory capital ratios imposed by Basel III on bank holding companies because the Company was deemed to be a small bank holding company as of September 30, 2018.

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

- acquiring or retaining a majority interest in a subsidiary;

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

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

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

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

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

default in any assessment payment to the FDIC. Pennsylvania law also restricts the payment and amount of dividends, including the requirement that dividends be paid only out of accumulated net earnings.

Incentive Compensation. Guidelines adopted by the federal banking agencies pursuant to the FDIA prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder.

In January 2010, the FDIC announced that it would seek public comment on whether banks with compensation plans that encourage risky behavior should be charged higher deposit assessment rates than such banks would otherwise be charged. The comment period ended in February 2010. As of September 30, 2018, a final rule has not been adopted.

In June 2010, the federal banking agencies issued comprehensive guidance on incentive compensation policies (the “Incentive Compensation Guidance”) intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The Incentive Compensation Guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization’s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization’s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization’s board of directors. Any deficiencies in compensation practices that are identified may be incorporated into the organization’s supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The Incentive Compensation Guidance provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization’s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In April 2011, the federal banking agencies and the SEC jointly published proposed rulemaking designed to implement provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that would encourage inappropriate risk taking. Those proposed regulations apply only to a financial institution or its holding company with \$1 billion or more of assets. In June 2016, the federal banking agencies and the SEC published a new proposed rule to implement these provisions.

The scope and content of the U.S. banking regulators’ policies on incentive compensation are continuing to develop. It cannot be determined at this time whether a final rule will be adopted and whether compliance with such a final rule will adversely affect the ability of Prudential Bancorp and the Bank to hire, retain and motivate their key employees.

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

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

UDAP and UDAAP. Recently, banking regulatory agencies have increasingly used a general consumer protection statute to address “unethical” or otherwise “bad” business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. The law of choice for enforcement against such business practices has been Section 5 of the Federal Trade Commission Act (the “FTC Act”), which is the primary federal law that prohibits unfair or deceptive acts or practices, referred to as UDAP, and unfair methods of competition in or affecting commerce. “Unjustified consumer injury” is the principal focus of the FTC Act. Prior to the Dodd- Frank Act, there was little formal guidance to provide insight to the parameters for compliance with UDAP laws and regulations. However, UDAP laws and regulations have been expanded under the Dodd-Frank Act to apply to “unfair, deceptive or abusive acts or practices,” referred to as UDAAP, which have been delegated to the CFPB for supervision. The CFPB has published its first Supervision and Examination Manual that addresses compliance with and the examination of UDAAP. The potential reach of the CFPB’s broad new rulemaking powers and UDAAP authority on the operations of financial institutions offering consumer financial products or services, including the Bank is currently unknown.

Community Reinvestment Act. All insured depository institutions have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. An institution's failure to comply with the provisions of the Community Reinvestment Act could result in restrictions on its activities. The Bank received a "satisfactory" Community Reinvestment Act rating in its most recently completed examination.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank of Pittsburgh, which is one of 11 regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the Federal Home Loan Bank.

As a member, the Bank is required to purchase and maintain stock in the Federal Home Loan Bank of Pittsburgh in an amount in accordance with the Federal Home Loan Bank's capital plan and sufficient to ensure that the Federal Home Loan Bank remains in compliance with its minimum capital requirements. At September 30, 2018, the Bank was in compliance with this requirement.

Federal Reserve Board System. The Federal Reserve Board requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts, which are primarily checking and NOW accounts, and non-personal time deposits. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy the liquidity requirements that are imposed by the Department. At September 30, 2018, the Bank was in compliance with these reserve requirements.

Regulation of Prudential Bancorp

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

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

A bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it has been the policy of the Federal Reserve Board that a bank holding company should stand ready to use available resources to provide adequate capital to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve Board to be an unsafe and unsound banking practice or a violation of the Federal Reserve Board regulations, or both. The Dodd-Frank Act included a provision that directs federal regulators to require depository institution holding companies to serve as a source of strength for their depository institution subsidiaries. To date, no regulations have been promulgated to implement that provision.

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

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

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

permissible for a bank holding company that becomes a financial holding company.

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

Regulatory Capital Requirements. The Federal Reserve Board has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the Bank Holding Company Act. The Federal Reserve Board’s capital adequacy guidelines for bank holding company, on a consolidated basis, are similar to those imposed on the Bank by the FDIC. See “-Regulation of Prudential Savings Bank - Capital Requirements.” Moreover, certain of the bank holding company capital requirements promulgated by the Federal Reserve Board in 2013 became effective as of January 1, 2016. Those requirements establish four minimum capital ratios that Prudential Bancorp had to comply with as of that date as set forth in the table below. However, in May 2016, amendments to the Federal Reserve Board’s SBHC Policy became effective which increased the asset threshold to qualify to utilize the provisions of the SBHC Policy from \$500 million to \$1.0 billion. Subsequently, as part of the 2018 Act, the threshold was increased to \$3.0 billion. Bank holding companies which are subject to the SBHC Policy are not subject to compliance with the regulatory capital requirements set forth in the table below until they exceed \$3.0 billion in assets. As a consequence, as of September 30, 2018, Prudential Bancorp was not required to comply with the requirements set forth below until such time that its consolidated total assets exceed \$3.0 billion or the Federal Reserve Board determines that Prudential Bancorp is no longer deemed to be a small bank holding company. However, if Prudential Bancorp had been subject to the requirements, it would have been in compliance with such requirements.

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

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

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

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

“undercapitalized.” See “-Regulation of Prudential Savings Bank - Prompt Corrective Action” above.

Section 225.4(b)(1) of Regulation Y promulgated by the Federal Reserve Board requires that a bank holding company that is not well capitalized or well managed, or that is subject to any unresolved supervisory issues, provide prior notice to the Federal Reserve Board for any repurchase or redemption of its equity securities for cash or other value that would reduce by 10 percent or more the bank holding company's consolidated net worth aggregated over the preceding 12-month period. The Federal Reserve Bank may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve Board order or any condition imposed by, or written agreement with, the Federal Reserve Board.

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

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

Volcker Rule Regulations. Regulations adopted by the federal banking agencies to implement the provisions of the Dodd-Frank Act commonly referred to as the Volcker Rule became effective on April 1, 2015 with full compliance being phased in over a period ending on July 21, 2016. The regulations contain prohibitions and restrictions on the ability of financial institutions holding companies and their affiliates to engage in proprietary trading and to hold certain interests in, or to have certain relationships with, various types of investment funds, including hedge funds and private equity funds. Prudential Bancorp is in compliance with the various provisions of the Volcker Rule regulations.

Limitations on Transactions with Affiliates. Transactions between insured financial institutions and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of an insured financial institution is any company or entity which controls, is controlled by or is under common control with the insured financial institution. In a bank holding company context, the bank holding company of an insured financial institution (such as Prudential Bancorp) and any companies which are controlled by such holding company are affiliates of the insured financial institution. Generally, Section 23A limits the extent to which the insured financial institution or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such institution's capital stock and surplus, and contains an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such

capital stock and surplus. Section 23B applies to “covered transactions” as well as certain other transactions and requires that all transactions be on terms substantially the same, or at least as favorable to the insured financial institution, as those provided to a non-affiliate. The term “covered transaction” includes the making of loans to, purchase of assets from and issuance of a guarantee to an affiliate and similar transactions. Section 23B transactions also include the provision of services and the sale of assets by an insured financial institution to an affiliate.

In addition, Sections 22(g) and (h) of the Federal Reserve Act place restrictions on loans to executive officers, directors and principal stockholders. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% stockholder of an insured financial institution, and certain affiliated interests of either, may not exceed, together with all other outstanding loans to such person and affiliated interests, the insured financial institution's loans to one borrower limit (generally equal to 15% of the institution's unimpaired capital and surplus). Section 22(h) also requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as offered in comparable transactions to other persons unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the institution and (ii) does not give preference to any director, executive officer or principal stockholder, or certain affiliated interests of either, over other employees of the insured financial institution. Section 22(h) also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by an insured financial institution to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers. At September 30, 2018, the Bank was in compliance with the above restrictions.

TAXATION

Federal Taxation

General. Prudential Bancorp and the Bank are subject to federal income taxation in the same general manner as other corporations with some exceptions listed below. The following discussion of federal, state and local income taxation is only intended to summarize certain pertinent income tax matters and is not a comprehensive description of the applicable tax rules. During fiscal 2018, the Internal Revenue Service had concluded an audit of the Company's tax returns for the year ended September 30, 2014 and no adverse findings were noted. The federal and state income tax returns for taxable years through September 30, 2014 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

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

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

Bad Debt Reserves. The Small Business Job Protection Act of 1996 eliminated the use of the reserve method of accounting for bad debt reserves by savings associations, effective for taxable years beginning after 1995. Prior to that

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

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

At September 30, 2018, the total federal pre-1988 reserve was approximately \$6.6 million. The reserve reflects the cumulative effects of federal tax deductions by the Bank for which no federal income tax provisions have been made.

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

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

State and Local Taxation

Pennsylvania Taxation. Prudential Bancorp is subject to the Pennsylvania Corporate Net Income Tax and the Capital Stock and Franchise Tax. The Corporation Net Income Tax rate for 2018 is 9.99% and is imposed on unconsolidated taxable income for federal purposes with certain adjustments. In general, the Capital Stock and Franchise Tax is a property tax imposed on a corporation's capital stock value at a statutorily defined rate, such value being determined in accordance with a fixed formula based upon average net income and net worth.

Prudential is subject to tax under the Pennsylvania Mutual Thrift Institutions Tax Act, as amended to include thrift institutions having capital stock. Pursuant to the Mutual Thrift Institutions Tax, the tax rate is 11.50%. The Mutual Thrift Institutions Tax exempts Prudential Savings from other taxes imposed by the Commonwealth of Pennsylvania for state income tax purposes and from all local taxation imposed by political subdivisions, except taxes on real estate and real estate transfers. The Mutual Thrift Institutions Tax is a tax upon net earnings, determined in accordance with

generally accepted accounting principles with certain adjustments. The Mutual Thrift Institutions Tax, in computing income according to generally accepted accounting principles, allows for the deduction of interest earned on state and federal obligations, while disallowing a percentage of a thrift's interest expense deduction in the proportion of interest income on those securities to the overall interest income of the Bank. Net operating losses, if any, thereafter can be carried forward three years for Mutual Thrift Institutions Tax purposes.

Item 1A. Risk Factors.

In analyzing whether to make or to continue on investment in our securities, investors should consider, among other factors, the following risk factors.

Our non-performing assets expose us to increased risk of loss

At September 30, 2018, we had total non-performing assets of \$14.4 million, or 1.33% of total assets as compared to \$15.6 million or 1.70% of total assets as of September 30, 2017. Our non-performing assets adversely affect our net income in various ways. We do not accrue interest income on non-accrual loans and no interest income is recognized until the loan is performing and the financial condition of the borrower supports recording interest income on a cash basis. We must reserve for probable losses, which are established through a current period charge to income in the provision for loan losses, and from time to time, write down the value of properties in our other real estate owned portfolio to reflect changing market values. Additionally, there are legal fees associated with the resolution of problem assets as well as carrying costs such as taxes, insurance and maintenance related to our other real estate owned. Further, the resolution of non-performing assets requires the active involvement of management, which can distract us from the overall supervision of operations and other income-producing activities of the Bank. Finally, if our estimate of the allowance for loan losses is inaccurate, we will have to increase the allowance accordingly. At September 30, 2018, our allowance for loan losses amounted to \$5.2 million, or 0.9% of total loans and 38.6% of non-performing loans, compared to \$4.5 million, or 0.8% of total loans and 29.0% of non-performing loans at September 30, 2017.

Higher loan losses could require us to increase our allowance for loan losses through a charge to earnings

When we loan money, we incur the risk that our borrowers will not repay their loans. We reserve for loan losses by establishing an allowance through a charge to earnings. The amount of this allowance is based on our assessment of loan losses inherent in our loan portfolio. The process for determining the amount of the allowance is critical to our financial results and condition. It requires subjective and complex judgments about the future, including forecasts of economic or market conditions that might impair the ability of our borrowers to repay their loans. We might underestimate the loan losses inherent in our loan portfolio and have loan losses in excess of the amount reserved. We might increase the allowance because of changing economic conditions. For example, in a rising interest rate environment, borrowers with adjustable-rate loans could see their payments increase. There may be a significant increase in the number of borrowers who are unable or unwilling to pay their loans, resulting in our charging off more loans and increasing our allowance. In addition, when real estate values decline, the potential severity of loss on a real estate-secured loan can increase significantly, especially in the case of loans with high combined loan-to-value ratios. The continued weakness in the national economy and the economies of the areas in which our loans are concentrated could result in an increase in loan delinquencies, foreclosures or repossessions, resulting in the increased charge-off amounts and the need for additional loan loss provisions in future periods. In addition, our determination as to the

amount of our allowance for loan losses is subject to review by our primary banking regulators, the Department and the FDIC, as part of their examination process, which may result in the establishment of an additional provision based upon the judgment of such agencies after a review of the information available at the time of its examination. Our allowance for loan losses amounted to 0.9% of total loans and 38.6% of non-performing loans at September 30, 2018. Our allowance for loan losses at September 30, 2018 may not be sufficient to cover future loan losses. A large loss could deplete the allowance and require an increased provision to replenish the allowance, which would negatively affect earnings.

Our existing residential mortgage loans exposes us to lending risks, and the geographic concentration of our loan portfolio and lending activities makes us vulnerable to a downturn in the local economy.

At September 30, 2018, \$324.9 million, or 48.8 % of our loan portfolio, was secured by one-to-four family real estate. One-to-four family residential mortgage lending is generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. The decline in residential real estate values as a result of the downturn in our local housing market that occurred in recent years in many cases reduced the value of the real estate collateral securing these types of loans. Declines in real estate values could cause some of our residential mortgages loans to be inadequately collateralized, which would expose us to a greater risk of loss if we seek to recover on defaulted loans by selling the real estate collateral. Real estate values are affected by various factors, including supply and demand, changes in general or regional economic conditions, interest rates, governmental rules or policies and natural disasters. Future weakness in economic conditions also could result in reduced loan demand and a decline in loan originations. In particular, a significant decline in real estate values would likely lead to a decrease in new construction, commercial real estate and residential mortgage loan originations and increased delinquencies and defaults in our real estate loan portfolio.

Our increased emphasis on originating construction and commercial real estate loans may expose us to increased lending risks.

At September 30, 2018, \$160.2 million, or 24.1%, of our loan portfolio consisted of construction loans, including loans for the acquisition and development of property, and \$119.5 million, or 18.0%, of our loan portfolio consisted of commercial real estate loans. Construction financing is generally considered to involve a higher degree of credit risk than long-term financing on improved, owner-occupied residential real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction compared to the estimated costs, including interest, of construction and other assumptions. Additionally, if the estimate of value proves to be inaccurate, we may be confronted with a project, when completed, having a value less than the loan amount. We have attempted to minimize these risks by generally concentrating on residential construction loans in our market area to contractors with whom we have established lending relationships and by selling, with respect to larger construction and land development loans, participation interests in order to reduce our exposure. Likewise, commercial real estate loans generally expose a lender to a greater risk of loss than one-to-four family residential loans. Repayment of commercial real estate loans generally is dependent, in large part, on sufficient income from the property or business to cover operating expenses and debt service. Commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one-to-four family residential mortgage loans. Changes in economic conditions that are out of the control of the borrower and lender could impact the value of the security for the loan, the future cash flow of the involved property, or the marketability of a construction project with respect to loans originated for the acquisition and development of property. Additionally, any decline in real estate values may be more pronounced with respect to commercial real estate properties than residential properties. Also, many of construction borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a residential mortgage loan.

In recent periods, the majority of our non-performing assets have related to construction loans. At September 30, 2018, five construction loans aggregating \$8.7 million were considered non-performing and on non-accrual status. All of these construction loans were related to a loan relationship consisting of nine loans with a total principal balance outstanding of \$10.7 million, all of which were deemed non-performing as of such date. In addition, non-performing assets at September 30, 2018 included 33 one-to-four family loans aggregating \$3.0 million, five commercial real estate loans aggregating \$1.7 million and real estate owned of \$1.0 million.

Imposition of limits by the bank regulators on commercial and multi-family real estate lending activities could curtail our growth and adversely affect our earnings.

In 2006, the FDIC, the FRB and the Office of the Comptroller of the Currency (collectively, the “Agencies”) issued joint guidance entitled “Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices” (the “CRE Guidance”). Although the CRE Guidance did not establish specific lending limits, it provides that a bank’s commercial real estate lending exposure could receive increased supervisory scrutiny where total non-owner-occupied commercial real estate loans, including loans secured by apartment buildings, investor commercial real estate, and construction and land loans, represent 300% or more of an institution’s total risk-based capital, and the outstanding balance of the commercial real estate loan portfolio has increased by 50% or more during the preceding 36 months. Our level of commercial real estate and multi-family loans represents 217.4% of the Bank’s total risk-based capital at September 30, 2018.

In December 2015, the Agencies released a new statement on prudent risk management for commercial real estate lending (the “2015 Statement”). In the 2015 Statement, the Agencies, among other things, indicate the intent to continue “to pay special attention” to commercial real estate lending activities and concentrations going forward. If the FDIC, our primary federal regulator, were to impose restrictions on the amount of commercial real estate loans we can hold in our portfolio, for reasons noted above or otherwise, our earnings would be adversely affected.

We have a high concentration of loans secured by real estate in our market area; adverse economic conditions in our market area have adversely affected, and may continue to adversely affect, our financial condition and result of operations

Substantially all of our loans are to individuals, businesses and real estate developers in Pennsylvania, New Jersey, New York and Delaware and our business depends significantly on general economic conditions in these market areas. Severe declines in housing prices and property values have been particularly acute in our primary market areas in recent years. A deterioration in economic conditions or a prolonged weakness in the economic recovery in our primary market areas could result in the following consequences, any of which could have a material adverse effect on our business:

- Loan delinquencies may increase;
- Problem assets and foreclosures may increase;
- Demand for our products and services may decline;
- The carrying value of our other real estate owned may decline further; and
 - Collateral for loans made by us, especially real estate, may continue to decline in value, in turn reducing a customer’s borrowing power, and reducing the value of assets and collateral associated with our loans.

The Company's credit standards and its on-going credit assessment processes might not protect it from significant credit losses.

The Company assumes credit risk by virtue of making loans and extending loan commitments and letters of credit. We manage our credit risk through a program of underwriting standards, the review of certain credit decisions and a continuous quality assessment process of credit already extended. Our exposure to credit risk is managed through the use of consistent underwriting standards that emphasize local lending while avoiding highly leveraged transactions as well as excessive industry and other concentrations. The Company's credit administration function employs risk management techniques to help ensure that problem loans and leases are promptly identified. While these procedures are designed to provide us with the information needed to implement policy adjustments where necessary and to take appropriate corrective actions, there can be no assurance that such measures will be effective in avoiding undue credit risk.

A significant percentage of our assets is invested in securities which typically have a lower yield than our loan portfolio.

Our results of operations are substantially dependent on our net interest income. At September 30, 2018, \$415.8 million or 38.5 % of our assets was invested in investment securities, certificates of deposit, cash and amounts due from banks. These investments yield substantially less than the loans we hold in our portfolio. The weighted average yield on such assets for the year ended September 30, 2018 was 2.83% as compared to 4.31% for loans. Accordingly, our net interest margin is lower than it would have been if a higher proportion of our interest-earning assets consisted of loans. In addition, at September 30, 2018, \$306.2 million, or 83.6% of our investment securities, are classified as available for sale and reported at fair value with unrealized gains or losses excluded from earnings and reported in other comprehensive income, which affects our reported equity. Accordingly, given the material size of the investment securities portfolio classified as available for sale and due to possible mark-to-market adjustments of that portion of the portfolio resulting from market conditions, we may experience greater volatility in the value of reported equity. Moreover, given that we actively manage our investment securities portfolio classified as available for sale, we may sell securities which could result in a realized loss, thereby reducing our net income.

While we intend to invest a greater proportion of our assets in loans with the goal of increasing our net interest income, we may not be able to increase originations of loans that are acceptable to us.

Our success depends on hiring and retaining certain key personnel.

Our performance largely depends on the talents and efforts of highly skilled individuals. We rely on key personnel to manage and operate our business, including major revenue generating functions such as loan and deposit generation, as well as operational functions such as regulatory compliance and information technology. The loss of key staff may adversely affect our ability to maintain and manage these functions effectively, which could negatively affect our revenues. In addition, loss of key personnel could result in increased recruiting and hiring expenses, which could cause a decrease in our net income. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees.

Higher interest rates would hurt our profitability

Management is unable to predict fluctuations of market interest rates, which are affected by many factors, including inflation, recession, unemployment, monetary policy, domestic and international disorder and instability in domestic and foreign financial markets, and investor and consumer demand. Our primary source of income is net interest income, which is the difference between the interest income generated by our interest-earning assets (consisting

primarily of single-family residential loans) and the interest expense generated by our interest-bearing liabilities (consisting primarily of deposits). The level of net interest income is primarily a function of the average balance of our interest-earning assets, the average balance of our interest-bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest-earning assets and our interest-bearing liabilities which, in turn, are impacted by such external factors as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve Board (the "FOMC"), and market interest rates. The FOMC raised the federal funds rate three times to date in 2018 and may implement an additional increase as of the end of December 2018.

A sustained increase in market interest rates could adversely affect our earnings. A significant portion of our loans have fixed interest rates (or, if adjustable, are initially fixed for periods of five to 10 years) and longer terms than our deposits and borrowings. Our net interest income could be adversely affected if the rates we pay on deposits and borrowings increase more rapidly than the rates we earn on loans. As a result of our historical focus on the origination of one-to-four family residential mortgage loans, which focus has been emphasized in recent years due to asset quality issues experienced by our construction and land development lending activities, the majority of our loans have fixed interest rates. In addition, a large percentage of our investment securities and mortgage-backed securities have fixed interest rates and are classified as held to maturity. As is the case with many banks and savings institutions, our emphasis on increasing the development of core deposits, those with no stated maturity date, has resulted in our interest-bearing liabilities having a shorter duration than our assets. As of September 30, 2018, 35.2% of our loan portfolio had maturities of 10 years or more. Furthermore, at such date, only \$113.9 million or 17.1% of the loans due after September 30, 2017 bear adjustable interest rates. At September 30, 2018, 28.1% of our deposits had no stated maturity date and 73.1% consisted of certificates of deposit with maturities of one year or less. This imbalance can create significant earnings volatility because interest rates change over time and are currently at historical low levels. As interest rates increase, our cost of funds will increase more rapidly than the yields on the bulk of our interest-earning assets. In addition, the market value of our fixed-rate assets for example, our investment and mortgage-backed securities portfolios, would decline if interest rates increase. For example, we estimate that as of September 30, 2018, a 200 basis point increase in interest rates would have resulted in our net portfolio value declining by approximately \$40.1 million or 2.9%. Net portfolio value is the difference between incoming and outgoing discounted cash flows from assets, liabilities and off-balance sheet contracts.

Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and/or increase our costs of operations.

The Company and the Bank are subject to extensive regulation, supervision and examination by the PA Department and the FDIC. Such regulation and supervision governs the activities in which an institution and its holding company may engage and are intended primarily for the protection of insurance funds and the depositors and borrowers of the Bank rather than for holders of our common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. These regulations, along with the currently existing tax, accounting, securities, insurance, monetary laws, rules, standards, policies, and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations. Further, changes in accounting standards can be both difficult to predict and involve judgment and discretion in their interpretation by us and our independent accounting firms. These changes could materially impact, potentially even retroactively, how we report our financial condition and results of our operations as could our interpretation of those changes.

The Dodd-Frank Act is significantly changing the current bank regulatory structure and affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act

requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks with more than \$10 billion in assets. Banks with \$10 billion or less in assets continue to be examined for compliance with the consumer laws by their primary bank regulators.

The Dodd-Frank Act requires minimum leverage (Tier 1) and risk-based capital requirements for bank holding companies and savings and loan holding companies that are no less than those applicable to banks, which could limit our ability to borrow at the holding company level and invest the proceeds from such borrowings as capital in the Bank, and will exclude certain instruments that previously have been eligible for inclusion by bank holding companies as Tier 1 capital, such as trust preferred securities.

The full impact of the Dodd-Frank Act on our business will not be known until all of the regulations implementing the statute are adopted and implemented. As a result, we cannot at this time predict the extent to which the Dodd-Frank Act will impact our business, operations or financial condition. However, compliance with these new laws and regulations may require us to make changes to our business and operations and will likely result in additional costs and divert management's time from other business activities, any of which may adversely impact our results of operations, liquidity or financial condition. However, in February 2017, the President issued an executive order that a policy of his administration would be making regulation efficient, effective, and appropriately tailored, and directed certain regulatory agencies to review and identify laws and regulations that inhibit federal regulation of the U.S. financial system in a manner consistent with the policies stated in the executive order. Any changes in laws or regulation as a result of this review could result in a repeal, amendment to or delayed implementation of the Dodd-Frank Act.

We have become subject to more stringent capital requirements, which may adversely impact our return on equity, require us to raise additional capital, or constrain us from paying dividends or repurchasing shares.

In July 2013, the federal banking agencies approved a new rule that has substantially amended regulatory risk-based capital rules. The final rule implements the regulatory capital reforms from the Basel Committee on Banking Supervision ("Basel III") and changes required by the Dodd-Frank Act.

The final rule includes new minimum risk-based capital and leverage ratios, which were effective for us on January 1, 2016, and refines the definition of what constitutes "capital" for calculating these ratios. The new minimum capital requirements are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from prior rules); and (iv) a Tier 1 leverage ratio of 4%. The final rule also requires unrealized gains and losses on certain "available-for-sale" securities holdings to be

included for calculating regulatory capital requirements unless a one-time opt-out is exercised. Prudential Savings elected to opt out of the requirement under the final rule to include certain “available-for-sale” securities holdings for calculating its regulatory capital requirements. The final rule also establishes a “capital conservation buffer” of 2.5%, and, when fully phased in, will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 to risk-based assets capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement began being phased-in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

We have analyzed the effects of these new capital requirements on a fully phased-in basis, and we believe that we meet all of these new requirements, including the full 2.5% capital conservation buffer, as if these new requirements had been in effect as of September 30, 2018.

The application of more stringent capital requirements could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy, and could limit our ability to make distributions, including paying dividends or repurchasing shares. Specifically, beginning in 2017, the Bank's ability to pay dividends is limited if it does not have the capital conservation buffer required by the new capital rules, which may further limit our ability to pay dividends to stockholders.

Proposed and final regulations could restrict our ability to originate and sell loans.

The Consumer Financial Protection Bureau has issued a rule designed to clarify for lenders how they can avoid legal liability under the Dodd-Frank Act, which would hold lenders accountable for ensuring a borrower's ability to repay a mortgage. Loans that meet this "qualified mortgage" definition will be presumed to have complied with the new ability-to-repay standard. Under the Consumer Financial Protection Bureau's rule, a "qualified mortgage" loan must not contain certain specified features, including:

- excessive upfront points and fees (those exceeding 3% of the total loan amount, less "bona fide discount points" for prime loans);
- interest-only payments;
- negative amortization; and
- terms of longer than 30 years.

Also, to qualify as a "qualified mortgage," a loan must be made to a borrower whose total monthly debt-to-income ratio does not exceed 43%. Lenders must also verify and document the income and financial resources relied upon to qualify the borrower on the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments.

In addition, the Dodd-Frank Act requires the regulatory agencies to issue regulations that require securitizers of loans to retain "not less than 5% of the credit risk for any asset that is not a qualified residential mortgage." The regulatory

agencies have issued a final rule to implement this requirement. The final rule provides that the definition of “qualified residential mortgage” includes loans that meet the definition of qualified mortgage issued by the Consumer Financial Protection Bureau.

The final rule could have a significant effect on the secondary market for loans and the types of loans we originate, and restrict our ability to make loans. Similarly, the Consumer Financial Protection Bureau’s rule on qualified mortgages could limit our ability or desire to make certain types of loans or loans to certain borrowers, which could limit our growth or profitability.

We are a community bank and our ability to maintain our reputation is critical to the success of our business

We are a community bank, and our reputation is one of the most valuable components of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our current market and contiguous areas. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected by the actions of our employees, by our inability to conduct our operations in a manner that is appealing to current or prospective customers, or otherwise, our business and, therefore, our operating results may be materially adversely affected.

Strong competition within our market area could hurt our profits and slow growth

We face intense competition in making loans, attracting deposits and hiring and retaining experienced employees. This competition has made it more difficult for us to make new loans and attract deposits. Price competition for loans and deposits sometimes results in us charging lower interest rates on our loans and paying higher interest rates on our deposits, which reduces our net interest income. Competition also makes it more difficult and costly to attract and retain qualified employees. Some of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our market area.

We are subject to environmental liability risk associated with the Bank's lending activities.

A significant portion of our loan portfolio is secured by real estate, and we could become subject to environmental liabilities with respect to one or more of these properties. During the ordinary course of business, we may foreclose on and take title to properties securing defaulted loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous conditions or toxic substances are found on these properties, we may be liable for remediation costs, as well as for personal injury and property damage, civil fines and criminal penalties regardless of when the hazardous conditions or toxic substances first affected any particular property. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure on nonresidential real property, these reviews may not be sufficient to detect all potential

environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on us.

The fair value of our investment securities can fluctuate due to market conditions outside of our control

As of September 30, 2018, the fair value of our investment securities portfolio was approximately \$362.1 million. We have historically taken a conservative investment strategy, with concentrations of securities that are backed by government sponsored enterprises. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could have a material adverse effect on us. The process for determining whether impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security.

If the Company fails to maintain an effective system of internal controls, it may not be able to accurately report its financial results or prevent fraud. As a result, current and potential shareholders could lose confidence in the Company's financial reporting, which could harm its business and the trading price of its common stock.

The Company has established a process to document and evaluate its internal controls over financial reporting in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations, which require annual management assessments of the effectiveness of the Company's internal controls over financial reporting. In this regard, management has, among other things, dedicated internal resources and engaged outside consultants to (i) assess and document the adequacy of internal controls over financial reporting, (ii) take steps to improve control processes, where appropriate, (iii) validate through testing that controls are functioning as documented and (iv) implement a continuous reporting and improvement process for internal control over financial reporting. Although the Company's management and audit committee believe that its system of internal controls is effective, the Company cannot be certain that these measures will ensure that the Company implements and maintains adequate controls over its financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's operating results or cause the Company to fail to meet its reporting obligations. If the Company fails to correct any issues in the design or operating effectiveness of internal controls over financial reporting, or fails to prevent fraud, current and potential shareholders could lose confidence in the Company's financial reporting, which could harm its business and the trading price of its common stock.

The Company is subject to a variety of operational risks, including reputational risk, legal and compliance risk, and the risk of fraud or theft by employees or outsiders.

The Company is exposed to many types of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, and unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems. Negative public opinion can result from its actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect its ability to attract and keep customers and can expose the Company to litigation and regulatory action.

Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. The Company's necessary dependence upon automated systems to record and process its transaction volume may further increase the risk that technical flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. The Company also may be subject to disruptions of its operating systems arising from events that are wholly or partially beyond its control (for example, computer viruses or electrical or telecommunications outages), which may give rise to disruption of service to customers and to financial loss or liability. The Company is further exposed to the risk that its external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or

operational errors by their respective employees as the Company is) and to the risk that its (or its vendors') business continuity and data security systems prove to be inadequate. The occurrence of any of these risks could result in a diminished ability of the Company to operate its business, potential liability to clients, reputational damage and regulatory intervention, which could adversely affect its business, financial condition and results of operations, perhaps materially.

The Company relies on other companies to provide key components of its business infrastructure.

Third parties provide key components of the Company's business infrastructure, for example, system support and network access. While the Company has selected these third party vendors carefully, it does not control their actions. Any problems caused by these third parties, including those resulting from their failure to provide services for any reason or their poor performance of services, could adversely affect the Company's ability to deliver products and services to its customers and otherwise conduct its business. Replacing these third party vendors could also entail significant delay and expense.

The Company's operations may be adversely affected by cyber security risks.

In the ordinary course of business, the Company collects and stores sensitive data, including proprietary business information and personally identifiable information of our customers and employees in systems and on networks. In some cases, this confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf. The secure processing, maintenance and use of this information is critical to operations and our business strategy. The Company has invested in accepted technologies, and continually reviews processes and practices that are designed to protect our networks, computers and data from damage or unauthorized access. Despite these security measures, the Company's computer systems and infrastructure or those of third parties used by us to compile, process or store such information may be vulnerable to attacks by hackers or breached due to employee error, malfeasance, or other disruptions. A breach of any kind could compromise systems and the information stored there could be accessed, damaged or disclosed. A breach in security could result in legal claims, regulatory penalties, disruption in operations, and damage to the Company's reputation, which could adversely affect our business.

Our ability to successfully compete may be reduced if we are unable to make technological advances.

The banking industry is experiencing rapid changes in technology. In addition to improving customer services, effective use of technology increases efficiency and enables financial institutions to reduce costs. As a result, our future success will depend in part on our ability to address our customers' needs by using technology. We cannot assure you that we will be able to effectively develop new technology-driven products and services or be successful in marketing these products to our customers. Many of our competitors have far greater resources than we have to invest in technology.

We expect that implementation of a new accounting standard could require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The Financial Accounting Standards Board (“FASB”) has adopted a new accounting standard that will be effective for the Bank for our first fiscal year beginning after December 15, 2019. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which we expect may require us to increase our allowance for loan losses, and to greatly increase the data we would need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses, or expenses incurred to determine the appropriate level of the allowance for loan losses, may have a material adverse effect on our financial condition and results of operations.

Federal Reserve Board policy could limit our ability to pay dividends to our shareholders.

The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. These regulatory policies could affect our ability to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties

We currently conduct business from our main office and nine banking offices. On January 1, 2017, the Company completed its acquisition of Polonia Bancorp and Polonia Bank, Polonia Bancorp's wholly owned subsidiary. The acquisition added five banking offices to our existing properties. The financial center at our Old City location was closed on March 31, 2018. The following table sets forth the net book value of the land, building and leasehold improvements and certain other information with respect to our offices at September 30, 2018.

Description/Address	Leased/Owned	Date of Lease Expiration	Net Book Value of Property Deposits and Leasehold Improvements (In Thousands)	Amount of
Main Office 1834 West Oregon Avenue Philadelphia, PA 19145	Owned	N/A	\$ 168	\$ 501,549
Huntingdon Valley Executive Office 3993 Huntingdon Pike Huntingdon Valley, PA 19006	Owned	N/A	3,088	41,957
Broad Street Financial Center 1722 South Broad Street Philadelphia, PA 19145	Owned	N/A	176	50,644
Pennsport Financial Center 238A Moore Street Philadelphia, PA 19148	Owned	N/A	20	39,759
Drexel Hill Financial Center 1270 Township Line Road Drexel Hill, PA 19026	Leased	Sep-21	32	27,132
Center City Financial Center 1500 JFK Boulevard Philadelphia, PA 19103	Leased	Oct-22	131	15,619
Alleghney Financial Center 2644-56 E Alleghney Avenue Philadelphia, PA 19134	Owned	N/A	820	48,861
Spring Garden Financial Center 2133-35 Spring Garden Street Philadelphia, PA 19130	Owned	N/A	1,447	28,228
Richmond Financial Center 4800 Richmond Street Philadelphia, PA 19137	Owned	N/A	217	4,437
Frankford Financial Center 8000 Frankford Avenue	Owned	N/A	406	26,072

Philadelphia, PA 19136

Total \$6,505 \$ 784,258

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Item 3. Legal Proceedings

As previously disclosed in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, on March 31, 2016, Island View Properties, Inc., trading as Island View Crossing II, LP ("Island View Crossing"), and Renato J. Gualtieri (collectively, the "Gualtieri Parties") filed suit (the "Philadelphia Litigation") in the Court of Common Pleas, Philadelphia, Pennsylvania (the "Court"), against the Bank seeking damages in an amount in excess of \$27.0 million. The lawsuit asserts allegations related to a loan granted by the Bank to the Gualtieri Parties to develop a 169-unit townhouse and condominium project located in Bristol Borough in Bucks County, Pennsylvania (the "Project").

In May 2016, the Bank filed a motion with the court seeking to dismiss the majority of claims asserted in the Philadelphia Litigation. In August 2016, the Court dismissed a majority of the Gualtieri Parties' claims. The Bank has also counterclaimed against the Gualtieri Parties for failure to satisfy the nine loans extended thereto and for failure to complete the Project. In February 2017, the Court stayed the Philadelphia Litigation pending possible resolution of the Litigation. No resolution was obtained and the stay has expired.

Since commencement of the Philadelphia Litigation, the Bank has filed Complaints for Confession against the Gualtieri Parties and certain other entities affiliated with Renato J. Gualtieri ("Gualtieri Parties and Affiliated Entities") based on the claimed defaults under the nine loans issued by the Bank. These actions have been stayed pending the resolution of the Philadelphia Litigation. The Bank has also filed foreclosure actions with regard to the commercial properties collateralizing the loans issued to the Gualtieri Parties and Affiliated Entities.

Shortly after the Court lifted the stay in the Philadelphia Litigation, the Gualtieri Parties and Affiliated Entities filed for bankruptcy under Chapter 11. The Bank has removed the underlying Philadelphia Litigation from state court to the federal bankruptcy court. As the Philadelphia Litigation is in its early stages, no prediction can be made as to the outcome thereof. However, the Bank believes that it has meritorious defenses to the remaining claims under the Philadelphia Litigation and it intends to vigorously defend the case.

In addition, as the Chapter 11 bankruptcy is in its early stages, no prediction can be made as to the outcome thereof. However, the Bank believes that it has meritorious challenges to the Chapter 11 bankruptcy filed by the Gualtieri Parties and Affiliated Entities. The Bank recently filed a motion in the federal bankruptcy court seeking to convert the bankruptcy to a Chapter 7 proceeding or in the alternative to appoint a Chapter 11 trustee to preserve the assets securing the Bank's loans with the Gualtieri Parties and Affiliated Entities.

Within the bankruptcy, Island View Crossing, as the debtor and the Chapter 11 Trustee, filed a separate adversary proceeding against the Bank seeking to avoid certain collateral mortgages made by Island View Crossing as well as seeking to avoid certain loans made to Island View Crossing including, but not limited to, a \$1.4 million loan and a \$5.5 million loan. The complaint was filed on or about December 3, 2018. The Company is evaluating the matter. Given the relatively early stages of the case and the complaint just being filed, we are unable to determine the likelihood of an unfavorable outcome at this time. The Company, however, intends to vigorously defend against the claim.

Prudential Bancorp 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 Prudential Bancorp. There can be no assurance that any of the outstanding legal proceedings to which the Company is a party will not be decided adversely to the Company's interests and have a material adverse effect on the financial condition and operations of the Company.

Item 4. Mine Safety Disclosures

Not applicable

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

(a) Our common stock is traded on the NASDAQ Global Market (NASDAQ) under the symbol "PBIP". At December 1, 2018, there were approximately 357 registered shareholders of record, not including the number of persons or entities whose stock is held in nominee or "street" name through various brokerage firms and banks.

The following table shows the quarterly high and low trading prices of our stock, reported on the NASDAQ Stock Market, and the amount of cash dividends declared per share for each of the quarters in fiscal 2018 and 2017:

	Stock Price		Cash dividends per share
	High	Low	
Quarter ended:			
September 30, 2018	\$19.84	\$16.84	\$ 0.40
June 30, 2018	19.87	16.86	0.05
March 31, 2018	18.75	16.04	0.05
December 31, 2017	18.96	17.23	0.20

	Stock Price		Cash dividends per share
	High	Low	
Quarter ended:			
September 30, 2017	\$18.96	\$18.51	\$ 0.03
June 30, 2017	18.48	18.13	0.03
March 31, 2017	18.13	17.68	0.03
December 31, 2016	17.39	17.04	0.03

(b)

Not applicable

(c) The Company's repurchases of equity shares for the fourth quarter of fiscal year 2018 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs (1)
July 1 - 31, 2018	-	\$ -	-	127,529
August 1 - 31, 2018	31	(2) \$ 18.48	-	127,529
September 1 - 30, 2018	62,388	(1) \$ 17.89	-	64,871
	62,419			

On July 15, 2015, the Company announced the Board of Directors had approved a second stock repurchase (1) program authorizing the Company to repurchase up to 850,000 shares of common stock, approximately 10% of the Company's outstanding shares upon completion of the first repurchase program.

(2) Shares repurchased in connection with withholding shares to meet income tax withholding obligations upon the vesting of restricted stock awards.

Item 6. Selected Financial Data

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

	At September 30,				
	2018	2017	2016	2015	2014
	(Dollars in Thousands)				
Selected Financial and Other Data:					
Total assets	\$1,081,170	\$899,540	\$559,480	\$487,189	\$525,483
Cash and cash equivalents	48,171	27,903	12,440	11,272	45,382
Investment and mortgage-backed securities:					
Held-to-maturity	59,852	61,284	39,971	66,384	80,840
Available-for-sale	306,187	178,402	138,694	77,483	57,817
Loans receivable, net	602,932	571,343	344,948	312,633	321,063
Deposits	784,258	635,982	389,201	365,074	391,025
FHLB advances	154,683	114,318	50,638	-	340
Non-performing loans	13,389	15,397	15,878	13,932	5,880
Non-performing assets	14,415	15,589	16,459	14,801	6,240
Total stockholders' equity, substantially restricted	128,409	136,179	114,002	117,001	129,425
Banking offices	10	11	6	7	7

	Year Ended September 30,				
	2018	2017	2016	2015	2014
	(Dollars in Thousands, except per share data)				
Selected Operating Data:					
Total interest income	\$34,851	\$26,343	\$17,483	\$16,680	\$16,465
Total interest expense	10,137	5,266	3,326	3,430	3,401
Net interest income	24,714	21,077	14,157	13,250	13,064
Provision for loan losses	810	2,990	225	735	240
Net interest income after provision for loan losses	23,904	18,087	13,932	12,515	12,824
Total non-interest income	2,500	2,198	1,337	3,008	1,111
Total non-interest expense	15,639	16,566	11,290	13,175	11,465
Income before income taxes	10,765	3,719	3,979	2,348	2,470
Income tax expense	3,701	941	1,259	116	690
Net income	\$7,064	\$2,778	\$2,720	\$2,232	\$1,780
Basic earnings per share	\$0.80	\$0.33	\$0.37	\$0.27	\$0.20
Diluted earnings per share	\$0.78	\$0.32	\$0.36	\$0.27	\$0.19
Dividends paid per common share	\$0.70	\$0.12	\$0.12	\$0.27	\$0.06

Selected Operating Ratios(1):

Average yield earned on interest-earning assets	3.77	%	3.65	%	3.40	%	3.38	%	3.28	%
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Average rate paid on interest-bearing liabilities	1.23	0.82	0.80	0.90	0.89
Average interest rate spread(2)	2.55	2.83	2.60	2.49	2.39
Net interest margin(2)	2.68	2.92	2.75	2.69	2.61
Average interest-earning assets to average interest-bearing liabilities	111.81	111.83	124.28	128.72	130.51
Net interest income after provision for loan losses to non-interest expense	152.85	109.18	123.40	94.99	111.85
Total non-interest expense to total average assets	1.60	2.10	2.11	3.42	2.21
Efficiency ratio(3)	57.47	71.18	72.87	81.04	80.88
Return on average assets	0.72	0.35	0.51	0.58	0.34
Return on average equity	5.45	2.16	2.36	2.37	1.38
Average equity to average total assets	13.28	16.31	21.55	24.39	24.79

(Footnotes on next page)

At or For the

Year Ended September 30,

2018 2017 2016 2015 2014

Asset Quality Ratios(4):

Non-performing loans as a percent of total loans receivable(5)	2.22 %	2.67 %	4.60 %	4.21 %	1.83 %
Non-performing assets as a percent of total assets(5)	1.33	1.73	2.94	3.04	1.19
Allowance for loan losses as a percent of non-performing loans	38.59	29.01	20.59	21.03	41.24
Allowance for loan losses as a percent of total loans	0.85	0.78	0.94	0.93	0.75
Net charge-offs to average loans receivable	0.02	0.37	-0.03	0.07	0.05

Capital Ratios(4):

Tier 1 leverage ratio

Company	12.51%	14.81%	20.41%	23.73%	22.39%
Bank	11.86	13.59	18.15	19.50	17.95

Tier 1 common risk-based capital ratio

Company	19.74	23.94	38.57	50.63	N/A
Bank	18.73	21.97	34.36	41.66	N/A

Tier 1 risk-based capital ratio

Company	19.74	23.94	38.57	50.63	57.21
Bank	18.73	21.97	34.36	41.65	40.52

Total risk-based capital ratio

Company	20.58	24.83	39.70	51.98	58.28
Bank	19.56	22.86	35.49	43.00	41.59

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

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

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

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

- Non-performing assets generally consist of all loans on non-accrual, loans which are 90 days or more past due as to principal or interest, and real estate acquired through foreclosure or acceptance of a deed-in-lieu of foreclosure.
- (5) Non-performing assets and non-performing loans also include loans classified as TDRs due to being recently restructured and placed on non-accrual in connection with such restructuring. The TDRs in most cases are performing in accordance with their restructured terms. It is the Company's policy to cease accruing interest on all loans which are 90 days or more past due as to interest and/or principal.

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

Overview

At September 30, 2018, we had total assets of \$1.1 billion, including net loans of \$602.9 million and \$366.0 million of investment and mortgage-backed securities, total deposits of \$784.3 million and total stockholders' equity of \$128.4 million.

The Company conducts community banking activities by accepting deposits and making loans secured by properties located primarily in our market area. Our lending products consist of residential mortgage loans, including loans for sale in the secondary market, along with commercial real estate, multi-family residential and construction loans. The Company also originates commercial business and consumer loans in an effort to maintain strong customer relationships.

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

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

Critical Accounting Policies

In reviewing and understanding financial information for Prudential Bancorp, you are encouraged to read and understand the significant accounting policies used in preparing our financial statements. These policies are described in Note 2 of the notes to our consolidated financial statements included in Item 8 hereof. The accounting and financial reporting policies of Prudential Bancorp conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and to general practices within the banking industry. Accordingly, the financial statements require certain estimates, judgments and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities as well as contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of income

and expenses during the periods presented. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may significantly affect our reported results and financial condition for the period or in future periods.

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

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

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

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

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

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

Investment and Mortgage-Backed Securities Available for Sale. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated using quoted prices of securities with similar characteristics or discounted cash flows and are classified within Level 2 of the fair value hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy, although there were no securities with that classification as of September 30, 2018 or 2017.

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

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

Business Combinations - At the date of acquisition the Company records the assets and liabilities of the acquired companies on the Consolidated Statement of Financial Condition at their estimated fair value. The results of operations for acquired companies are included in the Company's Consolidated Statements of Operations beginning at the acquisition date. Expenses arising from acquisition activities are recorded in the Consolidated Statements of Operations during the period incurred. The difference between the purchase price and the fair value of the net assets acquired (including identified intangibles) is recorded as goodwill.

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

In evaluating our ability to recover deferred tax assets, we consider all available positive and negative evidence, including our past operating results and our forecast of future taxable income. In determining future taxable income,

we make assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record an additional valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.

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

Recent Accounting Pronouncements

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

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

Derivative financial instruments include futures, forwards, interest rate swaps, option contracts, and other financial instruments with similar characteristics. To remain competitive in our local lending area and to support the Company's asset/liability positioning, on occasion the Bank enters into interest rate swap contracts to control its funding costs.

In addition, these instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. Commitments to extend credit generally have fixed expiration dates and may require additional collateral from the borrower if deemed necessary. Commitments to extend credit are not recorded as an asset or liability by us until the instrument is exercised.

Commitments

The following table summarizes our outstanding commitments to originate loans and to advance additional amounts pursuant to outstanding letters of credit, lines of credit and undisbursed construction loans at September 30, 2018.

Total Amounts Committed 1 Year (In Thousands)	Amount of Commitment Expiration - Per Period			
	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years

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Letters of credit	\$1,642	\$ 410	\$ 1,232	\$ -	\$ -
Lines of credit	51,844	4,526	431	17,108	29,779
Undisbursed portions of loans in process	54,474	21,770	17,821	1,974	12,909
Commitments to originate loans	40,433	37,505	0	2,928	-
Total commitments	\$148,393	\$ 64,211	\$ 19,484	\$ 22,010	\$ 42,688

Contractual Cash Obligations

The following table summarizes our contractual cash obligations at September 30, 2018.

	Total	Payments Due By Period			
		Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
	(In Thousands)				
Certificates of deposit	\$563,820	\$411,988	\$95,297	\$56,535	\$-
Advances from FHLB	144,683	20,167	38,738	80,778	5,000
Total long-term debt	708,503	432,155	134,035	137,313	5,000
Short-term borrowings, FHLB	10,000	10,000	-	-	-
Advances from borrowers for taxes and insurance	2,083	2,083	-	-	-
Operating lease obligations	2,324	321	503	516	984
Total contractual obligations	\$722,910	\$444,559	\$134,538	\$137,829	\$5,984

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

	Year Ended September 30, 2018			2017			2016			
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	
(Dollars in Thousands)										
Interest-earning assets:										
Investment securities (1)	\$155,154	\$4,862	3.23 %	\$60,094	\$2,004	3.52 %	\$57,433	\$1,550	2.70 %	
Mortgage-backed securities	153,056	4,078	2.66 %	151,430	3,963	2.62 %	114,709	2,973	2.59 %	
Loans receivable (2)	588,493	25,367	4.31 %	487,999	20,107	4.12 %	327,877	12,909	3.94 %	
Other interest-earning assets	26,963	544	2.02 %	22,361	269	1.20 %	13,103	51	0.39 %	
Total interest-earning assets	923,666	34,851	3.77 %	721,884	26,343	3.65 %	513,122	17,483	3.41 %	
Non-interest-earning assets	51,683			65,485			21,622			
Total assets	\$975,349			\$787,369			\$534,744			
Interest-bearing liabilities:										
Savings accounts	\$105,665	\$66	0.06 %	\$97,710	\$51	0.05 %	\$73,030	\$83	0.11 %	
Checking and money market accounts	121,954	247	0.20 %	127,172	197	0.15 %	92,751	165	0.18 %	
Certificate accounts	454,554	7,073	1.56 %	325,824	3,682	1.13 %	211,517	2,613	1.24 %	
Total deposits	682,173	7,386	1.08 %	550,706	3,930	0.71 %	377,298	2,861	0.76 %	
FHLB advances	143,913	2,751	1.91 %	94,816	1,336	1.41 %	35,585	465	1.31 %	
Total interest-bearing liabilities	826,086	10,137	1.23 %	645,522	5,266	0.82 %	412,883	3,326	0.81 %	
Non-interest-bearing liabilities	19,702			13,390			6,618			
Total liabilities	845,788			658,912			419,501			
Stockholders' equity	129,561			128,457			115,243			
	\$975,349			\$787,369			\$534,744			

Total liabilities and stockholders' equity								
Net interest-earning assets	\$97,580			\$76,362				\$100,239
Net interest income, interest rate spread	\$24,714	2.55	%	\$21,077	2.83	%	\$14,157	2.60 %
Net interest margin (3)		2.68	%		2.92	%		2.76 %
Average interest-earning assets to average interest-bearing liabilities		111.81	%		111.83	%		124.28%

(1) Tax exempt yields have been adjusted to a tax-equivalent basis.

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

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

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

	2018 vs. 2017				2017 vs. 2016			
	Increase (Decrease) Due to				Increase (Decrease) Due to			
	Rate	Volume	Rate/ Volume	Total Increase (Decrease)	Rate	Volume	Rate/ Volume	Total Increase (Decrease)
	(In Thousands)							
Interest income:								
Investment securities	\$(175)	\$3,351	\$(318)	\$2,858	\$365	\$72	\$17	\$454
Mortgage-backed securities	72	43	1	116	29	952	9	990
Loans receivable, net	928	4,141	191	5,260	601	6,304	293	7,198
Other interest-earning assets	182	55	37	274	107	36	75	218
Total interest income	1,007	7,590	(89)	8,508	1,102	7,364	394	8,860
Interest expense:								
Savings accounts	5	5	-	10	(45)	28	(13)	(30)
Checking and money market accounts (interest-bearing and non-interest bearing)	65	(7)	(3)	55	(23)	61	(9)	29
Certificate accounts	1,388	1,455	548	3,391	(223)	1,412	(120)	1,069
Total deposits	1,458	1,453	545	3,456	(291)	1,501	(142)	1,068
FHLB advances	476	692	247	1,415	36	774	61	871
Total interest expense	1,934	2,145	792	4,871	(255)	2,275	(81)	1,939
Increase (decrease) in net interest income	\$(927)	\$5,445	\$(881)	\$3,637	\$1,357	\$5,089	\$475	\$6,921

Comparison of Financial Condition at September 30, 2017 and September 30, 2016

At September 30, 2018, the Company had total assets of \$1.1 billion, as compared to \$899.5 million at September 30, 2017, an increase of \$181.6 million or 20.2%. At September 30, 2018, the investment securities portfolio increased by \$126.4 million to \$367.6 million as compared to September 30, 2017 primarily as a result of the purchase of investment grade corporate bonds and U.S. government agency mortgage-backed securities. Net loans receivable increased \$31.6 million to \$602.9 million at September 30, 2018 from \$571.3 million at September 30, 2017. The increase was primarily due to increases in commercial real estate and construction loans, reflecting our continued emphasis of increasing our investment in such loans. Cash and cash equivalents increased \$20.3 million to \$48.2 million.

Total liabilities increased by \$189.4 million to \$952.8 million at September 30, 2018 from \$763.4 million at September 30, 2017. Total deposits increased \$148.3 million, consisting primarily of certificates of deposit, which were used to fund asset growth as well as meet short-term liquidity needs. At September 30, 2018, the Company had FHLB advances outstanding of \$154.7 million, as compared to \$114.3 million at September 30, 2017. The increase in the level of borrowings was primarily due to match funding of loan originations as well as to funding purchases of investment securities in order to lock in the yield with minimal interest rate risk as part of the Company's asset/liability management strategy. All of the borrowings had maturities of less than six years.

Total stockholders' equity decreased by \$7.8 million to \$128.4 million at September 30, 2018 from \$136.2 million at September 30, 2017. The decrease was primarily due to a reduction in the fair market value of available for sale securities as of September 30, 2018 due to rising market rates which resulted in a substantial increase in the Company's accumulated other comprehensive loss. Also contributing to the decrease were dividend payments totaling \$6.3 million consisting of both regular quarterly dividends totaling \$0.20 per share for fiscal 2018 as well as special dividends of \$0.15 and \$0.35 per share declared in the first and fourth quarters, respectively, of fiscal 2018.

Results of Operations for the Years Ended September 30, 2018, 2017 and 2016

General.

2018 vs. 2017. For the fiscal year ended September 30, 2018, the Company recognized net income of \$7.1 million, or \$0.78 per diluted share, as compared to net income of \$2.8 million, or \$0.32 per diluted share for the fiscal year ended September 30, 2017. Both fiscal year periods included significant one-time charges. Fiscal year 2017 results included a one-time \$2.5 million pre-tax expense related to the acquisition of Polonia Bancorp which was completed as of January 1, 2017 as well as a \$1.9 million non-cash pre-tax charge-off associated with a large lending relationship. Fiscal year 2018 results reflected the effect of a \$1.8 million non-cash charge in the first quarter of the fiscal year related to the revaluation of the Company's deferred tax assets due to the enactment of the Tax Cuts and Jobs Act in December 2017 which significantly reduced the corporate income tax rate applicable to the Company.

2017 vs. 2016. For the fiscal year ended September 30, 2017, the Company recognized net income of \$2.8 million, or \$0.32 per diluted share, as compared to net income of \$2.5 million, or \$0.36 per diluted share for the fiscal year ended September 30, 2016. The fiscal year 2017 results included a one-time \$2.7 million pre-tax expense related to the Polonia Bancorp acquisition as well as a \$1.9 million non-cash pre-tax charge-off associated with a large lending relationship. Increased profitability for the year ended September 30, 2017 was primarily attributable to an increase in net interest income.

Net Interest Income.

2018 vs. 2017. For the year ended September 30, 2018, net interest income increased to \$24.7 million as compared to \$21.1 million for fiscal 2017. The increase reflected an \$8.5 million, or 32.3%, increase in interest income, partially offset by a \$4.9 million increase, or 92.5%, in interest paid on deposits and borrowings. The increase in interest income for the year ended September 30, 2018 was primarily due to the increase in the weighted average balances of earning assets combined with the increasing aggregate balance of commercial and construction loans in the loan portfolio as well as the rising interest rate environment. The average balance of interest-earning assets increased by

\$201.8 million, or 28.0%, to \$ 923.7 million for the year ended September 30, 2018 from \$721.9 million for the year ended September 30, 2017. The yield on interest-earning assets increased by 12 basis points to 3.77% for the year ended September 30, 2018 as compared to 3.65% for fiscal 2017. However, the weighted average cost of borrowings and deposits increased to 1.23% during the year ended September 30, 2018 from 0.82% for fiscal year 2017 due to significant growth in the balance of both our certificates of deposit and FHLB borrowings in order to fund our asset growth combined with increases in market rates of interest. As a result, our net interest margin declined to 2.68% for the year ended September 30, 2018 from 2.92% for fiscal year 2017.

2017 vs. 2016. For the year ended September 30, 2017, net interest income increased to \$21.1 million as compared to \$14.2 million for the same period in fiscal 2016. The increase reflected an \$8.9 million, or 50.7%, increase in interest income, partially offset by a \$1.9 million increase, or 58.3%, in interest paid on deposits and borrowings. The increase in net interest income for fiscal 2017 was primarily due to the increase in the weighted average balance of earning assets reflecting in large part the addition of earning assets acquired as of January 1, 2017 upon completion of the Polonia Bancorp acquisition. The weighted average yield on interest-earning assets increased 25 basis points to 3.65% while the cost of funds increased only 1 basis point to 0.82%.

Provision for Loan Losses.

2018 vs. 2017. The Company established a provision for loan losses of \$810,000 for the year ended September 30, 2018 primarily due to the increase in commercial and construction loans. For the year ended September 30, 2017, the Company established a provision for loan losses of \$3.0 million. The large provision during the year ended September 30, 2017 was primarily due to the \$1.9 million non-cash charge-off incurred in the quarter ended March 31, 2017 related to the lending relationship which involved the planned development of 169 residential lots. The Bank and the borrower are in litigation and no resolution of the situation has been arrived at as of the date hereof in part due to the bankruptcy filing by the borrower effected in June 2017. In light of the status of both the litigation as well as the progress of construction of the project, the Company recorded a \$1.9 million non-cash charge-off during the quarter ended March 31, 2017. The remaining portion of the provision recorded during the year ended September 30, 2017 was related to the increase in the outstanding balance of loans. The loans acquired from Polonia Bancorp initially did not have any impact on the allowance for loan losses, because they were acquired at their fair value. Any write-downs to fair value were reflected in the one-time merger-related charge. In the event that the credit quality of any loans acquired from Polonia Bancorp credit should deteriorate in the future, additional provisions may be required. See “Item 3. Legal Proceedings”.

The allowance for loan losses totaled \$5.2 million, or 0.9% of total loans and 38.6% of total non-performing loans (which included loans acquired from Polonia Bank at their fair value) at September 30, 2018 as compared to \$4.5 million, or 0.8% of total loans and 29.0% of total non-performing loans at September 30, 2017. The Company believes that the allowance for loan losses at September 30, 2018 was sufficient to cover all known and inherent losses associated with the loan portfolio at such date.

2017 vs. 2016. The Company established a provision for loan losses of \$3.0 million for the year ended September 30, 2017 primarily due to the aforementioned \$1.9 million charge-off as compared to \$325,000 for fiscal year 2016. The allowance for loan losses totaled \$4.5 million, or 0.8% of total loans and 29.0% of total non-performing loans (which included loans acquired from Polonia Bancorp at their fair-value) at September 30, 2017 as compared to \$3.3 million, or 0.9% of total loans and 20.6% of total non-performing loans at September 30, 2016.

Non-interest Income.

2018 vs. 2017. With respect to the year ended September 30, 2018, non-interest income amounted to \$2.5 million compared with \$2.2 million for fiscal 2017. The increase experienced in fiscal 2018 was primarily attributable to the recognition of \$808,000 in gains during the third quarter of fiscal 2018 associated with the unwinding of two cash flow hedges. The hedges were unwound to lock in the embedded gains of the hedge instruments. These gains were partially offset by losses incurred on the sale of securities yielding below current market yields in order to better position the securities portfolio in a rising rate environment. The proceeds from the sales were used to invest in higher yielding loan and investment products.

2017 vs. 2016. With respect to the year ended September 30, 2017, non-interest income amounted to \$2.2 million compared with \$1.3 million for fiscal 2016. The increase experienced in 2017 was primarily attributable to the addition of five full-service financial centers, along with the related customer deposit base (increased ATM fees as well as account service charges and transaction fees), acquired from Polonia Bancorp along with an increased return on bank owned life insurance (“BOLI”) as a result of the increase in the amount of BOLI due to the purchase of an additional \$10.0 million of BOLI in the first quarter of the fiscal year.

Non-interest Expense.

2018 vs. 2017. For the year ended September 30, 2018, non-interest expense decreased \$927,000, to \$15.6 million compared to \$16.6 million for fiscal year 2017. The primary reason for the higher level of non-interest expense experienced during the year ended September 30, 2017, as compared to fiscal year 2018, was the one-time merger-related charge in the 2017 period of approximately \$2.5 million, pre-tax, incurred in connection with the completion of the Polonia Bancorp acquisition in January 2017, the decline being partially offset primarily by increases in employee expenses and professional services.

2017 vs. 2016. For the year ended September 30, 2017, non-interest expense increased \$5.3 million, to \$16.6 million compared to \$11.3 million for fiscal year 2016. The primary reason for the increase for year ended September 30, 2017 as compared to fiscal year 2016 was the additional operating expense resulting from the Polonia Bancorp acquisition which added five financial centers to our branch network as well as additional personnel. In addition, the Company recorded a one-time merger related charge of approximately \$2.5 million, pre-tax, during the quarter ended March 31, 2017.

Income Tax Expense.

2018 vs. 2017. For the year ended September 30, 2018, the Company recorded income tax expense of \$3.7 million, resulting in an effective tax rate of %, compared to \$941,000 for fiscal 2017. The \$3.7 million tax expense for the year ended September 30, 2018 included a one-time non-cash charge of \$1.8 million related to a revaluation of the Company's deferred tax assets due to the Tax Cuts and Jobs Act legislation enacted in December 2017 that reduced the statutory corporate income tax rate from 35% to 21%. During fiscal 2018, commencing with the quarter ended December 31, 2017, the Company's statutory corporate income tax rate was reduced to 24.25% as compared to companies which are calendar year tax reporting companies whose statutory rate decreased to 21% starting January 1, 2018. Effective October 1, 2018, the Company's statutory tax rate was reduced to 21%. The Company's tax obligation for the year ended September 30, 2017 was reduced significantly due to the one-time merger-related charge related to the Polonia Bancorp acquisition and a one-time loan write-down described previously, both of which were recorded during the three months ended March 31, 2017.

2017 vs. 2016. For the year ended September 30, 2017, the Company recorded income tax expense of \$941,000 resulting in an effective tax rate of 25.3%, compared to \$1.3 million and an effective tax rate of 31.6% for fiscal 2016. The effective tax rate for the year ended September 30, 2017 was lower due to the increased tax-free income from BOLI combined with tax benefits associated with the exercise of stock options and the vesting of restricted stock awards.

Liquidity and Capital Resources

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

Our primary sources of funds are from deposits, scheduled principal and interest payments on loans, loan prepayments and the maturity of loans, mortgage-backed securities and other investments, and other funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan prepayments can be greatly influenced by general interest rates, economic conditions and competition. We also maintain excess funds in short-term, interest-bearing assets that provide additional liquidity. At September 30, 2018, our cash and cash equivalents amounted to \$48.2 million. In addition, our available for sale investment and mortgage-backed securities amounted to an aggregate of \$306.2 million at September 30, 2018.

We use our liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. At September 30, 2018, we had certificates of deposit maturing within the next 12 months amounting to \$412.0 million. We anticipate that a significant portion of the maturing certificates of deposit will be redeposited with us unless we determine to lower rates to below those of our competition in order to facilitate the reduction of higher cost deposits during periods when there is excess cash on hand or in order to satisfy our asset/liability goals. There were no deposits as of September 30, 2018 requiring the pledging of collateral.

In addition to cash flows from loan and securities payments and prepayments as well as from sales of available for sale securities, we have significant borrowing capacity available to fund liquidity requirements should the need arise. As of September 30, 2018, the Bank had \$265.7 million of available borrowing capacity along with a line of credit that has been established with the Federal Reserve Bank of Philadelphia and a \$12.5 million line of credit with Atlantic Community Bankers Bank. In addition, the Bank has the ability to generate brokered certificates of deposit (and has used on occasion, including in fiscal 2018).

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

Impact of Inflation and Changing Prices

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

Exposure to Changes in Interest Rates

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

The table on the next page sets forth the amounts of our interest-earning assets and interest-bearing liabilities outstanding at September 30, 2018, which we expect, based upon certain assumptions, to reprice or mature in each of the future time periods shown (the “GAP Table”). Except as stated below, the amounts of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at September 30, 2018, on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable-rate loans and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans. Annual prepayment rates for adjustable-rate and fixed-rate single-family and multi-family residential and commercial mortgage loans are assumed to range from 6.4% to 30.7%. The annual prepayment rate for mortgage-backed securities is assumed to range from 0.9% to 17.3%. Money market deposit accounts, savings accounts and interest-bearing checking accounts are assumed to have annual rates of withdrawal, or “decay rates,” based on information from an internal analysis of our accounts up to a maximum of ten years.

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	3 Months or Less (Dollars in Thousands)	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
Interest-earning assets(1):						
Investment and mortgage-backed securities	\$5,317	\$31,320	\$40,965	\$77,378	\$211,059	\$366,039
Loans receivable(2)	145,628	89,907	148,286	95,747	123,364	602,932
Other interest-earning assets (3)	45,714	-	8,940	249	-	54,903
Total interest-earning assets	\$196,659	\$121,227	\$198,191	\$173,374	\$334,423	\$1,023,874
Interest-bearing liabilities:						
Savings accounts	\$3,007	\$8,049	\$13,606	\$13,131	\$59,073	\$96,866
Checking and money market accounts	3,724	11,172	18,428	14,886	61,685	109,895
Certificate accounts	171,281	240,708	95,296	56,535	-	563,820
Advances from Federal Home Loan Bank	3,725	13,187	36,852	65,863	35,056	154,683
Real estate tax escrow accounts	2,083	-	-	-	-	2,083
Total interest-bearing liabilities	\$183,820	\$273,116	\$164,182	\$150,415	\$155,814	\$927,347
Interest-earning assets less interest-bearing liabilities	\$12,839	\$(151,889)	\$34,009	\$22,959	\$178,609	\$96,527
Cumulative interest-rate sensitivity gap(4)	\$12,839	\$(139,050)	\$(105,041)	\$(82,082)	\$96,527	
Cumulative interest-rate gap as a percentage of total assets at September 30, 2018	1.19 %	-12.86 %	-9.72 %	-7.59 %	8.93 %	
Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities at September 30, 2018	106.98 %	69.57 %	83.09 %	89.36 %	110.41 %	

(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, loans receivable includes non-performing loans, gross of the allowance for loan losses, undisbursed loan funds, unamortized discounts and deferred loan fees.

(3) Includes restricted stock in FHLB and ACBB.

(4) Interest-rate sensitivity gap represents the difference between total interest-earning assets and total interest-bearing liabilities.

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-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 adjustable-rate loans may decrease 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 following table sets forth our NPV as of September 30, 2018 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 (Rate Shock)	Net Portfolio Value			NPV as % of Portfolio Value of Assets				
	Amount	\$ Change	% Change	NPV Ratio	Change			
	(Dollars in Thousands)							
300	\$105,350	\$(58,209)	-35.59 %	10.91 %	-4.27 %			
200	\$122,951	\$(40,608)	-24.83 %	12.29 %	-2.89 %			
100	\$140,741	\$(22,818)	-13.95 %	13.59 %	-1.59 %			
Static	\$163,559	\$-	---	15.18 %	---			
(100)	\$176,893	\$13,334	8.15 %	15.91 %	0.73 %			
(200)	\$178,019	\$14,460	8.84 %	15.69 %	0.51 %			
(300)	\$176,144	\$12,585	7.69 %	15.28 %	0.10 %			

At September 30, 2017, the Company’s NPV was \$167.7 million or 18.6% of the market value of assets. Following a 200 basis point increase in interest rates, the Company’s “post shock” NPV would have been \$133.6 million or 16.0% of the market value of assets, a decline of approximately 20.4%. The change in the NPV ratio or Company’s sensitivity measure was a decrease of 259 basis points.

As is the case with the GAP Table, certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV require 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 7A. Quantitative and Qualitative Disclosure About Market Risk

See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Exposure to Changes in Interest Rates.”

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Prudential Bancorp, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of Prudential Bancorp, Inc. and subsidiary (the “Company”) as of September 30, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and changes of cash flow for each of the three years in the period ended September 30, 2018, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of September 30, 2018, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated December 14, 2018, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2009.

/s/ SR Snodgrass, PC.
Cranberry Township, Pennsylvania

December 14, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Prudential Bancorp, Inc.

Opinion on the Internal Control over Financial Reporting

We have audited Prudential Bancorp, Inc.'s (the "Company") internal control over financial reporting as of September 30, 2018, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2018, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial condition of the Company as of September 30, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2018, of the Company and our report dated December 14, 2018, expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Report on *Management's Report of Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was

maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ SR Snodgrass, PC
Cranberry Township, Pennsylvania

December 14, 2018

PRUDENTIAL BANCORP, INC.**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**

	September 30, 2018 2017 (Dollars in Thousands)	
ASSETS		
Cash and amounts due from depository institutions	\$2,457	\$2,274
Interest-bearing deposits	45,714	25,629
Total cash and cash equivalents	48,171	27,903
Certificates of deposit	1,604	1,604
Investment and mortgage-backed securities available for sale (amortized cost—September 30, 2018, \$316,719; September 30, 2017, \$180,087)	306,187	178,402
Investment and mortgage-backed securities held to maturity (fair value—September 30, 2018, \$55,927; September 30, 2017, \$60,179)	59,852	61,284
Loans receivable—net of allowance for loan losses (September 30, 2018, \$5,167; September 30, 2017, \$4,466)	602,932	571,343
Accrued interest receivable	3,825	2,825
Real estate owned	1,026	192
Restricted bank stock—at cost	7,585	6,002
Office properties and equipment—net	7,439	7,804
Bank owned life insurance (BOLI)	28,691	28,048
Deferred income taxes, net	4,655	4,091
Goodwill	6,102	6,102
Core deposit intangible	571	709
Prepaid expenses and other assets	2,530	3,231
TOTAL ASSETS	\$1,081,170	\$899,540
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest-bearing	\$13,677	\$9,375
Interest-bearing	770,581	626,607
Total deposits	784,258	635,982
Advances from Federal Home Loan Bank -Short Term	10,000	20,000
Advances from Federal Home Loan Bank - Long Term	144,683	94,318
Accrued interest payable	3,232	1,933
Advances from borrowers for taxes and insurance	2,083	2,207
Accounts payable and accrued expenses	8,505	8,921

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Total liabilities	952,761	763,361
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; none issued	-	-
Common stock, \$.01 par value, 40,000,000 shares authorized; 10,819,006 issued and 8,987,356 outstanding at September 30, 2018; 10,819,006 issued and 9,008,125 outstanding at September 30, 2017	108	108
Additional paid-in capital	118,345	118,751
Treasury stock, at cost: 1,831,650 shares at September 30, 2018 and 1,810,881 shares at September 30, 2017	(27,744)	(26,707)
Retained earnings	45,854	44,787
Accumulated other comprehensive loss	(8,154)	(760)
Total stockholders' equity	128,409	136,179
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,081,170	\$899,540

See notes to consolidated financial statements.

PRUDENTIAL BANCORP, INC.**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Years Ended September 30,		
	2018	2017	2016
	(Dollars in Thousands Except Per Share Amounts)		
INTEREST INCOME:			
Interest and fees on loans	\$ 25,367	\$ 20,107	\$ 12,909
Interest on mortgage-backed securities	4,077	2,947	2,494
Interest and dividends on investments	5,015	3,180	1,979
Interest on interest-bearing deposits	392	109	101
Total interest income	34,851	26,343	17,483
INTEREST EXPENSE:			
Interest on deposits	7,386	3,930	2,861
Interest on advances from FHLB - short term	347	184	95
Interest on advances from FHLB - long term	2,404	1,152	370
Total interest expense	10,137	5,266	3,326
NET INTEREST INCOME	24,714	21,077	14,157
PROVISION FOR LOAN LOSSES	810	2,990	225
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	23,904	18,087	13,932
NON-INTEREST INCOME:			
Fees and other service charges	668	655	464
Gain on sale of mortgage-backed securities available for sale	(376)	235	418
Gain on sale of loans	-	52	11
Swap income	1,122	-	-
Earnings from BOLI	639	677	333
Other	447	579	111
Total non-interest income	2,500	2,198	1,337
NON-INTEREST EXPENSES:			
Salaries and employee benefits	8,273	7,468	6,518
Data processing	733	697	456
Professional services	1,866	1,433	1,075
Office occupancy	1,079	962	670

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Depreciation	625	553	325
Director compensation	234	282	424
Federal Deposit Insurance Corporation premiums	278	162	396
Real estate owned expense	176	(13)	19
Advertising	246	214	103
Merger related expenses	-	2,486	300
Core deposit amortization	138	112	-
Other	1,991	2,210	1,004
Total non-interest expenses	15,639	16,566	11,290
INCOME BEFORE INCOME TAXES	10,765	3,719	3,979
INCOME TAXES:			
Current	2,429	801	1,275
Deferred expense (benefit)	1,272	140	(16)
Total	3,701	941	1,259
NET INCOME	\$ 7,064	\$ 2,778	\$ 2,720
BASIC EARNINGS PER SHARE	\$ 0.80	\$ 0.33	\$ 0.37
DILUTED EARNINGS PER SHARE	\$ 0.78	\$ 0.32	\$ 0.36
DIVIDENDS PER SHARE	\$ 0.70	\$ 0.12	\$ 0.12

See notes to consolidated financial statements.

PRUDENTIAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Years Ended September 30,		
	2018	2017	2016
	(Dollars in thousands)		
Net income	\$7,064	\$2,778	\$2,720
Unrealized holding (loss) gain on available-for-sale securities	(9,077)	(2,830)	1,801
Tax effect	1,906	962	(612)
Reclassification adjustment for net gains (losses) realized in net income	310	(235)	(418)
Tax effect	(65)	80	142
Unrealized holding gain (loss) on interest rate swaps	599	705	(202)
Tax effect	(126)	(240)	69
Reclassification adjustment for gain on interest rate swap	(808)	-	-
Tax effect	170	-	-
Total other comprehensive (loss) income	(7,091)	(1,558)	780
Comprehensive (loss) income	\$(27)	\$1,220	\$3,500

See notes to consolidated financial statements