PRUDENTIAL BANCORP, INC.
Form 10-K
December 14, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended SEPTEMBER 30, 2017

-or-

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

For the transition period from to

Commission File Number: 000-55084

PRUDENTIAL BANCORP, INC.

(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

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

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

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

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

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

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

Large Accelerated Filer o	Accelerated Filer x
Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o
	Emerging Growth Company o

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant based on the closing price of $17.85 on March 31, 2017, the last business day of the Registrant's second quarter was approximately $148.9 million (9,007,996) shares issued and outstanding less approximately 667,500 shares held by affiliates at $17.85 per share). Although directors and executive officers of the Registrant and certain employee benefit plans were assumed to be "affiliates" of the Registrant for purposes of the calculation, the classification is not to be interpreted as an admission of such status.

As of the close of business on December 1, 2017, there were 8,988,855 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

Prudential Bancorp, Inc. and Subsidiaries

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Forward-looking Statements.

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

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

PART I

Item 1. Business

General

Prudential Bancorp is a Pennsylvania corporation that was incorporated in June 2013. It is the successor corporation to Prudential Bancorp, Inc. of Pennsylvania ("Old Prudential Bancorp"), the former stock holding company for Prudential Bank (the "Bank" or "Company" and formally know as "Prudential Savings Bank"), a Pennsylvania-chartered, FDIC-insured savings bank, after the completion in October 2013 of the mutual-to-stock conversion of Prudential

Mutual Holding Company (the “MHC”), the former mutual holding company for the Bank.

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

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

Financial information as of and for the year ended September 30, 2013 presented in this annual report is derived from the consolidated financial statements of Old Prudential Bancorp.

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

The Company’s results of operations are primarily dependent on the results of the Bank. As of September 30, 2017, the Company, on a consolidated basis, had total assets of approximately $899.5 million, total deposits of approximately $636.0 million, and total stockholders’ equity of approximately $136.2 million.

The Bank is a community-oriented savings bank headquartered in South Philadelphia which was originally organized in 1886 as a Pennsylvania-chartered building and loan association known as “The South Philadelphia Building and Loan Association No. 2.” The Bank grew through a number of mergers with other mutual institutions with the last merger being with Polonia Bank in January 2017. The Bank converted to a Pennsylvania-chartered savings bank in August 2004. The banking office network currently consists of the headquarters and main office and 10 additional full-service branch offices. Eight of the banking offices are located in Philadelphia (Philadelphia County), one is in Drexel Hill, Delaware County and one is in Huntingdon Valley, Montgomery County, Pennsylvania. The Bank maintains ATMs at all of the banking offices. We also provide on-line and mobile banking services.

We are primarily engaged in attracting deposits from the general public and using those funds to invest in loans and securities. The Company’s principal sources of funds are deposits, repayments of loans and mortgage-backed securities, maturities and calls of investment securities and interest-bearing deposits, funds provided from operations and funds borrowed from the Federal Home Loan Bank of Pittsburgh. These funds are primarily used for the origination of various loan types including single-family residential mortgage loans, construction and land development loans, non-residential or commercial real estate mortgage loans, home equity loans and lines of credit, commercial business loans and consumer loans. Traditionally, the Bank focused on originating long-term single-family residential mortgage loans for portfolio, although the focus has shifted in recent years to emphasis commercial and construction lending. Construction and land development loans increased from $11.4 million or 3.7% of the total loan portfolio at September 30, 2013 to $145.5 million or 22.3% of the total loan portfolio at September 30, 2017. The Company also increased its commercial real estate loans from $19.5 million or 6.3% of the total loan portfolio at September 30, 2013 to $127.6 million or 19.6% of the total loan portfolio at September 30, 2017. See "*-Asset Quality" and* "*-Lending Activities*".

The investment and mortgage-backed securities portfolio increased by $61.0 million to $239.7 million at September 30, 2017 from $178.7 million at September 30, 2016. This increase was primarily due to the acquisition of the investment securities portfolio of Polonia Bank on January 1, 2017. The securities were liquidated and replaced by other mortgage backed securities and corporate debt securities at no gain or loss to the Bank. The Company recorded approximately $235,000 in gains from the sale of investment and mortgage-backed securities during fiscal 2017. At September 30, 2017, the investment and mortgage-backed securities had an aggregate net unrealized loss of $1.7 million compared with the unrealized gain of $1.5 million as of September 30, 2016, which was primarily due to recent increases in the yield on longer term U.S. Treasury bond yields which resulted in a decrease in the fair value of our available-for-sale securities.

At September 30, 2017, the Company's non-performing assets totaled $15.6 million or 1.7% of total assets as compared to $16.5 million or 2.9% of total assets at September 30, 2016. Non-performing assets at September 30, 2017 included five construction loans aggregating $8.7 million, 33 one-to-four family residential loans aggregating $3.7 million, one single-family residential investment property loan in the amount $1.4 million and five commercial real estate loans aggregating $1.6 million. Non-performing assets also included at September 30, 2017 one real estate owned property consisting of a single-family residential property with a carrying value of $192,000. At September 30, 2017, the Company had nine loans aggregating $6.0 million that were classified as troubled debt restructurings ("TDRs"). Three of such loans aggregating $4.9 million were designated non-performing as of September 30, 2017 and on non-accrual status; one of such loans in the amount of $1.4 million has continued to make payments in accordance with the restructured loan terms, but management continues to have concerns over the borrower's ability to make future payments and as a result has determined to not return the loan to performing status. The remaining two TDRs classified non-accrual totaling $3.5 million are a part of a troubled borrowing relationship totaling $10.7 million (after taking into account the previously disclosed $1.9 million write-down recognized during the quarter ending March 31, 2017 related to this borrowing relationship). The primary project of the borrower is the subject of litigation between the Bank and the borrower and as a result, the project currently is not proceeding. Subsequent to the commencement of the litigation, the borrower filed for bankruptcy under Chapter 11 of the federal bankruptcy code in June 2017. The Bank has moved the underlying litigation noted above with the borrower and the Bank from state court to the federal bankruptcy court in which the bankruptcy proceeding is being heard. The remaining six TDRs have performed in accordance with the terms of their revised agreements and have been placed on accruing status. As of September 30, 2017, the Company had reviewed $19.7 million of loans for possible impairment of which $15.0 million was classified substandard compared to $19.4 million reviewed for possible impairment and $14.6 million of which was classified substandard as of September 30, 2016. The allowance for loan losses totaled $4.5 million, or 0.8% of total loans and 29.0% of total non-performing loans (which included loans acquired from Polonia Bank at their fair value) at September 30, 2017. See "-*Asset Quality*".

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

Market Area and Competition

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

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

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

Lending Activities

General. At September 30, 2017, the net loan portfolio totaled $571.3 million or 63.5% of total assets. The Company has changed its lending philosophy and started to increase its investment in loans for construction and land development secured by multi-family and commercial real estate which comprised 22.9% of the loan portfolio at September 30, 2017. Management believes it has the expertise to underwrite these types of loans which management believes will add to earnings while reducing interest rate risk due to the generally shorter contractual maturity of such loans. The Company still holds $351.3 million of residential real estate loans collateralized by one-to-four family, also known as "single-family", residential properties secured by properties located primarily in the Company's market area.

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

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

	September 30, 2017 Amount	%	2016 Amount	%	2015 Amount	%	2014 Amount	%	2013 Amount	%
	(Dollars in Thousands)									
Real estate loans:										
One-to-four family residential (1)	$351,298	53.83 %	$233,531	66.36 %	$259,163	78.40 %	$282,637	85.47 %	$270,791	87.81 %
Multi-family residential	21,508	3.30 %	12,478	3.55 %	6,249	1.90 %	7,174	2.17 %	5,716	1.85 %
Commercial real estate	127,644	19.56 %	79,859	22.69 %	25,799	7.80 %	16,113	4.87 %	19,506	6.33 %
Construction and land development	145,486	22.29 %	21,839	6.21 %	38,953	11.78 %	22,397	6.77 %	11,356	3.68 %
Total real estate loans	645,936	98.98 %	347,707	98.81 %	330,164	99.89 %	328,321	99.28 %	307,369	99.67 %
Commercial business	488	0.07 %	99	0.03 %	0	0.00 %	1,976	0.60 %	588	0.19 %
Leases	4,240	0.65 %	3,286	0.93 %	0	0.00 %	0	0.00 %	0	0.00 %
Consumer	1,943	0.30 %	799	0.23 %	392	0.11 %	399	0.12 %	438	0.14 %
Total loans	652,607	100.00 %	351,891	100.00 %	330,556	100.00 %	330,696	100.00 %	308,395	100.00 %
Less:										
Undisbursed portion of loans in process	73,858		5,371		17,097		9,657		1,676	
Deferred loan costs	2,940		(1,697)		(2,104)		(2,449)		(2,151)	
Allowance for loan losses	4,466		3,269		2,930		2,425		2,353	
Net loans	$571,343		$344,948		$312,633		$321,063		$306,517	

(1) Includes home equity loans totaling $6.5 million, $3.8 million, $4.1 million, $5.0 million and $6.2 million as of September 30, 2017, 2016, 2015, 2014 and 2013, respectively. Also includes lines of credit totaling $14.1 million,

$7.4 million, $8.5 million, $10.0 million and $9.5 million, as of September 30, 2017, 2016, 2015, 2014 and 2013, respectively.

Contractual Terms to Final Maturities. The following table shows the scheduled contractual maturities of loans as of September 30, 2017, before giving effect to net items. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. The amounts shown below do not take into account loan prepayments.

	One-to-Four Family Residential	Multi-family Residential	Commercial Real Estate	Construction and Land Development	Commercial Business	Leases	Consumer	Total
	(In Thousands)							
Amounts due after September 30, 2017 in:								
One year or less	$12,846	$ -	$ 1,097	$ 69,229	$ -	$339	$ 912	$84,423
After one year through two years	9,672	7,452	5,166	41,294	-	946	72	64,602
After two years through three years	4,665	983	5,988	30,663	-	1,750	66	44,115
After three years through five years	23,247	2,821	13,363	-	488	1,205	117	41,241
After five years through ten years	55,580	8,958	77,325	4,300	-	-	265	146,428
After ten years through fifteen years	58,191	945	8,142	-	-	-	88	67,366
After fifteen years	187,097	349	16,563	-	-	-	423	204,432
Total	$351,298	$ 21,508	$ 127,644	$ 145,486	$ 488	$4,240	$ 1,943	$652,607

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The following table shows the dollar amount of all loans due after one year from September 30, 2017, as shown in the table above, which have fixed interest rates or which have floating or adjustable interest rates.

	Fixed-Rate	Floating or Adjustable-Rate	Total
	(In Thousands)		
One-to-four family residential (1)	$278,450	$ 60,002	$338,452
Multi-family residential	15,866	5,642	21,508
Commercial real estate	100,361	26,186	126,547
Construction and land development	76,257	-	76,257
Commercial business	488	-	488