PRUDENTIAL BANCORP INC OF PENNSYLVANIA
Form 10-Q
August 15, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 June 30, 2011

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: 000-51214

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practical date: as of August 1, 2011, 10,023,495 shares were issued and outstanding.

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA

TABLE OF CONTENTS

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	June 30, 2011	September 30, 2010
	(Dollars in Thousands)	
ASSETS		
Cash and amounts due from depository institutions	$4,082	$3,649
Interest-bearing deposits	36,724	62,875
Total cash and cash equivalents	40,806	66,524
Investment and mortgage-backed securities available for sale (amortized cost—June 30, 2011, $70,212; September 30, 2010, $69,891)	72,481	72,425
Investment and mortgage-backed securities held to maturity (fair value—June 30, 2011, $125,850; September 30, 2010, $116,594)	123,588	112,673
Loans receivable—net of allowance for loan losses (June 30, 2011, $3,155; September 30, 2010, $3,151)	239,792	255,091
Accrued interest receivable	2,274	2,669
Real estate owned	2,343	3,197
Federal Home Loan Bank stock—at cost	3,039	3,545
Office properties and equipment—net	1,888	2,069
Bank owned life insurance	6,133	5,990
Prepaid expenses and other assets	2,451	3,135
Deferred tax asset-net	2,918	1,762
TOTAL ASSETS	$497,713	$529,080
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$4,125	$2,570
Interest-bearing	432,282	461,885
Total deposits	436,407	464,455
Advances from Federal Home Loan Bank	582	615
Accrued interest payable	1,725	3,361
Advances from borrowers for taxes and insurance	1,670	1,115
Accounts payable and accrued expenses	1,717	2,033
Accrued dividend payable	-	502
Total liabilities	442,101	472,081
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		

Preferred stock, $.01 par value, 10,000,000 shares authorized, none issued	-	-
Common stock, $.01 par value, 40,000,000 shares authorized, issued 12,563,750; outstanding - 10,023,495 at June 30, 2011; 10,031,472 at September 30, 2010	126	126
Additional paid-in capital	53,945	53,528
Unearned ESOP shares	(3,067)	(3,234)
Treasury stock, at cost: 2,540,255 shares at June 30, 2011; 2,532,278 shares at September 30, 2010	(31,625)	(31,576)
Retained earnings	34,734	36,483
Accumulated other comprehensive income	1,499	1,672
Total stockholders' equity	55,612	56,999
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$497,713	$529,080

See notes to unaudited consolidated financial statements.

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in Thousands Except Per Share Amounts)		(Dollars in Thousands Except Per Share Amounts)	
INTEREST INCOME:				
Interest on loans	$3,480	$3,706	$10,411	$11,176
Interest on mortgage-backed securities	1,052	1,164	3,206	3,575
Interest and dividends on investments	922	1,442	2,936	4,338
Total interest income	5,454	6,312	16,553	19,089
INTEREST EXPENSE :				
Interest on deposits	1,682	2,152	5,517	6,509
Interest on borrowings	1	192	4	609
Total interest expense	1,683	2,344	5,521	7,118
NET INTEREST INCOME	3,771	3,968	11,032	11,971
PROVISION FOR LOAN LOSSES	-	110	4,180	495
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,771	3,858	6,852	11,476
NON-INTEREST INCOME:				
Fees and other service charges	117	130	349	373
Total other-than-temporary impairment losses	(47)	(91)	(202)	(467)
Portion of loss recognized in other comprehensive income, before taxes	18	5	33	43
Net impairment losses recognized in earnings	(29)	(86)	(169)	(424)
Other	153	125	430	301
Total non-interest income	241	169	610	250
NON-INTEREST EXPENSE:				
Salaries and em ployee benefits	1,389	1,330	4,176	4,014
Data processing	117	118	356	378
Professional services	163	149	544	483
Office occupancy	98	90	294	293
Depreciation	85	91	259	268
Payroll taxes	65	61	221	223

Director compensation	72	65	224	215
Deposit insurance	168	195	692	532
Real estate owned expense	18	289	45	362
Advertising	111	107	282	319
Other	328	294	1,251	917
Total non-interest expense	2,614	2,789	8,344	8,004
INCOME (LOSS) BEFORE INCOME TAXES	1,398	1,238	(882)	3,722
INCOME TAXES:				
Current expense	445	291	968	1,100
Deferred benefit	(218)	(332)	(1,066)	(185)
Total income tax (benefit) expense	227	(41)	(98)	915
NET INCOME (LOSS)	$1,171	$1,279	$(784)	$2,807
BASIC INCOME (LOSS) PER SHARE	$0.12	$0.13	$(0.08)	$0.29
DILUTED INCOME (LOSS) PER SHARE	$0.12	$0.13	$(0.08)	$0.29

See notes to unaudited consolidated financial statements.

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

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

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive Income (Loss)
			(Dollars in Thousands except per share amounts)					
BALANCE, OCTOBER 1, 2010	$126	$ 53,528	$(3,234)	$(31,576)	$36,483	$ 1,672	$ 56,999	
Comprehensive loss:								
Net loss					(784)		(784)	(784)
Net unrealized holding loss on available for sale securities arising during the period, net of income tax benefit of $147						(285)	(285)	(285)
Reclassification adjustment for other than temporary impairment recognized in earnings net of tax of $57						112	112	112
Comprehensive loss								$ (957)
Cash dividend declared ($ 0.10 per share)					(965)		(965)	
Treasury stock purchased (7,977 shares)				(49)			(49)	
Excess tax benefit from stock compensation		58					58	
		167					167	

Stock option expense							
Recognition and Retention Plan expense		251					251
ESOP shares committed to be released (16,965 shares)	-	(59)	167	-	-	-	108
BALANCE, June 30, 2011	$126	$ 53,945	$(3,067)	$(31,625)	$34,734	$ 1,499	$ 55,612

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive Income
			(Dollars in Thousands ex cept per share amounts)					
BALANCE, OCTOBER 1, 2009	$126	$ 52,938	$(3,457)	$(28,652)	$35,293	$ (391)	$ 55,857	
Comprehensive income:								
Net income					2,807		2,807	2,807
Net unrealized holding gain on available for sale securities arising during the period, net of income tax of $648						1,257	1,257	1,257
Reclassification adjustment for other than temporary impairment recognized in earnings net of tax of $144						280	280	280
Comprehensive income								$ 4,344
Cash dividends declared ($.15 per share)					(1,458)		(1,458)	

Treasury stock purchased (300,394 shares)				(2,924)			(2,924)
Excess tax benefit from stock compensation		70					70
Stock option expense		163					163
Recognition and Retention Plan expense		236					236
ESOP shares committed to be released (16,965 shares)	-	(18)	167	-	-	-	149
BALANCE, June 30, 2010	$126	$ 53,389	$(3,290)	$(31,576)	$36,642	$ 1,146	$ 56,437

See notes to unaudited consolidated financial statements

3

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended June 30,	
	2011	2010
OPERATING ACTIVITIES:	(Dollars in Thousands)	
Net income (loss)	$(784)	$2,807
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Provision for loan losses	4,180	495
Depreciation	259	268
Net accretion of premiums/discounts	(201)	(267)
Net accretion of deferred loan fees and costs	(48)	(88)
Impairment charge on investment and mortgage-backed securities	169	424
Share-based compensation expense	476	469
Loss on sale of real estate owned	135	-
Impairment charge on real estate owned	-	18
Compensation expense of ESOP	108	148
Income from bank owned life insurance	(143)	(153)
Deferred income tax benefit	(1,066)	(185)
Excess tax benefit related to stock compensation	(58)	(70)
Changes in assets and liabilities which used cash:		
Accrued interest receivable	395	360
Prepaid expenses and other assets	685	(3,862)
Accrued interest payable	(1,636)	(1,153)
Accounts payable and accrued expenses	(315)	(544)
Net cash provided by (used in) operating activities	2,156	(1,333)
INVESTING ACTIVITIES:		
Purchase of investment and mortgage-backed securities held to maturity	(78,984)	(33,989)
Purchase of investment and mortgage-backed securities available for sale	(17,732)	(18,886)
Loans originated or acquired	(29,235)	(40,431)
Principal collected on loans	39,941	40,858
Principal payments received on investment and mortgage-backed securities:		
Held-to-maturity	68,092	64,044
Available-for-sale	17,422	10,542
Proceeds from redemptiom of FHLB stock	506	-
Proceeds from sale of real estate owned	1,178	2,100
Purchases of equipment	(78)	(251)
Net cash provided by investing activities	1,110	23,987
FINANCING ACTIVITIES:		
Net increase in demand deposits, NOW accounts, and savings accounts	4,834	6,039
Net (decrease) increase in certificates of deposit	(32,882)	23,976
Repayment of advances from Federal Home Loan Bank	(33)	(6,033)
Decreases in advances from borrowers for taxes and insurance	555	623
Excess tax benefit related to stock compensation	58	70
Purchase of treasury stock	(49)	(2,924)
Cash dividend paid	(1,467)	(1,447)
Net cash (used in) provided by financing activities	(28,984)	20,304

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(25,718)	42,958
CASH AND CASH EQUIVALENTS—Beginning of period	66,524	13,669
CASH AND CASH EQUIVALENTS—End of period	$40,806	$56,627
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid on deposits and advances from Federal Home Loan Bank	$7,158	$8,271
Income taxes paid	$800	$1,431
SUPPLEMENTAL DISCLOSURES OF NONCASH ITEMS:		
Real estate acquired in settlement of loans	$461	$1,692

See notes to unaudited consolidated financial statements

4

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation –The accompanying unaudited consolidated financial statements were prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") for interim information and therefore do not include all the information or footnotes necessary for a complete presentation of financial condition, results of operations, changes in equity and cash flows in conformity with accounting principles generally accepted in the United States of America ("GAAP"). However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. The results for the nine months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2011, or any other period. These financial statements should be read in conjunction with the audited consolidated financial statements of Prudential Bancorp, Inc. of Pennsylvania (the "Company") and the accompanying notes thereto for the year ended September 30, 2010 included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

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

Dividend Payable – In light of the need to conserve capital in view of the Company's current financial condition and results of operations including recognition of the consolidated net loss incurred for the quarter ended March 31, 2011, the Board determined that it was not in the best interests of the Company and its shareholders to declare a quarterly dividend in June 2011 which would normally be paid in July 2011. The Board will review this matter each quarter and determine at such time the appropriateness of declaring a dividend with respect to the immediately preceding quarter and if the determination is made to declare a dividend, the amount of such dividend, taking into account, among other things, the Company's financial condition and results of operations.

Employee Stock Ownership Plan – The Company maintains an employee stock ownership plan ("ESOP") for substantially all of its full-time employees. The ESOP in fiscal 2005 purchased 452,295 shares of the Company's common stock for an aggregate cost of approximately $4.5 million. Shares of the Company's common stock purchased by the ESOP are held in a suspense account until released for allocation to participants. Shares are allocated to each eligible participant based on the ratio of each such participant's compensation, as defined in the ESOP, to the total compensation of all eligible plan participants. As the unearned shares are released from the suspense account, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to equity as additional paid-in capital. As of June 30, 2011, the Company had allocated a total of 130,065 shares from the suspense account to participants and committed to release an additional 11,310 shares. In addition, at such date the total number of shares of Company common stock held by the ESOP was 449,492. For the nine months ended June 30, 2011, the Company recognized $97,000 in compensation expense related to the ESOP.

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

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

Treasury Stock – Common stock held in treasury by the Company is accounted for using the cost method, which treats stock held in treasury as a reduction to total stockholders' equity. The average cost per share of the approximately 2.5 million shares which have been repurchased by the Company was $12.45 for purchases through June 30, 2011. The repurchased shares held by the Company are available for general corporate purposes. As of June 30, 2011, the MHC had purchased 568,000 shares at an average cost of $10.30 per share. As of June 30, 2011, 7,478,062 shares were owned by the MHC and 2,540,255 shares had been repurchased by the Company and held as treasury stock which results in 2,545,433 shares being owned by public shareholders.

Comprehensive Income (Loss) —The Company presents in the unaudited consolidated statement of changes in stockholders' equity and comprehensive income those amounts arising from transactions and other events which currently are excluded from the statements of operations and are recorded directly to stockholders' equity. For the nine months ended June 30, 2011 and 2010, the only components of comprehensive income were net income (loss), unrealized holding gains and losses, net of income tax expense and benefit, on available for sale securities and reclassifications related to realized losses due to other than temporary impairment, net of tax.

FHLB Stock – Federal Home Loan Bank ("FHLB") stock is classified as a restricted equity security because ownership is restricted and there is not an established market for its resale. FHLB stock is carried at cost and is evaluated for impairment when certain conditions warrant further consideration. While the FHLB has recognized losses in recent periods, it is currently not probable that the Company will not realize its cost basis as the FHLB has maintained capital levels in excess of regulatory requirements. Management concluded that no impairment existed as of June 30, 2011.

Recent Accounting Pronouncements – In October, 2010, the FASB issued No. ASU 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. This ASU addresses the diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The amendments are effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2011 and are not expected to have a significant impact on the Company's consolidated financial statements.

In December, 2010, the FASB issued ASU No. 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. This ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities may early adopt the amendments using the effective date for public entities. This ASU is not expected to have a significant impact on the Company's consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company's consolidated financial statements.

In April 2011, the FASB issued ASU 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. The amendments in this Update provide additional guidance or clarification to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The amendments in this Update are effective for the first interim or annual reporting period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. This ASU is not expected to have a significant impact on the Company's financial statements.

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

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

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

2. EARNINGS PER SHARE

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

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

	Three Months Ended June 30,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
	(Dollars in Thousands Except Per Share Data)			
Net income	$ 1,171	$ 1,171	$ 1,279	$ 1,279
Weighted average shares outstanding	9,553,141	9,553,141	9,502,722	9,502,722
Effect of common stock equivalents	-	90,112	-	88,742
Adjusted weighted average shares used in earnings per share computation	9,553,141	9,643,253	9,502,722	9,591,464
Income per share - basic and diluted	$ 0.12	$ 0.12	$ 0.13	$ 0.13

	Nine Months Ended June 30,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
	(Dollars in Thousands Except Per Share Data)			
Net income (loss)	$ (784)	$ (784)	$ 2,807	$ 2,807
Weighted average shares outstanding	9,537,588	9,537,588	9,648,737	9,648,737
Effect of common stock equivalents	-	-	-	127,041
Adjusted weighted average shares used in earnings per share computation	9,537,588	9,537,588	9,648,737	9,775,778
Income (loss) per share - basic and diluted	$ (0.08)	$ (0.08)	$ 0.29	$ 0.29

Due to the net loss recognized for the nine months ended June 30, 2011, the inclusion of any CSEs would decrease the amount of net loss per share for the quarter and be antidilutive. Consequently, basic and diluted weighted average shares outstanding are equal for the nine months ended June 30, 2011. Had net income been recognized for the nine month period ended June 30, 2011, there would have been an additional 87,935 shares used in the diluted earnings per share calculation.

3. INVESTMENT AND MORTGAGE-BACKED SECURITIES

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

	June 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity:		(Dollars in Thousands)		
U.S. Government agency obligations	$101,293	$721	$(615)	$101,399
Mortgage-backed securities - U.S. Government agencies	22,295	2,156	-	24,451
Total securities held to maturity	$123,588	$2,877	$(615)	$125,850
Securities available for sale:				
U.S. Government agency obligations	$5,998	$64	$(17)	$6,045
Mortgage-backed securities - U.S. Government agencies	57,576	2,981	(201)	60,356
Mortgage-backed securities - Non-agency	6,630	198	(757)	6,071
Total debt securities	70,204	3,243	(975)	72,472
FHLMC preferred stock	8	1	-	9
Total securities available for sale	$70,212	$3,244	$(975)	$72,481

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)			
Securities held to maturity:				
U.S. Government agency obligations	$85,983	$1,831	$(12)	$87,802
Municipal obligations	475	-	-	475
Mortgage-backed securities - U.S. Government agencies	26,215	2,102	-	28,317
Total securities held to maturity	$112,673	$3,933	$(12)	$116,594
Securities available for sale:				
U.S. Government agency obligations	$9,995	$198	$-	$10,193
Mortgage-backed securities - U.S. Government agencies	51,821	3,204	-	55,025
Mortgage-backed securities - Non-agency	8,067	178	(1,046)	7,199
Total debt securities	69,883	3,580	(1,046)	72,417
FHLMC preferred stock	8	-	-	8
Total securities available for sale	$69,891	$3,580	$(1,046)	$72,425

10

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

	Less than 12 months		More than 12 months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
			(Dollars in Thousands)			
Securities held to maturity:						
U.S. Government agency obligations	$ (615)	$ 48,754	$ -	$ -	$ (615)	$ 48,754
Total securities held to maturity	(615)	48,754	-	-	(615)	48,754
Securities available for sale:						
U.S. Government agency obligations	(17)	1,983	-	-	(17)	1,983
Mortgage-backed securities - U.S. Government agencies	(201)	10,712	-	-	(201)	10,712
Mortgage-backed securities - Non-agency	(18)	424	(739)	2,994	(757)	3,418
Total securities available for sale	(236)	13,119	(739)	2,994	(975)	16,113
Total	$ (851)	$ 61,873	$ (739)	$ 2,994	$ (1,590)	$ 64,867

The following table shows the gross unrealized losses and related fair values of the Company’s investment securities, aggregated by investment category and length of time that individual securities had been in a continuous loss position at September 30, 2010:

	Less than 12 months		More than 12 months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)					
Securities held to maturity:						
U.S. Government and agency obligations	$ (12)	$ 5,988	$ -	$ -	$ (12)	$ 5,988
Total securities held to maturity	(12)	5,988			(12)	5,988

Securities available for sale:						
Mortgage-backed securities - Non-agency	(9)	225	(1,037)	3,311	(1,046)	3,536
Total securities available for sale	(9)	225	(1,037)	3,311	(1,046)	3,536
Total	$ (21)	$ 6,213	$ (1,037)	$ 3,311	$ (1,058)	$ 9,524

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

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

The following is a rollforward for the nine months ended June 30, 2011 of the amounts recognized in earnings related to credit losses on securities which the Company has recorded OTTI charges through earnings and other comprehensive income.

	(Dollars in thousands)
Credit component of OTTI as of October 1, 2010	$ 3,087
Additions for credit-related OTTI charges on previously unimpaired securities	5
Additional increases as a result of impairment charges recognized on investments for which an OTTI was previously recognized	164
Credit component of OTTI as of June 30, 2011	$ 3,256

U.S. Government Agency Obligations - The Company's investments in the preceding table in U.S. Government sponsored enterprise notes consist of debt obligations of the Federal Home Loan Bank ("FHLB") and Federal Farm Credit System ("FFCS"). These securities are typically rated AAA by one of the internationally recognized credit rating services. At June 30, 2011, securities in a gross unrealized loss for less than twelve months consisted of 27 securities having an aggregate depreciation of $632,000 or 0.6% from the Company's amortized cost basis. There were no securities in a gross unrealized loss for more than twelve months. The unrealized losses on these debt securities relates principally to the changes in market interest rates and a lack of liquidity currently in the financial markets and are not as a result of projected shortfall of cash flows. In addition, the Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell the securities. As such, the Company anticipates it will recover the entire amortized cost basis of the securities. As a result, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2011.

US Agency Issued Mortgage-Backed Securities - At June 30, 2011, the gross unrealized loss in U.S. agency issued mortgage-backed securities in the category of less than 12 months was $201,000 or 1.9% from the Company's amortized cost basis and consisted of eight securities. There were no securities in a gross unrealized loss in the category of more than 12 months. These securities represent asset-backed issues that are issued or guaranteed by a U.S. Government sponsored agency or carry the full faith and credit of the United States through a government agency and are currently rated AAA by at least one bond credit rating agency. In September 2008, the U.S.

Department of the Treasury announced the establishment of the Government-Sponsored Enterprise Credit Facility to ensure credit availability to Fannie Mae and Freddie Mac. The Treasury also entered into senior preferred stock purchase agreements, which ensure that each entity maintains a positive net worth and effectively support the holders of debt and mortgage-backed securities ("MBS") issued or guaranteed by Fannie Mae and Freddie Mac. The Agreements enhance market stability by providing additional security to debt holders, senior and subordinated, thereby alleviating the concern of the credit driven impairment of the securities. The unrealized loss on these debt securities relates principally to the changes in market interest rates and a lack of liquidity currently in the financial markets and are not as a result of projected shortfall in cash flows. In addition, the Company does not intend to sell the securities and it is more likely than not that the Company will not be required to sell the securities. As such, the Company expects to recover the entire amortized cost basis of the securities. As a result, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2011.

Non-Agency Issued Mortgage-Backed Securities and Collateralized Mortgage Obligations - This portfolio was acquired through the redemption-in-kind during 2008 of the complete investment in a mutual fund and includes 63 collateralized mortgage obligations ("CMO") and MBSs issued by large commercial financial institutions. For the nine months ended June 30, 2011, management recognized an OTTI charge related to a portion of the portfolio securities in the amount of $202,000 on a pre-tax basis due to the fact that, in management's judgment, the credit quality of the collateral pool underlying such securities had deteriorated during recent periods to the point that full recovery of the entire amortized cost of the investment was considered to be uncertain. This portfolio consists primarily of securities collateralized by Alt-A loans, home equity lines of credit and other receivables as well as whole loans with more significant exposure to declining real estate markets. For the overall portfolio of the securities, there was exposure to the declining real estate markets such as California, Nevada, Arizona and Florida and consequently, an additional OTTI charge was deemed to be warranted as of June 30, 2011. Of the recorded charge, a total of $169,000 was concluded to be credit related and recognized currently in earnings and $33,000 was concluded to be attributable to other factors and recognized in other accumulated comprehensive income.

As of June 30, 2011, with the exception of securities discussed above, there are no securities for which the Company currently believes it is not probable that it will collect all amounts due according to the contractual terms of the investment. Management concluded that an other-than-temporary impairment did not exist and the decline in value was attributed to the illiquidity in the financial markets. With respect to the $757,000 in gross unrealized losses related to this portfolio, 24 securities had been in a loss position for longer than 12 months while 8 securities had been in a loss position for less than 12 months. In addition, the Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities.

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

	June 30, 2011			
	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in Thousands)			
Due within one year	$ -	$ -	$ -	$ -
Due after one through five years	20,000	20,018	-	-
Due after five through ten years	45,981	46,276	2,999	3,061
Due after ten years	35,312	35,105	2,999	2,984
Total	$ 101,293	$ 101,399	$ 5,998	$ 6,045

The maturity table above excludes MBSs because the contractual maturities are not indicative of actual maturities due to significant prepayments.

4. LOANS RECEIVABLE

Loans receivable consist of the following:

	June 30, 2011	September 30, 2010
	(Dollars in Thousands)	
One-to-four family residential	$ 196,652	$ 197,164
Multi-family residential	3,874	4,006
Commercial real estate	21,086	19,710
Construction and land development	23,150	40,650
Commercial business	821	893
Consumer	648	595
Total loans	246,231	263,018
Undisbursed portion of loans-in-process	(3,853)	(5,366)
Deferred loan costs, net	569	590
Allowance for loan losses	(3,155)	(3,151)
Net loans	$ 239,792	$ 255,091

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

	One- to four-family residential	Multi-family residential	Commercial real estate	Construction and land development	Commercial business	Consumer	Total
			(Dollars in Thousands)				
Total loans	$ 196,652	$ 3,874	$ 21,086	$ 23,150	$ 821	$ 648	$ 246,231
Individually evaluated for impairment	$ 7,725	$ -	$ -	$ 3,557	$ -	$ -	$ 11,282
Collectively evaluated for impairment	188,927	3,874	21,086	19,593	821	648	234,949

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

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

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

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	(Dollars in Thousands)				
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
One-to-four family residential	$ 7,725	$ 639	$ -	$ 7,725	$ 7,725
Multi-family residential	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction and land development	773	103	2,784	3,557	3,557
Commercial business	-	-	-	-	-
Consumer	-	-	-	-	-
Total Loans	$ 8,498	$ 742	$ 2,784	$ 11,282	$ 11,282

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

	Nine months ended June 30, (Dollars in Thousands)	
	2011	2010
Average recorded investment in impaired loans	$ 9,053	$ 1,235
Interest income recognized on an accrual basis on impaired loans	170	22
Interest income recognized on a cash basis on impaired loans	144	-

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

The following table presents the classes of the loan portfolio in which a formal risk weighting system is utilized summarized by the aggregate “Pass” and the criticized categories of “special mention”, “substandard” and “doubtful” within the Company’s risk rating system as of June 30, 2011:

	Pass	Special Mention	Substandard	Doubtful	Total Loans
		(Dollars in Thousands)			
Multi-family residential	$3,874	$-	$-	$-	$3,874
Commercial real estate	20,540	-	546	-	21,086
Construction and land development	17,950	-	5,200	-	23,150
Commercial business	821	-	-	-	821
Total Loans	$43,185	$-	$5,746	$-	$48,931

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

	Performing	Non-Performing	Total Loans
	(Dollars in Thousands)		
One-to-four family residential	$186,609	$10,043	$196,652
Consumer	648	-	648
Total Loans	$187,257	$10,043	$197,300

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of June 30, 2011:

	Current	30-89 Days Past Due	90 Days+ Past Due and Accruing	Total Past Due and Accruing	Non-Accrual	Total Loans
	(Dollars in Thousands)					
One-to-four family residential	$ 185,094	$ 1,515	$ -	$ 1,515	$ 10,043	$ 196,652
Multi-family residential	3,874	-	-	-	-	3,874
Commercial real estate	20,540	-	-	-	546	21,086
Construction and land development	19,949	-	-	-	3,201	23,150
Commercial business	821	-	-	-	-	821
Consumer	648	-	-	-	-	648
Total Loans	$ 230,926	$ 1,515	$ -	$ 1,515	$ 13,790	$ 246,231

The allowance for loan losses is established through a provision for loan losses. 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 our estimate of the known and inherent losses in such loan type using both a quantitative analysis as well as consideration of qualitative factors. Our 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.

We consider commercial real estate loans, commercial business loans, and land acquisition, development and construction loans to be riskier than one- to four-family residential mortgage loans. Commercial real estate loans entail significant additional credit risks compared to one- to four-family residential mortgage loans, as they frequently involve large loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties typically depends on the successful operation of the related real estate project and/or business operation of the borrower who is also the primary occupant, and thus may be subject to a greater extent to adverse conditions in the real estate market and in the general economy. Commercial business loans involve a higher risk of default than residential loans of like duration since their repayment is generally dependent on the successful operation of the borrower's business and the sufficiency of collateral, if any. Land acquisition, development and construction lending exposes us to greater credit risk than permanent mortgage financing. The repayment of land acquisition, development and construction loans depends upon the sale of the property to third parties or the availability of permanent financing upon completion of all improvements. In the event we make an acquisition loan on property that is not yet approved for the planned development, there is the risk that approvals will not be granted or will be delayed. These events may adversely affect the borrower and the collateral value of the property. Development and construction loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated. All of these factors are considered as part of the underwriting, structuring and pricing of the loan.

The following schedule summarizes the changes in the allowance for loan losses:

	Nine Months Ended June 30,	
	2011	2010
	(Dollars in Thousands)	
Balance, beginning of period	$ 3,151	$ 2,732
Provision for loan losses	4,180	495
Charge-offs	(4,176)	(691)
Recoveries	-	-
Balance, end of period	$ 3,155	$ 2,536

The following table summarizes the primary segments of the allowance for loan losses, segmented into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of June 30, 2011. Activity in the allowance is presented for the nine months ended June 30, 2011:

	One- to four-family residential	Multi-family residential	Commercial real estate	Construction and land development	Commercial business	Consumer	Unallocated	Total
	(In Thousands)							
ALLL balance at September 30, 2010	$ 672	$ 4	$ 560	$ 1,909	$ 3	$ 1	$ 2	$ 3,151
Charge-offs	(750)	-	-	(3,426)	-	-	-	(4,176)
Recoveries	-	-	-	-	-	-	-	-
Provision	1,725	1	(342)	2,734	-	-	62	4,180
ALLL balance at June 30, 2011	$ 1,647	$ 5	$ 218	$ 1,217	$ 3	$ 1	$ 64	$ 3,155
Individually evaluated for impairment	639	-	-	103	-	-	-	742
Collectively evaluated for impairment	1,008	5	218	1,114	3	1	64	2,413

The Company did not establish any provision for loan losses for the quarter ended June 30, 2011 as compared to $110,000 for the same quarter in fiscal 2010 based on management's on-going review of the loan portfolio and its determination that the overall allowance was adequate as of June 30, 2011. For the nine months ended June 30, 2011, the Company established a $4.2 million provision for loan losses as compared to $495,000 for the comparable period in fiscal 2010. The increased level of provisions in the 2011 nine month period reflected primarily the decrease in the value of collateral securing two construction development projects. In addition, the level of the provision reflected management's ongoing review of the loan portfolio. As a result of the increased losses experienced during the first half of fiscal 2011 related primarily to the two construction projects, the increased level of non-performing loans and the continuing deterioration of real estate values, management determined an additional provision was appropriate in the second quarter of fiscal 2011. The first project involves a $4.3 million construction loan secured by a 33-unit condominium project in Philadelphia. During the second quarter of fiscal 2011, due to the lack of recent sales in the project combined with deterioration in real estate values in the market, in particular for condominiums, the Company made a determination to utilize the "bulk sale" appraised value of the remaining units in the project rather than the retail value. This re-evaluation resulted in a charge-off of $2.6 million during the second quarter of fiscal 2011 of which $1.9 million was recognized as provision expense for the quarter ended March 31, 2011. The Company had previously established a specific reserve for this project of $788,000. A new marketing effort has recently been commenced with the result that three of the 17 units remaining to be sold are under contracts for sale. The second project involves an aggregate of $1.8 million in loans secured by the seven unsold units associated with a 17-unit townhouse project in Philadelphia. Based on both declines in values of the collateral securing the project and the lack of sales, Prudential determined to charge off $1.5 million of which $1.1 million was recognized as provision expense during the quarter ended March 31, 2011. The Company had previously established a $338,000 specific reserve for this project.

We will continue to monitor and modify our allowance for loan losses as conditions dictate. No assurances can be given that our 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.

18

5. DEPOSITS

Deposits consist of the following major classifications:

	June 30, 2011		September 30, 2010	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
Money market deposit accounts	$ 75,354	17.3 %	$ 75,822	16.3 %
Checking accounts (1)	33,448	7.7	28,642	6.2
Passbook, club and statement savings	70,397	16.1	69,901	15.1
Certificates maturing in six months or less	68,447	15.7	111,180	23.9
Certificates maturing in more than six months	188,761	31.6	178,910	38.5
Total	$ 436,407	100.0 %	$ 464,455	100.0 %

(1) Includes interest and non-interest bearing checking accounts.

Certificates of $100,000 and over totaled $98.8 million as of June 30, 2011 and $113.0 million as of September 30, 2010.

6. INCOME TAXES

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

	June 30, 2011	September 30, 2010
Deferred tax assets:	(Dollars in Thousands)	
Deposit premium	$ 82	$ 118
Allowance for loan losses	2,538	1,114
Real estate owned expenses	70	291
Nonaccrual interest	72	-
Accrued vacation	69	59
Capital loss carryforward	1,986	1,873
Impairment loss	1,498	1,553
Split dollar life insurance	29	33
Post-retirement benefits	166	173
Employee benefit plans	300	298
Total deferred tax assets	6,810	5,512
Valuation allowance	(2,381)	(2,209)
Total deferred tax assets, net of valuation allowance	4,429	3,303
Deferred tax liabilities:		
Unrealized gain on available for sale securities	772	861
Property	545	478
Mortgage servicing rights	1	2
Deferred loan fees	193	200
Total deferred tax liabilities	1,511	1,541
Net deferred tax asset	$ 2,918	$ 1,762

The Company establishes a valuation allowance for deferred tax assets when management believes that the deferred tax assets are not likely to be realized either through a carryback to taxable income in prior years, future reversals of existing taxable temporary differences, and, to a lesser extent, future taxable income. The tax deduction generated by the redemption of the shares of the mutual fund and the subsequent impairment charge on the assets acquired through the redemption in kind are considered a capital loss and can only be utilized to the extent of capital gains over a five year period, resulting in the establishment of a valuation allowance for the carryforward period which expires beginning in 2013. The valuation allowance totaled $2.4 million at June 30, 2011. The gross deferred tax asset related to impairment losses (including capital losses) increased by $58,000 during the nine months ended June 30, 2011 while the corresponding valuation allowance increased by $172,000, resulting in additional income tax expense of $114,000 corresponding to the decrease in value of available for sale mortgage-backed securities which may be sold in the future to generate capital gains.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Unaudited Consolidated Statement of Operations. During 2009, the Internal Revenue Service concluded an audit of the Company’s tax returns for the year ended September 30, 2007 in which there was no change necessary to the Company's tax liability. The Company's federal and state income tax returns for taxable years through September 30, 2007 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

7. STOCK COMPENSATION PLANS

The Company maintains a Recognition and Retention Plan ("RRP") which is administered by a committee of the Board of Directors. The RRP provides for the grant of shares of common stock of the Company to certain officers, employees and directors of the Company. In order to fund the grant of shares under the RRP, the RRP Trust purchased 226,148 shares of the Company's common stock in the open market for a total cost of approximately $2.5 million, at an average price per share of $10.85. The Company made sufficient contributions to the RRP Trust to fund these purchases. No additional purchases are expected to be made by the RRP Trust under this plan. As of June 30, 2011, grants covering 178,882 shares had been awarded as part of the RRP. The remaining 47,266 shares in the RRP Trust are available for future awards. Shares subject to awards under the RRP generally vest at the rate of 20% per year over five years. As of June 30, 2011, 70,432 shares had become fully vested and no shares subject to awards had been forfeited.

Compensation expense related to the shares subject to awards granted is recognized ratably over the five-year vesting period in an amount which totals the share price at the grant date multiplied by the number of shares subject to the grant. During the three months and nine months ended June 30, 2011, $97,000 and $292,000, respectively, was recognized in compensation expense for the RRP. Tax benefits of $33,000 and $27,000, respectively, were recognized during the three and nine months ended June 30, 2011. During the three months and nine months ended June 30, 2010, $97,000 and $290,000, respectively, was recognized in compensation expense for the RRP. Tax benefits of $33,000 and $54,000, respectively, were recognized during the three and nine months ended June 30, 2010. At June 30, 2011, approximately $989,000 in additional compensation expense for the shares awarded pursuant to the RRP remained unrecognized which will be recognized over the next 2.5 years approximately.

A summary of the Company's non-vested stock award activity for the nine months ended June 30, 2011 is presented in the following table:

	Nine Months Ended June 30, 2011	
	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested stock awards at October 1, 2010	144,236	$ 11.11
Issued	-	-
Vested	(35,776)	11.12
Nonvested stock awards at the June 30, 2011	108,460	$ 11.08

The Company also maintains a Stock Option Plan. The Stock Option Plan authorizes the grant of stock options to officers, employees and directors of the Company to acquire shares of common stock with an exercise price at least equal to the market value of the common stock on the grant date. Options will generally become vested and exercisable at the rate of 20% per year over five years and are generally exercisable for a period of ten years after the grant date. A total of 565,369 shares of common stock are available for future issuance pursuant to the Stock Option Plan. As of June 30, 2011, 315,194 incentive stock options and 127,206 non-qualified stock options had been awarded under the plan. As of June 30, 2011, 174,133 options were vested while none had been forfeited.

A summary of the status of the Company' stock options under the Stock Option Plan as of June 30, 2011 and changes during the nine month period ended June 30, 2011 are presented below:

	Nine Months Ended June 30, 2011	
	Number of Shares	Weighted Average Exercise Price
Outstanding at October 1, 2010	442,400	$ 11.12
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding at June 30, 2011	442,400	$ 11.12
Exercisable at June 30, 2011	174,133	$ 11.14

The weighted average remaining contractual term was approximately 7.5 years for options outstanding as of June 30, 2011.

The estimated fair value of options granted during fiscal 2009 was $2.81 per share, while options granted during fiscal 2010 were estimated to have a fair value of $2.76. No grants have been made during the first nine months of fiscal 2011. The fair value was estimated on the date of grant in accordance with FASB ASC Topic 718 using the Black-Scholes pricing model with the following weighted average assumptions used:

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

During the three months and nine months ended June 30, 2011, $61,000 and $182,000, respectively, was recognized in compensation expense. A tax benefit of $6,000 and $18,000, respectively, was recognized during the three and nine months ended June 30, 2011. During the three months and nine months ended June 30, 2010, $61,000 and $181,000, respectively, was recognized in compensation expense. A tax benefit of $6,000 and $17,000, respectively, was recognized during the three and nine months ended June 30, 2010. At June 30, 2011, approximately $619,000 in additional compensation expense for awarded options remained unrecognized. The weighted average period over which this expense will be recognized is approximately 2.5 years.

8. COMMITMENTS AND CONTINGENT LIABILITIES

At June 30, 2011, the Company had $4.2 million in outstanding commitments to originate fixed and variable-rate loans with market interest rates ranging from 4.875% to 7.25%. At September 30, 2010, the Company had $6.1 million in outstanding commitments to originate fixed and variable-rate loans with market interest rates ranging from 4.875% to 6.75%.

The aggregate undisbursed portion of loans-in-process amounted to $3.9 million and $5.4 million, respectively, at June 30, 2011 and September 30, 2010.

The Company also had commitments under unused lines of credit of $6.9 million and $6.9 million, respectively, at June 30, 2011 and September 30, 2010, and letters of credit outstanding of $676,000 at both June 30, 2011 and September 30, 2010.

Among the Company's contingent liabilities are exposures to limited recourse arrangements with respect to the Company's sales of whole loans and participation interests. At June 30, 2011, the exposure, which represents a portion of credit risk associated with the interests sold, amounted to $64,000. This exposure is for the life of the related loans and payables, on our proportionate share, as actual losses are incurred.

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

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	June 30, 2011		September 30 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in Thousands)			
Assets:				
Cash and cash equivalents	$ 40,806	$ 40,806	$ 66,524	$ 66,524
Investment and mortgage-backed securities available for sale	72,481	72,481	72,425	72,425
Investment and mortgage-backed securities held to maturity	123,588	125,850	112,673	116,594
Loans receivable, net	239,792	247,004	255,091	262,777
Accrued interest receivable	2,274	2,274	2,669	2,669
Federal Home Loan Bank stock	3,039	3,039	3,545	3,545
Bank owned life insurance	6,133	6,133	5,990	5,990
Liabilities:				
Checking accounts	33,448	33,448	28,642	28,642
Money market deposit accounts	75,354	75,354	75,822	75,822
Passbook, club and statement savings accounts	70,397	70,397	69,901	69,901
Certificates of deposit	257,208	262,814	290,090	296,087

Advances from Federal Home Loan Bank	582	580	615	614
Accrued interest payable	1,725	1,725	3,361	3,361

23

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

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

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

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

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

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

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

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

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

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

10. FAIR VALUE MEASUREMENT

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2011 and September 30, 2010, respectively. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

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

The three broad levels of hierarchy are as follows:

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

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

	Category Used for Fair Value Measurement			
	Level 1	Level 2	Level 3	Total
	(Dollars in Thousands)			
Assets:				
Securities available for sale:				
U.S. Government and agency obligations	$-	$6,045	$-	$6,045
Mortgage-backed securities - U.S. Government agencies	-	60,356	-	60,356
Mortgage-backed securities - Non-agency	-	6,071	-	6,071
FHLMC preferred stock	9	-	-	9
Total	$9	$72,472	$-	$72,481

Those assets which will continue to be measured at fair value on a recurring basis as of September 30, 2010 are as follows:

	Category Used for Fair Value Measurement			
	Level 1	Level 2	Level 3	Total
	(Dollars in Thousands)			
Assets:				
Securities available for sale:				
U.S. Government and agency obligations	$-	$10,193	$-	$10,193
Mortgage-backed securities - U.S. Government agencies	-	55,025	-	55,025
Mortgage-backed securities - Non-agency	-	7,199	-	7,199
FHLMC preferred stock	8	-	-	8
Total	$8	$72,417	$-	$72,425

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

Impaired Loans

The Company considers loans to be impaired when it becomes probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement. Under ASC No. 310-10-35, Receivables-Subsequent Measurement, collateral dependent impaired loans are based on the fair value of the collateral which is based on appraisals. In some cases, adjustments are made to the appraised values for various factors including age of the appraisal, age of the comparables included in the appraisal, and known changes in the market and in the collateral These adjustments are based upon unobservable inputs, and therefore, the fair value measurement has been categorized as a Level 3 measurement. Specific reserves were calculated for impaired loans with carrying amounts totaling $11.3 million at June 30, 2011. The collateral underlying these loans had a fair value of $10.5 million, resulting in specific reserves in the allowance for loan losses of $742,000.

Transfer of Impaired Loans into Real Estate Owned

Once an asset is determined to be uncollectible, the underlying collateral is repossessed and reclassified to foreclosed real estate and repossessed assets. These assets are carried at lower of cost or fair value of the collateral, less cost to sell. In some cases, adjustments are made to the appraised values for various factors including age of the appraisal, age of the comparables included in the appraisal, and known changes in the market and in the collateral. Impaired loans are valued based on these adjustments to appraised value, and therefore, the fair value measurement has been categorized as a Level 3 measurement. The real estate owned valuation is based on the appraised value, less cost to sell and is therefore categorized as a Level 2 measurement.

Summary of Non-Recurring Fair Value Measurements

	At June 30, 2011 (Dollars in Thousands)			
	Level 1	Level 2	Level 3	Total
Impaired loans	$-	$-	$10,540	$10,540
Real estate owned	-	2,343	-	$2,343
Total	$-	$2,343	$10,540	$12,883

	At September 30, 2010 (Dollars in Thousands)			
	Level 1	Level 2	Level 3	Total
Impaired loans	$-	$4,249	$-	4,249
Real estate owned	-	3,197	-	3,197
Total	$-	$7,446	$-	$7,446

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

The following discussion should be read in conjunction with our unaudited consolidated financial statements included elsewhere in this Form 10-Q and with our Annual Report on Form 10-K for the year ended September 30, 2010 (the "Form 10-K").

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

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

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

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

Levels of past due, classified and non-accrual loans, troubled debt restructurings and modifications;
Nature and volume of loans;
Changes in lending policies and procedures, underwriting standards, collections, charge-offs and recoveries and for commercial loans, the level of loans being approved with exceptions to lending policy;
Experience, ability and depth of management and staff;
National and local economic and business conditions, including various market segments;
Quality of the Company's loan review system and degree of Board oversight;
Concentrations of credit and changes in levels of such concentrations; 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 those criticized and classified loans. The amount of the specific allowance is determined through a loan-by-loan analysis of certain large dollar construction and land development and commercial loans. Loans not individually reviewed are evaluated as a group using reserve factor percentages based on historic loss experience and the qualitative factors described above. In determining the appropriate level of the general pooled allowance, management makes estimates based on internal risk ratings, which take into account such factors as debt service coverage, loan-to-value ratios, and external factors. Estimates are periodically measured against actual loss experience.

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

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

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

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

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

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

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

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

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

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

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

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

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

Despite the current market and economic conditions, the Company continues to maintain a strong capital position.

The following discussion provides further details on the financial condition and results of operations of the Company at and for the periods ended June 30, 2011.

COMPARISON OF FINANCIAL CONDITION AT JUNE 30, 2011 AND SEPTEMBER 30, 2010

At June 30, 2011, the Company had total assets of $497.7 million, a decrease of $31.4 million from $529.1 million at September 30, 2010. The decrease was primarily attributable to decreases of $25.7 million in cash and cash equivalents and $15.3 million in net loans during the first nine months of fiscal 2011. These decreases were partially offset by an $11.0 million increase in the investment and mortgage-backed securities portfolio as we re-invested a portion of our cash and cash equivalents in such higher yielding assets. The decline in the loan portfolio reflected in large part the $17.5 million decline in the construction and land development loan portfolio due in part to Prudential's efforts to reduce its exposure in this line of lending due to continued deterioration of the real estate market in the Philadelphia area, as well as the charge-offs taken in the March quarter.

Total liabilities decreased $30.0 million to $442.1 million at June 30, 2011 from $472.1 million at September 30, 2010. The decrease was primarily the result of a $28.0 million decrease in deposits, primarily certificates of deposit, as the Company has priced certificates at a level to achieve a balance between maintaining the desired level of liquidity and monitoring our interest rate spread.

Stockholders' equity decreased by $1.4 million to $55.6 million at June 30, 2011 from September 30, 2010. The decrease reflected the net loss of $784,000 combined with the payment of dividends totaling $965,000 during the first two quarters of fiscal 2011. As previously announced, the Company determined not to pay a dividend in July.

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010

Net income. The Company reported net income of $1.2 million for the quarter ended June 30, 2011 as compared to net income of $1.3 million for the quarter ended June 30, 2010. For the nine months ended June 30, 2011, the Company recognized a net loss of $784,000 as compared to net income of $2.8 million for the comparable period in 2010. The loss incurred for the nine month period in 2011 was due primarily to a substantial increase in the loan loss provisions during the second quarter of fiscal 2011 as collateral values related to two significant construction loans had declined substantially.

Net interest income. Net interest income decreased $197,000 or 5.0% to $3.8 million for the three months ended June 30, 2011 as compared to $4.0 million for the same period in 2010. The decrease reflected the effects of an $858,000 or 13.6% decrease in interest income partially offset by a $661,000 or 28.2% decrease in interest expense. The decrease in interest income resulted from a 60 basis point decrease to 4.53% in the weighted average yield earned on interest-earning assets. Also contributing to the decrease was a $10.4 million or 2.1% decrease in the average balance of interest-earning assets for the three months ended June 30, 2011, as compared to the same period in 2010. The decline in the weighted average yield was due in large part to the 148 basis point decline in the yield earned on investment securities, reflecting the effects of the current low interest rate market on our investments as they were called and the proceeds re-invested at lower current market rates. The decrease in interest expense resulted primarily from a 50 basis point decrease to 1.52% in the weighted average rate paid on interest-bearing liabilities, reflecting the repricing downward of interest-bearing liabilities during the year. Also contributing to the decrease was a $22.2 million or 4.8% decrease in the average balance of interest-bearing liabilities for the three months ended June 30, 2011, as compared to the same period in 2010.

For the nine months ended June 30, 2011, net interest income decreased $939,000 or 7.8% to $11.0 million as compared to $12.0 million for the same period in 2010. The decrease was due to a $2.5 million or 13.3% decrease in interest income partially offset by a $1.6 million or 22.4% decrease in interest expense. The decrease in interest income resulted primarily from a 77 basis point decrease to 4.46% in the weighted average yield earned on interest-earning assets, partially offset by a $8.0 million or 1.6% increase in the average balance of interest-earning assets. The majority of the decline in the weighted average yield reflected the 118 basis point decline in the yield earned on the investment portfolio. The decrease in interest expense resulted from a 48 basis point decrease to 1.62% in the weighted average rate paid on interest-bearing liabilities partially offset by a $1.4 million or 0.3% increase in the average balance of interest-bearing liabilities for the nine months ended June 30, 2011, as compared to the same period in 2010.

For the quarter ended June 30, 2011, the net interest margin was 3.13%, as compared to 3.23% for the same period in 2010. For the nine months ended June 30, 2011, the net interest margin was 2.97%, as compared to 3.28% for the same period in 2010. The decrease in the net interest margin was primarily due to the shift in the relative composition of interest-earning assets to increased amounts of cash and cash equivalents as higher yielding investment securities were called and repaid during the later part of fiscal 2010 and early portion of fiscal 2011.

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 in both dollars and rates, and the net interest margin. Average yields and rates have been annualized. Tax-exempt income and yields have not been adjusted to a tax-equivalent basis. All average balances are based on monthly balances. Management does not believe that the monthly averages differ significantly from what the daily averages would be.

	Three Months Ended June 30,					
	2011			2010		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
	(Dollars in Thousands)					
Interest-earning assets:						
Investment securities	$113,556	$904	3.18 %	$123,223	$1,435	4.66 %
Mortgage-backed securities	90,042	1,052	4.67	91,100	1,164	5.11
Loans receivable(1)	241,745	3,480	5.76	252,876	3,706	5.86
Other interest-earning assets	36,413	18	0.20	24,912	7	0.11
Total interest-earning assets	481,756	5,454	4.53	492,111	6,312	5.13
Cash and non-interest-bearing balances	3,040			11,539		
Other non-interest-earning assets	18,857			21,608		
Total assets	$503,653			$525,258		
Interest-bearing liabilities:						
Savings accounts	$69,638	162	0.93	$69,689	300	1.72
Money market deposit and NOW accounts	106,306	198	0.75	105,478	283	1.07
Certificates of deposit	264,246	1,321	2.00	273,844	1,568	2.29
Total deposits	440,190	1,681	1.53	449,011	2,151	1.92
Advances from Federal Home Loan Bank	585	1	0.68	13,630	192	5.63
Advances from borrowers for taxes and insurance	1,268	1	0.32	1,644	1	0.24
Total interest-bearing liabilities	442,043	1,683	1.52	464,285	2,344	2.02
Non-interest-bearing liabilities:						
Non-interest-bearing demand accounts	3,328			2,334		
Other liabilities	3,168			3,317		
Total liabilities	448,539			469,936		
Stockholders' equity	55,114			55,322		
Total liabilities and stockholders' equity	$503,653			$525,258		
Net interest-earning assets	$39,713			$27,826		
		$3,771	3.01 %		$3,968	3.11 %

Net interest income; interest rate spread								
Net interest margin(2)			3.13	%			3.23	%
Average interest-earning assets to average interest-bearing liabilities	108.98	%			105.99	%		

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

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

31

	Nine Months Ended June 30,					
	2011			2010		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
	(Dollars in Thousands)					
Interest-earning assets:						
Investment securities	$ 109,089	$ 2,863	3.50 %	$ 123,273	$ 4,325	4.68 %
Mortgage-backed securities	90,292	3,206	4.73	93,126	3,575	5.12
Loans receivable(1)	248,902	10,411	5.58	254,765	11,176	5.85
Other interest-earning assets	46,673	73	0.21	15,764	13	0.11
Total interest-earning assets	494,956	16,553	4.46	486,928	19,089	5.23
Cash and non-interest-bearing balances	3,118			7,128		
Other non-interest-earning assets	18,316			20,258		
Total assets	$ 516,390			$ 514,314		
Interest-bearing liabilities:						
Savings accounts	$ 69,803	581	1.11	$ 69,131	957	1.85
Money market deposit and NOW accounts	106,741	595	0.74	106,210	861	1.08
Certificates of deposit	276,785	4,337	2.09	256,020	4,687	2.44
Total deposits	453,329	5,513	1.62	431,361	6,505	2.01
Advances from Federal Home Loan Bank	597	4	0.89	18,956	609	4.28
Advances from borrowers for taxes and insurance	1,438	4	0.37	1,627	4	0.33
Total interest-bearing liabilities	455,364	5,521	1.62	451,944	7,118	2.10
Non-interest-bearing liabilities:						
Non-interest-bearing demand accounts	3,098			2,176		
Other liabilities	4,361			4,321		
Total liabilities	462,823			458,441		
Stockholders' equity	55,567			55,873		
Total liabilities and stockholders' equity	$ 518,390			$ 514,314		
Net interest-earning assets	$ 39,592			$ 34,984		

Net interest income; interest rate spread	$ 11,032	2.84 %	$ 11,971	3.13 %
Net interest margin(2)		2.97 %		3.28 %
Average interest-earning assets to average interest-bearing liabilities	108.69 %		107.74 %	

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

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

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

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

The Company did not establish any provision for loan losses for the quarter ended June 30, 2011 as compared to $110,000 for the same quarter in fiscal 2010 based on management's on-going review of the loan portfolio and its determination that the overall allowance was adequate as of June 30, 2011. For the nine months ended June 30, 2011, the Company established a $4.2 million provision for loan losses as compared to $495,000 for the comparable period in fiscal 2010. The increased level of provisions in the 2011 nine month period reflected primarily the decrease in the value of collateral securing two construction development projects. In addition, the level of the provision reflected management's ongoing review of the loan portfolio. As a result of the increased losses experienced during the first half of fiscal 2011 related primarily to the two construction projects, the increased level of non-performing loans and the continuing deterioration of real estate values, management determined an additional provision was appropriate in the second quarter of fiscal 2011. The first project involves a $4.3 million construction loan secured by a 33-unit condominium project in Philadelphia. During the second quarter of fiscal 2011, due to the lack of recent sales in the project combined with deterioration in real estate values in the market, in particular for condominiums, the Company made a determination to utilize the "bulk sale" appraised value of the remaining units in the project rather than the retail value. This re-evaluation resulted in a charge-off of $2.6 million during the second quarter of fiscal 2011 of which $1.9 million was recognized as provision expense for the quarter ended March 31, 2011. The Company had previously established a specific reserve for this project of $788,000. A new marketing effort has recently been commenced with the result that three of the 17 units remaining to be sold are under contacts for sale. The second project involves an aggregate of $1.8 million in loans secured by the seven unsold units associated with a 17-unit townhouse project in Philadelphia. Based on both declines in values of the collateral securing the project and the lack of sales, Prudential determined to charge off $1.5 million of which $1.1 million was recognized as provision expense during the quarter ended March 31, 2011. The Company had previously established a $338,000 specific reserve for this project.

At June 30, 2011, the Company's non-performing assets totaled $16.1 million or 3.2% of total assets as compared to $6.7 million or 1.4% at September 30, 2010. The non-performing assets consisted of $13.8 million in loans of which $10.0 million were one-to-four family residential loans, $3.2 million were construction and loan development loans and $546,000 were commercial real estate loans. Included in the non-performing loans were $7.7 million in troubled debt restructurings which are performing in accordance with the revised contractual terms. Non-performing assets also included six one-to-four family residential real estate owned properties totaling $2.3 million. The allowance for loan losses totaled $3.2 million, or 1.3% of total loans and 22.9% of non-performing loans at June 30, 2011.

Non-interest income. Non-interest income amounted to $241,000 and $610,000 for the three and nine month periods ended June 30, 2011, compared with $169,000 and $250,000 for the same periods in 2010. The improvement compared to the 2010 period was due to the reduced level of other than temporary impairment ("OTTI") charges related to non-agency mortgage-backed securities received in connection with the Company's redemption in kind in June 2008 of its entire investment in a mutual fund. The decline in the amount of losses recognized between the 2010 and 2011 periods reflected the decline in the amount of the OTTI charges from $86,000 and $424,000 for the three and nine months ended June 30, 2010 to $29,000 and $169,000 during the three and nine months ended June 30, 2011 related to the non-agency mortgage-backed securities as the markets for such securities stabilized in the 2011 periods.

Non-interest expenses. For the quarter ended June 30, 2011, non-interest expense decreased $175,000 compared to the same period in 2010, while non-interest expense increased $340,000 for the nine month period ended June 30, 2011 compared to the same period in the prior year. The higher level of non-interest expense for the quarter ended June 30, 2010 compared to the same quarter in 2011 reflected the higher level of losses incurred on the sale of real estate owned combined with operating expense related to such properties which were, in the aggregate, $271,000 higher in the 2010 quarter than the third quarter of fiscal 2011. The increase for the nine month period ended June 30, 2011 was due to increases in FDIC deposit insurance premiums and increases in salaries and employee benefits.

Income tax expense. The Company recorded income tax expense of $227,000 for the quarter ended June 30, 2011 and a tax benefit of $98,000 for the nine months ended June 30, 2011 compared to an income tax benefit of $41,000 for the quarter ended June 30, 2010 and income tax expense of $915,000 for the nine months ended June 30, 2010. Income tax expense fluctuated in part due to the valuation allowance recognized related to the capital loss carryforward created in connection with the June 2008 redemption in kind referenced above.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity, represented by cash and cash equivalents, is a product of its operating, investing and financing activities. Our primary sources of funds are from deposits, scheduled principal and interest payments on loans, loan prepayments and the maturity of loans, mortgage-backed securities and other investments, and other funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan and securities prepayments can be greatly influenced by market rates of interest, economic conditions and competition. We also maintain excess funds in short-term, interest-bearing assets that provide additional liquidity. At June 30, 2011, our cash and cash equivalents amounted to $40.8 million. In addition, our available for sale investment and mortgage-backed securities amounted to an aggregate of $72.5 million at such date.

We use our liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. At June 30, 2011, the Company had $4.2 million in outstanding commitments to originate fixed and variable-rate loans, not including loans in process. The Company also had commitments under unused lines of credit of $6.9 million and letters of credit outstanding of $676,000 at June 30, 2011. Certificates of deposit at June 30, 2011 maturing in one year or less totaled $113.0 million. Based upon historical experience, we anticipate that a significant portion of the maturing certificates of deposit will be redeposited with us, although we have recently lowered interest rates which has resulted in some anticipated movements of certificates of deposit out of the bank.

In addition to cash flows from loan and securities payments and prepayments as well as from sales of available for sale securities, we have significant borrowing capacity available to fund liquidity needs should the need arise. Our borrowings consist solely of advances from the Federal Home Loan Bank of Pittsburgh ("FHLB"), of which we are a member. Under terms of the collateral agreement with the FHLB, we pledge residential mortgage loans as well as our stock in the Federal Home Loan Bank as collateral for such advances. However, our use of FHLB advances has been modest. At June 30, 2011, we had $582,000 in outstanding FHLB advances and had the ability to obtain an additional $132.9 million in FHLB advances. Additional borrowing capacity with the FHLB could be obtained pledging certain investment securities. The Company has also obtained approval to borrow from the Federal Reserve Bank discount window.

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

The following table summarizes the Company's and Bank's regulatory capital ratios as of June 30, 2011 and September 30, 2010 and compares them to current regulatory guidelines.

	Actual Ratio		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
June 30, 2011:						
Tier 1 capital (to average assets)						
The Company	10.74	%	4.0	%	N/A	
The Bank	9.91	%	4.0	%	5.0	%
Tier 1 capital (to risk weighted assets)						
The Company	23.86	%	4.0	%	N/A	
The Bank	22.01	%	4.0	%	6.0	%
Total capital (to risk weighted assets)						
The Company	25.11	%	8.0	%	N/A	
The Bank	23.26	%	8.0	%	10.0	%
September 30, 2010:						
Tier 1 capital (to average assets)						
Company	10.27	%	4.0	%	N/A	
Bank	9.46	%	4.0	%	5.0	%
Tier 1 capital (to risk-weighted assets)						
Company	23.12	%	4.0	%	N/A	
Bank	21.28	%	4.0	%	6.0	%
Total capital (to risk-weighted assets)						
Company	24.37	%	8.0	%	N/A	
Bank	22.53	%	8.0	%	10.0	%

IMPACT OF INFLATION AND CHANGING PRICES

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

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

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

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

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

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

The following table sets forth the amounts of our interest-earning assets and interest-bearing liabilities outstanding at June 30, 2011, which we expect, based upon certain assumptions, to reprice or mature in each of the future time periods shown (the “GAP Table”). Except as stated below, the amounts of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at June 30, 2011, on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable-rate loans and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans. Annual prepayment rates for variable-rate and fixed-rate single-family and multi-family residential and commercial mortgage loans are assumed to range from 5.9% to 21.0%. The annual prepayment rate for mortgage-backed securities is assumed to range from 0.4% to 22.7%. For savings accounts, checking accounts and money markets, the decay rates vary on annual basis over a ten year period.

	3 Months or Less	More than 3 Months to 1 Year	More than 1 Year to 3 Years	More than 3 Years to 5 Years	More than 5 Years	Total Amount
	(Dollars in Thousands)					
Interest-earning assets(1):						
Investment and mortgage-backed securities(2)	$ 10,979	$ 20,548	$ 31,294	$ 33,630	$ 97,346	$ 193,797
Loans receivable(3)	30,614	45,763	83,427	38,303	44,270	242,377
Other interest-earning assets(4)	39,763	-	-	-	-	39,763
Total interest-earning assets	$ 81,356	$ 66,311	$ 114,721	$ 71,933	$ 141,616	$ 475,937
Interest-bearing liabilities:						
Savings accounts	$ 2,018	$ 4,762	$ 9,439	$ 8,662	$ 45,330	$ 70,211
Money market deposit and NOW accounts	4,108	12,325	24,553	18,282	45,575	104,843
Certificates of deposit	46,788	65,983	118,125	26,312	-	257,208
Advances from Federal Home Loan Bank	50	142	50	340	-	582
Advances from borrowers for taxes and insurance	1,670	-	-	-	-	1,670
Total interest-bearing liabilities	$ 54,634	$ 83,212	$ 152,167	$ 53,596	$ 90,905	$ 434,514
Interest-earning assets less interest-bearing liabilities	$ 26,722	$ (16,901)	$ (37,446)	$ 18,337	$ 50,711	$ 41,423
Cumulative interest-rate sensitivity gap (5)	$ 26,722	$ 9,821	$ (27,625)	$ (9,288)	$ 41,423	
Cumulative interest-rate gap as a percentage of total assets at June 30, 2011	5.37 %	1.97 %	-5.55 %	-1.87 %	8.32 %	
Cumulative interest-earning assets as a percentage of	148.91 %	107.12 %	90.47 %	97.30 %	109.53 %	

cumulative interest
- bearing liabilities at
June 30, 2011

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

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

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

(4) Includes FHLB stock.

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

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

Net Portfolio Value Analysis. Our interest rate sensitivity also is monitored by management through the use of a model which generates estimates of the changes in our net portfolio value ("NPV") over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The "Sensitivity Measure" is the decline in the NPV ratio, in basis points, caused by a 2% increase or decrease in rates, whichever produces a larger decline. The following table sets forth our NPV as of June 30, 2011 and reflects the changes to NPV as a result of immediate and sustained changes in interest rates as indicated.

Change in Interest Rates In Basis Points	Net Portfolio Value			NPV as % of Portfolio Value of Assets	
(Rate Shock)	Amount	$ Change	% Change	NPV Ratio	Change
	(Dollars in Thousands)				
300	$ 46,635	$ (36,526)	(43.92)%	10.51 %	(5.88)%
200	58,534	(24,627)	(29.61)%	12.61 %	(3.78)%
100	71,106	(12,055)	(14.50)%	14.64 %	(1.75)%
Static	83,161	-	-	16.39 %	-
(100)	82,197	(964)	(1.16)%	15.94 %	(0.45)%
(200)	80,902	(2,259)	(2.72)%	15.53 %	(0.86)%
(300)	81,582	(1,579)	(1.90)%	15.47 %	(0.92)%

At June 30, 2011, the Company's NPV was $83.2 million or 16.39% of the market value of assets. Following a 200 basis point increase in interest rates, the Company's "post shock" NPV would be $58.5 million or 12.61% of the market value of assets. The change in the NPV ratio or Company's sensitivity measure was a decline of 378 basis points.

At March 31, 2011, the Company's NPV was $80.6 million or 15.69% of the market value of assets. Following a 200 basis point increase in interest rates, the Company's "post shock" NPV would be $52.4 million or 11.19% of the market value of assets. The change in the NPV ratio or Company's sensitivity measure was a decline of 450 basis points.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II

Item 1. Legal Proceedings

No material changes in the matters previously disclosed in Item 3 of the Company’s Annual Report on Form 10-K for the year ended September 30, 2010 has occurred.

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

Item 1A. Risk Factors

Not applicable

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

(a) Not applicable

(b) Not applicable

(c) There were no repurchases of common stock by the Company or purchases of common stock by the MHC during the quarter ended June 30, 2011.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. (Removed and Reserved)

Item 5. Other Information

Not applicable

Item 6. Exhibits

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

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

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

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

SIGNATURES

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

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA

Date: August 15, 2011	By: /s/ Thomas A. Vento Thomas A. Vento President and Chief Executive Officer
Date: August 15, 2011	By: /s/ Joseph R. Corrato Joseph R. Corrato Executive Vice President and Chief Financial Officer