TF FINANCIAL CORP
Form 10-Q
November 14, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2003

OR

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

For the transition period from ________________________ to ______________________

Commission file number 0-24168

TF FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	74-2705050
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
3 Penns Trail, Newtown, Pennsylvania	18940
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 215-579-4000

N/A
Former name, former address and former fiscal year, if changed since last report.

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

Indicate by check mark whether the registrant is an accelerated filer as defined in Exchange Act Rule 12b-2. YES ___ NO X

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: November 7, 2003

Class	Outstanding
$.10 par value common stock	2,809,364 shares

TF FINANCIAL CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2003

INDEX

TF FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands)

Unaudited
September 30,
2003

Assets	
Cash and cash equivalents	$ 6,106
Certificates of deposit in other financial institutions	229
Investment securities available for sale - at fair value	11,416
Investment securities held to maturity (fair value of $10,935 and $15,187, respectively)	10,408
Mortgage-backed securities available for sale - at fair value	102,362
Mortgage-backed securities held to maturity (fair value of $29,469 and $57,346, respectively)	28,110
Loans receivable, net	400,766
Federal Home Loan Bank stock - at cost	11,260
Accrued interest receivable	2,467
Core deposit intangible, net of accumulated amortization of $2,416 and $2,271, respectively	408
Goodwill	4,324
Premises and equipment, net	6,346
Other assets	20,480
Total assets	$604,682
Liabilities and stockholders' equity	
Liabilities	
Deposits	$454,748
Advances from the Federal Home Loan Bank	87,100
Advances from borrowers for taxes and insurance	1,122
Accrued interest payable	2,518
Other liabilities	5,020
Total liabilities	550,508
Commitments and contingencies	
Stockholders' equity	
Preferred stock, no par value; 2,000,000 shares authorized and none issued.	
Common stock, $0.10 par value; 10,000,000 shares authorized, 5,290,000 issued; 2,579,272 and 2,482,586 shares outstanding at September 30, 2003 and December 31, 2002, net of treasury shares of 2,485,896 and 2,567,268, respectively.	529
Retained earnings	51,497
Additional paid-in capital	51,384
Unearned ESOP shares	(2,249)
Treasury stock - at cost	(47,262)
Accumulated other comprehensive income	275
Total stockholders' equity	54,174
Total liabilities and stockholders' equity	$604,682

TF FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS
(in thousands, except per share data)

	For Three Months Ended September 30,		For Ende
	2003	2002	20
Interest income			
Loans	$ 5,660	$ 6,238	$ 17,
Mortgage-backed securities	1,621	2,872	5,
Investment securities	505	608	1
Interest bearing deposits and other	49	320	
Total interest income	7,835	10,038	24
Interest expense			
Deposits	1,638	2,565	5
Advances from the Federal Home Loan Bank and other borrowings	2,078	3,059	7
Total interest expense	3,716	5,624	13
Net interest income	4,119	4,414	11
Provision for loan losses	90	150	
Net interest income after provision for loan losses	4,029	4,264	11
Non-interest income			
Service fees, charges and other operating income	435	433	1
Bank-owned life insurance	154	130	
Gain (loss) on sale of investment and mortgage-backed securities available for sale	(377)	419	
Gain on sale of real estate	110	-	
Total non-interest income	322	982	2
Non-interest expense			
Compensation and benefits	1,996	1,945	6
Occupancy and equipment	675	570	1
Federal deposit insurance premium	18	18	
Professional fees	110	119	
Amortization of core deposit intangible	49	58	
Advertising	138	110	
Debt prepayment fee	13,765	-	13
Other operating	727	613	2
Total non-interest expense	17,478	3,433	24
Income (loss) before income taxes	(13,127)	1,813	(11
Income tax expense (benefit)	(4,562)	438	(4
Net income (loss)	$ (8,565)	$ 1,375	$ (7
Basic earnings per share	$ (3.33)	$ 0.55	$ (
Diluted earnings per share	$ (3.33)	$ 0.52	$ (

See notes to consolidated financial statements

4

TF FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the nine mo September 2003
Cash flows from operating activities	
Net income (loss)	$ (7,350)
Adjustments to reconcile net income to net cash provided by operating activities:	
Mortgage loan servicing rights	11
Deferred loan origination fees	(174)
Premiums and discounts on investment securities, net	150
Premiums and discounts on mortgage-backed securities and loans, net	1,642
Amortization of core deposit intangible	145
Provision for loan losses	282
Depreciation of premises and equipment	809
Recognition of ESOP and MSBP expenses	427
Gain on sale of investment and mortgage-backed securities available for sale	(208)
Gain on sale of real estate	(123)
Increase in value of bank-owned life insurance	(416)
(Increase) decrease in:	
Accrued interest receivable	1,109
Other assets	(5,012)
Increase (decrease) in:	
Accrued interest payable	(379)
Other liabilities	1,807
Net cash provided (used) by operating activities	(7,280)
Cash flows from investing activities	
Loan originations	(131,604)
Purchases of loans	(23,035)
Loan principal payments	121,646
Proceeds from sale of investment securities available for sale	70,753
Proceeds from sale of mortgage-backed securities available for sale	24,440
Purchases of mortgage-backed securities available for sale	(65,873)
Purchase of mortgage-backed securities held to maturity	-
Purchase of investment securities available for sale	(95,737)
Purchase of investment securities held to maturity	-
Proceeds from maturities of investment securities held to maturity	4,105
Proceeds from maturities of investment securities available for sale	40,000
Principal repayments from mortgage-backed securities held to maturity	26,533
Principal repayments from mortgage-backed securities available for sale	51,451
Purchase of bank-owned life insurance	(1,500)
Purchase of certificates of deposit in other financial institutions	(9)
Purchases and redemptions of Federal Home Loan Bank stock, net	164
Proceeds from sales of real estate	473
Purchase of real estate held for investment	(5)
Purchase of premises and equipment	(597)
Net cash provided by (used in) investing activities	21,205

See notes to consolidated financial statements

TF FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(in thousands)

	For the nine months en	
	September 30,	
	2003	2002
Cash flows from financing activities		
Net increase in deposits	12,190	16,07
Net decrease in advances from Federal Home Loan Bank	(120,259)	(5,00
Net decrease in advances from borrowers for taxes and insurance	(208)	(34
Exercise of stock options	1,009	24
Purchase of treasury stock, net	-	(37
Common stock cash dividend	(1,131)	(1,11
Net cash provided by (used in) financing activities	(108,399)	9,48
Net (decrease) increase in cash and cash equivalents	(94,474)	32,82
Cash and cash equivalents at beginning of period	100,580	69,13
Cash and cash equivalents at end of period	$ 6,106	$ 101,96
Supplemental disclosure of cash flow information		
Cash paid for		
Interest on deposits and advances	$ 13,443	$ 17,15
Income taxes	$ 250	$ 1,60
Non-cash transactions		
Transfers from loans to real estate acquired through foreclosure	$ 1,857	$ 26

See notes to consolidated financial statements

TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - PRINCIPLES OF CONSOLIDATION

The consolidated financial statements as of September 30, 2003 (unaudited) and December 31, 2002 and for the nine-month periods ended September 30, 2003 and 2002 (unaudited) include the accounts of TF Financial Corporation (the "Company") and its wholly owned subsidiaries Third Federal Savings Bank (the "Bank"), TF Investments Corporation, Penns Trail Development Corporation and Teragon Financial Corporation. The Company's business is conducted principally through the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all of the disclosures or footnotes required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for fair presentation of the consolidated financial statements have been included. The results of operations for the period ended September 30, 2003 are not necessarily indicative of the results which may be expected for the entire fiscal year or any other period. For further information, refer to consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

NOTE 3 - CONTINGENCIES

The Company, from time to time, is a party to routine litigation that arises in the normal course of business. In the opinion of management, the resolution of this litigation, if any, would not have a material adverse effect on the Company's consolidated financial condition or results of operations.

NOTE 4 - OTHER COMPREHENSIVE INCOME

The Company's other comprehensive income consists of net unrealized gains on investment securities and mortgage-backed securities available for sale. Total comprehensive income (loss) for the three-month periods ended September 30, 2003 and 2002 was $(9,578,000) and $1,682,000, net of applicable income tax of $(5,084,000) and $596,000, respectively. Total comprehensive income (loss) for the nine-month periods ended September 30, 2003 and 2002 was $(8,971,000) and $5,416,000, net of applicable income tax of $(4,933,000) and $2,052,000, respectively.

TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - EARNINGS PER SHARE

	Three months ended Septe	
	(000's) Income (numerator)	Weighte Average Shares (denomina
Basic earnings per share		
Income available to common stockholders	$ (8,565)	2,571
Effect of dilutive securities		
Stock options	-	
Diluted earnings per share		
Income available to common stockholders plus effect of dilutive securities	$ (8,565)	2,571

	Nine months ended Sep	
	(000's) Income (numerator)	Weighte Average Shares (denomina
Basic earnings per share		
Income available to common stockholders	$ (7,350)	2,525
Effect of dilutive securities		
Stock options	-	
Diluted earnings per share		
Income available to common stockholders plus effect of dilutive securities	$ (7,350)	2,525

There were no options included in the calculation of diluted earnings per share for the quarter and year to date periods ended September 30, 2003 because such securities would be anti-dilutive.

TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - EARNINGS PER SHARE (continued)

	Three months ended Septe	
	(000's) Income (numerator)	Weighte Average Shares (denomina
Basic earnings per share		
Income available to common stockholders	$ 1,375	2,478
Effect of dilutive securities		
Stock options	-	170
Diluted earnings per share		
Income available to common stockholders plus effect of dilutive securities	$ 1,375	2,648

There were options to purchase 15,000 shares of common stock at $28.00 per share which were outstanding during the three-month period ended

September 30, 2002 that were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

	Nine months ended Sep	
	(000's) Income (numerator)	Weighte Average Shares (denomina
Basic earnings per share		
Income available to common stockholders	$ 3,655)	2,470
Effect of dilutive securities		
Stock options	-	1183
Diluted earnings per share		
Income available to common stockholders plus effect of dilutive securities	$ 3,655	2,653

There were options to purchase 20,000 shares of common stock at $28.00 per share which were outstanding during the nine-month period ended September 30, 2002 that were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6- STOCK BASED COMPENSATION

The Company has several fixed stock option plans. The Company's employee stock option plans are accounted for using the intrinsic value method under APB Opinion No. 25, as permitted by SFAS No. 123. No stock-based compensation expense is reflected in net income, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of the grant.

Had compensation cost for the plans been determined based on the fair value of options at the grant dates consistent with the method of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share data):

Three months ended September 30,	2003	2002
Net income		

As reported	$(8,565)	$ 1,375
Deduct: stock-based compensation expense determined using the fair value method, net of related tax effects	17	14
Pro forma	$(8,582)	$1,361
Basic earnings per share		
As reported	$(3.33)	$ 0.55
Pro forma	$(3.34)	$ 0.55
Diluted earnings per share		
As reported	$(3.33)	$ 0.52
Pro forma	$(3.34)	$ 0.52

Stock-based compensation expense included in net income is related to stock grants in lieu of salary and the Company's employee stock ownership plan. Such expense totaled $140,000 and $53,000 for the three-month periods ended September 30, 2003 and 2002, respectively.

NOTE 6- STOCK BASED COMPENSATION (continued)

Nine months ended September 30,	2003
Net income	
As reported	$(7,350)
Deduct: stock-based compensation expense determined using the fair value method, net of related tax effects	39
Pro forma	$(7,389)
Basic earnings per share	
As reported	$(2.91)
Pro forma	$(2.93)
Diluted earnings per share	
As reported	$(2.91)
Pro forma	$(2.93)

Stock-based compensation expense included in net income is related to stock grants in lieu of salary and the Company's employee stock ownership plan. Such expense totaled $368,000 and $147,000 for the nine-month periods ended September 30, 2003 and 2002, respectively.

NOTE 7- RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current period presentation.

TF FINANCIAL CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The Company may from time to time make written or oral "forward-looking statements", including statements contained in the Company's filings with the Securities and Exchange Commission (including this Quarterly Report on Form 10-Q and the exhibits thereto), in its reports to stockholders and in other communications by the Company, which are made in good faith by the Company pursuant to the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rate, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Company and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services; the willingness of users to substitute competitors' products and services for the Company's products and services; the success of the Company in gaining regulatory approval of its products and services, when required; the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes, acquisitions; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Financial Condition

The Company's total assets at September 30, 2003 and December 31, 2002 were $604.7 million and $721.0 million, respectively, a decrease of $116.3 million, or 16.1%, during the nine-month period. This decrease in total assets is a direct result of a debt refinancing transaction, which occurred during the third quarter of 2003. At that time, the Company completed a series of transactions that resulted in the repayment and refinancing of $187.4 million of Federal Home Loan Bank borrowings which carried a weighted average interest rate of 5.46%. $80 million of these borrowings were refinanced at 3.23%, the remaining $107.4 million was repaid. A portion of the funds used to repay these borrowings came from the sale of $79.7 million of investment securities and mortgage-backed securities, which had been yielding a 1.93%. Over the nine-month period, cash and cash equivalents were reduced by $94.5 million due to the purchase of higher yielding investment and mortgage-backed securities and the use of these funds to originate loans. In addition, $41.8 million of cash and cash equivalents were used in the Federal Home Loan Bank debt refinancing transaction described above. Investment securities available for sale decreased by $15.8 million, the net effect of the sales, calls and maturities of $110.5 million and a decline of $0.1 million in the market value which were offset by the purchase of $95.7 million of such securities. Investment securities held to maturity

decreased by $4.2 million due to calls and maturities of such securities. Mortgage-backed securities available for sale decreased by $12.9 million resulting from sales of $24.0 million, principal repayments of $51.5 million, a decline of $2.0 million in unrealized gains and $1.3 million of premium amortization, which were off-set by purchases of $65.9 million. Mortgage-backed securities held to maturity decreased by $26.5 million due to the high rate of prepayments of the mortgages underlying these pass-through securities. The Company's loan receivable portfolio at September 30, 2003 was $400.7 million, a $30.7 million or 8.3% increase since December 31, 2002, and a $41.5 million or 11.6% increase during the third quarter. During the first nine months of 2003, there were $121.6 million of prepayments of existing mortgages in the loans receivable portfolio; however, offsetting this reduction was the origination of $131.6 million in predominately consumer and single-family residential mortgage loans, and the purchase of $23.0 million in newly originated, single-family residential mortgage loans. Other assets increased by $8.6 million during the nine-month period as a result of a $4.9 million federal income tax receivable resulting from a net operating loss carryback, additions to foreclosed property of $1.8 million, and additions to bank-owned life insurance of $1.5 million.

Total liabilities decreased by $107.7 million. Deposit growth during the first nine months of 2003 was $12.1 million. Non-interest bearing demand deposits grew by $6.1 million while savings, money market, and interest-bearing checking accounts increased by a combined $9.3 million. Certificates of deposit decreased by $3.2 million. Advances from the Federal Home Loan Bank decreased by $120.3 million as a consequence of the repayment of $187.4 million and the maturity of $20 million of such advances. Offsetting these reductions were new borrowings of $87.1 million.

Total consolidated stockholders' equity of the Company was $54.2 million or 8.96% of total assets at September 30, 2003. During the first three-quarters of 2003 the Company did not repurchase any shares of its common stock and issued 80,372 shares pursuant to the exercise of stock options. As of September 30, 2003, there were approximately 114,000 shares available for repurchase under the previously announced share repurchase plan.

Asset Quality

During the nine-month period ended September 30, 2003, the Company completed foreclosure proceedings on two related parcels of commercial real estate with a combined loan balance of $1.7 million. These loans were non-performing at December 31, 2002. These parcels have been recorded as real estate owned at the lower of the recorded investment in the loan or estimated fair value in the amount of $1.7 million and are included in other assets in the statement of financial condition at September 30, 2003. Management of the Company believes that there has not been any significant deterioration in its asset quality during such period.

The following table sets forth information regarding the Company's asset quality (dollars in thousands):

	September 30, 2003	December 31, 2002	Septembe[r 30,] 2002
Non-performing loans	$2,905	$3,822	$3,275
Ratio of non-performing loans to gross loans	0.72%	1.03%	0.93
Ratio of non-performing loans to total assets	0.48%	0.53%	0.45
Foreclosed property	$1,763	$ 84	$ 84
Foreclosed property to total assets	0.29%	0.01%	0.01
Ratio of total non-performing assets to total assets	0.77%	0.54%	0.46

13

Management maintains an allowance for loan and lease losses at levels that are believed to be adequate; however, there can be no assurances that further additions will not be necessary or that losses inherent in the existing loan and lease portfolios will not exceed the allowance. The following table sets forth the activity in the allowance for loan and lease losses during the periods indicated (in thousands):

	2003	2002
Beginning balance, January 1,	$2,047	$1,972
Provision	270	838
Less: charge-off's (recoveries), net	345	850
Ending balance, September 30,	$1,972	$1,960

14

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

Net Income. The Company recorded a net loss of $8,565,000, or $3.33 per diluted share, for the three months ended September 30, 2003 as compared to net income of $1,375,000, or $0.52 per diluted share, for the three months ended September 30, 2002.

Average Balance Sheet

The following table sets forth information relating to the Company's average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated. Yield and cost are computed by dividing income or expense by the average daily balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods indicated.

	Three months ended Septemb
	2003

	Average Balance	Interest	Average Yld/Cost	Avera Balan
			(dollars in thousands	
Assets:				
Interest-earning assets:				
Loans receivable (1)......................	$381,005	$5,660	5.89%	$348,6
Mortgage-backed securities................	155,260	1,621	4.14%	205,7
Investment securities.....................	85,847	505	2.33%	54,0
Other interest-earning assets(2)..........	21,685	49	0.90%	80,8
Total interest-earning assets...........	643,797	7,835	4.83%	689,2
Non interest-earning assets...................	33,670			34,1
Total assets............................	$677,467			$723,4
Liabilities and stockholders' equity:				
Interest-bearing liabilities:				
Deposits..................................	$452,145	1,638	1.44%	$436,2
Advances from the FHLB and other borrowings........................	158,357	2,078	5.21%	218,9
Total interest-bearing liabilities.......	610,502	3,716	2.42%	655,2
Non interest-bearing liabilities..............	3,661			6,9
Total liabilities........................	614,163			662,1
Stockholders' equity..........................	63,304			61,2
Total liabilities and stockholders' equity....	$677,467			$723,4
Net interest income...........................		$4,119		
Interest rate spread (3)......................			2.41%	
Net yield on interest-earning assets (4).......			2.54%	
Ratio of average interest-earning assets to average interest bearing liabilities.........			105%	

(1) Nonaccrual loans have been included in the appropriate average loan balance category, but interest on nonaccrual loans has not been included for purposes of determining interest income.
(2) Includes interest-bearing deposits in other banks.
(3) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(4) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

Rate/Volume Analysis

The following table presents, for the periods indicated, the change in interest income and interest expense (in thousands) attributed to (i) changes in volume (changes in the weighted average balance of the total interest earning asset and interest bearing liability portfolios multiplied by the prior year rate), and

(ii) changes in rate (changes in rate multiplied by prior year volume). Changes attributable to the combined impact of volume and rate have been allocated proportionately based on the absolute value of changes due to volume and changes due to rate.

	Three months ended September 30, 2003 vs. 2002		
	Increase (decrease) due to		
	Volume	Rate	Net
Interest income:			
Loans receivable, net	$ 2,763	$(3,341)	$ (578)
Mortgage-backed securities	(617)	(634)	(1,251)
Investment securities	1,214	(1,317)	(103)
Other interest-earning assets	(171)	(100)	(271)
Total interest-earning assets	3,189	(5,392)	(2,203)
Interest expense:			
Deposits	596	(1,523)	(927)
Advances from the FHLB and other borrowings	(805)	(176)	(981)
Total interest-bearing liabilities	(209)	(1,699)	(1,908)
Net change in net interest income	$ 3,398	$(3,693)	$ (295)

Total Interest Income. Total interest income decreased by $2.2 million or 21.9% to $7.8 million for the three months ended September 30, 2003 compared with the third quarter of 2002 primarily because of the consequences of record low market interest rates. As a result, during the past year the Bank's callable investment securities were called, higher coupon mortgage-related securities were paid down at an accelerated rate, and loans were refinanced by borrowers at lower rates, or away from the Bank, resulting in large pay-downs of higher yielding loans. In addition, the interest rates on the Bank's adjustable rate loans adjusted downward. Furthermore, the rate earned on Company's cash and cash equivalents was substantially lower during the 2003 period.

Total Interest Expense. Total interest expense decreased by $1.9 million to $3.7 million for the three-month period ended September 30, 2003 compared with the third quarter of 2002. The increase in the average balance of deposits was more than offset by lower market interest rates during the period and the lower rates paid on the Bank's renewing certificates of deposit that had been originated when market interest rates were higher. In addition, the Bank lowered the interest rates paid on several of its other deposit products in order to keep them in line with short-term market interest rates and the Bank's competitors. The repayment and refinancing of the Federal Home Loan Bank Advances toward the end of the third quarter of 2003 also contributed to the overall reduction of interest expense.

Non-interest income. Total non-interest income was $322,000 for the three-month period ended September 30, 2003 compared with $982,000 for the same period in 2002. The decrease is primarily due to $377,000 in net losses on sales of mortgage-backed securities and investment securities available for sale during the third quarter of 2003 while, conversely, there were gains of $419,000 on such gains during the same period in 2002. In addition, the Company recorded a gain of $110,000 during the third quarter of 2003 on the sale of real estate. The income from the Company's bank-owned life insurance was $27,000 higher for the third quarter 2003 as compared with the same quarter in 2002 because of additional purchases of bank-owned life insurance at the end of the second quarter of 2003.

Non-interest expense. Total non-interest expense increased by $14.0 million to $17.5 million for the three months ended September 30, 2003 compared to the same period in 2002. The increase in non-interest expense was associated with the a debt prepayment fee of $13.8 million paid as a result the repayment of Federal Home Loan Bank borrowings. Also, compensation and benefit expenses were higher by $51,000 due to amounts paid to the retiring president of the Company as well as increased costs associated with the Company's employee stock ownership plan which is impacted by the higher share price during the third quarter of 2003 compared with 2002. Occupancy and equipment expense was higher during the third quarter of 2003 compared to 2002 by an additional $62,000 due to revisions in the useful lives of certain depreciable and amortizable assets.

17

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

Net Income. The Company recorded a net loss of $7,350,000, or $2.91 per diluted share, for the nine months ended September 30, 2003 as compared to net income of $3,655,000, or $1.38 per diluted share, for the nine months ended September 30, 2002.

Average Balance Sheet

The following table sets forth information relating to the Company's average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated. Yield and cost are computed by dividing income or expense by the average daily balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods indicated.

				Nine months ended Septemb
	2003			
	Average Balance	Interest	Average Yld/Cost	Average Balance
			(dollars in thousands	
Assets:				
Interest-earning assets:				
Loans receivable (1)......................	$370,543	$17,336	6.26%	$360,2
Mortgage-backed securities................	163,697	5,318	4.34%	206,5
Investment securities.....................	73,131	1,531	2.80%	50,6
Other interest-earning assets(2)..........	59,882	463	1.03%	66,4
Total interest-earning assets...........	667,253	24,648	4.94%	683,8
Non interest-earning assets...................	34,789			34,8

Total assets	$702,042			$718,7
Liabilities and stockholders' equity:				
Interest-bearing liabilities:				
Deposits	$447,049	5,506	1.65%	$430,8
Advances from the FHLB and other borrowings	186,377	7,558	5.42%	221,2
Total interest-bearing liabilities	633,426	13,064	2.76%	652,0
Non interest-bearing liabilities	5,439			7,3
Total liabilities	638,865			659,4
Stockholders' equity	63,177			59,3
Total liabilities and stockholders' equity	$702,042			$718,7
Net interest income		$11,584		
Interest rate spread (3)			2.18%	
Net yield on interest-earning assets (4)			2.32%	
Ratio of average interest-earning assets to average interest bearing liabilities			105%	

(1) Nonaccrual loans have been included in the appropriate average loan balance category, but interest on nonaccrual loans has not been included for purposes of determining interest income.
(2) Includes interest-bearing deposits in other banks.
(3) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(4) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

18

Rate/Volume Analysis

The following table presents, for the periods indicated, the change in interest income and interest expense (in thousands) attributed to (i) changes in volume (changes in the weighted average balance of the total interest earning asset and interest bearing liability portfolios multiplied by the prior year rate), and (ii) changes in rate (changes in rate multiplied by prior year volume). Changes attributable to the combined impact of volume and rate have been allocated proportionately based on the absolute value of changes due to volume and changes due to rate.

	Nine months ended September 30, 2003 vs. 2002		
	Increase (decrease) Due to		
	Volume	Rate	Net

Interest income:			
Loans receivable, net	$ 851	$(2,913)	$(2,062)
Mortgage-backed securities	(1,671)	(2,131)	(3,802)
Investment securities	866	(1,095)	(229)
Other interest-earning assets	(73)	(264)	(337)
Total interest-earning assets	(27)	(6,403)	(6,430)
Interest expense:			
Deposits	479	(3,075)	(2,596)
Advances from the FHLB and other borrowings	(1,471)	(192)	(1,609)
Total interest-bearing liabilities	(938)	(3,267)	(4,205)
Net change in net interest income	$ 914	$(3,136)	$(2,225)

Total Interest Income. Total interest income decreased by $6.4 million or 20.7% to $24.6 million for the nine months ended September 30, 2003 compared with the corresponding period of 2002 primarily because of the consequences of record low market interest rates. As a result, during the past year the Bank's callable investment securities were called, higher coupon mortgage-related securities were paid down at an accelerated rate, and loans were refinanced by borrowers at lower rates, or away from the Bank, resulting in large pay-downs of higher yielding loans. In addition, the interest rates on the Bank's adjustable rate loans adjusted downward. Furthermore, the rate earned on Company's cash and cash equivalents was substantially lower during the 2003 period.

Total Interest Expense. Total interest expense decreased by $4.2 million to $13.1 million for the nine-month period ended September 30, 2003. The interest expense decrease reflects lower market interest rates during the period and the lower rates paid on the Bank's renewing certificates of deposit that had been originated when market interest rates were higher. In addition, the Bank lowered the interest rates paid on several of its other deposit products in order to keep them in line with short-term market interest rates and the Bank's competitors.

19

Non-interest income. Total non-interest income was $2,054,000 for the nine-month period ended September 30, 2003 compared with $1,988,000 for the same period in 2002. Net gains of $208,000 on the sale of investments and mortgage-backed securities available for sale were realized during the nine-month period of 2003 while $419,000 of such gains were realized during the 2002 period. Also, the Company reported a gain of $110,000 during this period of 2003 on the sale of real estate. Service fees, charges and other operating income were $131,000 higher during the 2003 period mainly due to a $42,000 increase in commercial loan prepayment fees and an $89,000 increase in overdraft fees. Income from the Company's bank-owned life insurance was $26,000 higher for the nine-month period of 2003 as compared with the same time frame in 2002 because of additional purchases of bank-owned life insurance at the end of the second quarter of 2003.

Non-interest expense. Total non-interest expense increased by $14.7 million to $24.8 million for the nine months ended September 30, 2003 compared to the same period in 2002. The increase in non-interest expense was mainly associated with the debt prepayment fee of $13.8 million paid as a result the repayment of Federal Home Loan Bank borrowings. Compensation and benefits expense was $266,000 higher during the 2003 period due, in part, to a $93,000 one time reduction in pension expense during the first quarter of 2002 caused by participants who had very high balances leaving the plan. Benefits expenses also reflect a $221,000 increase related to the cost of the Company's employee stock ownership plan where the cost of shares released is impacted by the higher share price during the first nine months of 2003 compared with 2002. Occupancy and equipment expense reflect an additional $62,000 caused by revisions in the useful lives of certain depreciable and amortizable assets. Also, maintenance expenses were unusually high during the first quarter of 2003 due to inclement weather. In addition, the Company's loan origination expenses were $74,000 higher during the first nine months of 2003, corresponding to an increase in loans originated of $131.6 million compared with $48.2 million during the same period of 2002.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The Company's liquidity is a measure of its ability to fund loans, pay withdrawals of deposits, and other cash outflows in an efficient, cost-effective manner. The Company's short-term sources of liquidity include maturity, repayment and sales of assets, excess cash and cash equivalents, new deposits, broker deposits, other borrowings, and new advances from the Federal Home Loan Bank. There has been no material adverse change during nine-month period ended September 30, 2003 in the ability of the Company and its subsidiaries to fund their operations.

At September 30, 2003, the Company had commitments outstanding under letters of credit of $1 million, commitments to originate loans of $28.1 million, and commitments to fund undisbursed balances of closed loans and unused lines of credit of $40.6 million. There has been no material change during the nine months ended September 30, 2003 in any of the Company's other contractual obligations or commitments to make future payments.

Capital Requirements

The Bank was in compliance with all of its capital requirements as of September 30, 2003.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Asset and Liability Management

The Company's market risk exposure is predominately caused by interest rate risk, which is defined as the sensitivity of the Company's current and future earnings, the values of its assets and liabilities, and the value of its capital to changes in the level of market interest rates. Management of the Company believes that there has not been a material adverse change in market risk during the nine months ended September 30, 2003.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")), the Company's principal executive officer and principal financial officer have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q such disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Controls over Financial Reporting

During the quarter under report, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

21

NEW ACCOUNTING PRONOUNCEMENTS

In January 2003 the FASB issued FIN Number 46, "Consolidation of Variable Interest Entities." This Interpretation of ARB No. 51, "Consolidated Financial Statements," was issued to address perceived weaknesses in accounting for entities commonly known as special-purpose or off-balance-sheet entities, but the guidance applies to a larger population of entities. FIN 46 provides guidance for identifying the party with a controlling financial interest resulting from arrangements or financial interests rather than from voting interests. FIN 46 defines the term "variable interest entity" (VIE) and is based on the premise that if a business enterprise has a controlling financial interest in a VIE, the assets, liabilities, and results of the activities of the VIE should be included in the consolidated financial statements of the business enterprise. An enterprise that consolidates a VIE is the primary beneficiary of the VIE. The primary beneficiary is the party whose variable interest(s) absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both. FIN 46 requires the primary beneficiary of a VIE, as well as other enterprises that hold a significant variable interest in a VIE, to provide certain financial statement disclosures. Some disclosures are required in all financial statements issued after January 31, 2003 if it is reasonably possible that an enterprise will consolidate or disclose information about a VIE when FIN 46 becomes effective. FIN 46 applies immediately to VIEs created after January 31, 2003 and to VIEs in which an enterprise obtains an interest after that date. For variable interests in VIEs created before February 1, 2003, FIN 46 applies to public enterprises no later than the beginning of the first interim or annual period beginning after June 15, 2003. The adoption of the provisions of FIN 46 by the Company has not and will not have a material impact on the Company's financial condition or results of operations.

On April 30, 2003 the Financial Accounting Standards Board (FASB) issued Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. The Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. The new guidance amends Statement 133 for decisions made: as part of the Derivatives Implementation Group process that effectively required amendments to Statement 133, in connection with other Board projects dealing with financial instruments, and regarding implementation issues raised in relation to the application of the definition of a derivative, particularly regarding the meaning of an "underlying" and the characteristics of a derivative that contains financing components. This Statement clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in Statement 133. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. Statement 149 amends certain other existing pronouncements. This Statement is effective for contracts entered into or modified after September 30, 2003, except as stated below and for hedging relationships designated after September 30, 2003. The guidance should be applied prospectively. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after September 30, 2003. The Company does not expect the adoption of SFAS No. 149 to have a material effect on the Company's financial condition or results of operations.

NEW ACCOUNTING PRONOUNCEMENTS (continued)

On May 15, 2003 the Financial Accounting Standards Board (FASB) issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. The Statement improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new Statement requires that those instruments be classified as liabilities in statements of financial position. Statement 150 affects three types of freestanding financial instruments: (1) mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets; (2) instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets, including put options and forward purchase contracts; and (3) obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuer's shares. Statement 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety. Most of the guidance in Statement 150 is effective for all financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect Statement 150 to have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In October 2003, the AICPA issued SOP 03-3, Accounting for Loans or Certain Debt Securities Acquired in a Transfer. This statement addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities ("loans") acquired in a transfer as a result of credit quality deterioration. The statement requires recognition of the excess of all cash flows expected at acquisition over the investor's initial investment in the loan as interest income on a level-yield basis over the life of the loan as the accretable yield. The loan's contractual required payments receivable in excess of the amount of its cash flows expected at acquisition (nonaccretable difference) should not be recognized as an adjustment to yield, a loss accrual or a valuation allowance for credit risk. This statement is effective for loans acquired in fiscal years beginning after December 31, 2004. Early adoption is permitted. Management is currently evaluating the provisions of SOP 03-3.

TF FINANCIAL CORPORATION AND SUBSIDIARIES

PART II

ITEM 1. LEGAL PROCEEDINGS
Not applicable.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS
Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
Not applicable.

ITEM 4. OTHER INFORMATION
None

ITEM 5. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31. Certification pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32. Certification pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

On October 28, 2003 the Company filed a Form 8-K wherein the Company included the press release announcing the Company's earnings for the third quarter of 2003.

On September 12, 2003, the Company filed a Form 8-K wherein the company included a Press Release announcing the refinancing of certain debt of the Company's wholly-owned subsidiary, Third Federal Savings Bank.

24

SIGNATURES

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

TF FINANCIAL CORPORATION

Date: November 13, 2003 /s/ Kent C. Lufkin

Kent C. Lufkin
President and CEO
(Principal Executive Officer)

Date: November 13, 2003 /s/ Dennis R. Stewart

Dennis R. Stewart
Executive Vice President and

Chief Financial Officer
(Principal Financial & Accounting Officer)