

Edgar Filing: PRUDENTIAL BANCORP INC OF PENNSYLVANIA - Form 10-Q

PRUDENTIAL BANCORP INC OF PENNSYLVANIA
Form 10-Q
May 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 000-51214

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA
(Exact Name of Registrant as Specified in Its Charter)

PENNSYLVANIA
(State or Other Jurisdiction
of Incorporation or Organization)

68-0593604
(I.R.S. Employer
Identification No.)

1834 OREGON AVENUE
PHILADELPHIA, PENNSYLVANIA
(Address of Principal Executive Offices)

19145
(Zip Code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 10, 2006: 12,301,050

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

TABLE OF CONTENTS

| | PAGE |
|------------|---|
| | ---- |
| PART I | FINANCIAL INFORMATION: |
| Item 1. | Condensed Financial Statements |
| | Unaudited Consolidated Statements of Financial Condition |
| | as of March 31, 2006 and September 30, 2005 |
| | 2 |
| | Unaudited Consolidated Statements of Income for the Three |
| | and Six Months Ended March 31, 2006 and 2005 |
| | 3 |
| | Unaudited Consolidated Statement of Changes in Stockholders' |
| | Equity and Comprehensive Income for the Six Months Ended |
| | March 31, 2006 and 2005 |
| | 4 |
| | Unaudited Consolidated Statements of Cash Flows for the Six |
| | Months Ended March 31, 2006 and 2005 |
| | 5 |
| | Notes to Unaudited Consolidated Financial Statements |
| | 6 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and |
| | Results of Operations |
| | 17 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk |
| | 24 |
| Item 4. | Controls and Procedures |
| | 27 |
| PART II | OTHER INFORMATION |
| Item 1. | Legal Proceedings |
| | 28 |
| Item 1A. | Risk Factors |
| | 28 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds |
| | 28 |
| Item 3. | Defaults Upon Senior Securities |
| | 28 |
| Item 4. | Submission of Matters to a Vote of Security Holders |
| | 28 |
| Item 5. | Other Information |
| | 29 |
| Item 6. | Exhibits |
| | 29 |
| SIGNATURES | 30 |

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1

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

ASSETS

Cash and amounts due from depository institutions
Interest-bearing deposits

Total cash and cash equivalents

Investment securities held to maturity (estimated fair value--March 31, 2006, \$131,078,893;
September 30, 2005, \$128,046,676)

Investment securities available for sale (amortized cost--March 31, 2006, \$38,007,194;
September 30, 2005, \$38,007,143)

Mortgage-backed securities held to maturity (estimated fair value--
March 31, 2006, \$60,482,359; September 30, 2005, \$67,123,458)

Loans receivable--net of allowance for loan losses (March 31, 2006, \$557,956;
September 30, 2005, \$557,956)

Accrued interest receivable:

Loans receivable

Mortgage-backed securities

Investment securities

Real estate owned

Federal Home Loan Bank stock--at cost

Office properties and equipment--net

Prepaid expenses and other assets

Deferred income taxes, net

TOTAL ASSETS

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:

Deposits:

Noninterest-bearing

Interest-bearing

Total deposits

Advances from Federal Home Loan Bank

Accrued interest payable

Advances from borrowers for taxes and insurance

Accounts payable and accrued expenses

Accrued dividend payable

Total liabilities

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COMMITMENTS AND CONTINGENCIES (Notes 4 and 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 - 12,362,650 at March 31, 2006 and 12,497,450 at September 30, 2005
 Additional paid-in capital
 Unearned ESOP shares
 Treasury stock, at cost: 201,100 shares at March 31, 2006
 and 66,300 shares at September 30, 2005
 Retained earnings
 Accumulated other comprehensive income

Total stockholders' equity

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

See notes to unaudited consolidated financial statements.

2

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

| | THREE MONTHS ENDED MARCH 31, | | SIX MONTHS ENDED MARCH 31, | |
|--|---------------------------------|------------------|-------------------------------|-------------------|
| | 2006 | 2005 | 2006 | 2005 |
| INTEREST INCOME: | | | | |
| Interest and fees on loans | \$ 3,075,025 | \$ 2,351,962 | \$ 5,955,692 | \$ 4,640,000 |
| Interest on mortgage-backed securities | 806,461 | 971,950 | 1,651,779 | 2,000,000 |
| Interest and dividends on investments | 2,039,839 | 1,799,735 | 4,100,097 | 3,470,000 |
| Total interest income | 5,921,325 | 5,123,647 | 11,707,568 | 10,110,000 |
| INTEREST EXPENSE: | | | | |
| Interest on deposits | 2,562,959 | 2,099,725 | 4,988,302 | 4,130,000 |
| Interest on borrowings | 190,850 | 191,086 | 385,940 | 380,000 |
| Total interest expense | 2,753,809 | 2,290,811 | 5,374,242 | 4,510,000 |
| NET INTEREST INCOME | 3,167,516 | 2,832,836 | 6,333,326 | 5,600,000 |
| PROVISION FOR LOAN LOSSES | -- | -- | -- | -- |
| NET INTEREST INCOME AFTER PROVISION | | | | |

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| | | | | |
|-----------------------------------|------------|------------|--------------|---------|
| FOR LOAN LOSSES | 3,167,516 | 2,832,836 | 6,333,326 | 5,59 |
| | ----- | ----- | ----- | ----- |
| NON-INTEREST INCOME: | | | | |
| Fees and other service charges | 132,670 | 117,018 | 277,915 | 24 |
| Gain on sale of real estate owned | 99,553 | -- | 99,553 | |
| Other | 67,071 | 20,213 | 92,566 | 5 |
| | ----- | ----- | ----- | ----- |
| Total non-interest income | 299,294 | 137,231 | 470,034 | 30 |
| | ----- | ----- | ----- | ----- |
| NON-INTEREST EXPENSES: | | | | |
| Salaries and employee benefits | 1,125,529 | 971,940 | 2,217,463 | 1,98 |
| Data processing | 114,433 | 123,198 | 241,227 | 24 |
| Office occupancy | 78,903 | 74,931 | 149,370 | 14 |
| Depreciation | 59,359 | 64,445 | 121,036 | 13 |
| Payroll taxes | 80,457 | 69,242 | 143,192 | 12 |
| Director compensation | 70,025 | 57,625 | 139,175 | 10 |
| Professional services | 150,688 | 42,500 | 226,819 | 8 |
| Litigation (recovery) expense | -- | (49,206) | -- | 12 |
| Other | 325,762 | 246,536 | 594,800 | 50 |
| | ----- | ----- | ----- | ----- |
| Total non-interest expenses | 2,005,156 | 1,601,211 | 3,833,082 | 3,46 |
| | ----- | ----- | ----- | ----- |
| INCOME BEFORE INCOME TAXES | 1,461,654 | 1,368,856 | 2,970,278 | 2,42 |
| | ----- | ----- | ----- | ----- |
| INCOME TAXES: | | | | |
| Current | 439,590 | 431,759 | 954,851 | 71 |
| Deferred expense (benefit) | 67,280 | 42,990 | (25,798) | 11 |
| | ----- | ----- | ----- | ----- |
| Total | 506,870 | 474,749 | 929,053 | 83 |
| | ----- | ----- | ----- | ----- |
| NET INCOME | \$ 954,784 | \$ 894,107 | \$ 2,041,225 | \$ 1,59 |
| | ===== | ===== | ===== | ===== |
| BASIC EARNINGS PER SHARE (1) | \$ 0.08 | N/A | \$ 0.17 | |
| DILUTED EARNINGS PER SHARE (1) | \$ 0.08 | N/A | \$ 0.17 | |

(1) Due to timing of the Bank's reorganization into the mutual holding company form and the completion of the Company's initial public offering on March 29, 2005, earnings per share for the 2005 periods are not considered meaningful and are not shown. See Note 2 to the unaudited consolidated financial statements.

See notes to unaudited consolidated financial statements.

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| | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | UNEARNED ESOP SHARES | TREASURY STOCK |
|--|-----------------|----------------------------------|----------------------------|-------------------|
| | ----- | ----- | ----- | ----- |
| BALANCE, OCTOBER 1, 2005 | \$ 125,638 | \$ 54,733,760 | \$ (4,349,611) | \$ (654,000) |
| Comprehensive income: | | | | |
| Net income | | | | |
| Net unrealized holding loss on available for sale securities arising during the period, net of income tax benefit of \$31,430 | | | | |
| Comprehensive income | | | | |
| Cash dividend (\$.08 per share) | | | | |
| Treasury stock purchased | | | | (1,797,000) |
| ESOP shares committed to be released | | 25,987 | 111,555 | |
| | | ----- | ----- | |
| BALANCE, March 31, 2006 | \$ 125,638 | \$ 54,759,747 | \$ (4,238,056) | \$ (2,452,000) |
| | ===== | ===== | ===== | ===== |

(table continued)

| | ACCUMULATED OTHER COMPREHENSIVE INCOME | TOTAL STOCKHOLDERS' EQUITY | COMPREHENSIVE INCOME |
|--|---|----------------------------------|-------------------------|
| | ----- | ----- | ----- |
| BALANCE, OCTOBER 1, 2005 | \$ 375,265 | \$ 90,825,298 | |
| Comprehensive income: | | | |
| Net income | | 2,041,225 | 2,041,225 |
| Net unrealized holding loss on available for sale securities arising during the period, net of income tax benefit of \$31,430 | (58,370) | (58,370) | (58,370) |

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| | | |
|---|---------------------|--------------------------------|
| Comprehensive income | | ----- \$ 1,982,855 ===== |
| Cash dividend (\$.08 per share) | | (956,961) |
| Treasury stock purchased | | (1,797,932) |
| ESOP shares committed to be released | | 137,542 ----- |
| BALANCE, March 31, 2006 | \$ 316,895 ===== | \$ 90,190,802 ===== |

| | COMMON STOCK ----- | ADDITIONAL PAID-IN CAPITAL ----- | UNEARNED ESOP SHARES ----- | TREASURY STOCK ----- |
|--|--------------------------|---|-------------------------------------|----------------------------|
| BALANCE, OCTOBER 1, 2004 | \$ -- | \$ -- | \$ -- | \$ -- |
| Comprehensive income: | | | | |
| Net income | | | | |
| Net unrealized holding loss on available for sale securities arising during the period, net of income tax benefit of \$87,394 | | | | |
| Comprehensive income | | | | |
| Capitalization of mutual holding company | | | | |
| Issuance of common stock | 125,638 | 54,724,693 | | |
| Purchase of ESOP shares | | | (4,461,166) | |
| BALANCE, March 31, 2005 | \$ 125,638 ===== | \$ 54,724,693 ===== | \$ (4,461,166) ===== | \$ -- ===== |

See notes to unaudited consolidated financial statements.

(table continued)

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| | TOTAL STOCKHOLDERS' EQUITY | COMPREHENSIVE INCOME |
|--|----------------------------------|-------------------------|
| | ----- | ----- |
| BALANCE, OCTOBER 1, 2004 | \$ 39,098,537 | |
| Comprehensive income: | | |
| Net income | 1,591,333 | 1,591,333 |
| Net unrealized holding loss on available for sale securities arising during the period, net of income tax benefit of \$87,394 | (162,303) | (162,303) |
| Comprehensive income | | \$ 1,429,030 ===== |
| Capitalization of mutual holding company | (100,000) | |
| Issuance of common stock | 54,850,331 | |
| Purchase of ESOP shares | (4,461,166) | |
| BALANCE, March 31, 2005 | \$ 90,816,732 ===== | |

4

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | SIX MONTHS ENDED MARCH 31, | |
|--|-------------------------------|--------------|
| | 2006 | 2005 |
| | ----- | ----- |
| OPERATING ACTIVITIES: | | |
| Net income | \$ 2,041,225 | \$ 1,591,333 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Provision for loan losses | -- | -- |
| Depreciation | 121,036 | 137,036 |
| Net accretion of premiums/discounts | (23,303) | (4,000) |
| Net accretion of deferred loan fees and costs | (156,089) | (17,000) |
| Amortization of ESOP | 137,542 | 137,542 |
| Gain on sale of real estate owned | (99,553) | (99,553) |

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| | | |
|--|--------------|----------|
| Deferred income tax (benefit) expense | (25,798) | 11 |
| Changes in assets and liabilities which (used) provided cash: | | |
| Accounts payable and accrued expenses | (1,075,646) | (69) |
| Accrued interest payable | (826,810) | (1,05) |
| Prepaid expenses and other assets | (4,136,686) | 42 |
| Accrued interest receivable | (188,360) | (3) |
| | ----- | ----- |
| Net cash (used in) provided by operating activities | (4,232,442) | 27 |
| | ----- | ----- |
| INVESTING ACTIVITIES: | | |
| Purchase of investment securities held to maturity | (6,226,562) | (22,44) |
| Loans originated or acquired | (37,892,819) | (36,26) |
| Principal collected on loans | 18,740,751 | 23,87 |
| Principal payments received on mortgage-backed securities held-to-maturity | 6,357,654 | 9,11 |
| Proceeds from calls of investment securities held to maturity | 1,000,000 | 23,26 |
| Proceeds from calls/sales of investment securities available for sale | -- | 1,00 |
| Purchase of Federal Home Loan Bank stock | -- | (1) |
| Proceeds from redemption of Federal Home Loan Bank stock | 129,600 | 42 |
| Proceeds from the sale of real estate owned | 459,837 | 12 |
| Purchases of equipment | (50,473) | (5) |
| | ----- | ----- |
| Net cash used in investing activities | (17,482,012) | (97) |
| | ----- | ----- |
| FINANCING ACTIVITIES: | | |
| Net decrease in demand deposits, NOW accounts, and savings accounts | (3,793,274) | (3,55) |
| Net increase (decrease) in certificates of deposit | 10,362,256 | (9,29) |
| Repayment of advances from Federal Home Loan Bank | (19,710) | (1) |
| Increase in advances from borrowers for taxes and insurance | 72,106 | 7 |
| Proceeds from stock issuance, net of conversion costs | -- | 54,85 |
| Capitalization of mutual holding company | -- | (10) |
| Cash dividend paid | (956,961) | |
| Purchase of treasury stock | (1,797,932) | |
| | ----- | ----- |
| Net cash provided by financing activities | 3,866,485 | 41,94 |
| | ----- | ----- |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (17,847,969) | 41,24 |
| CASH AND CASH EQUIVALENTS--Beginning of year | 26,815,017 | 10,06 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS--End of year | \$ 8,967,048 | \$ 51,30 |
| | ===== | ===== |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Interest paid on deposits and advances from Federal Home Loan Bank | \$ 6,201,051 | \$ 5,58 |
| | ===== | ===== |
| Income taxes paid | \$ 1,061,000 | \$ 61 |
| | ===== | ===== |

See notes to unaudited consolidated financial statements.

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PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Prudential Bancorp, Inc. of Pennsylvania (the "Company") is a Pennsylvania corporation, which was organized to be the mid-tier holding company for Prudential Savings Bank (the "Bank"), which is a Pennsylvania-chartered, FDIC-insured savings bank with six full service branches in the Philadelphia area. The Company was organized in conjunction with the Bank's reorganization from a mutual savings bank to the mutual holding company structure in March 2005. Financial statements for the periods prior to the reorganization are the financial statements of the Bank. The Bank is principally in the business of attracting deposits from residents of its community through its branch offices and investing those deposits, together with funds from borrowings and operations, primarily in single-family residential loans.

Prudential Mutual Holding Company, a Pennsylvania corporation, is the mutual holding company parent of the Company. Prudential Mutual Holding Company owns 55.9% (6,910,062 shares) of the Company's outstanding common stock as of March 31, 2006 and must always own at least a majority of the voting stock of the Company. In addition to the shares of the Company, Prudential Mutual Holding Company was capitalized with \$100,000 in cash from the Bank in connection with the completion of the reorganization. The consolidated financial statements of the Company include the accounts of the Company and the Bank. All significant intercompany balances and transactions have been eliminated.

Prior to the reorganization described above, the Board of Directors approved a plan of charter conversion in May 2004 by which the Bank would convert its charter from a Pennsylvania-chartered mutual savings and loan association to a Pennsylvania-chartered mutual savings bank. The conversion to a Pennsylvania-chartered mutual savings bank was completed on August 20, 2004. As a result of the charter conversion, the Bank's primary federal banking regulator changed from the Office of Thrift Supervision to the Federal Deposit Insurance Corporation. The Pennsylvania Department of Banking remains as the Bank's state banking regulator.

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with the instructions to Form 10-Q, and therefore do not include all the information or footnotes necessary for complete consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements have been included. The results for the three and six month periods ended March 31, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2006, or any other period. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company and the accompanying notes thereto for the year ended September 30, 2005.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS--The

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preparation of consolidated financial statements in conformity with accounting principles generally accepted 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 financial statements are recorded in the allowance for loan losses and deferred income taxes. Actual results could differ from those estimates.

DIVIDEND PAYABLE - On March 15, 2006, the Company's Board of Directors declared a quarterly cash dividend of \$.04 on the common stock of the Company payable on April 28, 2006 to the shareholders of record at the close of business on April 13, 2006, which resulted in a payable of \$475,154 at March 31, 2006. A portion of

6

the cash dividend was payable to Prudential Mutual Holding Company on its shares of the Company's common stock and totaled \$276,402.

EMPLOYEE STOCK OWNERSHIP PLAN - In fiscal 2005, the Company established an employee stock ownership plan ("ESOP") for substantially all of its full-time employees. The ESOP purchased 452,295 shares of the Company's common stock for 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 March 31, 2006, the Company had allocated a total of 16,965 shares from the suspense account to participants and committed to release an additional 5,655 shares. For the six months ended March 31, 2006, the Company recognized \$137,542 in compensation expense related to the plan.

TREASURY STOCK - Stock held in treasury by the Company is accounted for using the cost method, which treats stock held in treasury as a reduction to total stockholders' equity. In April 2006, the Company announced the commencement of its second stock repurchase program of up to an additional 269,000 shares or approximately 5% of the Company's outstanding common stock held by other than Prudential Mutual Holding Company. The Company's second repurchase program will commence upon completion of its first repurchase program covering 277,000 shares. The average cost per share of the 201,000 shares which had been repurchased as of March 31, 2006 was \$12.20 per share.

COMPREHENSIVE INCOME--The Company presents in the consolidated statement of changes in stockholders' equity and comprehensive income those amounts from transactions and other events which currently are excluded from the statement of income and are recorded directly to retained earnings. For the six months ended March 31, 2006 and 2005 the only components of comprehensive income were net income and unrealized holding losses, net of income tax benefit, on available for sale securities. Comprehensive income totaled \$1,982,855 and \$1,429,030 for the six months ended March 31, 2006 and 2005.

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RECENT ACCOUNTING PRONOUNCEMENTS - In December 2004, the FASB issued SFAS No. 123R (revised 2004), SHARE-BASED PAYMENT, which revises SFAS No. 123, ACCOUNTING FOR STOCK BASED COMPENSATION, and supersedes APB Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES. This Statement requires an entity to recognize the cost of employee services received in share-based payment transactions and measure the cost on a grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. In March 2005, the SEC issued SAB No. 107 which expressed the views of the SEC regarding the interaction between SFAS No. 123R and certain SEC rules and regulations. SAB No. 107 provides guidance related to the valuation of share-based payment arrangements for public companies, including assumptions such as expected volatility and expected term. The Company did not issue and does not have outstanding any stock-based compensation as of March 31, 2006, other than the ESOP which is a tax-qualified plan and is not subject to the Statement.

In May 2005, the FASB issued SFAS No. 154, ACCOUNTING CHANGES AND ERROR CORRECTIONS- A REPLACEMENT OF APB OPINION NO. 20 AND FASB STATEMENT NO. 3. SFAS No. 154 replaces APB Opinion No. 20, ACCOUNTING CHANGES, and FASB Statement No. 3, REPORTING ACCOUNTING CHANGES IN INTERIM FINANCIAL STATEMENTS, and changes the accounting and reporting requirements for a change in accounting principle. SFAS No. 154 applies to all voluntary changes in an accounting principle, as well as to changes required by a new accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2005 and requires retrospective application to prior periods' financial statements for most voluntary changes in an accounting principle, unless it is impracticable to do so. The Company does not anticipate any material impact to its financial condition or results of operations as a result of the adoption of SFAS No. 154.

7

In March 2006, the FASB issued SFAS No. 156 Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 ("SFAS 140" and "SFAS 156"). SFAS 140 establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities. SFAS 156 amends SFAS 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This Statement permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. Under this Statement, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. Adoption of this Statement is required as of the beginning of the first fiscal year that begins after September 15, 2006. Upon adoption, the Company will apply the requirements for recognition and initial measurement of servicing assets and servicing liabilities prospectively to all transactions. The Company will adopt SFAS 156 for the fiscal year beginning October 1, 2006 and currently has not determined if it will adopt SFAS 156 using the fair value election.

RECLASSIFICATIONS- Certain reclassifications have been made to the September 30, 2005 consolidated financial statements to conform to the March 31, 2006 presentation. Such reclassifications had no impact on reported net income.

8

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2. EARNINGS PER SHARE

Basic earnings per common share is computed based on the weighted average number of shares outstanding. Diluted earnings per share is computed based on the weighted average number of shares outstanding plus common share equivalents ("CSEs") that would arise from the exercise or issuance of dilutive securities. As of March 31, 2006, the Company did not issue and does not have outstanding any CSEs. Due to the timing of the Bank's reorganization into the mutual holding company form and the completion of the Company's subscription offering on March 29, 2005, earnings per share data for the 2005 periods are not considered meaningful and are not shown.

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

| | FOR THE THREE MONTHS ENDED MARCH 31, 2006 | |
|---|--|------------|
| | BASIC | DILUTED |
| Net income | \$ 954,784 | \$ 954,784 |
| Weighted average shares outstanding used in basic earnings per share computation | 12,029,487 | 12,029,487 |
| Effect of CSEs | -- | -- |
| Adjusted weighted average shares used in diluted earnings per share computation | 12,029,487 | 12,029,487 |
| Earnings per share - basic and diluted | \$ 0.08 | \$ 0.08 |

| | FOR THE SIX MONTHS ENDED MARCH 31, 2006 | |
|---|--|--------------|
| | BASIC | DILUTED |
| Net income | \$ 2,041,225 | \$ 2,041,225 |
| Weighted average shares outstanding used in basic earnings per share computation | 12,044,108 | 12,044,108 |
| Effect of CSEs | -- | -- |
| Adjusted weighted average shares used in diluted earnings per share computation | 12,044,108 | 12,044,108 |
| Earnings per share - basic and diluted | \$ 0.17 | \$ 0.17 |

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3. INVESTMENT SECURITIES

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

| | MARCH 31, 2006 | | | |
|--|----------------------|------------------------------|-------------------------------|------------|
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | ES |
| Securities Held to Maturity: | | | | |
| Debt securities - U.S. Treasury securities and securities of U.S. Government agencies | \$132,189,829 | \$ -- | \$ (3,927,403) | \$1 |
| Debt securities - Municipal bonds | 2,884,463 | 1,134 | (69,130) | -- |
| Total securities held to maturity | \$135,074,292 | \$ 1,134 | \$ (3,996,533) | \$1 |
| Securities Available for Sale: | | | | |
| Debt securities - U.S. Treasury securities and securities of U.S. Government agencies | \$ 2,998,748 | \$ -- | \$ (104,998) | \$ |
| FNMA stock | 84 | 6,084 | -- | -- |
| Mutual fund | 34,982,453 | -- | (1,000,364) | -- |
| FHLMC preferred stock | 25,909 | 1,586,809 | -- | -- |
| Total securities available for sale | \$ 38,007,194 | \$ 1,592,893 | \$ (1,105,362) | \$ |
| | SEPTEMBER 30, 2005 | | | |
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | E |
| Securities Held to Maturity: | | | | |
| Debt securities - U.S. Treasury securities and securities of U.S. Government agencies | \$126,955,087 | \$ 8,640 | \$ (1,764,472) | \$1 |
| Debt securities - Municipal bonds | 2,884,425 | 6,889 | (43,893) | -- |
| Total securities held to maturity | \$129,839,512 | \$ 15,529 | \$ (1,808,365) | \$1 |
| Securities Available for Sale: | | | | |
| Debt securities - U.S. Treasury securities and securities of U.S. Government agencies | \$ 2,998,697 | \$ -- | \$ (34,946) | \$ |
| FNMA stock | 84 | 5,294 | -- | -- |
| Mutual fund | 34,982,453 | -- | (859,797) | -- |
| FHLMC preferred stock | 25,909 | 1,466,780 | -- | -- |

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| | | | | |
|-------------------------------------|---------------|--------------|--------------|-------|
| Total securities available for sale | \$ 38,007,143 | \$ 1,472,074 | \$ (894,743) | \$ |
| | ===== | ===== | ===== | ===== |

10

The following table shows the gross unrealized losses and related estimated fair values of the Company's investment and mortgage-backed securities, aggregated by investment category and length of time that individual securities have been in a continuous loss position at March 31, 2006:

| | LESS THAN 12 MONTHS | | MORE THAN |
|--|-------------------------|----------------------|-------------------------|
| | GROSS UNREALIZED LOSSES | ESTIMATED FAIR VALUE | GROSS UNREALIZED LOSSES |
| Securities held to maturity: | | | |
| Mortgage-backed securities | \$ 389,726 | \$21,738,393 | \$ 95,314 |
| U.S. Treasury and U.S. Government agencies | 1,517,265 | 67,749,541 | 2,410,138 |
| Municipal bonds | 12,037 | 462,964 | 57,093 |
| | ----- | ----- | ----- |
| Total securities held to maturity | 1,919,028 | 89,950,898 | 2,562,545 |
| | ----- | ----- | ----- |
| Securities available for sale: | | | |
| U.S. Treasury and U.S. Government agencies | 83,748 | 1,915,000 | 21,250 |
| Mutual fund | -- | -- | 1,000,364 |
| | ----- | ----- | ----- |
| Total securities available for sale | 83,748 | 1,915,000 | 1,021,614 |
| | ----- | ----- | ----- |
| Total | \$ 2,002,776 | \$91,865,898 | \$ 3,584,159 |
| | ===== | ===== | ===== |

The following table shows the gross unrealized losses and related estimated fair values of the Company's investment and mortgage-backed securities, aggregated by investment category and length of time that individual securities have been in a continuous loss position at September 30, 2005:

| | LESS THAN 12 MONTHS | | MORE TH |
|--|---------------------|----------------|------------------|
| | GROSS UNREALIZED | ESTIMATED FAIR | GROSS UNREALIZED |

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| | LOSSES | VALUE | LOSSES |
|--|------------|---------------|-----------|
| | ----- | ----- | ----- |
| Securities held to maturity: | | | |
| Mortgage-backed securities | \$ 197,807 | \$ 21,001,912 | \$ 298, |
| U.S. Treasury and U.S. Government agencies | 584,260 | 78,824,578 | 1,180, |
| Municipal bonds | 4,750 | 470,250 | 39, |
| | ----- | ----- | ----- |
| Total securities held to maturity | 786,817 | 100,296,740 | 1,517, |
| | ----- | ----- | ----- |
| Securities available for sale: | | | |
| U.S. Treasury and U.S. Government agencies | 34,946 | 2,963,750 | - |
| Mutual fund | -- | -- | 859, |
| | ----- | ----- | ----- |
| Total securities available for sale | 34,946 | 2,963,750 | 859, |
| | ----- | ----- | ----- |
| Total | \$ 821,763 | \$103,260,490 | \$ 2,377, |
| | ===== | ===== | ===== |

11

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. For all securities that are in an unrealized loss position for an extended period of time and for all securities whose fair value is significantly below amortized cost, the Company performs an evaluation of the specific events attributable to the market decline of the security. The Company considers the length of time and extent to which the security's market value has been below cost as well as the general market conditions, industry characteristics, and the fundamental operating results of the issuer to determine if the decline is other-than-temporary. The Company also considers as part of the evaluation its intent and ability to hold the security until its market value has recovered to a level at least equal to the amortized cost. When the Company determines that a security's unrealized loss is other-than-temporary, a realized loss is recognized in the period in which the decline in value is determined to be other-than-temporary. The write-downs are measured based on public market prices of the security at the time the Company determines the decline in value was other-than temporary.

At March 31, 2006, securities in a gross unrealized loss position for twelve months or longer consist of 72 securities having an aggregate depreciation of 3.5% from the Company's amortized cost basis. Securities in a gross unrealized loss position for less than twelve months consist of 92 securities having an aggregate depreciation of 2.1% from the Company's amortized cost basis. Management believes that the estimated fair value of the securities disclosed above is primarily dependent upon the movement in market interest rates. Although the fair value will fluctuate as the market interest rates move, the majority of the Company's investment portfolio consists of low risk securities from U.S. Government agencies. If held to maturity, the contractual principal and interest payments of such securities are expected to be received in full. As such, no loss in value is expected over the lives of the securities. Although not all of the securities are classified as held to maturity, the Company has the ability to hold these securities until they mature and does not intend to

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sell the securities at a loss. The Company also has a significant investment in a mutual fund that invests in adjustable-rate mortgage-backed securities. Management believes that the estimated fair value of the mutual fund is also primarily dependent upon the movement in market interest rates. Although the investment in the mutual fund is classified as available for sale, the Company has the ability to hold the mutual fund until the fair value increases and does not intend to sell it at a loss. Based on the above, management believes that the unrealized losses are temporary. The determination of whether a decline in market value is temporary is necessarily a matter of subjective judgment. The timing and amount of any realized losses reported in the Company's consolidated financial statements could vary if conclusions other than those made by management were to determine whether an other-than-temporary impairment exists.

The amortized cost and estimated 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.

| MARCH 31, 2006 | | | | |
|----------------------------------|-------------------|----------------------------|--------------------|----------------------------|
| | HELD TO MATURITY | | AVAILABLE FOR SALE | |
| | AMORTIZED COST | ESTIMATED FAIR VALUE | AMORTIZED COST | ESTIMATED FAIR VALUE |
| Due within one year | \$ 12,000,000 | \$ 11,936,250 | \$ -- | \$ -- |
| Due after one through five years | 33,797,386 | 33,139,302 | -- | -- |
| Due after five through ten years | 43,348,957 | 42,165,928 | 1,000,000 | 978,750 |
| Due after ten years | 45,927,949 | 43,837,413 | 1,998,748 | 1,915,000 |
| Total | \$135,074,292 | \$131,078,893 | \$ 2,998,748 | \$ 2,893,750 |

12

| SEPTEMBER 30, 2005 | | | | |
|----------------------------------|-------------------|----------------------------|--------------------|----------------------------|
| | HELD TO MATURITY | | AVAILABLE FOR SALE | |
| | AMORTIZED COST | ESTIMATED FAIR VALUE | AMORTIZED COST | ESTIMATED FAIR VALUE |
| Due within one year | \$ 4,000,000 | \$ 3,976,875 | \$ -- | \$ -- |
| Due after one through five years | 40,568,573 | 40,172,591 | -- | -- |
| Due after five through ten years | 41,342,845 | 40,907,632 | 1,000,000 | 988,125 |
| Due after ten years | 43,928,094 | 42,989,578 | 1,998,697 | 1,975,626 |
| Total | \$129,839,512 | \$128,046,676 | \$ 2,998,697 | \$ 2,963,751 |

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4. MORTGAGE-BACKED SECURITIES

Mortgage-backed securities held to maturity are summarized as follows:

| | MARCH 31, 2006 | | | |
|---------------------------------|-------------------|------------------------------|-------------------------------|----------------------------|
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | ESTIMATED FAIR VALUE |
| GNMA pass-through certificates | \$56,262,906 | \$ 476,413 | \$ (457,279) | \$56,282,040 |
| FNMA pass-through certificates | 1,765,997 | 436 | (8,860) | 1,757,573 |
| FHLMC pass-through certificates | 2,456,091 | 5,556 | (18,901) | 2,442,746 |
| Total | \$60,484,994 | \$ 482,405 | \$ (485,040) | \$60,482,359 |

| | SEPTEMBER 30, 2005 | | | |
|---------------------------------|--------------------|------------------------------|-------------------------------|----------------------------|
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | ESTIMATED FAIR VALUE |
| GNMA pass-through certificates | \$62,448,606 | \$ 775,039 | \$ (445,674) | \$62,777,971 |
| FNMA pass-through certificates | 1,837,531 | 4,618 | (32,129) | 1,810,020 |
| FHLMC pass-through certificates | 2,541,478 | 12,158 | (18,169) | 2,535,467 |
| Total | \$66,827,615 | \$ 791,815 | \$ (495,972) | \$67,123,458 |

See Note 3 for information regarding the Company's mortgage-backed securities' gross unrealized losses and related estimated fair values aggregated by the length of time that individual securities have been in a continuous loss position at March 31, 2006.

13

5. LOANS RECEIVABLE

Loans receivable consist of the following:

| | MARCH 31, 2006 | SEPTEMBER 30, 2005 |
|--|-------------------|-----------------------|
| | ----- | ----- |

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| | | |
|---|----------------|----------------|
| One-to-four family residential | \$ 141,955,038 | \$ 135,393,637 |
| Multi-family residential | 3,133,395 | 2,541,328 |
| Commercial real estate | 10,136,488 | 9,874,562 |
| Construction and land development | 74,394,972 | 52,093,242 |
| Commercial business | 166,504 | 188,429 |
| Consumer | 1,252,220 | 1,346,470 |
| | ----- | ----- |
| Total loans | 231,038,617 | 201,437,668 |
| Undisbursed portion of loans-in-process | (36,100,100) | (25,823,681) |
| Deferred loan fees | 18,584 | 34,957 |
| Allowance for loan losses | (557,956) | (557,956) |
| | ----- | ----- |
| Net | \$ 194,399,145 | \$ 175,090,988 |
| | ===== | ===== |

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

| | SIX MONTHS ENDED MARCH 31, | |
|------------------------------|-------------------------------|-----------|
| | 2006 | 2005 |
| | ----- | ----- |
| Balance, beginning of period | \$557,956 | \$557,956 |
| Provision for loan losses | -- | -- |
| Charge-offs | -- | -- |
| Recoveries | -- | -- |
| | ----- | ----- |
| Balance, end of period | \$557,956 | \$557,956 |
| | ===== | ===== |

Nonperforming loans (which consist of nonaccrual loans and loans in excess of 90 days delinquent and still accruing interest) at March 31, 2006 and September 30, 2005 amounted to approximately \$297,000 and \$239,000, respectively.

6. DEPOSITS

Deposits consist of the following major classifications:

| MARCH 31, 2006 | | SEPTEMBER 30, 2005 | |
|-------------------|---------|-----------------------|---------|
| AMOUNT | PERCENT | AMOUNT | PERCENT |
| ----- | ----- | ----- | ----- |

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| | | | | |
|---|-------------------|-------------|-------------------|------------|
| Money market deposit accounts | \$ 66,096,893 | 19.3 % | \$ 59,906,583 | 17.8% |
| NOW accounts | 37,397,574 | 10.9 | 44,535,148 | 13.2 |
| Passbook, club and statement savings | 84,863,101 | 24.7 | 87,709,111 | 26.1 |
| Certificates maturing in six months or less | 45,902,428 | 13.4 | 44,709,277 | 13.3 |
| Certificates maturing over six months or more | 108,776,826 | 31.7 | 99,607,721 | 29.6 |
| | ----- | ----- | ----- | ----- |
| Total | \$343,036,822 | 100.0 % | \$336,467,840 | 100.0% |
| | ===== | ===== | ===== | ===== |

At March 31, 2006 and September 30, 2005, the weighted average cost of funds was 3.0% and 2.7%, respectively.

15

7. INCOME TAXES

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

| | MARCH 31, 2006 | SEPTEMBER 30, 2005 |
|--|-------------------|-----------------------|
| | ----- | ----- |
| Deferred tax assets: | | |
| Deposit premium | \$338,526 | \$362,998 |
| Allowance for loan losses | 227,490 | 255,030 |
| Other | 39,639 | 41,092 |
| | ----- | ----- |
| Total | 605,655 | 659,120 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Unrealized gain on available for sale securities | 170,636 | 202,066 |
| Property | 304,465 | 363,009 |
| Mortgage servicing rights | 10,756 | 11,978 |
| Deferred loan fees | 4,945 | 10,466 |
| Employee stock ownership plan | -- | 13,973 |
| | ----- | ----- |
| Total | 490,802 | 601,492 |
| | ----- | ----- |
| Net deferred tax asset | \$114,853 | \$ 57,628 |
| | ===== | ===== |

8. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2006, the Company had \$18,024,620 in outstanding commitments to originate fixed and variable rate loans with market interest rates ranging from 5.50% to 8.50%. At September 30, 2005, the Company had \$21,371,785 in outstanding commitments to originate fixed and variable rate loans with market interest rates ranging from 5.50% to 7.75%.

The Company also had commitments under unused lines of credit of \$6,624,800 and \$5,966,399 at March 31, 2006 and September 30, 2005 and letters of credit outstanding of \$110,000 at both March 31, 2006 and September 30, 2005.

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In fiscal 2003, a trial court issued a decision against the Bank (along with other defendants) holding the defendants liable for amounts to be paid to the plaintiff. The Bank filed an appeal to the Pennsylvania Superior Court. On April 7, 2004, the Superior Court upheld the trial court's judgment order to pay the plaintiff. During fiscal 2004, an amount from escrow of \$194,322 was released and paid to the plaintiff. Pursuant to the judgment, the Bank sustained a loss in fiscal 2005 in the amount of \$404,013, of which \$150,000 was reimbursed by the Bank's insurance carrier. The Bank has authorized the Bank's insurance carrier to recover these amounts from the other defendants in the case. No amounts had been recovered as of March 31, 2006.

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 March 31, 2006, the exposure, which represents a portion of credit risk associated with the sold interests, amounted to \$64,451. This exposure is for the life of the related loans and payables, on our proportionate share, as actual losses are incurred.

16

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

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. 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 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 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 Bank's main office is in Philadelphia, Pennsylvania, with five 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 subsidiary of the Bank. PSB Delaware, Inc. is a Delaware holding company and its principal business is to hold certain investments of the Bank. During March 2006, all mortgaged backed securities owned by the Company were transferred to PSB Delaware, Inc. The activity of PSB Delaware, Inc. is included as part of the consolidation 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 consolidated financial statements. These policies are described in Note 2 of the Notes to Consolidated Financial Statements included in the Annual Report filed on Form 10-K for the year ended September 30, 2005. The accounting and financial reporting policies

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of the Company conform to accounting principles generally accepted in the United States of America 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 consolidated 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 collectibility of the principal is unlikely. Subsequent recoveries are added to the allowance. The allowance is an amount that management believes will cover known and inherent losses in the loan portfolio, based on evaluations of the collectibility of loans. The evaluations take into consideration such factors as changes in the types and amount of loans in the loan portfolio, historical loss experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, estimated losses relating to specifically identified loans, and current economic conditions. 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 impacted loans, value of collateral, estimated losses on our commercial, construction and residential loan portfolios and general amounts for 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 Pennsylvania Department of Banking and the FDIC, as an integral

17

part of their examination processes, periodically review our allowance for loan losses. The Pennsylvania Department of Banking 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.

INCOME TAXES. We make estimates and judgments to calculate some of our tax liabilities and determine the recoverability of some of our deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenues and expenses. We also estimate a reserve for deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. These estimates and judgments are inherently subjective. In the past, our estimates and judgments to calculate our deferred tax accounts have not required significant revision to our initial estimates.

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

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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.

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 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.

COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2006 AND SEPTEMBER 30, 2005

The Company's total assets increased by \$4.1 million or 0.9% to \$450.7 million at March 31, 2006 from September 30, 2005. The increase was primarily due to an increase in net loans receivable, partially offset by decreases in cash and cash equivalents. Our net loan portfolio experienced a \$19.3 million or 11.0% increase to \$194.4 million as we continued our emphasis on growing the loan portfolio. The majority of the growth in the loan portfolio was concentrated in single-family construction and residential mortgage loans. The decrease in cash and cash equivalents of \$17.8 million to \$9.0 million at March 31, 2006 reflected the systematic investment of funds received in the subscription offering in loans and other higher yielding investments. In addition, a portion of the decrease in cash and cash equivalents reflected the purchase of \$5.0 million of bank owned life insurance ("BOLI"). The BOLI provides

18

an attractive tax-exempt return to the Company and is being used by the Company to fund various employee benefit plans. The BOLI is included in other assets at its cash surrender value.

At March 31, 2006, total deposits increased \$6.6 million or 2.0% to \$343.0

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million from \$336.5 million as of September 30, 2005. The majority of the increase was due to a \$10.4 million increase in certificates of deposits. This increase resulted primarily from a more aggressive deposit pricing strategy and increased customer demand for attractive short-term investments.

Stockholders' equity decreased by \$634,000 to \$90.2 million at March 31, 2006 as compared to \$90.8 million at September 30, 2005 primarily due to the repurchase of shares of common stock at a total cost of \$1.8 million and the payment of \$957,000 in dividends, offset in part by \$2.0 million in net income for the six months ended March 31, 2006.

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2006 AND 2005

NET INCOME. Net income for the quarter ended March 31, 2006 was \$955,000, an increase of \$61,000, or 6.8%, as compared to net income of \$894,000 for the same period in 2005. The increase was primarily due to a \$335,000 increase in net interest income and a \$162,000 increase in non-interest income offset in part by a \$404,000 increase in non-interest expense.

Net income for the six months ended March 31, 2006 was \$2.0 million, an increase of \$450,000, or 28.3%, as compared to net income of \$1.6 million for the same period in 2005. The increase was primarily due to a \$742,000 increase in net interest income offset in part by a \$369,000 increase in non-interest expenses.

NET INTEREST INCOME. Net interest income increased \$335,000 or 11.8% to \$3.2 million for the three months ended March 31, 2006 as compared to \$2.8 million for the same period in 2005. The increase was primarily due to a \$798,000 or 15.6% increase in interest income partially offset by a \$463,000 or 20.2% increase in interest expense. The increase in interest income resulted from an increase of \$14.5 million or 3.5% in the average balance of interest-earning assets for the three months ended March 31, 2006, as compared to the same period in 2005. The weighted average yield earned on such assets increased by 58 basis points to 5.49% in the quarter ended March 31, 2006 from the comparable period in 2005. The increase in interest expense primarily resulted from a 55 basis point increase to 3.14% in the weighted average rate of interest paid on interest-bearing liabilities offset in part by a \$2.9 million, or 0.8% decrease in the average balance of interest-bearing liabilities for the three months ended March 31, 2006 as compared to the same period in 2005. The increase in the weighted average cost of interest-bearing liabilities reflected the effect of the prevailing market rates of interest.

For the six months ended March 31, 2006, net interest income increased \$742,000 or 13.3% to \$6.3 million as compared to \$5.6 million for the same period in 2005. The increase was primarily due to a \$1.6 million or 15.7% increase in interest income partially offset by an \$849,000 or 18.8% increase in interest expense. The increase in interest income resulted from an increase of \$26.8 million or 6.6% in the average balance of interest-earning assets for the six months ended March 31, 2006, as compared to the same period in 2005. The weighted average yield earned on such assets increased by 43 basis points to 5.41% in the six month period ended March 31, 2006 from the comparable period in 2005. The increase in interest expense primarily resulted from a 56 basis point increase to 3.08% in the weighted average rate of interest paid on interest-bearing liabilities offset in part by a \$9.0 million, or 2.5% decrease in the average balance of interest-bearing liabilities for the six months ended March 31, 2006 as compared to the same period in 2005.

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

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as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. Tax-exempt income and yields have not been adjusted to a tax-equivalent basis. All average

19

balances are based on monthly balances. Management does not believe that the monthly averages differ significantly from what the daily averages would be.

| | Yield/Rate At March 31, 2006 | Three Months E | | |
|---|------------------------------------|--------------------|----------|-----------------------|
| | | 2006 | | |
| | | Average Balance | Interest | Average Yield/Rate |
| | | | | (Dollars i |
| Interest-earning assets: | | | | |
| Investment securities | 4.54% | \$175,420 | \$ 1,988 | 4.53% |
| Mortgage-backed securities | 5.30 | 62,311 | 806 | 5.17 |
| Loans receivable(1) | 6.33 | 189,107 | 3,075 | 6.50 |
| Other interest-earning assets | 4.63 | 4,816 | 52 | 4.32 |
| | | ----- | | |
| Total interest-earning assets | 5.46 | 431,654 | 5,921 | 5.49 |
| | | | ----- | |
| Cash and non-interest-bearing balances | | 4,738 | | |
| Other non-interest-earning assets | | 11,199 | | |
| | | ----- | | |
| Total assets | | \$447,591 | | |
| | | ===== | | |
| Interest-bearing liabilities: | | | | |
| Savings accounts | 2.98 | \$ 83,224 | 626 | 3.01 |
| Money market deposit and NOW accounts | 2.97 | 100,531 | 745 | 2.96 |
| Certificates of deposit | 3.07 | 152,036 | 1,189 | 3.13 |
| | | ----- | | |
| Total deposits | 3.02 | 335,791 | 2,560 | 3.05 |
| Advances from Federal Home Loan Bank | 5.53 | 13,807 | 191 | 5.53 |
| Advances from borrowers for taxes and insurance | 1.01 | 1,690 | 3 | 0.71 |
| | | ----- | | |
| Total interest-bearing liabilities | 3.11 | 351,288 | 2,754 | 3.14 |
| | | | ----- | |
| Non-interest-bearing liabilities: | | | | |
| Non-interest-bearing demand accounts | | 3,678 | | |
| Other liabilities | | 1,861 | | |
| | | ----- | | |
| Total liabilities | | 356,827 | | |
| Stockholders' equity | | 90,764 | | |
| | | ----- | | |
| Total liabilities and stockholders' equity | | \$447,591 | | |
| | | ===== | | |
| Net interest-earning assets | | \$ 80,366 | | |
| | | ===== | | |
| Net interest income; interest rate spread | 2.35% | | \$ 3,167 | 2.35% |
| | ===== | | ===== | ===== |

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Net interest margin(2)

2.93%

=====

Average interest-earning assets to average
interest-bearing liabilities 122.88%

(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.

20

| | | Six Months End | | |
|---|------------------------------------|--------------------|----------|-----------------------|
| | | 2006 | | |
| | Yield/Rate At March 31, 2006 | Average Balance | Interest | Average Yield/Rate |
| | | | | |
| | | | | (Dollars in millions) |
| Interest-earning assets: | | | | |
| Investment securities | 4.43% | \$173,443 | \$ 3,884 | 4.48% |
| Mortgage-backed securities | 5.43 | 63,878 | 1,652 | 5.17 |
| Loans receivable(1) | 6.13 | 184,504 | 5,955 | 6.46 |
| Other interest-earning assets | 4.63 | 10,966 | 216 | 3.94 |
| | | ----- | | |
| Total interest-earning assets | 5.40 | 432,791 | 11,707 | 5.41 |
| | | | ----- | |
| Cash and non-interest-bearing balances | | 4,620 | | |
| Other non-interest-earning assets | | 19,300 | | |
| | | ----- | | |
| Total assets | | \$446,711 | | |
| | | ===== | | |
| Interest-bearing liabilities: | | | | |
| Savings accounts | 2.86 | \$ 84,014 | 1,198 | 2.85 |
| Money market deposit and NOW accounts | 2.95 | 101,614 | 1,479 | 2.91 |
| Certificates of deposit | 2.98 | 148,489 | 2,306 | 3.11 |
| | | ----- | | |
| Total deposits | 2.94 | 334,117 | 4,983 | 2.98 |
| Advances from Federal Home Loan Bank | 5.59 | 13,812 | 386 | 5.59 |
| Advances from borrowers for taxes and insurance | 0.84 | 1,544 | 5 | 0.65 |
| | | ----- | | |
| Total interest-bearing liabilities | 3.04 | 349,473 | 5,374 | 3.08 |
| | | | ----- | |
| Non-interest-bearing liabilities: | | | | |
| Non-interest-bearing demand accounts | | 2,981 | | |
| Other liabilities | | 3,006 | | |
| | | ----- | | |
| Total liabilities | | 355,460 | | |

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| | | | | |
|--|-----------|----------|--|-------|
| Stockholders' equity | 91,251 | | | |
| | ----- | | | |
| Total liabilities and stockholders' equity | \$446,711 | | | |
| | ===== | | | |
| Net interest-earning assets | \$ 83,318 | | | |
| | ===== | | | |
| Net interest income; interest rate spread | 2.36% | \$ 6,333 | | 2.33% |
| | ===== | ===== | | ===== |
| Net interest margin(2) | | | | 2.93% |
| | | | | ===== |
| Average interest-earning assets to average interest-bearing liabilities | | 123.84% | | |
| | | ----- | | |

(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. Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level believed by management to cover all known and inherent losses in the loan portfolio which are both probable and reasonably estimable. Management's analysis includes consideration of the Company's historical experience, the volume and type of lending conducted by the Company, the amount of the Company's classified assets, the status of past due principal and interest payments, general economic conditions, particularly as they relate to the amount of the Company's primary market area, and other factors related to the collectibility of the Company's loan portfolio. For the three months and six months ended March 31, 2006 and 2005, we made no provision for loan losses.

Our allowance for loan losses totaled \$558,000 at both March 31, 2006 and September 30, 2005. At March 31, 2006, the Company's non-performing assets totaled \$297,000, or .07% of total assets and consisted solely of non-

21

performing residential mortgage loans. There were no REO properties as of March 31, 2006. The allowance for loan losses totaled \$558,000 or 0.3% of total loans and 187.9% of non-performing loans.

Management continues to review its loan portfolio to determine the extent, if any, to which further additional loss provisions may be deemed necessary. There can be no assurance that the allowance for losses will be adequate to cover losses which may in fact be realized in the future and that additional provisions for losses will not be required.

NON-INTEREST INCOME. Non-interest income increased \$162,000 and \$169,000 for the three and six months ended March 31, 2006, respectively, as compared to the same periods in 2005. The increases were primarily due to a pre-tax gain on the sale of a real estate owned property of \$100,000 and income from BOLI of \$51,000.

NON-INTEREST EXPENSES. Non-interest expense increased \$404,000 or 25.2% during the three months ended March 31, 2006 compared to the same period in 2005 and increased \$369,000 or 10.6% for the six months ended March 31, 2006 as compared to the same period in 2005. The increase for the quarter was primarily due to

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increases in compensation and benefit expense of \$177,000 resulting primarily from an increase in retirement plan expenses and normal merit pay rate increases as well as an \$108,000 increase in professional services expense reflecting the increased costs associated with being a public company that were not applicable in the 2005 period. For the six months ended March 31, 2006, the increase reflected increased compensation and benefit expense of \$281,000 due primarily to an increase in retirement plan expenses and normal merit pay rate increases, an increase in professional services of \$142,000 reflecting the increased costs associated with being a public company that were not applicable in 2005, partially offset by a decrease in litigation expenses from \$125,000 in the 2005 period which were not incurred in the 2006 period.

INCOME TAX EXPENSE. Income tax expense for the quarter and six months ended March 31, 2006 amounted to \$507,000 and \$929,000, respectively, compared to \$475,000 and \$838,000, respectively, for the quarter and six months ended March 31, 2005. Our effective income tax rate remained stable at 34.7% for the quarters ended March 31, 2006 and 2005. For the six month period ended March 31, 2006, the effective tax rate decreased to 31.3% from 34.4% from the comparable period in 2005. This decrease in the effective tax rate was primarily attributable to tax benefits the Company realized as a result of the adjustment of a valuation allowance during the quarter ended December 31, 2005 that had previously been established for accrued liabilities related to prior period tax accruals.

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 general interest rates, economic conditions and competition. We also maintain excess funds in short-term, interest-bearing assets that provide additional liquidity. At March 31, 2006, our cash and cash equivalents amounted to \$9.0 million. In addition, our available for sale investment securities amounted to an aggregate of \$38.5 million at March 31, 2006.

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 March 31, 2006, the Company had \$18.0 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 \$6.6 million and letters of credit outstanding of \$110,000 at March 31, 2006. Certificates of deposit at March 31, 2006 maturing in one year or less totaled \$87.3 million. Based upon historical experience, we anticipate that a significant portion of the maturing certificates of deposit will be redeposited with us.

In addition to cash flow 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, of which we are a member. Under terms of the collateral agreement with the Federal Home Loan Bank, we pledge residential mortgage loans and

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mortgage-backed securities as well as our stock in the Federal Home Loan Bank as collateral for such advances. However, use of FHLB advances has been relatively limited and the amount outstanding has remained relatively constant during the past several years. At March 31, 2006 we had \$13.8 million in outstanding FHLB advances and we had the ability to obtain up to an additional \$191.8 million FHLB advances.

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 the Bank's regulatory capital ratios as of March 31, 2006 and the Bank's capital ratios as of September 30, 2005 and compares them to current regulatory guidelines.

| | Actual Ratio ----- | Required for Capital Adequacy Purposes ----- | To B Well Cap Under P Correcti Prov ----- |
|--|-----------------------|---|--|
| March 31, 2006: | | | |
| Tier 1 capital (to average assets) | | | |
| The Company | 20.09% | 4.0 % | N/A |
| The Bank | 14.95% | 4.0 % | 5. |
| Tier 1 capital (to risk weighted assets) | | | |
| The Company | 43.82% | 4.0 % | N/A |
| The Bank | 32.62% | 4.0 % | 6.0 |
| Total capital (to risk weighted assets) | | | |
| The Company | 44.23% | 8.0 % | N/A |
| The Bank | 33.03% | 8.0 % | 10. |
| September 30, 2005: | | | |
| Tier 1 capital (to average assets) | | | |
| The Company | 20.98% | 4.0 % | N/A |
| The Bank | 14.55% | 4.0 % | 6.0 |
| Tier 1 capital (to risk weighted assets) | | | |
| The Company | 48.54% | 4.0 % | N/A |
| The Bank | 34.71% | 4.0 % | 6.0 |
| Total capital (to risk weighted assets) | | | |
| The Company | 48.98% | 8.0 % | N/A |
| The Bank | 35.16% | 8.0 % | 10. |

IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements, accompanying notes, and related financial data of the Company presented herein have been prepared in accordance with generally accepted accounting principles which requires 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

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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.

23

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ASSET/LIABILITY MANAGEMENT AND 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, our Chief Financial Officer and our Chief Lending Officer, and which is responsible for reviewing our asset/liability policies and interest rate risk position. The Asset/Liability Committee meets on a quarterly basis. 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 utilized the following strategies in our efforts to manage interest rate risk:

- o we have increased our originations of shorter term loans and/or loans with adjustable rates of interest, particularly construction and land development loans;
- o we have invested in securities with "step-up" rate features providing for increased interest rates prior to maturity according to a pre-determined schedule and formula; and
- o we have maintained moderate levels of short-term liquid assets.

However, notwithstanding the foregoing steps, we remain subject to a significant level of interest rate risk in a rising 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 designated as held to maturity. In addition, our interest rate spread and margin have been adversely affected due to our policy of paying above average interest rates on deposits which has resulted in a greater compression of our spread and margin than we might have otherwise experienced had we reduced the rates paid on deposits to the same degree as our competitors. Likewise, our unwillingness to originate long-term, fixed-rate residential mortgage loans at low rates has resulted in

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borrowers in many cases refinancing loans elsewhere, requiring us to reinvest the resulting proceeds from the loan payoffs at low current market rates of interest. Thus, both of these strategies have increased our interest rate risk.

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 and 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 March 31, 2006, 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

24

contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at March 31, 2006, on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable-rate loans and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans. Annual prepayment rates for adjustable-rate and fixed-rate single-family and multi-family residential and commercial mortgage loans are assumed to range from 13.08 % to 31.10%. The annual prepayment rate for mortgage-backed securities is assumed to range from 7.02% to 34.08%. Money market deposit accounts, savings accounts and interest-bearing checking accounts are assumed to have annual rates of withdrawal, or "decay rates," based on information from the FDIC. For savings accounts and checking accounts, the decay rates are 60% in one to three years, 20% in three to five years and 20% in five to 10 years. For money market accounts, the decay rates are 50% in three to 12 months and 50% in 13 to 36 months.

| | 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 |
|-----------------------------|------------------------|------------------------------------|-----------------------------------|------------------------------------|
| | ----- | ----- | ----- | ----- |
| | (Dollars in Thousands) | | | |
| Interest-earning assets(1): | | | | |
| Investment securities(2) | \$ 21,580 | \$ 22,191 | \$ 18,271 | \$ |

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| | | | | |
|---|-----------|-------------|-------------|----|
| Mortgage-backed securities | 1,993 | 4,901 | 6,683 | |
| Loans receivable(3) | 55,849 | 28,524 | 43,011 | |
| Other interest earning assets | 4,994 | -- | -- | |
| | ----- | | | |
| Total interest-earning assets | \$ 84,416 | \$ 55,616 | \$ 67,965 | \$ |
| | ===== | | | |
| Interest-bearing liabilities: | | | | |
| Savings accounts | \$ 373 | \$ 262 | \$ 50,727 | \$ |
| Money market deposit and NOW accounts | -- | 33,048 | 52,812 | |
| Certificates of deposits | 21,469 | 65,874 | 54,509 | |
| Advances from Federal Home Loan Bank | -- | -- | -- | |
| Advances from borrowers for taxes and insurance | -- | -- | -- | |
| | ----- | | | |
| Total interest-bearing liabilities | \$ 21,842 | \$ 99,184 | \$ 158,048 | \$ |
| | ===== | | | |
| Interest-earning assets | | | | |
| less interest-bearing liabilities | \$ 62,574 | \$ (43,568) | \$ (90,083) | \$ |
| | ===== | | | |
| Cumulative interest-rate sensitivity gap (4) | \$ 62,574 | \$ 19,006 | \$ (71,077) | \$ |
| | ===== | | | |
| Cumulative interest-rate gap as a percentage of total assets at March 31, 2006 | 13.88% | 4.22% | (15.77)% | |
| | ===== | | | |
| Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities at March 31, 2006 | 386.48% | 115.70% | 74.53% | |
| | ===== | | | |

- (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 and include Federal Home Loan Bank stock.
- (3) For purposes of the gap analysis, loans receivable includes non-performing loans and is gross of the allowance for loan losses, but net of undisbursed portion of loans-in-process and unamortized deferred loan fees.
- (4) Interest-rate sensitivity gap represents the difference between net 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 adjustable-rate loans, have features which restrict changes in interest rates both on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates,

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prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. Finally, the ability of many borrowers to service their adjustable-rate loans may decrease in the event of an interest rate increase.

NET PORTFOLIO VALUE ANALYSIS. Our interest rate sensitivity also is monitored by management through the use of a model which generates estimates of the changes in our net portfolio value ("NPV") over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The following table sets forth our NPV as of March 31, 2006 and reflects the changes to NPV as a result of immediate and sustained changes in interest rates as indicated.

| Change in Interest Rates In Basis Points (Rate Shock) | Net Portfolio Value | | | NPV as % of Value of A |
|--|---------------------|-------------|----------|---------------------------|
| | Amount | \$ Change | % Change | NPV Ratio |
| ----- | | | | |
| (Dollars in Thousands) | | | | |
| 300 | \$ 68,129 | \$ (32,126) | (32.04)% | 17.20% |
| 200 | 78,217 | (22,038) | (21.98)% | 19.02% |
| 100 | 89,033 | (11,222) | (11.19)% | 20.84% |
| Static | 100,255 | - | - | 22.59% |
| (100) | 106,288 | 6,033 | 6.02% | 23.34% |

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

ITEM 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 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,

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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(e) or 15d-15(f) under the Securities Exchange Act of 1934) occurred during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

27

PART II

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable.

(b) Not applicable.

(c) Purchases of Equity Securities

The Company's repurchases of its common stock made during the quarter are set forth in the following table.

| PERIOD | TOTAL NUMBER OF SHARES PURCHASED | AVERAGE PRICE PAID PER SHARE | TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS | MAX SHAR BE P |
|--------------------------------|---|---------------------------------|--|---------------------|
| ----- | ----- | ----- | ----- | |
| January 1 - January 31, 2006 | -- | \$ -- | -- | |
| February 1 - February 28, 2006 | 37,200 | 13.11 | 37,200 | |
| March 1 - March 31, 2006 | 97,600 | 13.43 | 97,600 | |
| | ----- | | ----- | |
| Total | 134,800 | \$13.33 | 134,800 | |
| | ===== | ===== | ===== | |

 (1) On May 11, 2005, the Company announced a stock repurchase program to repurchase up to 4.9% of the Company's outstanding common stock held by other than Prudential Mutual Holding Company, or 277,000 shares.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

(a) Not applicable.

(b) Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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- (a) On February 3, 2006, the Company held its first annual meeting of shareholders to obtain approval for two proxy proposals submitted on behalf of the Company's Board of Directors. Shareholders of record as of December 16, 2005, received proxy materials and were considered eligible to vote on these proposals. The following is a brief summary of each proposal and the result of the vote.

28

(b) - (c)

1. The following directors were elected by the requisite plurality of the votes cast to serve on the Company's Board of Directors:

| | FOR --- |
|---|------------|
| NOMINEES FOR ONE-YEAR TERMS EXPIRING IN 2007: | |
| Jerome R. Balka, Esq. | 8,033,561 |
| A. J. Fanelli | 8,212,201 |
| NOMINEES FOR TWO-YEAR TERMS EXPIRING IN 2008: | |
| Francis V. Mulcahy | 8,213,201 |
| Joseph W. Packer, Jr. | 8,027,349 |
| NOMINEES FOR THREE-YEAR TERMS EXPIRING IN 2009: | |
| John P. Judge | 8,045,732 |
| Thomas A. Vento | 8,037,301 |

| | FOR --- |
|--|------------|
| 2. To ratify the appointment of Deloitte & Touche LLP as independent registered public accounting firm for the year ended September 30, 2006 | 11,125,893 |

(d) Not applicable.

ITEM 5. OTHER INFORMATION

(a) Not applicable.

(b) Not applicable.

ITEM 6. EXHIBITS

| EXHIBIT NO. ----- | DESCRIPTION ----- |
|----------------------|--|
| 31.1 | Section 302 Certification of Chief Executive Officer |
| 31.2 | Section 302 Certification of Chief Financial Officer |
| 32.0 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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: MAY 15, 2006

BY: /S/ THOMAS A. VENTO

THOMAS A. VENTO
PRESIDENT AND CHIEF EXECUTIVE OFFICER

DATE: MAY 15, 2006

BY: /S/ JOSEPH R. CORRATO

JOSEPH R. CORRATO
EXECUTIVE VICE PRESIDENT AND CHIEF
FINANCIAL OFFICER