PRUDENTIAL BANCORP, INC.
Form POS AM
November 08, 2016

As filed with the Securities and Exchange Commission on November 8, 2016

Registration No. 333-212641

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

POST-EFFECTIVE AMENDMENT NO. 1 TO THE

FORM S-4

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

Prudential Bancorp, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	**6036**	**46-2935427**
(State or Other Jurisdiction	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer**

of Incorporation or Organization)		**Identification Number)**

1834 West Oregon Avenue

Philadelphia, PA 19145

(215) 755-1500

(Address, Including ZIP Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Dennis Pollack

President and Chief Executive Officer

Prudential Bancorp, Inc.

1834 West Oregon Avenue

Philadelphia, PA 19145

(215) 755-1500

(Name, Address, Including ZIP Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

Philip Ross Bevan, Esq.	**Aaron M. Kaslow**
Silver, Freedman, Taff & Tiernan LLP	**Kilpatrick Townsend & Stockton LLP**
3299 K Street, N.W.	**607 14th Street, N.W.**
Suite 100	**Suite 900**
Washington, DC 20007	**Washington, DC 20005**
(202) 295-4500	**(202) 508-5800**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective and upon completion of the merger described in the attached proxy statement/prospectus.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, as amended (the "**Securities Act**"), check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Exchange Act Rule 14d-1(d) (Cross Border Third-Party Tender Offer)

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MERGER PROPOSED—YOUR VOTE IS VERY IMPORTANT

Dear Shareholder of Prudential Bancorp, Inc.:

On June 2, 2016, Prudential Bancorp, Inc., or Prudential, and Polonia Bancorp, Inc., or Polonia, entered into an Agreement and Plan of Merger, which we refer to as the merger agreement, under which Polonia will merge with and into Prudential. In addition, under the merger agreement, simultaneously with the merger, Polonia Bank, a federally chartered savings bank and the wholly owned subsidiary of Polonia, will be merged with and into Prudential Savings Bank, or Prudential Bank, a Pennsylvania-chartered savings bank and the wholly owned subsidiary of Prudential.

If the merger is completed, Polonia shareholders will be entitled to elect to receive, for each share of Polonia common stock they own, subject to the election and adjustment procedures provided in the merger agreement and described in this proxy statement, 0.7591 of a share of Prudential common stock or $11.28 in cash, in each case subject to possible adjustment as more fully described in this proxy statement. The election of shares of Prudential common stock or cash will be subject to proration such that 50% of the issued and outstanding shares of Polonia common stock will be exchanged for Prudential common stock and 50% of the issued and outstanding shares of Polonia common stock will be exchanged for cash. If more Polonia shareholders make valid elections to receive either shares of Prudential common stock or cash than is available as either stock or cash consideration pursuant to the terms of the merger agreement shareholders electing the over-subscribed form of merger consideration will have the over-subscribed consideration proportionately reduced and substituted with consideration in the other form. Based on closing sales price of Prudential common stock on November __, 2016, the latest practical trading date prior to this proxy statement, the aggregate value of the merger consideration, before any possible adjustment as provided for under the terms of the merger agreement, is $37.1 million. Based on 3,348,827 shares of Polonia common stock issued and outstanding, Prudential expects to issue approximately 1,271,047 shares of common stock before taking into account any adjustment for the issuance of cash in lieu of fractional shares.

The market value of the shares of Prudential common stock will fluctuate with the market price of Prudential common stock and will not be known at the time Prudential shareholders vote at its special meeting. The cash consideration is a fixed amount and will remain fixed regardless of any changes in the market value of the shares of Prudential common stock. The value of the stock consideration may be more or less than the value of the cash consideration at the time the election is made by Polonia shareholders or at the completion of the merger.

Under the terms of the merger agreement, that the event of the average daily closing sales prices for Prudential common stock for a specified period prior to the closing of the merger is less than $11.89 per share and the decrease in the price of Prudential's common stock is more than 20% greater than the decrease in the Nasdaq Bank Index over the same period, Polonia has the right to terminate the merger agreement; provided, however, Prudential has the option to adjust the exchange ratio to prevent the termination of merger agreement.

Prudential's common stock trades on the Nasdaq Global Market under the symbol "PBIP." The table below presents the closing prices of Prudential common stock on June 1, 2016, the last trading day prior to the public announcement of the merger, and on November __, 2016, the last practicable trading day before the distribution of this proxy statement. The table also presents the implied value for each share of Polonia common stock converted into shares of Prudential common stock on those dates, as determined by multiplying the closing price of Prudential common stock on those dates by the exchange ratio of 0.7591. This table also presents the implied value for each share of Polonia common stock converted into cash, based on the fixed cash consideration of $11.28 per share.

We urge you to obtain current market quotations for Prudential.

	Prudential Common Stock	**Implied Value of One Share of Polonia Common Stock**	**Value of the Cash Consideration for One Share of Polonia Common Stock**
At June 1, 2016	$ 14.91	$ 11.32	$ 11.28
At November __, 2016	$	$	$

Your vote is important. Approval of the issuance of the shares of Prudential common stock in the merger with Polonia requires the affirmative vote of the holders of a majority of the votes cast by holders of Prudential common stock entitled to vote at the Prudential special meeting of shareholders. If the proposal to issue shares of Prudential common stock to Polonia shareholders in the merger is not approved, a condition to the consummation of the merger cannot be satisfied. Shareholders of Polonia approved the merger agreement at a special meeting of shareholders held on October 25, 2016.

Prudential will hold a special meeting of shareholders at its main office located at 1834 West Oregon Avenue, Philadelphia, Pennsylvania, on December __, 2016 at 11:00 a.m. Eastern time to consider and vote on the proposed issuance of shares of Prudential common stock in connection with the merger.

Prudential's board of directors unanimously recommends that Prudential shareholders vote "FOR" the proposal to issue shares of Prudential common stock to Polonia shareholders in the merger and "FOR" the approval of the adjournment of the Prudential special meeting, if necessary, to solicit additional proxies in favor of that proposal.

Whether or not you plan to attend Prudential's special meeting, your board of directors urges you to vote by completing, signing, dating and returning the enclosed proxy card as soon as possible in the enclosed postage-paid envelope, by calling the toll-free telephone number or by using the Internet as described in the instructions included with your proxy card. This will not prevent you from voting in person at Prudential's special meeting, but will assure that your vote is counted if you are unable to attend. If you are a shareholder whose shares are not registered in your own name, you will need additional documentation from your bank, broker, nominee or other holder of record in order to vote in person at the special meeting.

This proxy statement provides you with detailed information about the merger agreement, the merger and the proposals to be voted on at the Prudential special meeting.

We urge you to read this entire proxy statement, including the Annexes hereto, and the documents incorporated by reference herein, carefully because they contain important information about the merger agreement, the merger and the proposals to be voted on at the Prudential special meeting. In particular, you should read carefully the information under the section entitled "Risk Factors" beginning on page [•]. You can also obtain information about Prudential from documents that Prudential files with the Securities and Exchange Commission, referred to as the SEC in this document.

Sincerely,

Dennis Pollack

President and Chief Executive Officer

Prudential Bancorp, Inc.

The date of this proxy statement is November __, 2016, and it is first being mailed or otherwise delivered to Prudential shareholders on or about November __, 2016.

PRUDENTIAL BANCORP, INC.

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON DECEMBER __, 2016

To the Shareholders of Prudential Bancorp, Inc.:

NOTICE IS HEREBY GIVEN that a special meeting of shareholders of Prudential Bancorp, Inc., or Prudential, will be held on December __, 2016 at 11:00 a.m. Eastern time at its main office located at 1834 West Oregon Avenue, Philadelphia, Pennsylvania, to consider and vote upon the following matters:

1. A proposal to approve the issuance of shares of Prudential common stock to holders of Polonia Bancorp, Inc., or Polonia, in connection with the merger of Polonia with and into Prudential as contemplated by the Agreement and Plan of Merger dated as of June 2, 2016, by and between Prudential and Polonia, as more fully described in the attached proxy statement; and

2. A proposal to authorize the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies in the event there are not sufficient votes at the time of the special meeting to approve the proposal to issue shares of Prudential common stock to holders of Polonia common stock in the merger, which we refer to as the adjournment proposal.

We have fixed the close of business on November __ 2016 as the record date for determining those Prudential shareholders entitled to notice of, and to vote at, the Prudential special meeting and any adjournments or postponements of the Prudential special meeting. Only Prudential shareholders of record at the close of business on that date are entitled to vote at the Prudential special meeting and any adjournments or postponements of the Prudential special meeting.

Approval of the proposal for the issuance of the shares of Prudential common stock the holders of Polonia common stock in the merger in connection with the merger and the adjournment proposal requires the affirmative vote of a majority of the votes cast by holders of Polonia common stock outstanding and entitled to vote thereon.

Whether or not you intend to attend the Prudential special meeting, please vote as soon as possible by signing and returning the enclosed proxy card in the postage-paid envelope provided, by calling the toll-free telephone number or by using the Internet as described in the instructions included with your proxy card. If your shares are held in "street name" through a bank, broker, nominee or other holder of record, please follow the

instructions on the voting instruction card provided by such person. If you attend the Prudential special meeting, you may vote in person if you wish, even if you have previously returned your proxy card. If you wish to attend the Prudential special meeting and vote in person and your shares are held in "street name" through a bank, broker, nominee or other holder of record, you must bring with you a proxy or letter from the bank, broker, nominee or other holder of record to confirm your beneficial ownership of the shares.

Prudential's board of directors has approved the merger agreement and the issuance of shares of Prudential common stock to holders of Polonia common stock in connection with the merger. Prudential's board of directors recommends that Prudential shareholders vote "FOR" approval of the proposal for the issuance of the shares of Prudential common stock to holders of Polonia common stock in connection with the merger and "FOR" the proposal to authorize the adjournment of the Prudential special meeting, if necessary or appropriate, to solicit additional proxies to approve the proposal to issue shares of Prudential common stock to holders of Polonia common stock in connection with the merger.

The enclosed proxy statement provides a detailed description of the Prudential special meeting, the merger, the merger agreement and other documents related to the merger and other related matters. We urge you to read the proxy statement, including the attached Annexes and any documents incorporated in the proxy statement by reference, carefully and in their entirety.

BY ORDER OF THE BOARD OF DIRECTORS,

Sharon M. Slater, Corporate Secretary
Philadelphia, Pennsylvania
November __, 2016

ADDITIONAL INFORMATION

This proxy statement incorporates important business and financial information about Prudential that is not included in or delivered with this proxy statement. You can obtain any of the documents filed with or furnished to the U.S. Securities and Exchange Commission, which we refer to as the SEC, pursuant to the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, by Prudential at no cost from the SEC's website at http://www.sec.gov. You may also request copies of these documents, including documents incorporated by reference in this proxy statement, at no cost, by contacting Prudential at the following address:

Prudential Bancorp, Inc.

1834 West Oregon Avenue

Philadelphia, PA 19145

(215) 755-1500

Attention: Corporate Secretary

You will not be charged for any of these documents that you request. If you would like to request documents from Prudential, you must do so no later than five business days before the date of Prudential's special meeting to ensure timely delivery. This means Prudential shareholders requesting documents must do so by December _____, 2016, in order to receive them before Prudential's special meeting.

See "Where You Can Find More Information" on page [•].

ABOUT THIS DOCUMENT

This document, which forms part of a registration statement on Form S-4 filed by Prudential with the SEC (File No. 333-212641) under the Securities Act of 1933, as amended, which we refer to as the Securities Act, constitutes a proxy statement of Prudential in connection with its special meeting of shareholders. This document also provides the notice of the special meeting of Prudential in accordance with state law with respect to its special meeting at which shareholders will consider and vote on the proposals described in the Prudential notice.

You should rely only on the information contained in this document. We have not authorized anyone to provide you with information that is different from that contained in this document. This document is dated November __, 2016. You should not assume that the information contained in this document is accurate as of any date other than that date. Neither the mailing of this document to Prudential shareholders nor the issuance by Prudential of its shares in connection with the merger will create any implication to the contrary.

This document does not constitute the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such solicitation in such jurisdiction. Except where the context otherwise indicates, information contained in this document regarding Prudential has been provided by Prudential and information contained in this document regarding Polonia has been provided by Polonia.

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ANNEX A	**AGREEMENT AND PLAN OF MERGER DATED JUNE 2, 2016 BY AND BETWEEN PRUDENTIAL BANCORP, INC. AND POLONIA BANCORP, INC.**	A-1
ANNEX B	**OPINION OF SANDLER O’NEILL & PARTNERS, l.P.**	B-1

QUESTIONS AND ANSWERS ABOUT THE MERGER AND the SPECIAL MEETING

The following questions and answers briefly address some commonly asked questions about the merger and the Prudential special meeting of shareholders. They may not include all the information that may be important to you. You should read carefully the entire document, including the Annexes, and any additional documents incorporated by reference into this proxy statement to fully understand the merger agreement and the transactions contemplated thereby, including the merger, the issuance of shares of Prudential common stock in connection with the merger, the proposals to be considered and voted on by Prudential shareholders, and the voting procedures for the Prudential special meeting of shareholders.

In this proxy statement, we generally refer to Prudential Bancorp, Inc. as "Prudential," Prudential Savings Bank, a Pennsylvania-chartered savings bank and wholly owned subsidiary of Prudential, as "Prudential Bank," Polonia Bancorp, Inc. as "Polonia" and Polonia Bank, a federally chartered savings bank and wholly owned subsidiary of Polonia, as "Polonia Bank."

Q: What is the merger?

A: On June 2, 2016, Prudential and Polonia entered into an Agreement and Plan of Merger, which we refer to as the merger agreement. Pursuant to the merger agreement, Polonia will merge with and into Prudential, with Prudential surviving the merger. We refer to this transaction as the merger. Also under the merger agreement, substantially simultaneously with the merger, Polonia Bank will be merged with and into Prudential Bank with Prudential Bank being the survivor of the merger, which we refer to as the bank subsidiary merger. A copy of the merger agreement is attached to this proxy statement as Annex A and is incorporated by reference herein.

Q: Why am I receiving this proxy statement?

A: We are delivering this document to you because it is a proxy statement being used by the Prudential board of directors to solicit proxies from its shareholders in connection with approval of the proposals described herein.

In order to consider and approve the proposals, Prudential has called a special meeting of its shareholders, which we refer to as the Prudential special meeting. This document serves as a proxy statement for the Prudential special meeting and describes the proposals to be presented and voted on at the special meeting. The enclosed voting materials allow shareholders to vote their shares without attending the Prudential special meeting in person.

Q: What proposals am I being asked to vote on?

A: Prudential shareholders are being asked to approve the issuance of shares of Prudential common stock to Polonia shareholders in connection with the merger. The approval is required in order to be able to have the shares of Prudential common stock to be issued in the merger to the shareholders of Polonia be listed on the Nasdaq Global Market. The listing requirements of the Nasdaq Stock Market provide that shareholder approval of the issuance of shares by an issuer whose securities are traded on the Nasdaq Stock Market is required when there are common

shareholders of both entities involved in the transaction which individually own five percent or more of the common stock of each entity. Unless approval of this proposal is obtained, the listing of the additional shares of Prudential common stock to be issued in the merger will not be approved which would cause a condition to completion of the merger to be unable to be satisfied.

In addition, Prudential shareholders are being asked to approve a proposal to adjourn the Prudential special meeting, if necessary or appropriate, to solicit additional proxies in favor of the issuance of the shares of Prudential common stock in connection with the merger.

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Q: What will Polonia shareholders receive in the merger?

A: If the merger is completed, Polonia shareholders will be entitled to elect to receive, for each share of Polonia common stock they own, subject to the election and adjustment procedures described in greater detail herein, either 0.7591 of a share of Prudential common stock, which we refer to as the stock consideration, or $11.28 in cash, which we refer to as the cash consideration, subject to adjustment in certain situations as described in greater detail in this proxy statement. The election of shares of Prudential common stock or cash will be subject to proration such that 50% of the issued and outstanding shares of Polonia common stock will be exchanged for Prudential common stock and 50% will be exchanged for cash. As a result, if the aggregate number of shares with respect to which a valid stock or cash election has been made exceeds these limits, shareholders who have elected the form of consideration that has been over-subscribed will receive a mixture of both stock and cash consideration in accordance with the proration procedures set forth in the merger agreement. The exchange ratio of 0.7591 of a share of Prudential common stock for a share of Polonia common stock and the cash consideration of $11.28 per share are subject to downward adjustment if the adjusted consolidated stockholders' equity of Polonia, as determined in accordance with the merger agreement, is less than $37,401,000 (the amount of Polonia's consolidated stockholders' equity as of April 30, 2016) as of the end of the month following receipt of all shareholder and regulatory approvals. The exchange ratio and the cash consideration are subject to upward adjustment to reflect recoveries or reversals of liabilities with respect to certain litigation matters and termination of certain benefit arrangements with Polonia's former chief executive officer. See "The Merger Agreement – Consideration to be Received in the Merger" for an explanation of the possible price adjustment.

Q: What will Prudential shareholders receive in the merger?

A: If the merger is completed, Prudential shareholders will not receive any merger consideration and will continue to hold the shares of Prudential common stock that they currently hold.

Q: Will the value of the merger consideration change between the date of this proxy statement and the time the merger is completed?

A: The value of the cash consideration is fixed at $11.28 per share, subject to adjustment in certain situations. However, the value of the stock consideration will fluctuate as the market price of Prudential common stock fluctuates before the completion of the merger. The market price of Prudential common stock at the completion of the merger may be more or less than the current price of Prudential common stock or the price of Prudential common stock at the time of the special meeting, and the value of the stock consideration may be more or less than the value of the cash consideration at the completion of the merger. Based on the average closing stock price of Prudential common stock on the Nasdaq Global Market for the twenty trading days ending on June 1, 2016, the last full trading day before the execution of the merger agreement, of $14.86, the value of the stock consideration was $11.28. Based on the closing stock price of Prudential common stock on the Nasdaq Global Market on June 1, 2016, of $14.91, the value of the stock consideration was $11.32. Based on the closing stock price of Prudential common stock on the Nasdaq Global Market on November _, 2016, the latest practicable date before the mailing of this proxy statement, of $____, the value of the stock consideration was $____.

Q: How will the merger affect holders of Polonia restricted stock awards and options to purchase shares of Polonia common stock?

A: If the merger is completed, options to purchase Polonia common stock outstanding at the effective time of the merger will be exchanged for a cash payment equal to the difference between the per share cash consideration

payable by Prudential pursuant to the merger agreement and the corresponding exercise price of each such outstanding option, subject to receipt of any required regulatory approval or non-objection. If the merger is completed, each outstanding and unvested restricted stock award previously granted under Polonia's equity plans will become fully vested, subject to the receipt of any required regulatory approval or non-objection, and be converted into the right to receive the merger consideration for the vested shares of Polonia common stock in accordance with the merger agreement.

Q: What are the federal income tax consequences of the merger?

A: The merger has been structured to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which we refer to as the Internal Revenue Code. It is a condition to the completion of the merger that each of Prudential and Polonia receive a written opinion from its respective legal counsel to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. The federal income tax consequences of the merger to shareholders of Polonia will depend primarily on whether they exchange their shares of Polonia common stock solely for shares of Prudential common stock, solely for cash or for a combination of shares of Prudential common stock and cash. It is expected that Polonia shareholders will not recognize gain or loss for U.S. federal income tax purposes upon the exchange of their shares of Polonia common stock for shares of Prudential common stock pursuant to the merger, except with respect to any cash received by a Polonia shareholder in exchange for shares of common stock or in lieu of a fractional share of Prudential common stock. Polonia shareholders who exchange their shares solely for cash should recognize gain or loss on the exchange. Polonia shareholders who exchange their shares for a combination of Prudential common stock and cash should recognize gain, but not any loss, on the exchange. The actual federal income tax consequences to Polonia shareholders of electing to receive cash, shares of Prudential common stock or a combination of cash and stock will not be ascertainable at the time Polonia shareholders make their election because it will not be known at that time how, or to what extent, the allocation and proration procedures will apply, nor will the actual values of the stock consideration and the cash consideration be known at that time.

Please see "Material United States Federal Income Tax Consequences of the Merger" beginning on page [•] for further discussion of the material U.S. federal income tax consequences of the merger.

Q: Does Prudential's board of directors recommend that Prudential shareholders approve the issuance of the shares of Prudential common stock in connection with the merger?

A: Yes. Prudential's board of directors recommends that Prudential's shareholders vote "FOR" approval of the issuance of the shares of Prudential common stock in connection with the merger at the Prudential special meeting. Please see "The Merger – Prudential's Reasons for the Merger; Recommendation of Prudential's Board of Directors" beginning on page [•] for a more detailed discussion regarding the information and factors considered by Prudential's board of directors in making its recommendation.

Q: Did Polonia's board of directors recommend that Polonia shareholders approve and adopt the merger agreement?

A: Yes. Polonia's board of directors approved and determined that the merger agreement, the merger and the other transactions contemplated by the merger agreement are in the best interests of Polonia's shareholders. Polonia's board of directors unanimously recommended that Polonia's shareholders vote "FOR" approval and adoption of the merger agreement at the Polonia special meeting which was held on October 25, 2016. Polonia's shareholders approved the adoption of the merger agreement at Polonia's special meeting held on October 25, 2016.

Q: When and where is the Prudential special meeting?

A: The Prudential special meeting will be held at 1834 West Oregon Avenue, Philadelphia, Pennsylvania on December __, 2016, at 11:00 a.m. Eastern time.

Q: Who can vote at the Prudential special meeting?

A: Only holders of record of Prudential common stock at the close of business on November __, 2016, the record date for the Prudential special meeting, will be entitled to vote at the Prudential special meeting.

Q: What do I need to do now?

A: After you have carefully read this proxy statement, including the Annex hereto and any information or documents incorporated by reference herein, and have decided how you wish to vote your shares, please vote your shares promptly. If you hold common stock in your name as a shareholder of record, please vote

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by completing, signing, dating and returning the enclosed proxy card as soon as possible in the enclosed postage-paid envelope, by calling the toll-free telephone number or by using the Internet as described in the instructions included with your proxy card. If you hold your stock in “street name” through a bank or broker, you must direct your bank or broker to vote in accordance with the instructions you have received from your bank or broker.

Q: Why is my vote important?

A: The merger cannot be completed unless Prudential’s shareholders approve the issuance of shares of Prudential common stock in connection with the merger. The Prudential board unanimously recommends that shareholders vote “**FOR**” the proposal to approve the merger agreement.

Polonia has held a special meeting of shareholders to consider the proposal to adopt the merger agreement, at which meeting its shareholders approved such proposal.

Q: What constitutes a quorum for Prudential special meeting?

A: The presence, in person or by proxy, at the Prudential special meeting of shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast on each proposal at the special meeting will constitute a quorum for each respective proposal. Abstentions and broker non-votes are counted as present for the purpose of determining whether a quorum is present.

Q: What is the vote required to approve each proposal at the Prudential special meeting?

A: Approval of the issuance of the shares of Prudential common stock in connection with the merger requires the affirmative vote of the holders of a majority of the votes cast by holders of Prudential common stock entitled to vote at the Prudential special meeting. A failure to vote by a Prudential shareholder entitled to vote, an abstention from voting or a broker non-vote will have no effect on the outcome of the vote to approve the issuance of the shares of Prudential common stock in connection with the merger.

Approval of the Prudential adjournment proposal requires the affirmative vote of a majority of the votes cast by holders of Prudential common stock entitled to vote at the Prudential special meeting. A failure to vote by a Prudential shareholder entitled to vote, an abstention from voting or a broker non-vote will have no effect on the outcome of the vote to approve the adjournment proposal.

Please note that if you make no specification on your proxy card as to how you want your Prudential shares voted before signing and returning it, your proxy will be voted as recommended by the board of directors of Prudential.

Q: What is the difference between holding shares as a shareholder of record and as a beneficial owner?

A: If your shares of Prudential common stock are registered directly in your name with Prudential’s transfer agent, Computershare, Inc., you are considered the shareholder of record with respect to those shares. As the shareholder of record, you have the right to vote, to grant a proxy for your vote directly to Prudential or to a third party to vote at the special meeting.

If your shares are held by a bank, brokerage firm or other nominee, you are considered the beneficial owner of shares held in "street name," and your bank, brokerage firm or other nominee is considered the shareholder of record with respect to those shares. Your bank, brokerage firm or other nominee will send you, as the beneficial owner, a package describing the procedure for voting your shares. You should follow the instructions provided by them to vote your shares. You are invited to attend the special meeting; however, you may not vote these shares in person at the special meeting unless you obtain a "legal proxy" from your bank, brokerage firm or other nominee that holds your shares, giving you the right to vote the shares at the special meeting.

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Q: If my shares of common stock are held in "street name" by my broker, bank or other nominee, will my broker, bank or other nominee automatically vote my shares for me?

A: No. If you own your shares in "street name," your broker, bank or other nominee cannot vote your shares without instructions from you. You should instruct your broker, bank or other nominee as to how to vote your shares, following the directions your broker, bank or other nominee provides to you. Please check the voting form used by your broker, bank or other nominee.

Q: Can I attend the special meeting and vote my shares in person?

A: Yes. All Prudential shareholders who hold shares as of the record date for the Prudential special meeting, including Prudential shareholders of record and Prudential shareholders who hold their shares through banks, brokers, nominees or any other holder of record, may attend the Prudential special meeting. Holders of record of Prudential common stock may attend the special meeting in person and also may cast their votes as the special meeting. If you are not a Prudential shareholder of record, you must obtain a proxy or letter, executed in your favor, from the record holder of your shares of common stock (such as your broker, bank or other nominee), to be able to vote in person at the Prudential special meeting. If you plan to attend the Prudential special meeting, you must hold your shares of common stock in your own name or have a proxy or letter from the record holder of your shares of common stock confirming your ownership.

Q: Can I change my vote?

A: Yes. A Prudential shareholder who has submitted a proxy may revoke it at any time before its exercise at the Prudential special meeting by (i) giving written notice of revocation to Prudential's Corporate Secretary, (ii) properly submitting to Prudential a duly executed proxy bearing a later date or (iii) attending the Prudential special meeting and voting in person. Any Prudential shareholder entitled to vote in person at the Prudential special meeting may vote in person regardless of whether a proxy has been previously given, and such vote will revoke any previous proxy. Please note, however, that simply attending the Prudential special meeting will not revoke a previously-given proxy – you must cast a new vote at the Prudential special meeting in order to revoke your prior vote.

All written notices of revocation and other communications with respect to revocation of Prudential proxies should be addressed to Prudential as follows: Sharon M. Slater, Corporate Secretary, 1834 West Oregon Avenue, Philadelphia, Pennsylvania 19145.

Q: What should I do if I receive more than one set of voting materials?

A: Shareholders may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold such shares. If you are a holder of record of shares and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive or otherwise follow the voting instructions set forth in this proxy statement to ensure that you vote every share of Prudential common stock that you own.

Q: Do I have appraisal or dissenters' rights?

A: No. Prudential shareholders are not entitled to appraisal or dissenters' rights.

Q: When do you expect to complete the merger?

A: Prudential and Polonia expect to complete the merger at end of the fourth quarter of 2016 or early in the first quarter of 2017. However, we cannot assure you when or if the merger will be completed. Among other things, we cannot complete the merger until we obtain the approvals being sought from Prudential shareholders at the Prudential special meeting and until we obtain certain additional approvals.

Q: What happens if the merger is not completed?

A: If the merger is not completed, holders of Polonia common stock will not receive any consideration for

their shares in connection with the merger, and Polonia will remain an independent company and will continue to own Polonia Bank.

If the merger is not completed, Prudential will remain an independent public company and its common stock will continue to be listed and traded on the Nasdaq Global Market.

If the merger agreement is terminated in certain circumstances, a termination fee may be required to be paid by Polonia. Please see "The Merger Agreement – Termination Fee" beginning on page [•] for a complete discussion of the circumstances under which a termination fee will be required to be paid.

Q: Are there any risks that I should consider in deciding whether to vote for the approval of the proposal to issue shares of Prudential common stock?

Yes. You should read and carefully consider the risk factors set forth in the section entitled "Risk Factors" beginning on page [•] of this proxy statement. You also should read and carefully consider the risk factors of Prudential contained in the documents that are incorporated by reference into this proxy statement. See the section entitled "Where You Can Find More Information" beginning on page [•] of this proxy statement.

Q: Whom should I call with questions about the special meeting or the proposal to issue shares of Prudential common stock?

A: If you have additional questions about the share issuance proposal, the merger, need assistance in submitting your proxy or voting your shares of Prudential common stock, or need additional copies of this proxy statement or the enclosed proxy card, please contact Sharon M. Slater, Prudential's Corporate Secretary, at 215-755-1500 or sslater@prudentialsavingsbank.com.

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SUMMARY

This summary highlights selected information from this proxy statement. It may not contain all the information that is important to you. You should read carefully the entire document, including the Annexes, and the additional documents we refer you to in order to fully understand the merger agreement and the transactions contemplated thereby, including the merger, the proposals to be considered and voted on by Prudential shareholders, and the voting procedures for the Prudential special meeting of shareholders. See "Where You Can Find More Information" on page [•]. Each item included in this summary refers to the page of this proxy statement where that subject is discussed in more detail.

The Parties to the Merger (page [•])

Prudential Bancorp, Inc.
1834 West Oregon Avenue
Philadelphia, PA 19145
(215) 755-1500

Prudential Bancorp, Inc., a Pennsylvania corporation, is a bank holding company whose bank subsidiary, Prudential Savings Bank, or Prudential Bank, is a Pennsylvania-chartered savings bank headquartered in Philadelphia, Pennsylvania with six full-service branch locations. Founded in 1886, Prudential Bank's primary business consists of attracting deposits from the general public and using those funds, together with funds it borrows, to originate loans to its customers and invest in securities such as U.S. government and agency securities and mortgage-backed securities. At June 30, 2016, Prudential had total assets of $556.3 million, total deposits of $386.6 million and stockholders' equity of $113.1 million.

Prudential's common stock trades on the Nasdaq Global Market under the symbol "PBIP."

Polonia Bancorp, Inc.
3993 Huntingdon Pike, 3rd Floor
Huntingdon Valley, PA 19006
(215) 938-8000

Polonia, a Maryland corporation, is a savings and loan holding company. Its primary subsidiary, Polonia Bank, operates as a community-oriented financial institution dedicated to serving the financial services needs of consumers and businesses within its market areas. Polonia Bank is engaged primarily in the business of attracting deposits from the general public and using such funds to originate loans. Polonia Bank also maintains an investment portfolio. At June 30, 2016, Polonia had total assets of $284.3 million, total deposits of $183.3 million and stockholders' equity of $37.4 million.

The Merger and the Merger Agreement (pages [•] and [•])

On June 2, 2016, Prudential and Polonia entered into an Agreement and Plan of Merger, or the merger agreement, under which Polonia will merge with and into Prudential, with Prudential surviving the merger. Upon completion of the merger, the separate existence of Polonia will terminate and Polonia common stock will no longer be outstanding. Also under the merger agreement, substantially simultaneously with the merger, Polonia Bank will be merged with and into Prudential Bank, with Prudential Bank as the surviving entity in the bank subsidiary merger. Completion of the merger is subject to a variety of conditions, including adoption and approval of the merger agreement by Polonia shareholders, which has been received, and the approval of the Prudential shareholders of the issuance of shares of Prudential common stock. We currently expect to complete these mergers at the end of the fourth quarter of 2016 or early in the first quarter of 2017. The merger agreement is attached to this proxy statement as Annex A and is incorporated by reference herein.

In the Merger, Polonia Shareholders Will Have a Right to Receive Shares of Prudential Common Stock, Cash or a Combination of Shares of Prudential Common Stock and Cash (page [•])

Under the terms of the merger agreement, Polonia shareholders will be entitled to elect to receive, for each share of Polonia common stock they own, either 0.7591 of a share of Prudential common stock or $11.28 in cash, subject to adjustment in certain situations. The election of shares of Prudential common stock or cash by Polonia shareholders will be subject to proration such that 50% of the issued and outstanding shares of Polonia common stock will be exchanged for Prudential common stock and 50% will be exchanged for cash. If more Polonia shareholders make valid elections to receive either shares of Prudential common stock or cash than is available as either stock or cash consideration pursuant to the terms of the merger agreement, Polonia shareholders electing the over-subscribed form of merger consideration will receive a mixture of both stock and cash consideration in accordance with the proration procedures set forth in the merger agreement.

Prudential will not issue any fractional shares of its common stock in the merger. Polonia shareholders who would otherwise be entitled to a fractional share of Prudential common stock will instead receive an amount in cash (rounded to the nearest cent), determined by multiplying (1) the fraction of a share (after taking into account all shares of Polonia common stock held by such shareholder at the effective time of the merger and rounded to the nearest thousandth when expressed in decimal form) of Prudential common stock to which such holder would otherwise have been entitled to receive, and (2) the quotient obtained by dividing (x) the per share cash consideration by (y) the exchange ratio (subject to adjustment under certain circumstances). For purposes of determining any fractional share interest, all shares of Polonia common stock owned by a Polonia shareholder shall be combined so as to calculate the maximum number of whole shares of Prudential common stock issuable to such Polonia shareholder pursuant to the merger agreement.

The value of the cash consideration is fixed at $11.28 per share, subject to adjustment in certain situations. However, the value of the stock consideration will fluctuate as the market price of Prudential common stock fluctuates before the completion of the merger. The market price of Prudential common stock at the completion of the merger may be more or less than the current price of Prudential common stock or the price of Prudential common stock at the time of the special meeting or at the time an election is made, and the value of the stock consideration may be more or less than the value of the cash consideration at the completion of the merger.

Set forth below is a table showing the value of the cash consideration and the hypothetical implied value of the stock consideration based on a range of market prices for Prudential common stock. The table does not reflect the fact that cash will be paid instead of fractional shares.

Prudential Common Stock	Polonia Common Stock			
	Cash Election:		Stock Election: Stock Consideration Per Share	
Hypothetical Closing Prices	**Cash Consideration Per Share**	OR	Shares of Prudential Common Stock	Hypothetical Implied Value(*)
$ 12.00	$11.28		0.7591	$ 9.11
12.50	11.28		0.7591	9.49
13.00	11.28		0.7591	9.87
13.50	11.28		0.7591	10.25
14.00	11.28		0.7591	10.63
14.50	11.28		0.7591	11.01
14.86	11.28		0.7591	11.28
15.00	11.28		0.7591	11.39
15.50	11.28		0.7591	11.77
16.00	11.28		0.7591	12.15
16.50	11.28		0.7591	12.53
17.00	11.28		0.7591	12.90

(*) Hypothetical implied value based on hypothetical closing price on the Nasdaq Global Market of Prudential common stock. The price information in bold reflects the average closing stock price of Prudential common stock on the Nasdaq Global Market for the twenty trading days ending on June 1, 2016, the last full trading day before the execution of the merger agreement.

The examples above are illustrative only. The value of the stock consideration that a Polonia shareholder actually receives will be based on the actual closing price on the Nasdaq Global Market of Prudential common stock upon completion of the merger, which may be outside the range of the amounts set forth above, and as a result, the actual value of the stock consideration per share of Polonia common stock may not be shown in the above table.

What Holders of Polonia Stock Options Will Receive (page [•])

Under the terms of the merger agreement, upon completion of the merger, the outstanding and unexercised stock options to acquire Polonia common stock, will be exchanged for a cash payment equal to the difference between the per share cash consideration payable by Prudential to Polonia shareholders pursuant to the merger agreement and the corresponding exercise price of each such outstanding option, subject to prior receipt of any required regulatory approval or non-objection.

Treatment of Polonia Restricted Stock Awards in the Merger (page [•])

Under the terms of the merger agreement, upon completion of the merger, each outstanding and unvested restricted stock award previously granted by Polonia will become fully vested and be converted into the right to receive the merger consideration for the vested shares of Polonia common stock covered by such award, subject to the prior receipt of any required regulatory approval or non-objection.

The Merger Is Intended to Be Tax-Free to Polonia Shareholders as to the Shares of Prudential Common Stock They Receive (page [•])

The merger is intended to be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which we refer to as the Internal Revenue Code. One of the conditions to the respective obligations of Prudential and Polonia to complete the merger is that each of Prudential and Polonia receives an opinion from its respective legal counsel to that effect.

The federal income tax consequences of the merger to Polonia shareholders will depend on the merger consideration received – cash, shares of Prudential common stock, or a combination thereof. It is expected that Polonia shareholders exchanging shares of Polonia common stock solely for shares of Prudential common stock will not recognize gain or

loss for U.S. federal income tax purposes upon the exchange of their shares of Polonia common stock for shares of Prudential common stock pursuant to the merger, except with respect to any cash received by a Polonia shareholder in lieu of fractional shares of Prudential common stock. Polonia shareholders exchanging shares of Polonia common stock solely for cash consideration generally will recognize gain or loss for federal income tax purposes in an amount equal to the difference between the cash received and the particular shareholder's adjusted tax basis in the shares of Polonia common stock. Polonia shareholders exchanging shares of Polonia common stock for a combination of cash and shares of Prudential common stock generally will not recognize loss but will recognize gain, if any, equal to the lesser of (1) the excess, if any, of the sum of the cash received and the fair market value of the Prudential common stock received pursuant to the merger over that shareholder's adjusted tax basis in his or her shares of Polonia common stock surrendered, and (2) the amount of cash consideration received by that shareholder pursuant to the merger. This tax treatment may not apply to all Polonia shareholders.

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Comparative Market Prices of Securities (page [•])

Prudential's common stock trades on the Nasdaq Global Market under the symbol "PBIP." Polonia's common stock trades on the OTC Pink Marketplace under the symbol "PBCP." The table below presents the closing prices of Prudential common stock on June 1, 2016, the last trading day prior to the public announcement of the merger, and on November __, 2016, the last practicable trading day before the distribution of this proxy statement. The table also presents the implied value for each share of Polonia common stock converted into shares of Prudential common stock on those dates, as determined by multiplying the closing price of Prudential common stock on those dates by the exchange ratio of 0.7591. This table also presents the value of the cash consideration proposed for each share of Polonia common stock converted into the cash consideration, which will remain a fixed amount regardless of any change in the market value of the stock consideration.

	Prudential Common Stock	Implied Value of One Share of Polonia Common Stock	**Value of the Cash Consideration for One Share of Polonia Common Stock**
At June 1, 2016	$ 14.91	$ 11.32	$ 11.28
At November _, 2016	$ __	$ __	$ __

For each share of Polonia common stock converted into the stock consideration, Polonia shareholders will receive 0.7591 of a share of Prudential common stock, subject to adjustment in certain instructions. The market value of Prudential common stock and the market value of Polonia common stock may fluctuate prior to the merger. Polonia shareholders should obtain current market quotations for Prudential common stock. You can get these quotations from the Internet or by calling your broker.

The Merger Will Be Accounted for as a "Business Combination" (page [•])

The merger will be treated as a "business combination" using the acquisition method of accounting with Prudential treated as the acquirer under United States generally accepted accounting principles, or GAAP.

Special Meeting of Prudential Shareholders (page [•])

Prudential plans to hold the Prudential special meeting on December __, 2016, at 11:00 a.m., Eastern time, at 1834 West Oregon Avenue, Philadelphia, Pennsylvania. At the Prudential special meeting, Prudential shareholders will be asked to approve the issuance of shares of Prudential common stock to Polonia shareholders in connection with the merger and to approve a proposal to allow the Prudential special meeting to be adjourned, if necessary or appropriate, to permit the solicitation of additional proxies in favor of the issuance of the shares of Prudential common stock in connection with the merger.

Prudential shareholders may vote at the Prudential special meeting if they owned Prudential common stock at the close of business on November ___, 2016, which is the record date for the Prudential special meeting. As of that date, there were approximately 8,045,544 shares of Prudential common stock outstanding and entitled to vote. Prudential shareholders are entitled to cast one vote for each share of Prudential common stock owned on the record date.

As of the record date for the Prudential special meeting, Prudential's directors and executive officers and their affiliates held **237,494** shares of Prudential common stock, excluding shares that may be acquired upon the exercise of outstanding stock options.

As of the record date for the Prudential special meeting, Polonia, its subsidiaries, and its directors and officers and their affiliates did not own or hold any shares of Prudential common stock (other than shares held as fiduciary, custodian or agent).

Prudential's Board of Directors Recommends That Prudential Shareholders Vote "FOR" Approval of the Issuance of Share of Prudential Common Stock in Connection with the Merger (page [•])

Prudential's board of directors has approved the merger agreement and the transactions contemplated thereby, including the merger, and recommends that Prudential shareholders vote "FOR" approval of the issuance of shares of Prudential common stock to holders of Polonia common stock as provided in the merger agreement, and "FOR" the proposal to allow the Prudential special meeting to be adjourned, if necessary or appropriate, to permit the solicitation of additional proxies in favor of the issuance of the shares of Prudential common stock in connection with the merger.

Opinion of Prudential's Financial Advisor (page [•])

Sandler O'Neill & partners, L.P or Sandler O'Neill, Prudential's financial advisor, delivered its opinion, dated June 1, 2016, to Prudential's board of directors to the effect that, as of the date of the opinion and subject to the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler O'Neill as set forth in such opinion, Prudential's acquisition of all of the outstanding and common stock of Polonia, in exchange for Prudential's common stock and cash was fair to Prudential from a financial point of view.

The full text of the written opinion of Sandler O'Neill, dated June 1, 2016, which sets forth the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler O'Neill in connection with its opinion, is attached as Annex B to this proxy statement. Sandler O'Neill's opinion was for the information of, and directed to, Prudential's board of directors (in its capacity as such) in connection with its consideration of the financial terms of the merger. The Sandler O'Neill opinion is not a recommendation as to how any holder of Prudential's common stock should vote with respect to the proposal to approve the issuance of shares of Prudential common stock in connection with merger or any other matter. The Sandler O'Neill opinion does not reflect any developments that may have occurred or may occur after the date of its opinion and prior to the completion of the merger. Prudential does not expect that it will request an updated opinion from Sandler O'Neill. Sandler O'Neill will receive a fee for its services, including rendering the fairness opinion, in connection with the merger.

Ownership of Prudential Common Stock Following the Merger (page [•])

It is currently expected that former shareholders of Polonia as a group will receive shares in the merger constituting approximately 13.6% of the outstanding shares of Prudential common stock immediately after completion of the merger. As a result, current shareholders of Prudential as a group will own approximately 86.4% of the outstanding

shares of Prudential common stock immediately after the completion of the merger.

Prudential Shareholders Do Not Have Dissenters' Rights in the Merger (page [•])

Prudential's shareholders do not have dissenters' rights of appraisal in connection with the merger or the issuance of shares of Prudential common stock as provided by the terms of the merger agreement.

Prudential and Polonia Have Agreed When and How Polonia Can Consider Third-Party Acquisition Proposals (page [•])

Prudential and Polonia have agreed that Polonia will not initiate, solicit, induce or encourage proposals from third parties regarding certain acquisitions of Polonia, its shares, or its businesses, take any action or facilitate the making of an acquisition proposal, or engage in related discussions, negotiations or enter into any related agreements. However, Polonia may (1) provide information in response to a request from a person who makes an unsolicited acquisition proposal, subject to such person entering into a confidentiality agreement that is no less favorable to Polonia than its confidentiality agreement with Prudential, and (2) engage or participate in discussions or negotiations with a person who makes such an unsolicited acquisition proposal; if, but only if, (A) Polonia has received a bona fide unsolicited written acquisition proposal that did not result from a breach of the merger agreement, (B) prior to taking any such action, Polonia's board of directors determines, in good faith, after consultation with its outside legal and financial advisors, that the acquisition proposal constitutes or is reasonably likely to lead to a superior proposal compared to the transactions contemplated by the merger agreement, (C) prior to furnishing or affording access to any information or data with respect to Polonia or any of its subsidiaries or

otherwise relating to the unsolicited acquisition proposal, Polonia receives a confidentiality agreement with terms no less favorable to Polonia than those contained in the confidentiality agreement between Prudential and Polonia, and (D) the board of directors of Polonia determines in good faith, after consultation with and having considered the advice of its outside legal counsel, that the failure to take any such actions would be reasonably likely to violate its fiduciary duties under applicable laws. Polonia is required to provide Prudential with notice of such determination within three business days after making such determination.

Additionally, prior to the approval of the merger agreement by Polonia's shareholders, upon the determination by Polonia's board of directors that an unsolicited acquisition proposal constitutes a superior proposal compared to the transactions contemplated by the merger agreement, the board of directors of Polonia may change its recommendation in favor of the merger agreement (but not terminate the merger agreement) if, prior to changing its recommendation, (1) Polonia's board of directors determines, in good faith, after consultation with its outside legal and financial advisors, that failure to change its recommendation would be reasonably likely to be inconsistent with its fiduciary duties to Polonia's shareholders, (2) Polonia provides Prudential with notice that Polonia's board of directors intends to or may change its recommendation and provides an opportunity for Prudential to make an improved proposal, and (3) Polonia's board of directors determines, in good faith, after consultation with its outside legal and financial advisors, that the acquisition proposal constitutes a superior proposal compared to any such improved proposal by Prudential.

Merger Requires the Approval of Prudential Shareholders of the Issuance of Shares of Prudential Common Stock and the Approval and Adoption of the Merger Agreement by Polonia Shareholders (page [•])

Approval of the issuance of the shares of Prudential common stock in connection with the merger requires the affirmative vote of the holders of a majority of the votes cast by holders of Prudential common stock entitled to vote at the Prudential special meeting.

As of the record date for the Prudential special meeting, Prudential's directors and executive officers beneficially owned approximately **237,494** shares, excluding shares that may be acquired upon the exercise of options, representing approximately **3.0**% of the shares entitled to vote at the Prudential's special meeting.

Polonia's shareholders approved the adoption of the merger agreement at a special meeting of shareholders of Polonia held on October 25, 2016.

Conditions That Must Be Satisfied or Waived for the Merger to Occur (page [•])

Currently, Prudential and Polonia expect to complete the merger at the end of the fourth quarter of 2016 or the early part of the first quarter of 2017. As more fully described elsewhere in this proxy statement and in the merger agreement, the completion of the merger depends on a number of conditions being satisfied or, where legally permissible, waived. These conditions include, among others:

- the approval and adoption of the merger agreement by the requisite vote of Polonia shareholders (which has been obtained);
- the receipt of all regulatory consents and approvals required to consummate the transactions contemplated by the merger agreement, without conditions (excluding standard conditions that are normally imposed in bank merger transactions) that would, in the good faith reasonable judgment of the Prudential board of directors, materially and adversely affect the business, operations, financial condition, property or assets of the combined enterprise of Prudential and Polonia or materially impair the value of Polonia to Prudential; Prudential has received all required regulatory approvals of federal and state banking authorities and none of such approvals included non-standard conditions;
- the receipt by each of Prudential and Polonia of a legal opinion with respect to certain United States federal income tax consequences of the merger;

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- the absence of any law, statute, rule, regulation, order, decree, injunction or other order by any court or other governmental entity, which enjoins or prohibits completion of the transactions contemplated by the merger agreement;
- the effectiveness of the registration statement of which this proxy statement is a part with respect to the Prudential common stock to be issued in connection with the merger under the Securities Act and the absence of any stop order or proceedings initiated or threatened by the SEC or any state securities commissioner (with respect to any applicable state securities laws) for that purpose;
- the authorization for listing on the Nasdaq Global Market of the shares of Prudential common stock to be issued in connection with the merger which requires, as condition thereof, the approval of the issuance of shares of Prudential common stock by Prudential's shareholders;
- the exercise of dissenters' rights by holders of Polonia common stock not exceeding 15% of the issued and outstanding shares of Polonia (no Polonia shareholders exercised such rights);
- the absence of any change that individually or in the aggregate has a material adverse effect with respect to Prudential or Polonia;
- the truth and correctness of the representations and warranties of each other party in the merger agreement, subject to the materiality standards provided in the merger agreement; and
- the performance by each party in all material respects of their obligations under the merger agreement and the receipt by each party of certificates from the other party to that effect.

We cannot be certain when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed.

Termination of the Merger Agreement (page [•])

The merger agreement can be terminated at any time prior to completion by mutual consent, if authorized by each of the Prudential and Polonia boards of directors, or by either party individually, in the following circumstances:

- if the other party breaches the merger agreement in a way that would entitle the party seeking to terminate the agreement not to consummate the merger, unless the breach is capable of being cured by February 28, 2017 (the termination date of the merger agreement), and is actually cured within 30 days of notice of the breach;

- if the merger has not been completed by the termination date of February 28, 2017, unless the failure to complete the merger by that date is due to the breach of the merger agreement by the party seeking to terminate the merger agreement; or

- if there is any final, non-appealable order permanently enjoining or prohibiting the completion of the merger or any consent, registration, approval, permit or authorization is denied such that the regulatory approval condition to the merger cannot be satisfied as of the closing date.

In addition, Prudential may terminate the merger agreement if Polonia has received a “superior proposal” and Polonia’s board of directors has (1) entered into an acquisition agreement with respect to the superior proposal or (2) withdrawn its recommendation regarding the merger, failed to make its recommendation or modified or qualified its recommendation in a manner adverse to Prudential. Prudential also may terminate the merger agreement if Polonia fails to substantially comply with its obligations with respect to consideration and action upon alternative acquisition proposals.

Polonia also may terminate the merger agreement (1) if Polonia has received an acquisition proposal that Polonia’s board of directors determines to be a “superior proposal” and Polonia’s board of directors has made a

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determination to accept such superior proposal or (2) if the average closing price of Prudential common stock over the prior 20 trading days is less than $11.89 during the three day period following the 10th calendar day immediately prior to the effective time of the merger and if Prudential's common stock underperforms the Nasdaq Bank Index by more than 20%, unless Prudential elects to make a compensating adjustment to the exchange ratio.

If the merger agreement is terminated, it will become void, and there will be no liability on the part of Prudential or Polonia, except that (1) in the event of willful breach of the merger agreement, the breaching party will remain liable for any damages, costs and expenses, including without limitation, reasonable attorneys' fees incurred by the non-breaching party in connection with the enforcement of its rights under the merger agreement, (2) designated provisions of the merger agreement, including the payment of fees and expenses and the confidential treatment of information, will survive the termination and (3) under certain circumstances, a termination of the merger agreement will obligate Polonia to pay Prudential a termination fee.

Termination Fee (page [•])

Polonia will be obligated to pay Prudential a termination fee of $1,515,000 under the following circumstances:

- if the merger agreement is terminated by Prudential because Polonia has received a "superior proposal" and Polonia's board of directors has entered into an acquisition agreement with respect to the superior proposal;
- if the merger agreement is terminated by Polonia because Polonia has received a "superior proposal" and Polonia's board of directors has made a determination to accept the superior proposal; or
- if Polonia enters into a definitive agreement relating to an acquisition proposal within 12 months after the occurrence of any of the following: the termination of the merger agreement by Prudential due to Polonia's willful breach, subject to the materiality standards provided in the merger agreement, of its representations, warranties, covenants or agreements under the merger agreement.

Regulatory Approvals Required for the Merger (page [•])

Each of Prudential and Polonia has agreed to cooperate with the other and use all reasonable efforts to obtain all regulatory approvals required to complete the transactions contemplated by the merger agreement, including the

merger and the bank merger. These approvals include approval from the Board of Governors of the Federal Reserve System, which we refer to as the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking and Securities. Prudential and Polonia have completed the filing of applications and notifications to obtain the required regulatory approvals. The required approvals from the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking and Securities have been received.

Litigation Relating to the Merger (page [•])

Polonia and Polonia's directors are named as defendants in two lawsuits that are pending in connection with the merger. Prudential is also named as a defendant in one of these lawsuits. See "The Merger—Litigation" beginning on page **[•]** for more information.

Risk Factors (page [•])

You should consider all the information contained in or incorporated by reference into this proxy statement in deciding how to vote for the proposals presented in this proxy statement. In particular, you should consider the factors described under "Risk Factors."

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COMPARATIVE HISTORICAL AND PRO FORMA PER SHARE DATA

Presented below for Prudential and Polonia are comparative historical and unaudited pro forma equivalent per share financial data as of and for the year ended September 30, 2015, and as of and for the nine months ended June 30, 2016. The information presented below should be read together with the historical consolidated financial statements of Prudential and Polonia, including the related notes. The information in the table is based on, and should be read together with, the historical financial information that Prudential has presented in its filings with the SEC and the historical financial information that Polonia has presented in its financial statements included in this proxy statement beginning at page F-1. See the section entitled “Where You Can Find More Information” beginning on page **[•]**.

The unaudited pro forma information gives effect to the merger as if the merger had been effective on September 30, 2015 or June 30, 2016 in the case of the book value data, and as if the merger had been effective as of October 1, 2015 or October 1, 2014 in the case of the earnings per share and the cash dividends data. The unaudited pro forma data combines the historical results of Polonia into Prudential’s consolidated financial statements. While certain adjustments were made for the estimated impact of fair value adjustments and other acquisition-related activity, they are not indicative of what could have occurred had the acquisition taken place on October 1, 2014 or October 1, 2015.

The unaudited pro forma adjustments are based upon available information and certain assumptions that Prudential and Polonia management believe are reasonable. The unaudited pro forma data, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the impact of factors that may result as a consequence of the merger or consider any potential impacts of current market conditions or the merger on revenues, expense efficiencies or asset dispositions, among other factors, nor the impact of possible business model changes. As a result, unaudited pro forma data are presented for illustrative purposes only and do not represent an attempt to predict or suggest future results. Upon completion of the merger, the operating results of Polonia will be reflected in the consolidated financial statements of Prudential on a prospective basis.

	Prudential Historical	Polonia Historical	Pro Forma Combined	Per Equivalent Polonia Share (3)
For nine months ended June 30, 2016:				
Earnings (Loss) Per Share (1)				
Basic earnings per share	$ 0.23	$ (0.24)	$ 0.04	$ 0.03
Diluted earnings per share	$ 0.23	$ (0.24)	$ 0.04	$ 0.03
Cash Dividends Per Share (2)	$ 0.09	$ -	$ 0.09	$ 0.07
Book Value per common share as of June 30, 2016	$ 14.03	$ 11.18	$ 13.74	$ 10.43

The pro forma combined book value per share of Prudential is based upon the pro forma combined common shareholders' equity for Prudential and Polonia divided by the total pro forma common shares of the combined entity and reflects Polonia shares at the exchange ratio of 0.7591.

	Prudential Historical	Polonia Historical	Pro Forma Combined	Per Equivalent Polonia Share (3)
For the year ended September 30, 2015:				
Earnings Per Share (1)				
Basic earnings per share	$ 0.27	$ 0.10	$ 0.28	$ 0.21
Diluted earnings per share	$ 0.26	$ 0.09	$ 0.28	$ 0.21
Cash Dividends Per Share (2)	$ 0.27	$ -	$ 0.27	$ 0.20
Book Value per common share as of September 30, 2015	$ 13.85	$ 11.19	$ 13.28	$ 10.08

(1) Polonia's fiscal year ends on December 31. To calculate basic and diluted earnings per share for the nine months ended June 30, 2016, Polonia added the earnings per share for the quarter ended December 31, 2015 to the earnings per share for the six months ended June 30, 2016. To calculate earnings per share for the year ended September 30, 2015, Polonia subtracted the earnings per share for the quarter ended December 31, 2015 from the earnings per share for the year ended December 31, 2015 and added the earnings per share for the quarter ended December 31, 2014.

(2) Pro forma combined dividends are based on Prudential's historical amounts.

(3) Per equivalent Polonia share was computed by multiplying the pro forma combined amounts by the exchange ratio of 0.7591.

The pro forma combined book value per share of Prudential is based upon the pro forma combined common shareholders' equity for Prudential and Polonia divided by the total pro forma common shares of the combined entity and reflects Polonia shares at the exchange ratio of 0.7591.

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SELECTED FINANCIAL AND OTHER DATA OF PRUDENTIAL

The following summary presents selected consolidated financial data of Prudential as of and for the periods indicated. The financial data as of and for the years ended September 30, 2015, 2014, 2013, 2012 and 2011 has been derived from Prudential's audited financial statements contained in Annual Reports on Form 10-K that Prudential has previously filed with the SEC. The financial data as of and for the nine months ended June 30, 2016 and 2015 has been derived from Prudential's unaudited consolidated financial statements contained in Quarterly Reports on Form 10-Q that Prudential has previously filed with the SEC. The information as of and for the nine months ended June 30, 2016 and 2015 is unaudited and reflects only normal recurring adjustments that are, in the opinion of Prudential's management, necessary for a fair presentation of the result for the interim periods presented. The results of operations for the nine months ended June 30, 2016 are not necessarily indicative of the results to be achieved by Prudential for all of fiscal 2016 or for any other period.

	At June 30,	At September 30,				
	2016	2015	**2014**	2013	2012	**2011**
		(Dollars in Thousands)				
Selected Financial and Other Data:						
Total assets	$ 556,290	$487,189	$525,483	$607,897	$490,504	$499,537
Cash and cash equivalents	38,572	11,272	45,382	158,984	81,273	53,829
Investment and mortgage-backed securities:						
Held-to-maturity	15,488	66,384	80,840	83,732	63,110	108,956
Available-for-sale	138,683	77,483	57,817	41,781	65,975	75,370
Loans receivable, net	342,459	312,633	321,063	306,517	260,684	240,511
Deposits	386,640	365,074	391,025	542,748	425,602	436,014
FHLB advances	50,227	-	340	340	483	570
Non-performing loans	16,092	13,932	5,880	6,634	14,018	12,631
Non-performing assets	16,299	14,801	6,240	7,040	15,990	14,899
Total stockholders' equity, substantially restricted	113,066	117,001	129,425	59,912	59,831	57,452

	For the Nine Months Ended June 30,		**Year Ended September 30,**				
	2016	2015	**2015**	**2014**	**2013**	2012	**2011**
	(Dollars in Thousands, except per share data)						
Selected Operating Data:							
Total interest income	$12,896	$12,599	$16,680	$16,465	$16,773	$18,979	$21,685
Total interest expense	2,473	2,623	3,430	3,401	4,344	5,779	7,097
Net interest income	10,423	9,976	13,250	13,064	12,429	13,200	14,588

Provision (recovery) for loan losses	225	585	735	240	(500)	725	4,630
Net interest income after provision (recovery) for loan losses	10,198	9,391	12,515	12,824	12,929	12,475	9,958
Total non-interest income	883	2,783	3,008	1,111	1,774	3,068	938
Total non-interest expense	8,507	9,869	13,175	11,465	11,250	11,668	10,996
Income (loss) before income taxes	2,574	2,305	2,348	2,470	3,453	3,875	(100)
Income tax expense (benefit)	836	86	116	690	1,698	1,282	(212)
Net income	$1,738	$2,219	$2,232	$1,780	$1,755	$2,593	$112
Basic earnings per share	$0.23	$0.26	$0.27	$0.20	$0.19	$0.27	$0.01
Diluted earnings per share	$0.23	$0.26	$0.26	$0.19	$0.19	$0.27	$0.01
Dividends paid per common share	$0.09	$0.24	$0.27	$0.06	$0.00	0.00	$0.10
Selected Operating Ratios(1):							
Average yield earned on interest-earning assets	3.40 %	3.37 %	3.38 %	3.28 %	3.60 %	3.96 %	4.42 %
Average rate paid on interest-bearing liabilities	0.81	0.91	0.90	0.89	1.04	1.33	1.58
Average interest rate spread(2)	2.59	2.46	2.49	2.39	2.56	2.63	2.84
Net interest margin(2)	2.74	2.67	2.69	2.61	2.67	2.76	2.97
Average interest-earning assets to average interest-bearing liabilities	124.74	128.93	128.72	130.51	111.15	110.29	109.41
Net interest income after provision for loan losses to non-interest expense	119.88	95.16	94.99	111.85	114.92	106.92	90.55
Total non-interest expense to total average assets	2.15	2.46	2.56	2.21	2.25	2.33	2.15
Efficiency ratio(3)	75.24	77.35	81.04	80.88	79.21	71.72	70.83
Return on average assets	0.44	0.88	0.43	0.34	0.35	0.52	0.02
Return on average equity	2.00	3.36	1.77	1.38	3.00	4.43	0.20
Average equity to average total assets	21.94	24.60	24.39	24.79	12.20	11.71	10.90

(Footnotes on next page)

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	At or For the Nine Months Ended June 30,		At or For the Year Ended September 30,				
	2016	2015	2015	2014	2013	2012	2011
Asset Quality Ratios(4):							
Non-performing loans as a percent of total loans receivable(5)	4.70 %	4.87 %	4.46 %	1.83 %	2.16 %	5.38 %	5.25 %
Non-performing assets as a percent of total assets(5)	2.93	3.07	3.04	1.19	1.16	3.26	2.98
Allowance for loan losses as a percent of non-performing loans	21.31	17.30	21.03	41.24	35.47	13.42	26.63
Allowance for loan losses as a percent of total loans	0.95	0.83	0.93	0.75	0.77	0.71	1.63
Net charge-offs to average loans receivable	-0.03	0.21	0.07	0.05	-0.35	0.88	1.90
Capital Ratios(4)(6):							
Tier 1 leverage ratio							
Company	20.35 %	23.90 %	23.73 %	22.39 %	12.54 %	11.73 %	11.06 %
Bank	18.02	18.66	19.50	17.95	11.81	10.95	10.23
Tier 1 common risk-based capital ratio							
Company	40.53	52.64	50.63	N/A	N/A	N/A	N/A
Bank	35.98	41.11	41.66	N/A	N/A	N/A	N/A
Tier 1 risk-based capital ratio							
Company	40.20	52.92	50.63	57.21	26.69	27.51	25.54
Bank	35.60	41.40	41.65	40.52	25.15	25.69	23.62
Total risk-based capital ratio							
Company	41.40	54.14	51.98	58.28	27.72	28.39	26.79
Bank	36.85	42.62	43.00	41.59	26.18	26.57	24.87

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

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

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

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

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

(6) Prudential is not subject to the regulatory capital ratios imposed by Basel III on bank holding companies because Prudential was deemed to be a small bank holding company.

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SELECTED FINANCIAL AND OTHER DATA OF POLONIA

The following summary presents Selected Consolidated Financial Data of Polonia as of and for the periods indicated. The financial data as of and for the years ended December 31, 2015 and 2014 has been derived from Polonia's audited financial statements included in this proxy statement. The information as of and for the year ended December 31, 2013 is derived from Polonia's audited financial statements which are not included in this proxy statement. The financial data as of and for the six months ended June 30, 2016 and 2015 has been derived from Polonia's unaudited consolidated financial statements. The information at June 30, 2016 and for the six months ended June 30, 2016 and 2015 is unaudited and reflects only normal recurring adjustments that are, in the opinion of Polonia's management, necessary for a fair presentation of the result for the interim periods presented. The results of operations for the six months ended June 30, 2016 are not necessarily indicative of the results to be achieved by Polonia for all of 2016 or for any other period.

	At or For the Six Months Ended June 30,		At December 31,		
	2016	2015	2015	2014	2013
(In thousands, except per share data)					
Financial Condition Data:					
Total assets	$284,258	$291,454	$291,611	$308,350	$306,176
Loans receivable, net	168,175	173,638	160,493	197,679	182,050
Deposits	183,314	190,876	188,222	199,554	201,322
FHLB Advances – short-term	7,000	-	-	-	-
FHLB Advances – long-term	49,000	56,000	56,000	59,000	59,000
Stockholders' equity	37,434	39,023	37,501	36,940	38,417
Operating Data:					
Interest income	4,626	5,288	10,213	11,342	10,732
Interest expense	1,516	1,592	3,153	3,210	2,589
Net interest income	3,110	3,696	7,060	8,132	8,143
Provision for loan losses	-	73	73	210	574
Net interest income after provision for loan losses	3,110	3,623	6,987	7,922	7,569
Non-interest income	794	2,281	4,130	4,654	5,577
Non-interest expense	4,326	5,848	11,185	12,506	13,512
Income (loss) before income taxes	(422)	56	(68)	70	(366)
Provision (benefit) for income taxes	(130)	29	70	53	(120)
Net income (loss)	$(292)	$27	$(138)	$17	$(246)
Per common share:					
Book value	$11.18	$11.70	$11.20	$11.08	$10.94

Basic and diluted earnings (loss)	(0.09)	0.01	(0.04)	0.01	(0.07)

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(In thousands, except per share data)	**At or For the Six Months Ended June 30,** 2016	2015	At December 31, 2015	2014	2013
Performance Ratios (1):					
Return on average assets	(0.20)%	0.02 %	(0.05)%	0.01 %	0.09 %
Return on average equity	(1.52)	0.14	(0.35)	0.04	(0.60)
Net interest margin (2)	2.28	2.62	2.52	2.84	3.13
Asset Quality Ratios (3):					
Allowance for loan losses as a percent of total loans	0.79 %	0.78 %	0.79 %	0.71 %	0.75 %
Allowance for loan losses as a percent of non-performing loans	59.06	49.05	56.26	63.36	71.40
Non-performing loans as a percent of total loans	1.33	1.59	1.40	1.12	1.05

(1) Performance ratios for the six-month periods have been annualized.

(2) Represents net interest income as a percent of average interest-earning assets.

(3) Ratios exclude covered loans which are subject to loss sharing agreements entered into with the Federal Deposit Insurance Corporation.

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UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED FINANCIAL DATA

The Unaudited Pro Forma Combined Condensed Consolidated Financial Information has been prepared using the acquisition method of accounting, giving effect to the merger. The Unaudited Pro Forma Combined Condensed Consolidated Statement of Financial Condition combines the historical information of Prudential and of Polonia as of June 30, 2016 and assumes that the merger was completed on that date. The Unaudited Pro Forma Combined Condensed Consolidated Statement of Income combines the historical financial information of Prudential and of Polonia and give effect to the merger as if it had been completed as of the beginning of the periods presented. The Unaudited Pro Forma Combined Condensed Consolidated Financial Information is presented for illustrative purposes only and is not necessarily indicative of the results of income or financial condition had the merger been completed on the date described above, nor is it necessarily indicative of the results of income in future periods or the future financial condition and results of income of the combined entities. The financial information should be read in conjunction with the accompanying notes to the Unaudited Pro Forma Combined Condensed Consolidated Financial Information. Certain reclassifications have been made to Polonia historical financial information in order to conform to Prudential's presentation of financial information.

The proposed merger is targeted for completion at the end of the fourth quarter of 2016 or early in the first quarter of 2017. There can be no assurance that the merger will be completed as anticipated. For purposes of the Unaudited Pro Forma Combined Condensed Consolidated Financial Information, the fair value of Prudential's common stock to be issued in connection with the merger was based on Prudential's closing stock price of $14.10 as of June 30, 2016.

The Unaudited Pro Forma Combined Condensed Consolidated Financial Information includes estimated adjustments, including adjustments to record Polonia's assets and liabilities at their respective fair values, and represents Prudential's pro forma estimates based on available fair value information as of the date of the merger agreement. In some cases, where noted, more recent information has been used to support estimated adjustments in the pro forma financial information.

The pro forma adjustments are subject to change depending on changes in interest rates and the components of assets and liabilities and as additional information becomes available and additional analyses are performed. The final allocation of the purchase price for the merger will be determined after it is completed and after completion of thorough analyses to determine the fair value of Polonia's tangible and identifiable intangible assets and liabilities as of the date the merger is completed. Increases or decreases in the estimated fair values of the net assets as compared with the information shown in the Unaudited Pro Forma Combined Condensed Consolidated Financial Information may change the amount of the purchase price allocated to goodwill and other assets and liabilities and may impact Prudential's statement of income due to adjustments in yield and/or amortization of the adjusted assets or liabilities. Any changes to Polonia's stockholders' equity, including results of operations from June 30, 2016 through the date the merger is completed, will also change the purchase price allocation, which may include the recording of a lower or

higher amount of goodwill. The final adjustments may be materially different from the unaudited pro forma adjustments presented herein.

We anticipate that the merger will provide the combined company with financial benefits that include reduced operating expenses. The Unaudited Pro Forma Combined Condensed Consolidated Financial Information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the benefits of expected cost savings or opportunities to earn additional revenue and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had Prudential and Polonia been combined during these periods.

The Unaudited Pro Forma Combined Condensed Consolidated Financial Information has been derived from and should be read in conjunction with the historical consolidated financial statements and the related notes of Prudential, incorporated herein by reference and those of Polonia, which appear elsewhere in this document.

Polonia's fiscal year end is December 31 and Prudential's is September 30. In order to provide shareholders with comparable information, for purposes of the unaudited pro forma condensed combined statements of income, certain financial information for Polonia has been completed as if Polonia's year end is September 30. To calculate operating results for the nine months ended June 30, 2016, Polonia added the operating results for Polonia's quarter ended December 31, 2015 to the operating results for Polonia's six months ended June 30, 2016. To calculate operating results for the year ended September 30, 2015, Polonia subtracted the operating results for Polonia's quarter ended December 31, 2015 from the operating results for Polonia's year ended December 31, 2015 and added the operating results for Polonia's quarter ended December 31, 2014.

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COMBINED CONDENSED CONSOLIDATED PRO FORMA STATEMENT OF FINANCIAL CONDITION (Unaudited)

At June 30, 2016

(Dollars in Thousands, Except Per Share Data)

	Prudential	Polonia	Adjustments		Pro Forma
Assets					
Cash and cash equivalents	$ 38,572	$ 15,409	$ (19,163	)(1)	$ 34,818
Investments AFS	138,683	84,133	-		222,816
Investments HTM	15,488	-	-		15,488
Loans and Leases	345,728	169,420	(3,495	)(2)	511,653
Allowance for loan and lease losses	(3,269)	(1,245)	1,245	(3)	(3,269)
Net loans	342,459	168,175	(2,250	)	508,384
Premises and equipment	1,419	3,899	3,228	(4)	8,546
Accrued interest receivable	1,763	698	-		2,461
Deferred income taxes	476	2,112	2,042	(5)	4,630
Bank owned life insurance	12,973	4,245	-		17,218
Federal Home Loan Bank stock	2,387	3,515	-		5,902
Goodwill	-	-	1,421	(6)	1,421
Intangible assets	-	-	1,288	(7)	1,288
Other assets	2,070	2,072	-		4,142
Total assets	$ 556,290	$ 284,258	$ (13,434	)	$ 827,114
Liabilities					
Deposits:					
Non-interest-bearing	$ 2,832	$ 6,098	$ -		$ 8,930
Interest-bearing	383,808	172,216	1,191	(8)	562,215
Total deposits	386,640	183,314	1,191		571,145
FHLB advances	50,227	56,000	2,167	(9)	108,394
Other liabilities	6,357	7,510	5,466	(10)	19,333
Total liabilities	443,224	246,824	8,824		698,872
Stockholders' Equity					
Preferred stock	-	-	-		-
Common stock	113,066	37,434	(22,258	)(11)	128,242
Total stockholders' equity	113,066	37,434	(22,258	)	128,242
Total liabilities and stockholders' equity	$ 556,290	$ 284,258	$ (13,434	)	$ 827,114

Book value	$ 14.03	$11.18	$ 13.74
Tangible book value	$ 14.03	$11.18	$ 13.45

The accompanying notes are an integral part of these pro forma statements.

* Assumes that the merger was completed on June 30, 2016 utilizing the acquisition method of accounting. Estimated fair value adjustments for loans, investments securities, core deposit intangibles, deposits and borrowed funds were determined by information obtained from Polonia and Prudential. Actual fair value adjustments, where appropriate, will be determined by a third party specialist, engaged by Prudential, as of the merger completion date.

(1) The $19.2 million reflects the estimated payment of the cash portion of the merger consideration.

(2) The $(3.5) million purchase accounting adjustment decreases the carrying values of acquired loans to their fair market value. This adjustment is approximately (2.04)% of Polonia's loan portfolio. This pro forma presentation assumes an estimated fair value of projected cash flows valued at present value, including an additional liquidity premium, of approximately $(1.4) million, in addition to an estimated credit adjustment of $(2.1) million.

(3) In accordance with current purchase accounting guidance, Polonia's $1.2 million allowance for loan losses, which is equal to 0.73% of portfolio loans, has been eliminated.

(4) The $3.2 million purchase accounting adjustment on premises brings the carrying value of the premises Polonia owns to their estimated fair value.

(5) The $1.2 million increase in the deferred tax asset is associated with the fair value adjustments related to the acquired assets and liabilities, excluding goodwill. Also included is the tax impact of the post-closing costs paid by Prudential.

(Footnotes continued on following page)

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(6) Calculated to reflect the acquisition accounting adjustments related to the merger. The consideration paid to acquire Polonia consists of cash of $18.9 million and the issuance of 1,271,047 shares of Prudential common stock based upon the fixed exchange ratio of 0.7591 applied to 1,674,414 shares of the 3,348,827 shares of Polonia common stock outstanding. The value of Prudential common stock is based upon the closing stock price of $14.10 as of June 30, 2016 and the cash consideration is based on the $11.28 per share price.

Purchase Price	**(In Thousands)**
Value of Prudential common stock to be issued	$ 17,922
Cash consideration for Polonia common stock	18,887
Cash consideration for Polonia options	275
Purchase price as of June 30, 2016	$ 37,084
Polonia’s net assets:	
Polonia’s stockholders’ equity	37,434
Costs paid by Polonia prior to closing, net of taxes	(495)
Polonia’s stockholders’ equity, net of transaction costs	36,939
Fair value adjustments:	
Loans	(2,250)
Premises and equipment	3,228
Core deposit intangible	1,288
Interest-bearing deposits	(1,191)
FHLB advances	(2,167)
Tax effect of fair value adjustment	371
Capitalized costs	(555)
Total adjustments of net assets acquired	(1,276)
Fair value of assets acquired	35,663
Estimated goodwill	$ 1,421

(7) The $1.3 million adjustment is the estimated fair value of Polonia’s core deposit base, primarily non-interest-bearing checking accounts, and lower rates offered on savings and money market accounts and is amortized through the income statement over the estimated life of these deposit relationships.

(8) The $1.2 million purchase accounting adjustment on interest-bearing deposits, primarily certificates of deposit, adjusts their carrying value to estimated fair value. This adjustment will be amortized through the income statement as a reduction in interest expense over the estimated life of five years.

(9) The $2.2 million purchase accounting adjustment on Federal Home Loan Bank advances brings their carrying value to their estimated fair value. This adjustment will be amortized through the income statement as a reduction of interest expense over the estimated life of the Federal Home Loan Bank advances.

(10) Represents $5.5 million payable as a result of the merger, $4.8 million of such amount is related to Prudential’s obligations while the remaining $750,000 relates to Polonia’s obligations.

(11) Reflects elimination of Polonia’s equity accounts, the issuance of 1,271,047 shares of Prudential’s common stock and merger-related transaction costs, net of taxes calculated as follows:

	(In Thousands)
Value of common stock to be issued	$ 17,922
Polonia stockholders' equity	(36,939)
Prudential merger expenses	(3,241)
Total	$ (22,258)

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UNAUDITED COMBINED CONDENSED CONSOLIDATED PRO FORMA STATEMENT OF INCOME

(Unaudited)

For the Nine Months Ended June 30, 2016

(Dollars in Thousands, Except Per Share Data)

	Nine Months Ended June 30, 2016				
	Prudential	**Polonia**	**Adjustments(1)**		**Pro Forma**
Interest income:					
Interest on loans	$9,489	$5,822	$ 207	(2)	$15,518
Interest on mortgage-backed securities	1,868	619	-		2,487
Interest and dividends on investments	1,517	543	-		2,060
Interest on interest-bearing assets	22	15	-		37
Total interest income	12,896	6,999	207		20,102
Interest expense:					
Interest on deposits	2,177	1,215	(596	)(2)	2,797
Interest on borrowings	296	1,077	574	(2)	799
Total interest expense	2,473	2,292	(1,169	)	3,596
Net interest income	10,423	4,707	1,376		16,506
Provision for loan losses	225	-	-		225
Net interest income after provision for loan losses	10,198	4,707	1,376		16,281
Non-interest income:					
Fees and other service charges	371	72	-		443
Gain on sale of loans	2	88	-		90
Gain on sale of investment securities	161	641	-		802
Income from bank owned life insurance	251	(15)	-		236
Other	98	145	-		243
Total non-interest income	883	931	-		1,814
Non-interest expense:					
Salaries and employees benefits	5,071	3,003	-		8,074
Data processing	340	314	-		654
Professional services	750	559	-		1,309
Office occupancy	753	931	-		1,684

Directors compensation	351	75	-		426
Deposit insurance	306	381	-		687
Advertisings	55	23	-		78
Other	881	1,408	121	(3)	2,410
Total non-interest expense	8,507	6,694	121	(4)	15,322
Income (loss) before income taxes	2,574	(1,056)	1,255	(5)	2,773
Income taxes (benefit)	836	(294)	427		969
Net income (loss)	$1,738	$(762)	$ 828		$1,804
Earnings (loss) per share – basic	$0.23	$(0.24)			$0.21
Earnings (loss) per share – diluted	$0.23	$(0.23)			$0.20
Weighted average common shares outstanding:					
Basic	7,442,956	3,171,945			8,714,003
Diluted	7,653,081	3,348,827			9,016,771

The accompanying notes are an integral part of these pro forma statements.

(1) Assumes the merger with Polonia was completed at the beginning of the period presented or October 1, 2015.

(2) These pro forma acquisition adjustments reflect the amortization/accretion for the nine months ended June 30, 2016 of acquisition adjustments related to loans, deposits and borrowings utilizing the straight line method over the estimated life of the related assets or liabilities which are 5.0 years, 1.5 years and 2.8 years, respectively.

(Footnotes continued on following page)

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(3) Represents amortization of $1.3 million core deposit intangible on a straight line method over eight years.
(4) Prudential expects to incur approximately $3.1 million, on an after-tax basis, in total transaction costs as a result of the proposed merger. Non-interest expenses do not reflect anticipated costs savings or transaction expenses. A summary of Prudential's transaction expenses are as follows (in thousands):
(5) Reflects the tax impact of the pro forma acquisition adjustments at Prudential's statutory income tax rate of 34.0%.

	(In Thousands)
Professional fees	$ 555
Legal reserve	750
Other related expenses	1,655
Data processing termination and conversion costs	1,950
Estimated pre-tax transaction costs	4,910
Less related tax benefit	(1,669)
Estimated transaction costs, net of taxes	$ 3,241

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For the Year Ended September 30, 2015

(Dollars in Thousands, Except Per Share Data)

	Twelve Months Ended September 30, 2015				
	Prudential	**Polonia**	**Adjustments(1)**		**Pro Forma**
Interest income:					
Interest on Loans	$12,760	$9,003	$ 276	(2)	$22,039
Interest on mortgage-backed securities	1,799	1,248	-		3,047
Interest and dividends on investments	2,003	404	-		2,407
Interest on interest-bearing asset	118	30	-		148
Total interest income	16,680	10,685	276		27,641
Interest expense:					
Interest on deposits	3,430	1,722	(794	)(2)	4,358
Interest on borrowings	-	1,474	(765	)(2)	709
Total interest expense	3,430	3,196	(1,559	)	5,067
Net interest income	13,250	7,489	1,835		22,574
Provision for loan losses	735	184	-		919
Net interest income after provision for loan losses	12,515	7,305	1,835		21,655
Non-interest income:					
Fees and other service charges	368	108	-		476
Gain on sale of loans	138	3,481	-		3,619
Gain on sale of investment securities	-	560	-		560
Gain on sale of real estate	2,064	-	-		2,064
Income from bank owned life insurance	344	(8)	-		336
Other	94	1,084	-		1,178
Total non-interest income	3,008	5,225	-		8,233
Non-interest expense:					
Salaries and employees benefits	7,996	6,181	-		14,177
Data processing	413	513	-		926
Professional services	1,378	795	-		2,173
Office occupancy	701	1,333	-		2,034
Directors compensation	354	111	-		465
Deposit insurance	314	522	-		836
Advertisings	165	132	-		297

Other	1,854	2,421	161	(3)	4,436
Total non-interest expense	13,175	12,008	161	(4)	25,344
Income (loss) before income taxes	2,348	522	1,674		4,544
Income taxes	116	221	569	(5)	906
Net income	$2,232	$301	$ 1,105		$3,638
Earnings per share – basic	$0.27	$0.10			$0.38
Earnings per share – diluted	$0.26	$0.09			$0.40
Weighted average common shares outstanding:					
Basic	8,335,273	3,129,979			9,606,320
Diluted	8,450,090	3,348,827			9,016,771

The accompanying notes are an integral part of these pro forma statements.

(1) Assumes the merger with Polonia was completed at the beginning of the period presented or October 1, 2014.

(2) These pro forma acquisition adjustments reflect the amortization/accretion for the year ended September 30, 2015 of acquisition adjustments related to loans, deposits and borrowings utilizing the straight line method over the estimated life of the related assets or liabilities which are 5.0 years, 1.5 years and 2.8 years, respectively.

(Footnotes continued on following page)

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(3) Represents amortization of $1.3 million core deposit intangible on a straight line method over eight years.

(4) Prudential expects to incur approximately $3.1 million, on an after-tax basis, in total transaction costs as a result of the proposed merger. Non-interest expenses do not reflect anticipated costs savings or transaction expenses. A summary of Prudential's transaction expenses are as follows (in thousands):

(5) Reflects the tax impact of the pro forma acquisition adjustments at Prudential's statutory income tax rate of 34.0%.

	(In Thousands)
Professional fees	$ 555
Legal reserve	750
Other related expenses	1,655
Data processing termination and conversion costs	1,950
Estimated pre-tax transaction costs	4,910
Less related tax benefit	(1,669)
Estimated transaction costs, net of taxes	$ 3,241

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RISK FACTORS

In addition to general investment risks and the other information contained in or incorporated by reference into this proxy statement, including the matters addressed under the heading "Cautionary Statement Regarding Forward-Looking Statements," and the matters discussed under the caption "Risk Factors" in the Annual Report on From 10-K for the fiscal year ended September 30, 2015 filed by Prudential, you should carefully consider the following risk factors in deciding how to vote on the proposals presented in this proxy statement.

Risk Factors Related to the Merger

The market price of Prudential common stock following the completion of the merger may be affected by factors different from those currently affecting the shares of Prudential or Polonia.

Upon completion of the merger, holders of Polonia common stock will become holders of Prudential common stock. Prudential's business and operations differ in certain important respects from that of Polonia and, accordingly, the results of operations of the combined company and the market price of Prudential common stock following completion of the merger may be affected by factors different from those currently affecting the independent results of operations of each of Prudential and Polonia.

For a discussion of the business of Polonia, see "Information about Polonia Bancorp" beginning on page **[•]**. For a discussion of the business of Prudential and of certain factors to consider in connection with that business, see the documents incorporated by reference in this proxy statement and referred to under "Where You Can Find More Information" beginning on page **[•]**.

The opinion of Prudential's financial advisor will not reflect changes in circumstances between the signing of the merger agreement and the completion of the merger.

Prudential has not obtained an updated opinion as of the date of this proxy statement from its financial advisor. Changes in the operations and prospects of Prudential or Polonia, general market and economic conditions and other factors that may be beyond the control of Prudential or Polonia, including changes in factors on which the fairness opinion was based, may significantly alter the value of the companies or the share prices of Prudential common stock or Polonia common stock by the time the merger is completed. Sandler O'Neill's opinion does not speak as of the time the merger will be completed or as of any date other than the date of such opinion. Prudential's board of directors'

recommendation that Prudential shareholders vote “FOR” approval of the proposals relating to the issuance of the shares of Prudential common stock, however, is made as of the date of this proxy statement. Prudential does not currently anticipate asking its financial advisor to update its opinion.

Please see “The Merger – Opinion of Prudential’s Financial Advisor” beginning on page **[•]** for information regarding the opinion of Prudential’s financial advisor. Please see “The Merger – Background and Reasons for the Merger,” and “The Merger – Prudential’s Reasons for the Merger; Recommendation of the Board of Directors” beginning on page **[•]** and page **[•]**, respectively, for a discussion of additional factors considered by Prudential’s board of directors in determining to recommend that shareholders approve the proposal relating to the issuance of shares of Prudential common stock to Polonia shareholders in the merger.

Combining the two companies may be more difficult, costly or time-consuming than expected and the anticipated benefits and cost savings of the merger may not be realized.

Polonia has operated and, until the completion of the merger, will continue to operate, independently. The challenges involved in combining the operations of the two companies include, among other things, integrating personnel with diverse business backgrounds, combining different corporate cultures, and retaining key employees. It is possible that the integration process could result in the loss of key employees or disruption of each company’s ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect Prudential’s and Polonia’s ability to maintain relationships with customers and employees or to achieve the anticipated benefits of the merger. The integration of the two companies will likely require the experience and expertise of certain key employees of Polonia. Prudential may not be successful in retaining these employees for the time period necessary to successfully integrate Polonia’s operations with those of Prudential. In addition, as with any merger of banking

institutions, there also may be business disruptions that cause us to lose customers or cause customers to take their deposits out of Prudential Bank or Polonia Bank. The success of the combined company following the merger may depend in large part on the ability to integrate the two businesses, business models and cultures. Prudential may not be able to successfully achieve the level of cost savings, revenue enhancements, and other anticipated synergies, and may not be able to capitalize upon the existing customer relationships of Polonia to the extent anticipated, or it may take longer, or be more difficult or expensive than expected to achieve these goals. If Prudential is not able to integrate Polonia's operations successfully and in a timely manner, the expected benefits of the merger may not be realized, and this could have an adverse effect on Prudential's business, results of operation and stock price.

The merger agreement limits Polonia's ability to pursue alternatives to the merger.

The merger agreement includes provisions that limit Polonia's ability to pursue alternative proposals from third parties to acquire all or a significant part of Polonia. Subject to certain specified exceptions, these "no shop" provisions limit Polonia's ability to discuss, facilitate or commit to competing third-party acquisition proposals. In addition, a termination fee would be payable by Polonia to Prudential under certain circumstances, generally involving a determination by Polonia to pursue an alternative transaction. These provisions could discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of Polonia from considering or proposing an acquisition, even if it were prepared to pay consideration with a higher per share value than that proposed to be paid by Prudential to Polonia shareholders in the merger, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire Polonia than it might otherwise have proposed to pay.

If the conditions to the merger are not met or waived, the merger will not occur.

Specified conditions in the merger agreement must be satisfied or waived in order to complete the merger, including shareholder approval of the proposals being submitted to shareholders of Prudential at its special meeting. Prudential cannot assure you that each of the conditions will be satisfied or waived. If the conditions are not satisfied or waived, the merger will not occur or will be delayed, which could cause some or all of the intended benefits of the merger to be lost and could adversely affect the value of Prudential's shares.

The merger may be completed even though Prudential or Polonia experiences adverse changes in its business.

In general, either Prudential or Polonia may refuse to complete the merger if the other party suffers a material adverse effect on its business prior to the closing of the merger. However, certain types of changes or occurrences with respect to Prudential or Polonia would not prevent the merger from going forward, even if the change or occurrence would have adverse effects on Prudential or Polonia, including the following:

- changes in laws and regulations affecting banks or thrift institutions or their holding companies generally, or interpretations thereof by courts or governmental entities, if such changes do not have a disproportionate impact on the affected company;

- changes in GAAP or regulatory accounting principles generally applicable to financial institutions and their holding companies, if such changes do not have a disproportionate impact on the affected company;

- actions and omissions of Prudential or Polonia with the prior written consent of the other party;

- changes or effects from the announcement of the merger agreement and the transactions contemplated thereby, and compliance by the parties with the merger agreement on the business, financial condition or results of operations of the parties;

- changes in national or international political or social conditions including the engagement by the United States in hostilities, the occurrence of any military or terrorist attack upon or within the United States, or any of its territories, possessions or diplomatic or consular offices or upon any military installation, equipment or personnel of the United States, if such changes do not have a disproportionate impact on the affected company;

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- changes in economic, financial market, or geographic conditions in general, including changes in economic or financial markets or changes in interest rates; if such changes do not have a disproportionate impact on the affected company;

- any legal action asserted or other actions initiated by any Polonia or Prudential shareholder arising out of or related to the merger agreement; and

- any failure, in and of itself, of Prudential or Polonia to meet any internal projections, forecasts or revenue or earnings projections.

In addition, either Prudential or Polonia could waive the closing condition related to the occurrence of any material adverse effect on the other party and the merger would be completed even if a material adverse effect were to occur of a type that would otherwise allow a party to terminate the merger agreement or refuse to complete the merger.

If the merger is not consummated by February 28, 2017, either Prudential or Polonia may choose not to proceed with the merger.

Either Prudential or Polonia may terminate the merger agreement if the merger has not been completed by February 28, 2017, unless the failure of the merger to be completed has resulted from the material failure of the party seeking to terminate the merger agreement to perform its obligations.

The unaudited pro forma combined condensed consolidated financial information included in this document is preliminary and the actual financial condition and results of operations of Prudential following completion of the merger may differ materially.

The unaudited pro forma combined condensed consolidated financial information included in this document is presented for illustrative purposes only and are not necessarily indicative of what Prudential's actual financial condition or results of operations would have been had the merger been completed on the dates indicated. The unaudited pro forma combined condensed consolidated financial information reflects adjustments, which are based upon preliminary estimates, to record the Polonia identifiable assets acquired and liabilities assumed at fair value and the resulting goodwill recognized. The purchase price allocation reflected in this document is preliminary, and final allocation of the purchase price will be based upon the actual purchase price and the fair value of the assets and liabilities of Polonia as of the date of the completion of the merger. Accordingly, the final acquisition accounting adjustments may differ materially from the pro forma adjustments reflected in this document.

Please see “Unaudited Pro Forma Combined Condensed Consolidated Financial Data” beginning on page **[•]** for additional information regarding these financial statements.

The merger may fail to qualify as a tax-free reorganization under the Internal Revenue Code.

The merger of Polonia into Prudential has been structured to qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code. The closing of the merger is conditioned upon the receipt by each of Prudential and Polonia of an opinion of its respective tax advisor, each dated as of the effective date of the merger, substantially to the effect that, on the basis of facts, representations and assumptions set forth or referred to in that opinion (including factual representations contained in certificates of officers of Polonia and Prudential) which are consistent with the state of facts existing as of the effective date of the merger, the merger constitutes a reorganization under Section 368(a) of the Internal Revenue Code. The tax opinions to be delivered in connection with the merger will not be binding on the Internal Revenue Service, referred to as the IRS, or the courts, and neither Polonia nor Prudential intends to request a ruling from the IRS with respect to the United States federal income tax consequences of the merger. If the merger fails to qualify as a tax-free reorganization, a Polonia shareholder would likely recognize gain or loss on each share of Polonia exchanged for Prudential stock in the amount of the difference between the fair market value of the Prudential common stock and cash received by the Polonia shareholder in exchange and the shareholder’s basis in the Polonia shares surrendered.

In addition, the federal income tax consequences of the merger for Polonia shareholders will depend on the merger consideration received – cash, shares of Prudential common stock, or a combination thereof. In general, a

Polonia shareholder exchanging shares of Polonia common stock solely for cash will recognize gain or loss for federal income tax purposes in an amount equal to the difference between the cash received and such shareholder's adjusted tax basis in the shares of Polonia common stock. A Polonia shareholder exchanging shares of Polonia common stock solely for shares of Prudential common stock generally will not recognize any gain or loss for federal income tax purposes (except with respect to any cash received in lieu of a fractional share of Prudential common stock). A Polonia shareholder exchanging shares of Polonia common stock for a combination of cash and shares of Prudential common stock generally will not recognize loss but will recognize gain, equal to the lesser of (1) the excess, if any, of the sum of the cash received and the fair market value of the Prudential common stock received pursuant to the merger over that shareholder's adjusted tax basis in his or her shares of Polonia common stock surrendered, and (2) the amount of cash consideration received by that shareholder pursuant to the merger.

See "Material United States Federal Income Tax Consequences of the Merger" beginning on page **[•]** for a more detailed discussion of the federal income tax consequences of the transaction.

If the merger is not completed, Prudential and Polonia will have incurred substantial expenses without realizing the anticipated benefits of the merger.

Each of Prudential and Polonia has incurred and will incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the merger agreement, as well as the costs and expenses of filing, printing, and mailing this proxy statement, and all SEC filing fees and other fees payable in connection with the merger. The completion of the merger depends on the satisfaction of a variety of specified conditions, including the receipt of regulatory approvals and the approval of Polonia's shareholders of the proposals to be presented at Polonia's special meeting. Neither Prudential nor Polonia can guarantee that these conditions will be met. If the merger is not completed, Prudential and Polonia would have to recognize these expenses without realizing the expected benefits of the merger, and such expenses could have an adverse impact on Prudential's and/or Polonia's financial condition and results of operations on a stand-alone basis.

In connection with the announcement of the merger agreement, two lawsuits have been filed and are pending, seeking, among other things, to enjoin the merger, and an adverse judgment in either of these lawsuits may prevent the merger from becoming effective within the expected time frame (if at all).

A putative shareholder derivative and class action lawsuit, *Parshall v. Eugene Andruczyk et al.,* was filed in the Circuit Court for Montgomery County, Maryland, on July 21, 2016. The lawsuit names as defendants the directors of Polonia, Polonia and Prudential. The lawsuit alleges a breach of fiduciary duty by approving the merger agreement for inadequate merger consideration and the inclusion of preclusive deal protection measures in the merger agreement and that the registration statement as filed on July 22, 2016 failed to disclose material information related to the transaction. The lawsuit also alleges that Prudential aided and abetted the alleged breaches of fiduciary duty. A second

putative class action lawsuit, captioned *Baron v. Eugene Andruczyk et al.*, No. V424400, was filed in the Circuit Court for Montgomery County, Maryland on August 29, 2016. The lawsuit names as defendants the directors of Polonia and Polonia. The lawsuit alleges a breach of fiduciary duty by failing to disclose material information related to the transaction in the registration statement as filed on July 22, 2016. The relief sought in both lawsuits includes preliminary and permanent injunction against the consummation of the merger, rescission or rescissory damages if the merger is completed, costs and attorney's fees. The defendants vigorously deny the claims alleged by the plaintiffs in the two suits. On October 6, 2016, solely to avoid the costs of protracted litigation and any potential delay of the merger, Polonia, Prudential and the director defendants entered into a memorandum of understanding with the respective plaintiffs regarding the settlement of the two suits. Pursuant to the memorandum of understanding, Prudential and Polonia filed with the SEC and made publicly available to shareholders of Polonia the supplemental disclosures with regard to the litigation, Polonia agreed to waive the prohibition in the nondisclosure agreements entered into by Polonia with potential interested parties with respect to a party subject thereto being prohibited from asking Polonia to waive the standstill provisions that require such party to refrain from pursuing various actions that relate to acquisition of control of Polonia without the prior written consent of the Polonia board of directors during the specified time period, Prudential agreed to waive the enforcement of the provision in the merger agreement prohibiting Polonia from waiving the foregoing restriction contained in the nondisclosure agreements, and the parties have agreed to provide each other with customary mutual releases concerning the claims related to the merger agreement and the merger, including the initiation and the prosecution of any litigation, subject to approval of the Circuit Court. Additional suits arising out of or relating to the proposed transaction may be filed in the future. If additional similar complaints are filed, absent new or different allegations

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that are material, Polonia and Prudential will not necessarily announce such additional filings. See "The Merger—Litigation" on page **[•]**.

Risks Relating to Prudential's Business Following the Merger

Combining the two companies may be more difficult, costly or time-consuming than expected.

Prudential and Polonia have historically operated and, until the effective time of the merger, will continue to operate, independently. The success of the merger will depend, in part, on Prudential's ability to successfully combine the businesses of Prudential and Polonia. To realize these anticipated benefits, after the effective time of the merger, Prudential expects to integrate Polonia's business into its own. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company's ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the merger. The loss of key employees could adversely affect Prudential's ability to successfully conduct its business in the markets in which Polonia now operates, which could have an adverse effect on Prudential's financial results and the value of its common stock. If Prudential experiences difficulties with the integration process, the anticipated benefits of the merger may not be realized fully or at all, or may take longer to realize than expected. As with any merger of financial institutions, there also may be business disruptions that cause Polonia or Prudential to lose current customers or cause current customers to remove their accounts from Polonia or Prudential and move their business to competing financial institutions. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on each of Polonia and Prudential during this transition period and for an undetermined period after consummation of the merger.

Prudential may fail to realize the cost savings estimated for the merger.

Prudential estimates that it will achieve cost savings from the merger when the two companies have been fully integrated. While Prudential continues to be comfortable with these expectations as of the date of this proxy statement, it is possible that the estimates of the potential cost savings could turn out to be incorrect.

The actual integration may result in additional and unforeseen expenses, and the anticipated benefits of the integration plan may not be realized. Actual growth and cost savings, if achieved, may be lower than what Prudential expects and may take longer to achieve than anticipated. If Prudential is not able to adequately address integration challenges, Prudential may be unable to successfully integrate Prudential's and Polonia's operations or to realize the anticipated benefits of the integration of the two companies.

Risks Relating to Prudential’s Business

You should read and consider risk factors specific to Prudential’ business that will also affect the combined company after the merger. These risks are described in the section entitled “Risk Factors” in Prudential’s Annual Report on Form 10-K for the fiscal year ended September 30, 2015 and in other documents incorporated by reference into this proxy statement. See the section entitled “Where You Can Find More Information” beginning on page **[•]** for the location of information incorporated by reference into this proxy statement.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements contained in this proxy statement and the documents incorporated by reference herein constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, expectations or predictions of future financial or business performance, conditions relating to Prudential and Polonia, and the possible effects of the proposed merger of Prudential and Polonia. These forward-looking statements include statements with respect to Prudential's and Polonia's beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, that are subject to significant risks and uncertainties, and are subject to change based on various factors (some of which are beyond Prudential's and Polonia's control). The words "may," "could," "should," "would," "will," "believe," "anticipate," "estimate," "expect," "intend similar expressions are intended to identify forward-looking statements.

In addition to factors previously disclosed in the reports filed by Prudential with the SEC and those identified elsewhere in this proxy statement, the following factors, among others, could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements:

- the ability to obtain regulatory approvals and satisfy other closing conditions to the merger, including approval by shareholders of Prudential on the expected terms and schedule;
- delay in closing the merger;
- difficulties and delays in integrating the Polonia business or fully realizing anticipated cost savings and other benefits of the merger;
- business disruptions following the merger;
- revenues following the merger may be lower than expected;
- deposit attrition, operating costs, customer loss and business disruption following the merger, including, without limitation, difficulties in maintaining relationships with employees, may be greater than expected;
- the strength of the United States economy in general and the strength of the local economies in which Prudential and Polonia conduct their operations;

- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;
- the downgrade, and any future downgrades, in the credit rating of the U.S. Government and federal agencies;
- inflation, interest rate, market and monetary fluctuations;
- the timely development of and acceptance of new products and services and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;
- the willingness of users to substitute competitors' products and services for Prudential's products and services;
- the success of Prudential in gaining regulatory approval of its products and services, when required;
- the impact of changes in laws and regulations applicable to financial institutions (including laws concerning taxes, banking, securities and insurance);
- technological changes;

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- additional acquisitions;
- changes in consumer spending and saving habits;
- the nature, extent, and timing of governmental actions and reforms, including the implementation of Basel III, which may be changed unilaterally and retroactively by legislative or regulatory actions; and
- the success of Prudential at managing the risks involved in the foregoing.

Some of these risks and uncertainties are discussed herein, including under the heading “Risk Factors,” and in Prudential’s Form 10-K for the year ended September 30, 2015, as updated in subsequently filed Forms 10-Q and other reports filed by Prudential with the SEC from time to time.

All subsequent written and oral forward-looking statements concerning the proposed transaction or other matters and attributable to directors of Prudential or Polonia or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to within this proxy statement. Forward-looking statements speak only as of the date on which such statements are made. Prudential and Polonia undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this proxy statement or incorporated documents might not occur and you should not put undue reliance on any forward-looking statements.

Prudential cautions that the foregoing list of important factors is not exclusive. Readers are also cautioned not to place undue reliance on these forward-looking statements, which reflect Prudential’s and Polonia’s analysis only as of the date of this proxy statement.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OF PRUDENTIAL

The following table sets forth information as to the Prudential common stock beneficially owned, as of October 31, 2016, by (i) the only persons or entities, including any "group" as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), who or which was known to Prudential to be the beneficial owner of more than 5% of the issued and outstanding Prudential common stock, (ii) each director of Prudential, (iii) certain executive officers of Prudential and (iv) all directors and executive officers of Prudential as a group.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership as of October 31, 2016(1)(2)		Percent of Common Stock	
Prudential Savings Bank Employee Stock Ownership Plan 1834 West Oregon Avenue Philadelphia, Pennsylvania 19145	697,270	(3)	8.7	%
Firefly Value Partners, LP 601 West 26th Street Suite 1520 New York, New York 10001	475,250	(4)	5.9	%
Warren A. Mackey 40 Worth Street, 10th Floor New York, New York 10013	871,204	(5)	10.8	%
Maltese Capital Management LLC 150 East 52nd Street 30th Floor New York, New York 10022	440,178	(6)	5.5	%
Lawrence B. Seidman 100 Misty Lane, 1st Floor Parsippany, New Jersey 07054	672,800	(7)	8.4	%

Directors:				
Jerome R. Balka, Esq.	64,933	(8)(9)	*	
A. J. Fanelli	57,171	(8)(10)	*	
John C. Hosier	56,880	(8)(11)	*	
Bruce E. Miller	50,352	(8)	*	
Francis V. Mulcahy	61,031	(8)(12)	*	
Dennis Pollack	34,936	(8)(13)	*	
Certain Executive Officers				
Anthony V. Migliorino	10,246	(8)(14)	*	
Jack E. Rothkopf	57,414	(8)(15)	*	
Jeffrey T. Hanuscin	18,795	(8)(16)	*	
All Directors and Executive Officers as a group (9 persons)	411,758	(8)	5.0	%

* Represents less than one percent of Prudential's outstanding common stock.

(1) Based upon filings made pursuant to the Securities Exchange Act of 1934 and information furnished by the respective individuals. In addition, due to share repurchases by the Company, the ownership percentages reflected in the filings may differ from the percentages reflected in the table above. Furthermore, share ownership reflected on Schedules 13D and 13G may differ from what is actually held by the reporting persons as of October 31, 2016 due to changes in ownership which were not required to be reported prior to such date. Under regulations promulgated pursuant to the Securities Exchange Act of 1934, shares of common stock are deemed to be beneficially owned by a person if he or she directly or indirectly has or shares (i) voting power, which includes the power to vote or to direct the voting of the shares, or (ii) investment power, which includes the power to dispose or to direct the disposition of the shares. Unless otherwise indicated, the named beneficial owner has sole voting and dispositive power with respect to the shares.

(Footnotes continued on following page)

(2) Each beneficial owner's percentage ownership is determined by assuming that options held by such person (but not those held by any other person) and that are exercisable within 60 days of October 31, 2016 have been exercised.

(3) As of October 31, 2016, 243,734 shares held in the Prudential Savings Bank Employee Stock Ownership Plan trust had been allocated to the accounts of participating employees. Shares beneficially owned by the plan trustees, Messrs. Fanelli, Hosier and Mulcahy, do not include shares held in the trust. Under the terms of the plan, the trustees vote all allocated shares in accordance with the instructions of the participating employees. Any unallocated shares are generally required to be voted by the plan trustees in the same ratio on any matter as to those shares for which instructions are given by the participants.

(4) Based on a Schedule 13G/A filed with the Securities and Exchange Commission on February 16, 2016 by Firefly Value Partners, LP ("Firefly Partners"), FBP GP, LLC ("FVPGP"), Firefly Management Company GP, LLC ("Firefly Management"), FVP Master Fund, L.P. ("FVP MasterFund"), Ryan Heslop and Ariel Warszawski. Firefly Partners is the investment manager of FVP Master Fund; FVP GP serves as the general partner of FVP Master Fund; and Firefly Management serves as general partner of Firefly Partners. Messrs. Heslop and Warszawski are the managing members of FVP GP and Firefly Management. FVP Master Fund directly owns the shares set forth in the Schedule 13G/A. Messrs. Heslop and Warszawski, Firefly Partners, Firefly Management and FVP GP may be deemed to share with FVP Master Fund both voting and dispositive power with respect to such shares.

(5) Based on a Schedule 13D/A filed with the Securities and Exchange Commission on February 12, 2014 by Warren A. Mackey, Homestead Partners LP, a Delaware limited partnership, Arles Partners LP, a New York limited partnership, and Arles Advisors Inc., a New York corporation. Arles Advisors is the general partner of Homestead Partners and Arles Partners. The sole shareholder, director and executive officer of Arles Advisors is Warren A. Mackey. By virtue of his position with Arles Advisors, Mr. Mackey has the shared investment discretion and voting authority with respect to the 838,676 shares owned by Homestead Partners and Arles Partners. Arles Advisors, as general partner of Homestead Partners and Arles Partners, may be deemed to beneficially own the 838,976 shares owned by these partnerships. Mr. Mackey individually has the sole investment discretion and voting authority with respect to the 32,228 shares held for himself.

(6) Based on a Schedule 13G/A filed with the Securities and Exchange Commission on February 10, 2016 by Maltese Capital Management LLC ("Maltese Capital") and Terry Maltese, the managing member of Maltese Capital. Maltese Capital and Mr. Maltese may be deemed to share both voting and dispositive power with respect to the shares reported in the Schedule 13G.

(7) Based on a Schedule 13D/A filed on August 17, 2015 by Lawrence B. Seidman, Seidman and Associates L.L.C. ("SAL"), Seidman Investment Partnership, L.P. ("SIP"), Seidman Investment Partnership II, L.P. ("SIPII"), Seidman Investment Partnership III, L.P. ("SIPIII"), LSBK06-08 ("LSBK"), Broad Park Investors ("Broad Park"), CBPS, L.L.C. ("CBPS"), JRBC I, LLC ("JRBC"), 2514 Multi-Strategy Fund, L.P. ("2514 MSF"), Veteri Place Corporation ("Veteri"), Sonia Seidman and Dennis Pollack (collectively, the "Seidman Group") as well as a Form 4 filed by Mr. Pollack on June 3, 2015. Mr. Seidman (i) as the manager of SAL, may be deemed the beneficial owner of the 139,347 shares owned by SAL, (ii) as the sole officer of Veteri, the corporate general partner of each of SIP and SIPII, may be deemed the beneficial owner of the 93,972 shares owned by SIP and the 130,619 shares owned by SIPII, (iii) as the

managing member of JBRC I, LLC, the co-general partner of SIPIII, may be deemed the beneficial owner of the 18,000 shares owned by SIPIII, (iv) as the sole officer of Veteri, the Trading Advisor of LSBK and CBPS, may be deemed the beneficial owner of the 59,426 shares owned by LSBK and the 70,000 shares owned by CBPS, (v) as the investment manager for each of Broad Park and 2514 MSF, may be deemed the beneficial owner of the 87,800 shares owned by Broad Park and the 27,000 shares owned by 2514 MSF, and (vi) as the husband of Sonia Seidman, may be deemed the beneficial owner of the 46,636 shares owned by Sonia Seidman. Accordingly, Seidman may be deemed the beneficial owner of an aggregate of 672,800 shares. In the foregoing capacities, Seidman has sole and exclusive investment discretion and voting authority with respect to all such shares. Mr. Pollack individually has the sole investment discretion and voting authority with regard to the 34,936 shares beneficially owned thereby included in the amount shown in the table.

(Footnotes continued on following page)

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(8) Includes shares held in trust by Prudential's 2008 RRP or granted pursuant to the 2014 SIP which have been awarded to the directors and officers and stock options which have been granted to the directors and officers under Prudential's 2008 SOP or under the 2014 SIP and which are exercisable within 60 days of October 31, 2016 as follows:

Name	Restricted Stock	Stock Options
Jerome R. Balka, Esq.	8,000	28,690
A.J. Fanelli	8,000	32,690
John C. Hosier	10,135	30,021
Bruce E. Miller	10,137	24,683
Francis V. Mulcahy	8,000	32,690
Dennis Pollack	8,500	6,000
Anthony V. Migliorino	7,500	-
Jack E. Rothkopf	16,103	33,403
Jeffrey T. Hanuscin	6,593	8,032
All directors and executive officers as a group (19 persons)	84,968	174,264

(9) Includes 4,721 shares held in Mr. Balka's individual retirement account, 14,375 shares held jointly with Mr. Balka's spouse, 1,888 shares held in Mr. Balka's 401(k) Plan and 66 shares held by the estate of Helen Klara for whom Mr. Balka is guardian. Also includes 4,721 shares held by the Balka Grandchildren Trust and 472 shares held by the Danielle Thomas Revocable Trust, over which Mr. Balka disclaims beneficial ownership.

(10) Includes 3,304 shares held jointly with Mr. Fanelli's spouse.

(11) Includes 6,018 shares held in Mr. Hosier's account in his 401(k) plan.

(12) Includes 2,000 shares held jointly with Mr. Mulcahy's spouse and 2,832 shares held directly by Mr. Mulcahy's spouse.

(13) Includes 19,588 shares held in Mr. Pollack's individual retirement account. Mr. Pollack disclaims beneficial ownership of all of the shares owned by the Seidman Group excluding his shares.

(14) Includes 746 shares allocated to Mr. Migliorino in the Prudential Bank 401(k) Plan.

(15) Includes 7,908 shares allocated to Mr. Rothkopf's account in the Prudential Bank employee stock ownership plan, referred to as the ESOP over which Mr. Rothkopf has voting authority.

(16) Includes 908 and 2,042 shares allocated to Mr. Hanuscin in Prudential Bank 401(k) Plan and the ESOP, respectively, over which Mr. Hanuscin has voting power.

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prudential SPECIAL MEETING

This proxy statement is being mailed to each Prudential shareholder, on or about November __, 2016. Together with this proxy statement, Prudential shareholders are also receiving a notice of the special meeting of Prudential shareholders and a form of proxy that Prudential's board of directors is soliciting for use at the Prudential special meeting and at any adjournments or postponements thereof.

Date, Place and Time of the Meeting

The Prudential special meeting will be held on December __, 2016, at 11:00 a.m., Eastern time, at Prudential's main office located at 1834 West Oregon Avenue, Philadelphia, Pennsylvania.

Matters to Be Considered at Polonia Special Meeting

At the special meeting, Prudential shareholders will be asked to approve the issuance of shares of Prudential common stock to Polonia shareholders in connection with the merger and to approve a proposal to allow the Prudential special meeting to be adjourned, if necessary or appropriate, to permit the solicitation of additional proxies in favor of the issuance of the shares of Prudential common stock in connection with the merger. Prudential could use any adjournment or postponement of the special meeting for the purpose, among others, of allowing more time to solicit votes in favor of the proposal to issue shares of Prudential common stock to Polonia shareholders in the merger.

Recommendation of Prudential's Board of Directors

Prudential's board of directors has approved the issuance of the Prudential shares of common stock pursuant to the merger agreement and unanimously recommends that Prudential shareholders vote "FOR" approval and adoption of the proposal to issue shares of Prudential common stock to Prudential shareholders in the merger.

Prudential's board of directors also unanimously recommends that Prudential shareholders vote "FOR" approval of the proposal to allow the Prudential special meeting to be adjourned, if necessary or appropriate, to permit the solicitation of additional proxies in favor of approval and adoption of the merger agreement.

Record Date for Prudential Special Meeting

Prudential's board of directors has fixed the close of business on November __, 2016 as the record date for determining the Prudential shareholders entitled to receive notice of and to vote at the Prudential special meeting. Only Prudential shareholders of record as of the record date are entitled to vote at the Prudential special meeting. As of the record date, 8,045,544 shares of Prudential common stock were issued and outstanding and held by approximately ____ record holders. Prudential shareholders are entitled to one vote on each matter considered and voted on at the Prudential special meeting for each share of Prudential common stock held of record at the close of business on the record date.

Quorum; Vote Required

The presence, in person or by properly executed proxy, of the holders of a majority of the issued and outstanding shares of Prudential common stock entitled to vote at the Prudential special meeting is necessary to constitute a quorum at the Prudential special meeting. For purposes of determining the presence of a quorum, abstentions and broker non-votes will be counted as present for the purpose of determining whether a quorum is present.

Approval of the issuance of the shares of Prudential common stock in connection with the merger requires the affirmative vote of a majority of the votes cast by holders of Prudential common stock entitled to vote at the Prudential special meeting. Approval of the adjournment proposal also requires the affirmative vote of a majority of the votes cast by holders of Prudential common stock entitled to vote at the Prudential special meeting. A failure to

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vote by a Prudential shareholder entitled to vote, an abstention from voting or a broker non-vote will have no effect on the outcome of the vote to approve either proposal.

As of the record date for the Prudential special meeting, Prudential directors and executive officers beneficially owned approximately **237,494** shares (excluding shares that may be acquired upon the exercise of stock options), or **3.0**%, of the outstanding shares of Prudential common stock entitled to vote at the Prudential special meeting.

As of the record date for the Prudential special meeting, Polonia, its subsidiaries, and its directors and officers and their affiliates did not own or hold any shares of Prudential common stock (other than shares held as fiduciary, custodian or agent).

Solicitation of Proxies for Prudential Special Meeting

The expense of soliciting proxies for Prudential's special meeting will be paid by Prudential. Prudential's directors, officers and employees may also solicit proxies personally, by telephone, by e-mail and by facsimile. Such directors, officers and employees will not receive any additional compensation for such solicitation activities.

It is important that any shares of Prudential common stock you hold be represented at the Prudential special meeting. Whether or not you plan to attend the Prudential special meeting, Prudential's board of directors asks that all holders of Prudential common stock take the time to vote prior to the Prudential special meeting by completing, signing, dating and returning the enclosed proxy card as soon as possible in the enclosed postage-paid envelope, by calling the toll-free telephone number or by using the Internet as described in the instructions included with your proxy card. If you attend the Prudential special meeting and wish to vote in person, your proxy may be revoked at that time. Additional methods of revoking a proxy are described below.

Voting at Prudential Special Meeting

Prudential shareholders are entitled to one vote on each matter to be considered and voted on at the Prudential special meeting for each share of Prudential common stock held of record at the close of business on the record date for the Prudential special meeting.

Each copy of this proxy statement delivered to Prudential shareholders is accompanied by a form of proxy card with instructions for voting. If you hold stock in your name as a shareholder of record, you should complete, sign and return the proxy card accompanying this proxy statement, regardless of whether you plan to attend the Prudential special meeting. You may also vote your shares through the Internet or by telephone. Information and applicable deadlines for voting through the Internet or by telephone are set forth in the enclosed proxy card instructions. To ensure your representation at the special meeting, Prudential recommends that you vote by proxy even if you plan to attend the special meeting. You can always change your vote at the special meeting.

If you appropriately mark, sign and return the enclosed proxy in time to be voted at the Prudential special meeting, the shares represented by the proxy will be voted in accordance with your instructions marked on the proxy. Valid proxies delivered by Prudential shareholders that are executed but do not specify a vote on a particular matter will be voted "FOR" approval of the proposal to issue shares of Prudential common stock to Polonia shareholders in the merger and "FOR" the proposal to allow the adjournment of the Prudential special meeting, if necessary. No matters other than the matters described in this proxy statement are anticipated to be presented for action at the Prudential special meeting or at any adjournment or postponement of the Prudential special meeting. However, if other business properly comes before the Prudential special meeting, the persons named as proxies on the Prudential proxy card will, in their discretion, vote upon such matters in their best judgment.

If you hold your stock in "street name" through a bank, broker or nominee, you must direct your bank, broker or nominee how to vote in accordance with the instructions you have received from your bank, broker or nominee. Your broker, bank, or other nominee may allow you to deliver your voting instructions via the telephone or the Internet.

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Banks, brokers and other nominees are not allowed to exercise their voting discretion with respect to the approval of matters determined to be "non-routine," without specific instructions from the beneficial owner. If your broker, bank or other nominee holds your shares of Prudential common stock in "street name," your broker, bank or other nominee will only vote your shares of Prudential common stock if you provide instructions on how to vote by filling out the voter instruction form sent to you by your broker, bank or other nominee with this proxy statement. Prudential believes that neither of the proposals are routine matters and, as a result, if your bank, broker or other nominee has not received your voting instructions with respect to these proposals, your bank, broker or other nominee cannot vote your shares on these proposals.

Signing and returning the enclosed proxy will not affect a Prudential shareholder's right to attend the Prudential special meeting and vote in person. If you attend the Prudential special meeting and wish to vote in person, your proxy may be revoked at that time. Please note, however, that simply attending the Prudential special meeting will not revoke a previously-submitted proxy; you must cast a new vote at the Prudential special meeting in order to revoke your prior vote. If you are a Prudential shareholder whose shares are not registered in your own name, you will need to bring with you a proxy or letter from the bank, broker, nominee or other holder of record in order to vote in person at the Prudential special meeting.

Revocation of Proxies for Prudential Special Meeting

A Prudential shareholder who has submitted a proxy may revoke it at any time before its exercise at the Prudential special meeting by (i) giving written notice of revocation to Prudential's Corporate Secretary, (ii) properly submitting to Prudential a duly executed proxy bearing a later date, (iii) voting again by telephone or the Internet or (iv) attending the Prudential special meeting and voting in person. Please note, however, that simply attending the Prudential special meeting will not revoke a previously-submitted proxy; you must cast a new vote at the Prudential special meeting in order to revoke your prior vote. All written notices of revocation and other communications with respect to revocation of Prudential proxies should be addressed to Prudential as follows: Sharon M. Slater, Corporate Secretary, Prudential Bancorp, Inc., 1834 West Oregon Avenue, Philadelphia, Pennsylvania 19145.

PRUDENTIAL PROPOSALS

Approval of the Issuance of Shares of Prudential Common Stock Pursuant to the Merger Agreement

Prudential is asking its shareholders to approve the issuance shares of Prudential common stock to Polonia shareholder in the merger. Prudential shareholders should read this proxy statement carefully and in its entirety, including the Annexes, for more detailed information concerning the issuance of shares of Prudential common stock

in connection with the merger. A copy of the merger agreement is attached to this proxy statement as Annex A.

Prudential's board of directors unanimously recommends that Prudential shareholders vote "FOR" approval of the proposal to issue shares of Prudential common stock to Polonia shareholder in the merger.

Adjournment Proposal

The Prudential special meeting may be adjourned to another time or place, if necessary or appropriate, to permit further solicitation of proxies if necessary to obtain additional votes in favor of approval of the proposal to issue shares of Prudential common stock to Polonia shareholders in the merger.

If, at the Prudential special meeting, the number of shares of Prudential common stock present or represented and voting in favor of approval is insufficient to approve the proposal, Prudential intends to move to adjourn the Prudential special meeting in order to solicit additional proxies for the approval. In that event, Prudential will ask its shareholders to vote on the adjournment proposal, but not the proposal to issue shares of Prudential common stock to Polonia shareholders in the merger.

In this proposal, Prudential is asking its shareholders to authorize the persons named as proxies on the Prudential proxy card on a discretionary basis to vote in favor of adjourning the Prudential special meeting to

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another time and place for the purpose of soliciting additional proxies, including the solicitation of proxies from Prudential shareholders who have previously voted.

Prudential's board of directors unanimously recommends that Prudential shareholders vote "FOR" approval of adjournment, if necessary or appropriate, of the meeting to permit the solicitation of additional proxies in favor of approval of the proposal to issue shares of Prudential common stock to Polonia Shareholders in the merger.

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THE MERGER

Terms of the Merger

Each of the Prudential board of directors and the Polonia board of directors has approved and adopted the merger agreement, which provides for the merger of Polonia with and into Prudential and substantially simultaneously therewith, the merger of Polonia Bank with and into Prudential Bank.

If the merger is completed, Polonia shareholders will be entitled to elect to receive, for each share of Polonia common stock they own, subject to the election and adjustment procedures described in this proxy statement, either 0.7591 of a share of Prudential common stock or $11.28 in cash, subject to possible adjustment as more fully described herein. The election of shares of Prudential common stock or cash will be subject to proration such that 50% of the issued and outstanding shares of Polonia common stock will be exchanged for Prudential common stock and 50% will be exchanged for cash. If more Polonia shareholders make valid elections to receive either shares of Prudential common stock or cash than is available as either stock or cash consideration pursuant to the terms of the merger agreement, Polonia shareholders electing the over-subscribed form of merger consideration will receive a mixture of both stock and cash consideration in accordance with the proration procedures set forth in the merger agreement.

At the Prudential special meeting, Prudential shareholders will be asked to approve the issuance of the shares of Prudential common stock to Polonia's shareholders in the merger.

Background and Reasons for the Merger

Since completing its conversion from the mutual holding company form of organization to the stock holding company form of organization in November 2012, the management and board of directors of Polonia have regularly reviewed Polonia's strategic and financial prospects. The Polonia board of directors has considered the difficulty in profitably growing and operating a financial institution under current economic and competitive conditions, including the increased costs for technology and regulatory compliance, and has considered both internal growth strategies and strategic business combinations as means of achieving profitability and economies of scale.

Prudential has focused on building out its franchise and has considered doing so both organically as well through acquisitions. Prudential believes that shareholder value can be enhanced by, among other things, materially increasing its assets in order to achieve greater efficiencies and economies of scale. Prudential also has sought

opportunities to adjust the mix of earning assets to be more weighted towards loans, including commercial real estate loans, and less towards investment securities.

On September 15, 2015, the Polonia board of directors met with representatives of Polonia's legal counsel, Kilpatrick Townsend & Stockton LLP, which we refer to as Kilpatrick Townsend, and FinPro Capital Advisors, Inc., which we refer to as FinPro. The representative of Kilpatrick Townsend discussed the directors' fiduciary duties in connection with a possible business combination and the representatives of FinPro provided a strategic assessment of Polonia, identified potential strategies for growth and improving profitability, and provided an overview of Polonia's business, performance and valuation metrics. The board of directors considered potential acquisition targets identified by FinPro, but noted that Polonia would be unlikely to obtain regulatory approval for an acquisition while it remained under a formal written agreement with the Office of the Comptroller of the Currency, which we refer to as the OCC. FinPro presented an analysis of the potential acquisition value of Polonia, discussed different approaches to selecting a partner for a business combination and identified a list of institutions that were potential acquirors of Polonia.

On October 20, 2015, the Polonia board of directors met with representatives of Kilpatrick Townsend and FinPro to discuss potential partners for a business combination and the timing of such process. The Polonia directors considered contingencies that could be an impediment to a transaction, specifically pending litigation with a former employee who has asserted the right to additional compensation and potential liability for violations of the Real Estate Settlement Procedures Act. The Polonia directors also considered communications from investors who want to see Polonia pursue a business combination and the financial results and near term prospects for Polonia, which had been losing money on an operating basis. Upon consideration of these factors, the Polonia directors approved commencing a process to solicit interest in a business combination. FinPro discussed with the Polonia board of

directors the criteria used to develop a list of potential acquirers, which the directors found to be reasonable. Based on the discussion with directors, FinPro produced a list of 39 financial institutions to contact regarding a business combination with Polonia. The 39 financial institutions were selected based on likelihood of interest, financial capacity and perceived potential to obtain required regulatory approvals. This number was subsequently reduced to 38 after two institutions on the list announced that they were being acquired and Polonia added an additional institution.

On November 16, 2015, Polonia formally engaged FinPro.

In early December 2015, FinPro began contacting the 38 financial institutions on Polonia's behalf regarding a potential acquisition of Polonia. Of the 38 institutions contacted by FinPro, 19, including Prudential, executed nondisclosure agreements with customary and waivable standstill provisions and received a confidential information memorandum regarding the potential acquisition of Polonia. The standstill provisions obligated the potential bidder to refrain for a specified period of time from pursuing various actions that relate to acquisition of control of Polonia without the prior written consent of the Polonia board of directors, such as making proposals to acquire Polonia, buying shares of Polonia common stock, and commencing a proxy contest. The nondisclosure agreements also contain a provision stating that a potential bidder is not permitted to ask for a waiver of the standstill provision without the prior written consent of the Polonia board of directors. Thus, absent Polonia's decision to affirmatively waive the standstill provision of any nondisclosure agreement, none of the parties to the nondisclosure agreements could approach Polonia to request a waiver of the standstill agreement to present an offer to acquire Polonia in a consensual merger or other form that might constitute a superior proposal under the terms of the merger agreement with Prudential. Polonia had not waived any of standstill provisions prior to entering into as memorandum of understanding discussed herein under "The Merger-Litigation" on page **[•]**, as the merger agreement precludes Polonia from doing so. The merger agreement further requires Polonia to enforce any confidentiality agreement or standstill agreement to which Polonia is a party, even if the other party to such agreement intends to make a proposal that potentially could be deemed a "superior proposal" as defined in the merger agreement. Pursuant to the memorandum of understanding, Polonia agreed to waive the provisions of the nondisclosure agreement with regard to prohibiting a party to the nondisclosure agreements from asking Polonia to waive any of the standstill provisions. In addition, Prudential agreed in the memorandum of understanding that it will not enforce the prohibition contained in the merger agreement with respect to Polonia agreeing to waive the provision of the nondisclosure agreement noted above. Of these 19 institutions, seven, including Prudential, requested and received access to an electronic data room that contained non-public information, including information regarding Polonia's loans and deposits, credit quality, vendor contracts, and operating expenses.

Following Prudential's entry into the non-disclosure agreement and receipt of the Polonia confidential information memorandum, Prudential's management team met internally to discuss the information provided by Polonia and the potential acquisition opportunity. The management team's consensus was that Prudential should pursue the opportunity. Based on that discussion, Mr. Pollack contacted a representative of Sandler O'Neill to discuss Prudential engaging Sandler O'Neill to assist Prudential in pursuing a potential acquisition of Polonia. Members of Prudential's management team and Sandler O'Neill then held a series of meetings and discussions through mid-January 2016 to discuss the information provided by Polonia, the potential acquisition opportunity and related matters. During this time period Prudential prepared its preliminary non-binding indication of interest regarding a potential business combination transaction with Polonia. On January 20, 2016, at a regularly-scheduled meeting of Prudential's board of

directors, a representative of Sandler O'Neill made a presentation regarding the Polonia acquisition opportunity. Following the presentation, Prudential's board of directors discussed the Polonia acquisition opportunity and unanimously approved the submission of a preliminary non-binding indication of interest.

On January 22, 2016, Polonia received nonbinding indications of interest for the acquisition of Polonia from Prudential and one other financial institution (which we refer to as "Bank A"). Both Prudential and Bank A proposed to acquire Polonia in exchange for consideration consisting of a combination of cash and stock.

On January 26, 2016, the Polonia board of directors held a special meeting to review the two indications of interest that was attended by representatives of FinPro and Kilpatrick Townsend. The board of directors was informed that all of the other institutions that had received a confidential information memorandum and had been granted access to the electronic data room declined to submit a nonbinding indication of interest. A representative of FinPro provided an overview of the process conducted to date, discussed the value offered by Prudential and Bank A in relation to the value of Polonia under a discounted cash flow analysis, and presented background information on

Prudential and Bank A. The Polonia board of directors decided to invite both Prudential and Bank A to perform detailed due diligence.

Over the next several weeks, Polonia made available additional due diligence materials to Prudential and Bank A.

On February 11, 2016, representatives of Polonia met with several executives from Prudential and engaged in detailed discussions regarding various aspects of Polonia's business. On February 20 and 21, 2016, Prudential performed loan and credit due diligence and on February 27 and 28, 2016, Bank A performed loan and credit due diligence.

On February 29, 2016, Bank A informed Polonia that it was withdrawing from the process and would not pursue the acquisition of Polonia.

During this due diligence period, members of Prudential's management team and its financial advisor began preparation of an updated indication of interest as a result of the due diligence review that was conducted. On March 11, 2016, Prudential held a special meeting of its board of directors to discuss the terms of the proposed updated non-binding indication of interest with Sandler O'Neill, the results of the due diligence performed to date and related matters. The board of directors then unanimously approved the submission of the revised non-binding indication of interest.

On March 11, 2016, Prudential provided an updated nonbinding indication of interest letter for the acquisition of Polonia at $11.95 per share, subject to reduction if Polonia's stockholders' equity is lower than $39.5 million as of the closing date. Prudential proposed that the consideration be paid 50% in cash and 50% in shares of Prudential common stock, with Polonia shareholders receiving the opportunity to elect the form of consideration they wished to receive.

On March 15, 2016, the Polonia board of directors held a special meeting to review the updated nonbinding indication of interest letter from Prudential that was attended by representatives of FinPro and Kilpatrick Townsend. The Polonia board of directors determined to continue discussions with Prudential based on the terms proposed in Prudential's latest indication of interest letter and instructed FinPro to ask Prudential to increase the merger consideration.

FinPro informed the Polonia directors through a conference call on March 24, 2016 that Prudential declined to increase the merger consideration.

After Polonia filed its annual report on Form 10-K for the year ended December 31, 2015 on April 6, 2016, which reflected restatement of prior period financial statements that reduced stockholders' equity by $1.9 million, Prudential informed Polonia that it would adjust the merger consideration to $11.31 per share and that the merger consideration would be subject to downward adjustment if Polonia's adjusted stockholders' equity at the time of closing was less than $37.5 million (which was Polonia's shareholders' equity as of December 31, 2015).

In early April 2016, Prudential provided Polonia with non-public information regarding Prudential's operations, including information regarding Prudential's loans and credit quality. On April 8, 2016, Polonia conducted its on-site reverse due diligence of Prudential.

On May 5, 2016, Prudential and its legal advisor Silver, Freedman, Taff & Tiernan LLP, which we refer to as Silver Freedman, provided Polonia and Kilpatrick Townsend with an initial draft merger agreement for the proposed transaction. Over the course of the following weeks, Prudential and Polonia and their respective legal advisors exchanged drafts of the merger agreement and worked towards finalizing the terms of the transaction, including the amount of the merger consideration and the method for adjusting the merger consideration based on Polonia's stockholders' equity.

On May 9, 2016, Kilpatrick Townsend held a conference call with the Polonia directors during which Kilpatrick Townsend discussed the initial draft of the merger agreement with the Polonia directors.

At the regular meeting of the Polonia board of directors held on May 17, 2016, a representative of Kilpatrick Townsend reviewed with the Polonia directors the status of negotiations with respect to the merger agreement.

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On May 26, 2016, representatives of FinPro and Kilpatrick Townsend held a conference call with the Polonia directors during which they discussed the status of negotiations with respect to the merger agreement and FinPro presented summary pro forma financial information regarding the proposed transaction and an analysis of the value of the transaction based on a comparison to comparable transactions and a discounted cash flow analysis.

On May 31, 2016, Prudential and Polonia agreed to modify the price terms of the merger agreement so that the merger consideration would be $11.28 per share and would be subject to downward adjustment if Polonia's adjusted stockholders' equity at the time of closing was less than $37,401,000 (which was Polonia's stockholders' equity as of April 30, 2016). Polonia requested this change because the pricing formula originally presented in the merger agreement would have resulted in a price of $11.18 per share as of April 30, 2016.

On June 1, 2016, the Prudential board of directors met to consider the proposed merger, the definitive form of merger agreement between Prudential and Polonia and additional matters related thereto, and to receive reports from its legal and financial advisors regarding the transaction, including Sandler O'Neill's analysis of the fairness of the transaction to Prudential from a financial point of view. At the meeting, the directors discussed the final terms of the merger agreement with Sander O'Neill and Silver Freedman, Prudential's legal advisor. In addition, Sandler O'Neill, presented its financial analysis of the proposed transaction and delivered to the Prudential board of directors its oral opinion, which was subsequently confirmed in writing, that, as of the date of its opinion and based upon and subject to the limitations, qualifications, factors and assumptions set forth therein, the transaction was fair to Prudential from a financial point of view. Following the presentation and further discussion among the directors and the advisors, the board of directors of Prudential adopted and approved the merger agreement and the issuance of the shares of Prudential common stock to the Polonia shareholders in connection with the merger.

On June 2, 2016, the Polonia board of directors held a special meeting, together with representatives of FinPro and Kilpatrick Townsend, during which representatives of management, FinPro and Kilpatrick Townsend reviewed for the Polonia board of directors the final terms of the transaction documents. FinPro rendered its oral opinion, which was subsequently confirmed in writing, to the Polonia board of directors that, as of that date, and based upon and subject to the factors, assumptions and limitations set forth in its written opinion, the merger consideration was fair, from a financial point of view, to the holders of Polonia common stock. Following discussion and questions and answers, the Polonia board of directors determined that the merger agreement and the transactions contemplated thereby, including the merger, were in the best interest of Polonia and its shareholders and approved recommending that the Polonia shareholders approve the adoption of the merger agreement.

Following the meeting of the Polonia board of directors, in the afternoon of June 2, 2016, Prudential and Polonia executed the merger agreement and Prudential and Polonia executed the voting agreements entered into with the directors and certain executive officers of Polonia. Shortly thereafter, on June 2, 2016, Prudential and Polonia issued a joint press release announcing the execution of the merger agreement.

Prudential's Reasons for the Merger; Recommendation of Prudential's Board of Directors

Prudential believes that the acquisition of Polonia provides an excellent opportunity to increase the scale of its operations in the Philadelphia metropolitan area. In approving the merger agreement, Prudential's board of directors considered the following factors as generally supporting its decision to enter into the merger agreement:

- its understanding of Prudential's business, operations, financial condition, earnings and prospects and of Polonia's business, operations, financial condition, earnings and prospects, including each of Prudential's and Polonia's positions in the Philadelphia metropolitan area;
- its understanding of the current and prospective environment in which Prudential and Polonia operate, including regional and local economic conditions, the competitive environment for financial institutions generally and continuing consolidation in the financial services industry, and the future growth prospects for its market area to provide sustained business development opportunities;
- the complementary nature of the respective customer bases, products and skills of Prudential and Polonia that could result in opportunities to obtain synergies as products are distributed over a broader customer base;

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- the scale, scope, strength and diversity of operations, product lines and delivery systems that combining Prudential and Polonia could achieve;
- the increased credit capability achieved by combining Polonia with Prudential that would enhance competitive position in the markets in which Prudential currently operates;
- the review by Prudential's board of directors, with the assistance of Prudential's management and its financial advisor, of the structure and terms of the merger, including the exchange ratio;
- the likelihood that Prudential will obtain the regulatory approvals it needs to complete the merger; and
- the merger will result in a combined entity with assets in excess of approximately $825 million.

In the course of its deliberations, the Prudential board of directors also considered a number of potential risks and uncertainties concerning the merger, including, without limitation, the following material factors:

- the potential risks associated with achieving the anticipated benefits of the merger, including business synergies and cost savings;
- the possibility of encountering difficulties in successfully integrating Polonia's business, operations, and workforce with those of Prudential;
- the diversion of management attention and resources from the operation of Prudential's business towards the completion of the merger; and
- the regulatory and other approvals required in connection with the merger and the risk that such regulatory approvals will not be received in a timely manner or may impose unacceptable conditions.

The foregoing discussion of the information and factors considered by Prudential's board of directors is not intended to be exhaustive, but includes the material factors considered by the Prudential board of directors. The Prudential board of directors did not consider it practicable, and did not attempt, to quantify or otherwise assign relative weights to the specific factors it considered in reaching its determination. Prudential's board of directors viewed its position as being based on all of the information and the factors presented to and considered by it. In addition, individual directors may have given different weights to different information and factors.

For the reasons set forth above, the Prudential board of directors determined that the merger, the merger agreement and the transactions contemplated by the merger agreement, including the issuance of shares of Prudential common stock to holders of Polonia common stock in connection with the merger, are advisable and in the best interests of Prudential, and all the Prudential directors participating in the meeting at which the merger was considered and voted upon voted in favor of the adoption and approval of the merger agreement and the transactions contemplated by the merger agreement including the issuance of shares of Prudential common stock to Polonia shareholders in the merger.

It should be noted that the explanation of the Prudential board of directors' reasoning in this section and certain other information included in this section is forward-looking in nature, and therefore should be read in light of the factors discussed under the heading "Cautionary Statement Regarding Forward-Looking Statements."

Opinion of Prudential's Financial Advisor

By letter dated January 15, 2016, Prudential retained Sandler O'Neill to act as an independent financial advisor to the Prudential board of directors in connection with Prudential's consideration of a possible business combination. Sandler O'Neill is a nationally recognized investment banking firm whose principal business specialty is advising financial institutions. In the ordinary course of its investment banking business, Sandler O'Neill is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

Sandler O'Neill acted as financial advisor in connection with the proposed merger and participated in certain of the negotiations leading to the execution of the merger agreement. At the June 1, 2016 meeting at which the Prudential board of directors considered and discussed the terms of the merger agreement and the merger,

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Sandler O'Neill delivered to the Prudential board of directors its oral opinion, which was subsequently confirmed in writing, that, as of such date, the merger consideration was fair to Prudential from a financial point of view**. The full text of Sandler O'Neill's opinion is attached as Annex B to this proxy statement. The opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler O'Neill in rendering its opinion. The description of the opinion set forth below is qualified in its entirety by reference to the full text of the opinion. Holders of Prudential common stock are urged to read the entire opinion carefully in connection with their consideration of the merger agreement and the merger.**

Sandler O'Neill's opinion speaks only as of the date of the opinion. The opinion was directed to the Prudential board of directors in connection with its consideration of the merger agreement and the merger and is directed only to the fairness, from a financial point of view, of the merger consideration to Prudential. Sandler O'Neill's opinion does not constitute a recommendation to any holder of Prudential common stock as to how such holder of Prudential common stock should vote with respect to the proposal to approve the issuance of the shares of Prudential common stock to Polonia's shareholders in the merger or any other matter. It does not address the underlying business decision of Prudential to engage in the merger, the relative merits of the merger as compared to any other alternative business strategies that might exist for Prudential or the effect of any other transaction in which Prudential might engage. Sandler O'Neill did not express any opinion as to the fairness of the amount or nature of the compensation to be received in the merger by any Prudential or Polonia officer, director, or employee, or class of such persons, if any, relative to the amount of any compensation to be received by any other shareholder. Sandler O'Neill's opinion was approved by Sandler O'Neill's fairness opinion committee.

In connection with rendering its opinion, Sandler O'Neill reviewed and considered, among other things:

- a draft of the merger agreement, dated May 31, 2016;
- certain publicly available financial statements and other historical financial information of Prudential and its wholly-owned subsidiary, Prudential Savings Bank, that Sandler O'Neill deemed relevant;
- certain publicly available financial statements and other historical financial information of Polonia and its wholly-owned subsidiary, Polonia Bank, that Sandler O'Neill deemed relevant;
- internal financial projections for Prudential for the years ending December 31, 2016 through December 31, 2020, as provided by the senior management of Prudential;
- financial projections for Polonia for the years ending December 31, 2016 through December 31, 2020, as provided by the senior management of Prudential;

- the pro forma financial impact of the merger on Prudential based on assumptions relating to transaction expenses, purchase accounting adjustments, cost savings, a core deposit intangible asset as well as share repurchase assumptions for the years ending December 31, 2016 through December 31, 2020, as provided by the senior management of Prudential;

- the publicly reported historical price and trading activity for Prudential and Polonia common stock, including a comparison of certain stock market information for Prudential and Polonia common stock and certain stock indices as well as similar publicly available information for certain other similar companies, the securities of which are publicly traded;

- a comparison of certain financial information for Prudential and Polonia with similar institutions for which publicly available information is available;

- the financial terms of certain recent business combinations in the bank and thrift industry (on a regional and nationwide basis), to the extent publicly available;

- the current market environment generally and the banking environment in particular; and

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- such other information, financial studies, analyses and investigations and financial, economic and market criteria as Sandler O'Neill considered relevant.

Sandler O'Neill also discussed with certain members of the senior management of Prudential the business, financial condition, results of operations and prospects of Prudential and held similar discussions with certain members of the senior management of Polonia regarding the business, financial condition, results of operations and prospects of Polonia.

In performing its review, Sandler O'Neill relied upon the accuracy and completeness of all of the financial and other information that was available to and reviewed by it from public sources, that was provided to it by Prudential or Polonia, or their respective representatives, or that was otherwise reviewed by it and Sandler O'Neill assumed such accuracy and completeness for purposes of rendering this opinion without any independent verification or investigation. Sandler O'Neill further relied on the assurances of the respective managements of Prudential and Polonia that they were not aware of any facts or circumstances that would make any of such information inaccurate or misleading. Sandler O'Neill was not asked to and has not undertaken an independent verification of any of such information and it does not assume any responsibility or liability for the accuracy or completeness thereof. Sandler O'Neill did not make an independent evaluation or perform an appraisal of the specific assets, the collateral securing assets or the liabilities (contingent or otherwise) of Prudential or Polonia, or any of their respective subsidiaries, nor has Sandler O'Neill been furnished with any such evaluations or appraisals. Sandler O'Neill rendered no opinion or evaluation on the collectability of any assets or the future performance of any loans of Prudential or Polonia or any of their respective subsidiaries. Sandler O'Neill did not make an independent evaluation of the adequacy of the allowance for loan losses of Prudential or Polonia, or the combined entity after the merger, and Sandler O'Neill did not review any individual credit files relating to Prudential or Polonia. Sandler O'Neill assumed, with Prudential's consent, that the respective allowances for loan losses for both Prudential and Polonia were adequate to cover such losses and will be adequate on a pro forma basis for the combined entity.

In preparing its analyses, Sandler O'Neill used internal financial projections for Prudential for the years ending December 31, 2016 through December 31, 2020, as provided by the senior management of Prudential, as well as financial projections for Polonia for the years ending December 31, 2016 through December 31, 2020, as provided by the senior management of Prudential. Sandler O'Neill also received and used in its pro forma analyses certain assumptions relating to transaction expenses, purchase accounting adjustments, cost savings, a core deposit intangible asset as well as share repurchase assumptions for the years ending December 31, 2016 through December 31, 2020, as provided by the senior management of Prudential. With respect to the foregoing information, the senior management of Prudential confirmed to us that such information reflected the best currently available projections, estimates and judgments of the senior management of Prudential and Sandler O'Neill assumed that the financial results reflected in such information would be achieved. Sandler O'Neill expressed no opinion as to such projections, estimates or judgments, or the assumptions on which they are based. Sandler O'Neill also assumed that there have been no material change in Prudential's or Polonia's (or any of their respective subsidiaries') assets, financial condition, results of operations, business or prospects since the date of the most recent financial statements made available to it. Sandler O'Neill assumed in all respects material to its analysis that Prudential and Polonia will remain as going concerns for all periods relevant to its analyses.

Sandler O'Neill also assumed, with Prudential's consent, that (i) each of the parties to the Agreement will comply in all material respects with all material terms and conditions of the Agreement and all related agreements, that all of the representations and warranties contained in such agreements are true and correct in all material respects, that each of the parties to such agreements will perform in all material respects all of the covenants and other obligations required to be performed by such party under such agreements and that the conditions precedent in such agreements are not and will not be waived, (ii) in the course of obtaining the necessary regulatory or third party approvals, consents and releases with respect to the merger, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on Prudential, Polonia or the merger or any related transaction, (iii) the merger and any related transactions will be consummated in accordance with the terms of the merger agreement without any waiver, modification or amendment of any material term, condition or agreement thereof and in compliance with all applicable laws and other requirements, (iv) the merger will be consummated without Polonia's rights under Section 11.1.7 of the Agreement having been triggered, and (v) the merger will qualify as a tax-free reorganization for federal income tax purposes. Finally, with Prudential's consent, Sandler O'Neill relied upon the

advice that Prudential has received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the merger and the other transactions contemplated by the merger agreement.

Sandler O'Neill's opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to it as of, the date hereof. Events occurring after the date hereof could materially affect this opinion. Sandler O'Neill has not undertaken to update, revise, reaffirm or withdraw this opinion or otherwise comment upon events occurring after the date hereof. Sandler O'Neill expressed no opinion as to the trading values of Prudential common stock or Polonia common stock at any time or what the value of Prudential common stock will be once it is actually received by the holders of Polonia common stock.

In rendering its opinion, Sandler O'Neill performed a variety of financial analyses. The summary below is not a complete description of all of the analyses underlying Sandler O'Neill's opinion or the presentation made by Sandler O'Neill to the Prudential board of directors, but is a summary of the material analyses performed and presented by Sandler O'Neill. The summary includes information presented in tabular format. **In order to fully understand the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses.** The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. Sandler O'Neill believes that its analyses must be considered as a whole and that selecting portions of the factors and analyses to be considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in Sandler O'Neill's comparative analyses described below is identical to Prudential or Polonia and no transaction is identical to the merger. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or merger transaction values, as the case may be, of Prudential and Polonia and the companies to which they are being compared. In arriving at its opinion, Sandler O'Neill did not attribute any particular weight to any analysis or factor that it considered. Rather, Sandler O'Neill made qualitative judgments as to the significance and relevance of each analysis and factor. Sandler O'Neill did not form an opinion as to whether any individual analysis or factor (positive or negative) considered in isolation supported or failed to support its opinion, rather, Sandler O'Neill made its determination as to the fairness of the merger consideration on the basis of its experience and professional judgment after considering the results of all its analyses taken as a whole.

In performing its analyses, Sandler O'Neill also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which cannot be predicted and are beyond the control of Prudential, Polonia and Sandler O'Neill. The analyses performed by Sandler O'Neill were not necessarily indicative of actual values or future results, both of which may be significantly more or less favorable than suggested by such analyses. Sandler O'Neill prepared its analyses solely for purposes of rendering its opinion and provided such analyses to the Prudential board of directors at its June 1, 2016 meeting. Estimates on the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty and actual values may be materially different. Accordingly,

Sandler O'Neill's analyses do not necessarily reflect the value of Prudential common stock or the prices at which Prudential or Polonia common stock may be sold at any time. The analyses of Sandler O'Neill and its opinion were among a number of factors taken into consideration by the Prudential board of directors in making its determination to adopt the merger agreement and authorize and approve the merger and the issuance of the shares of Prudential common stock in the merger and the analyses described below should not be viewed as determinative of the decision of the Prudential board of directors or management with respect to the fairness of the merger.

Summary of Proposed Merger Consideration and Implied Transaction Metrics. Sandler O'Neill reviewed the financial terms of the merger. Pursuant to the terms of the merger agreement, upon the effective time of the merger, each share of Polonia common stock, $0.01 par value per share, except for certain shares of Polonia common stock as specified in the merger agreement, shall be converted into the right to receive, at the election of the holder thereof and subject to the adjustments and procedures set forth in the merger agreement, either (a) $11.28 in cash, without interest, or (b) 0.7591 shares of Prudential common stock, par value $0.01 per share. Based upon Prudential's 20 consecutive trading day closing price average of $14.86 as of June 1, 2016, Sandler O'Neill

calculated an aggregate implied transaction value of approximately $38.1 million, or $11.28 per share. The aggregate implied transaction value was calculated assuming, at the direction of the senior managements of Prudential and Polonia, 3,348,827 outstanding shares of Polonia common stock and 140,454 in-the-money options outstanding with a weighted average exercise price of $9.32 as of June 1, 2016. Based upon financial information for Polonia as of or for the period ending March 31, 2016 (unless otherwise indicated), Sandler O'Neill calculated the following implied transaction metrics:

Transaction Price / Tangible Book Value Per Share:	101 %
Transaction Price / Last Twelve Months Earnings Per Share[1]:	NM
Tangible Book Premium / Core Deposits[2]:	0.4 %
One-Day Market Premium[3]:	8.4 %

1) Not meaningful due to negative earnings per share over the time period.
2) Core deposits defined as total deposits, less time deposit accounts with a balance of at least $100,000.
3) Polonia common stock closing price of $10.41 per share as of June 1, 2016.

Stock Trading History. Sandler O'Neill reviewed the history of the publicly reported trading prices of Prudential common stock and Polonia common stock for the three-year period ended June 1, 2016. Sandler O'Neill then compared the relationship between the movements in the prices of Prudential and Polonia common stock, respectively, to movements in their respective peer groups (as described on pages [•] and [•]) as well as certain stock indices.

Prudential's Three-Year Stock Performance

	Beginning Value June 1, 2013	Ending Value June 1, 2016
Prudential	100 %	160.7 %
NASDAQ Bank Index	100 %	134.6 %
S&P 500 Index	100 %	128.7 %
Prudential Peer Group	100 %	118.4 %

Polonia's Three-Year Stock Performance

	Beginning Value June 1, 2013	Ending Value June 1, 2016
Polonia	100 %	114.4 %

NASDAQ Bank Index	100	%	134.6	%
S&P 500 Index	100	%	128.7	%
Polonia Peer Group	100	%	124.4	%

Comparable Company Analysis. Sandler O'Neill used publicly available information to compare selected financial information for Prudential with a group of financial institutions selected by Sandler O'Neill. The Prudential peer group consisted of publicly traded thrifts headquartered in the Mid-Atlantic region with assets between $300 million and $1.0 billion (the "Prudential Peer Group"). The Prudential Peer Group consisted of the following companies:

Bay Bancorp, Inc.	MSB Financial Corp.
Carver Bancorp, Inc.	Pathfinder Bancorp, Inc.
Elmira Savings Bank	Severn Bancorp, Inc.
Hamilton Bancorp, Inc.	Standard Financial Corp.
Harleysville Savings Financial Corporation	WVS Financial Corp.
Malvern Bancorp, Inc.	

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The analysis compared publicly available financial information for Prudential with the corresponding data for the Prudential Peer Group as of or for the period ending March 31, 2016 (unless otherwise indicated), with pricing data as of June 1, 2016. The table below sets forth the data for Prudential and the median, mean, high and low data for the Prudential Peer Group.

Comparable Company Analysis

		Prudential Peer Group			
	Prudential	**Median**	**Mean**	**Low**	**High**
Total assets (in millions)	$ 538	$560	$575	$338	$765
Tangible common equity/Tangible assets	20.90 %	9.68%	10.38%	1.32 %	20.14%
Last Twelve Months Return on average assets	0.20 %	0.49%	0.44 %	(0.03)%	0.77 %
Last Twelve Months Return on average equity	0.85 %	4.34%	3.96 %	(0.15)%	7.80 %
Last Twelve Months Net interest margin	2.69 %	3.02%	3.02 %	1.63 %	4.57 %
Last Twelve Months Efficiency ratio	88.4 %	79.1%	78.0 %	63.3 %	98.4 %
Loan loss reserves/Gross loans	0.93 %	0.93%	0.97 %	0.49 %	1.42 %
Non-performing assets[1]/Total assets	3.27 %	1.60%	1.76 %	0.08 %	4.43 %
Net charge-offs/Average loans	(0.05)%	0.08%	0.16 %	0.00 %	1.15 %
Price / Tangible book value	107 %	99 %	106 %	73 %	162 %
Price / Last Twelve Months Earnings Per Share	NM	18.3x	21.6 x	14.0 x	34.5 x
Current Dividend Yield	0.8 %	0.0 %	1.3 %	0.0 %	4.7 %
Last Twelve Months Dividend Ratio	207.7 %	0.0 %	19.4 %	0.0 %	77.3 %
Market value (in millions)	$ 120	$56	$57	$13	$108

1) Nonperforming assets include nonaccrual loans and leases, renegotiated loans and leases and real estate owned.

Notes:

Financial data as of December 31, 2015 for Carver Bancorp, Inc.

LLR/Gross Loans as of December 31, 2015 for Hamilton Bancorp, Inc.

Price / Last twelve Months Earnings Per Share not meaningful (NM) for Hamilton Bancorp, Inc. and MSB Financial Corp.

NM indicates either a negative value or a value greater than 40x

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Sandler O'Neill used publicly available information to perform a similar analysis for Polonia and a group of financial institutions selected by Sandler O'Neill. The Polonia peer group consisted of publicly traded thrifts headquartered in the Mid-Atlantic and Northeast regions with assets between $125 million and $500 million (the "Polonia Peer Group"). The Polonia Peer Group consisted of the following companies:

Bay Bancorp, Inc.	MSB Financial Corp.
Delanco Bancorp, Inc.	Patriot Federal Bank
Georgetown Bancorp, Inc.	PB Bancorp, Inc.
Guaranty Bancorp, Inc.	Pilgrim Bancshares, Inc.
Hamilton Bancorp, Inc.	Quaint Oak Bancorp, Inc.
MB Bancorp, Inc.	Standard Financial Corp.
Melrose Bancorp, Inc.	WVS Financial Corp.

The analysis compared publicly available financial information for Polonia with the corresponding data for the Polonia Peer Group as of or for the period ending March 31, 2016 (unless otherwise indicated), with pricing data as of June 1, 2016. The table below sets forth the data for Polonia and the median, mean, high and low data for the Polonia Peer Group.

Comparable Company Analysis

		Polonia Peer Group			
	Polonia	**Median**	**Mean**	**Low**	**High**
Total assets (in millions)	$288	$322	$311	$129	$498
Tangible common equity/Tangible assets	13.02 %	13.70%	13.79%	8.38 %	24.24%
Last Twelve Months Return on average assets	(0.37)%	0.25 %	0.28 %	0.00 %	0.76 %
Last Twelve Months Return on average equity	(2.86)%	1.65 %	2.32 %	0.01 %	6.21 %
Last Twelve Months Net interest margin	2.30 %	3.06 %	3.00 %	1.66 %	4.18 %
Last Twelve Months Efficiency ratio	120.9 %	84.8 %	84.4 %	62.9 %	117.4%
Loan loss reserves/Gross loans	0.73 %	0.94 %	0.95 %	0.38 %	1.56 %
Non-performing assets[1]/Total assets	1.24 %	1.44 %	1.73 %	0.00 %	4.91 %
Net charge-offs/Average loans	0.06 %	0.01 %	0.12 %	(0.12)%	1.15 %
Price / Tangible book value	93 %	88 %	88 %	49 %	118 %
Price / Last Twelve Months Earnings Per Share	NM	22.5 x	22.8 x	6.9 x	37.8 x
Current Dividend Yield	0.0 %	0.0 %	0.5 %	0.0 %	1.8 %
Last Twelve Months Dividend Ratio	0.0 %	0.0 %	12.7 %	0.0 %	78.7 %
Market value (in millions)	$35	$33	$38	$9	$77

1) Nonperforming assets include nonaccrual loans and leases, renegotiated loans and leases and real estate owned.
Notes:

Excludes Colombo Bank due to low average daily trading volume

Financial data as of December 31, 2015 used for Guaranty Bancorp, Inc., Delanco Bancorp, Inc. and Patriot Federal Bank

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Bank regulatory data used for LLR/Gross Loans for Hamilton Bancorp, Inc. and for NPAs/Total Assets for PB Bancorp, Inc. and Guaranty Bancorp

NM indicates either a negative value or a value greater than 40x

Analysis of Selected Merger Transactions. Sandler O'Neill reviewed two groups of recent merger and acquisition transactions consisting of a national group as well as a regional group. The national group consisted of nationwide bank and thrift transactions announced between January 1, 2015 and June 1, 2016 with reported deal values and where the target's total assets were between $100 million and $750 million (the "Nationwide Precedent Transactions"). The regional group consisted of bank and thrift transactions where the targets were located in the Mid-Atlantic region, announced between January 1, 2015 and June 1, 2016 with reported deal values and where the target's total assets were between $150 million and $500 million (the "Regional Precedent Transactions").

The Nationwide Precedent Transactions group was composed of the following transactions:

Acquiror	**Target**
Avadian CU	American Bank of Huntsville
Beneficial State Foundation	Pan American Bank
Coastal Banking Co.	First Avenue National Bank
First Citizens BancShares Inc.	Cordia Bancorp Inc.
First National Bankers Bankshares Inc	Independent Bankers' Bank of FL
Hamilton Bancorp Inc	Fraternity Community Bancorp
Heartland Financial USA Inc.	First Scottsdale Bank NA
Investor group	Stonebridge Bank
Investor group	Brickell Bank
National Bank Holdings Corp.	Pine River Bank Corp.
OceanFirst Financial Corp.	Colonial American Bank
Pacific Continental Corp.	Foundation Bancorp Inc.
Private Investor- William P. Butler	American Founders Bank Inc.
Robertson Holding Co. L.P.	National Bank of Tennessee
Royal Financial Inc.	Park Bancorp Inc.
United Community Banks Inc.	Tidelands Bancshares Inc
Wintrust Financial Corp.	Suburban Illinois Bancorp Inc

Using the latest publicly available information prior to the announcement of the relevant transaction, Sandler O'Neill reviewed the following transaction metrics: transaction price to book value per share, transaction price to tangible book value per share, tangible book premium to core deposits, and 1-day market premium. Sandler O'Neill compared the indicated transaction metrics for the merger to the median, mean, high and low metrics of the Nationwide Precedent Transactions group.

	Prudential / Polonia	Nationwide Precedent Transactions			
		Median	**Mean**	**Low**	**High**
Transaction price/Book value per share:	101 %	99 %	85 %	6 %	141 %
Transaction price/Tangible book value per share:	101 %	99 %	85 %	6 %	141 %
Core deposit premium:	0.4 %	2.6 %	3.0 %	0.1 %	5.5 %
1-Day market premium:	7.4 %	59.7 %	79.8 %	14.6 %	225.0 %

Source: SNL Financial

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The Regional Precedent Transactions group was composed of the following transactions:

Acquiror	**Target**
Bay Bancorp Inc.	Hopkins Bancorp Inc.
Cathay General Bancorp	Asia Bancshares Inc.
Citizens Financial Services	First National Bank of Frederick
DNB Financial Corp.	East River Bank
ESSA Bancorp Inc.	Eagle National Bancorp Inc.
Hamilton Bancorp Inc	Fraternity Community Bancorp
Howard Bancorp Inc.	Patapsco Bancorp Inc.
Lakeland Bancorp	Harmony Bank
Lakeland Bancorp	Pascack Bancorp Inc.
NexTier Inc.	Eureka Financial Corp
Northfield Bancorp Inc.	Hopewell Valley Community Bank
Norwood Financial Corp.	Delaware Bancshares Inc.
Preferred Bank	United International Bank
Revere Bank	BlueRidge Bank
WSFS Financial Corp.	Alliance Bancorp of Penn

Using the latest publicly available information prior to the announcement of the relevant transaction, Sandler O'Neill reviewed the following transaction metrics: transaction price to last-twelve-months earnings per share, transaction price to book value per share, transaction price to tangible book value per share, tangible book premium to core deposits, and 1-day market premium. Sandler O'Neill compared the indicated transaction metrics for the merger to the median, mean, high and low metrics of the Regional Precedent Transactions group.

		Regional Precedent Transactions			
	Prudential / Polonia	**Median**	**Mean**	**Low**	**High**
Transaction price/LTM earnings per share:	NM	22.4x	25.9 x	6.1 x	50.8x
Transaction price/Book value per share:	101 %	125 %	124 %	66 %	167 %
Transaction price/Tangible book value per share:	101 %	125 %	128 %	98 %	167 %
Core deposit premium:	0.4 %	3.4 %	5.4 %	0.1 %	17.1%
1-Day market premium:	7.4 %	31.3%	37.9 %	14.6%	68.5%

Note: NM indicates either a negative value or a value greater than 40x

Net Present Value Analyses. Sandler O'Neill performed an analysis that estimated the net present value per share of Prudential common stock, assuming that Prudential performed in accordance with internal financial projections for Prudential for the years ending September 30, 2016 through 2020, as provided by the senior management of Prudential. To approximate the terminal value of Prudential common stock at September 30, 2020, Sandler O'Neill applied price to 2020 earnings multiples ranging from 14.0x to 21.5x and multiples of September 30, 2020 tangible book value ranging from 80% to 130%. The terminal values were then discounted to present values using different discount rates ranging from 9.0% to 15.0% when applied to 2020 earnings multiples and 9.0% to 15.0% when applied to multiples of September 30, 2020 tangible book value, which were chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Prudential common stock. As illustrated in the following tables, the analysis indicated an imputed range of values per share of

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Prudential common stock of $4.24 to $7.95 when applying earnings multiples and $7.42 to $14.93 when applying multiples of tangible book value.

Earnings Per Share Multiples

Discount Rate	14.0x	15.5x	17.0x	18.5x	20.0x	21.5x
9.0%	$5.35	$5.87	$6.39	$6.91	$7.43	$7.95
10.0%	$5.14	$5.64	$6.14	$6.64	$7.14	$7.64
11.0%	$4.94	$5.42	$5.90	$6.38	$6.87	$7.35
12.0%	$4.76	$5.22	$5.68	$6.14	$6.60	$7.06
13.0%	$4.58	$5.02	$5.46	$5.91	$6.35	$6.79
14.0%	$4.41	$4.83	$5.26	$5.69	$6.11	$6.54
15.0%	$4.24	$4.65	$5.06	$5.47	$5.88	$6.29

Tangible Book Value Multiples

Discount Rate	80%	90%	100%	110%	120%	130%
9.0%	$9.38	$10.49	$11.60	$12.71	$13.82	$14.93
10.0%	$9.02	$10.08	$11.15	$12.21	$13.28	$14.34
11.0%	$8.66	$9.69	$10.71	$11.73	$12.76	$13.78
12.0%	$8.33	$9.31	$10.29	$11.28	$12.26	$13.24
13.0%	$8.01	$8.96	$9.90	$10.84	$11.79	$12.73
14.0%	$7.71	$8.62	$9.52	$10.43	$11.34	$12.24
15.0%	$7.42	$8.29	$9.16	$10.04	$10.91	$11.78

Sandler O’Neill also considered and discussed with the Prudential board of directors how this analysis would be affected by changes in the underlying assumptions, including variations with respect to net income. To illustrate this impact, Sandler O’Neill performed a similar analysis assuming Prudential’s net income varied from 25% above projections to 25% below projections. This analysis resulted in the following range of per share values for Prudential common stock, applying the price to 2020 earnings multiples range of 14.0x to 21.5x referred to above and a discount rate of 13.99%.

Earnings Per Share Multiples

Annual Estimate Variance	**14.0x**	**15.5x**	**17.0x**	**18.5x**	**20.0x**	**21.5x**
(25.0%)	$3.41	$3.73	$4.05	$4.37	$4.69	$5.01
(20.0%)	$3.61	$3.95	$4.30	$4.64	$4.98	$5.32
(15.0%)	$3.81	$4.17	$4.54	$4.90	$5.26	$5.62
(10.0%)	$4.01	$4.39	$4.78	$5.16	$5.55	$5.93
(5.0%)	$4.21	$4.61	$5.02	$5.42	$5.83	$6.24
0.0%	$4.41	$4.84	$5.26	$5.69	$6.11	$6.54
5.0%	$4.61	$5.06	$5.50	$5.95	$6.40	$6.85
10.0%	$4.81	$5.28	$5.74	$6.21	$6.68	$7.15
15.0%	$5.01	$5.50	$5.99	$6.48	$6.97	$7.46
20.0%	$5.20	$5.72	$6.23	$6.74	$7.25	$7.76
25.0%	$5.40	$5.94	$6.47	$7.00	$7.54	$8.07

Sandler O'Neill performed an analysis that estimated the net present value per share of Polonia common stock, assuming that Polonia performed in accordance with internal financial projections for Polonia for the years ending September 30, 2016 through 2020, as provided by the senior management of Prudential and included assumptions related to after-tax cost savings, as provided by the senior management of Prudential ("Polonia

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Adjusted NPV Analysis”). To approximate the terminal value of Polonia common stock at September 30, 2020, Sandler O’Neill applied price to 2020 earnings multiples ranging from 12.0x to 22.0x and multiples of September 30, 2020 tangible book value ranging from 70% to 120%. The terminal values were then discounted to present values using different discount rates ranging from 9.0% to 15.0% when applied to 2020 earnings multiples and 9.0% to 15.0% when applied to multiples of September 30, 2020 tangible book value, which were chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Polonia common stock. As illustrated in the following tables, the analysis indicated an imputed range of values per share of Polonia common stock of $8.99 to $21.27 when applying earnings multiples and $5.84 to $12.92 when applying multiples of tangible book value.

Earnings Per Share Multiples (Polonia Adjusted NPV Analysis)

Discount Rate	12.0x	14.0x	16.0x	18.0x	20.0x	22.0x
9.0%	$11.60	$13.54	$15.47	$17.40	$19.34	$21.27
10.0%	$11.11	$12.96	$14.81	$16.66	$18.52	$20.37
11.0%	$10.64	$12.42	$14.19	$15.96	$17.74	$19.51
12.0%	$10.20	$11.90	$13.60	$15.30	$17.00	$18.70
13.0%	$9.78	$11.41	$13.04	$14.66	$16.29	$17.92
14.0%	$9.38	$10.94	$12.50	$14.06	$15.63	$17.19
15.0%	$8.99	$10.49	$11.99	$13.49	$14.99	$16.49

Tangible Book Value Multiples (Polonia Adjusted NPV Analysis)

Discount Rate	70%	80%	90%	100%	110%	120%
9.0%	$7.54	$8.61	$9.69	$10.77	$11.84	$12.92
10.0%	$7.22	$8.25	$9.28	$10.31	$11.34	$12.37
11.0%	$6.91	$7.90	$8.89	$9.88	$10.86	$11.85
12.0%	$6.63	$7.57	$8.52	$9.46	$10.41	$11.36
13.0%	$6.35	$7.26	$8.17	$9.07	$9.98	$10.89
14.0%	$6.09	$6.96	$7.83	$8.70	$9.57	$10.44
15.0%	$5.84	$6.68	$7.51	$8.35	$9.18	$10.02

Sandler O’Neill also considered and discussed with the Prudential board of directors how this analysis would be affected by changes in the underlying assumptions, including variations with respect to net income. To illustrate this impact, Sandler O’Neill performed a similar analysis, assuming Polonia’s net income varied from 25% above projections to 25% below projections for the Polonia Adjusted NPV Analysis. This analysis resulted in the following range of per share values for Polonia common stock, applying the price to 2020 earnings multiples range of 12.0x to

22.0x referred to above and a discount rate of 13.99%.

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Earnings Per Share Multiples (Polonia Adjusted NPV Analysis)

Annual Estimate Variance	**12.0x**	**14.0x**	**16.0x**	**18.0x**	**20.0x**	**22.0x**
(25.0%)	$7.03	$8.21	$9.38	$10.55	$11.72	$12.90
(20.0%)	$7.50	$8.75	$10.01	$11.26	$12.51	$13.76
(15.0%)	$7.97	$9.30	$10.63	$11.96	$13.29	$14.62
(10.0%)	$8.44	$9.85	$11.26	$12.66	$14.07	$15.48
(5.0%)	$8.91	$10.40	$11.88	$13.37	$14.85	$16.34
0.0%	$9.38	$10.94	$12.51	$14.07	$15.63	$17.20
5.0%	$9.85	$11.49	$13.13	$14.77	$16.41	$18.06
10.0%	$10.32	$12.04	$13.76	$15.48	$17.20	$18.92
15.0%	$10.79	$12.58	$14.38	$16.18	$17.98	$19.78
20.0%	$11.26	$13.13	$15.01	$16.88	$18.76	$20.64
25.0%	$11.72	$13.68	$15.63	$17.59	$19.54	$21.50

In connection with its analyses, Sandler O’Neill considered and discussed with the Prudential board of directors how the present value analyses would be affected by changes in the underlying assumptions. Sandler O’Neill noted that the net present value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

Pro Forma Merger Analysis. Sandler O’Neill analyzed certain potential pro forma effects of the merger, based on the following assumptions: (i) the merger closes on December 31, 2016 and (ii) 100% of the outstanding shares of Polonia common are converted into the right to receive either (a) $11.28 in cash, or (b) 0.7591 shares of Prudential common stock. Sandler O’Neill also utilized assumptions, as provided by the senior management of Prudential, relating to (a) estimated transaction expenses, (b) purchase accounting adjustments, (c) cost savings, (d) a core deposit intangible asset and (e) Prudential share repurchase assumptions for the years ending September 30, 2016 through September 30, 2020. The analysis indicated that the merger could be accretive to Prudential’s estimated earnings per share in 2018 (the first full-year after the estimated closing of the transaction), excluding transaction expenses, and dilutive to estimated tangible book value per share at close.

In connection with this analysis, Sandler O’Neill considered and discussed with the Prudential board of directors how the analysis would be affected by changes in the underlying assumptions, including the impact of final purchase accounting adjustments determined at the closing of the transaction, and noted that the actual results achieved by the combined company may vary from projected results and the variations may be material.

Sandler O'Neill's Relationship. Sandler O'Neill is acting as Prudential's financial advisor in connection with the merger and Prudential has agreed to pay Sandler O'Neill a fee for such services in an amount equal to $280,000, which fee is contingent upon the closing of the merger. Sandler O'Neill also received a fee from Prudential in an amount equal to $75,000 upon rendering its opinion, which opinion fee will be credited in full towards the fee that will become payable on the day of closing of the merger. Prudential has also agreed to indemnify Sandler O'Neill against certain liabilities arising out of Sandler O'Neill's engagement and to reimburse Sandler O'Neill for certain of its out-of-pocket expenses incurred in connection with its engagement.

In the two years preceding the date of its opinion, Sandler O'Neill did not provide any other investment banking services to, or receive any compensation for such services from, Prudential, nor did Sandler O'Neill provide any investment banking services to, or receive any compensation for such services from, Polonia during the two year period preceding the date of Sandler O'Neill's opinion. In the ordinary course of its business as a broker-dealer, Sandler O'Neill may purchase securities from or sell securities to Prudential, Polonia or their respective affiliates. Sandler O'Neill may also actively trade the securities of Prudential, Polonia or their respective affiliates for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

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Board of Directors and Management of Prudential Following Completion of the Merger

Following completion of the merger and the bank subsidiary merger, the directors and officers of Prudential and Prudential Bank will be the directors and executive officers of Prudential and Prudential Bank immediately prior to the merger and the bank subsidiary merger except as noted below.

Kevin J. Gallagher, who currently serves as chief lending officer of Polonia, upon completion of the merger and subsidiary bank merger, will become Prudential Bank's senior vice president-chief lending officer. Subsequent to entry into the merger agreement, Prudential Bank offered to appoint and Mr. Gallagher accepted the offer to become Prudential Bank's chief lending officer upon completion of the merger and the bank merger. His annual salary will remain the same as it is currently with Polonia Bank ($150,000) and he will not receive a new employment or severance agreement with Prudential Bank. It is expected that his existing employment agreement will be terminated in connection with the completion of the bank merger and subsidiary bank merger and he will be entitled to receive, to the extent prior regulatory approval has been granted, the severance payment provided by such agreement.

Trading Markets for Prudential and Polonia Common Stock

Prudential's common stock trades on the Nasdaq Global Market under the symbol "PBIP." Polonia's common stock is traded on the OTC Pink Marketplace under the symbol "PBCP." The shares of Prudential common stock issuable to holders of Polonia common stock in the merger will be listed on the Nasdaq Global Market.

Regulatory Approvals Required for the Merger

Each of Prudential and Polonia has agreed to cooperate with the other and use all reasonable efforts to obtain all regulatory approvals required to complete the transactions contemplated by the merger agreement, including the merger and the bank merger. These approvals include approval from the Board of Governors of the Federal Reserve System, which we refer to as the Federal Reserve Board, Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking and Securities as well as various other regulatory authorities. Prudential and Polonia have completed the filing of applications and notifications to obtain the required regulatory approvals.

Prudential's and Polonia's obligations to complete the transactions contemplated by the merger agreement are subject to the receipt of all regulatory consents and approvals required to consummate the transactions contemplated by the merger agreement, without conditions (excluding standard conditions that are normally imposed in bank merger

transactions) that would, in the good faith reasonable judgment of the Prudential board of directors, materially and adversely affect the business, operations, financial condition, property or assets of the combined enterprise of Prudential and Polonia or materially impair the value of Polonia to Prudential.

The Federal Reserve Board, the Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking and Securities have approved the applications submitted thereto. None of such approvals included any non-customary terms or conditions.

Neither Prudential nor Polonia is aware of any material governmental approvals or actions that are required for completion of the transactions other than those described above. It is presently contemplated that if any such additional governmental approvals or actions are required, those approvals or actions will be sought. There can be no assurance, however, that any additional approvals or actions will be obtained.

Pursuant to the Bank Holding Company Act, a transaction approved by the Federal Reserve Board may not be completed until 30 days after approval is received, during which time the Antitrust Division of the Department of Justice may challenge the transactions on antitrust grounds. The commencement of an antitrust action would suspend the effectiveness of an approval unless a court were to order specifically otherwise. With the approval of the Federal Reserve Board and the concurrence of the Antitrust Division, the waiting period may be reduced to no less than 15 days. There are similar waiting periods under the Bank Merger Act with regard to the approval of the merger of Polonia Bank with and into Prudential Bank by the Federal Deposit Insurance Corporation.

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Dissenters' Rights

Prudential shareholders are not entitled to appraisal or dissenters' rights. While Polonia shareholders have the right to dissent from the merger and receive a payment in cash for the "fair value" of their shares of Polonia common stock as determined by an appraisal process, no shareholders of Polonia have chosen to exercise their dissenters' rights of appraisal under Maryland law.

Litigation

A putative shareholder derivative and class action lawsuit, *Parshall v. Eugene Andruczyk et al.,* was initially filed in the Circuit Court for Montgomery County, Maryland, Case No. 423219-v, on July 21, 2016. The lawsuit names as defendants the directors of Polonia, Polonia and Prudential. The lawsuit alleges a breach of fiduciary duty by approving the merger agreement for inadequate merger consideration and the inclusion of preclusive deal protection measures in the merger agreement and that the registration statement as filed on July 22, 2016 failed to disclose material information related to the transaction. The lawsuit also alleges that Prudential aided and abetted the alleged breaches of fiduciary duty. A second putative class action lawsuit, captioned *Baron v. Eugene Andruczyk et al*., No. V424400, was filed in the Circuit Court for Montgomery County, Maryland on August 29, 2016. The lawsuit names as defendants the directors of Polonia and Polonia. The lawsuit alleges a breach of fiduciary duty by failing to disclose material information related to the transaction in the registration statement as filed on July 22, 2016. The relief sought includes preliminary and permanent injunction against the consummation of the merger, rescission or rescissory damages if the merger is completed, costs and attorney's fees.

On October 6, 2016, solely to avoid the costs of protracted litigation and any potential delay of the merger, Polonia, Prudential and the Polonia director defendants entered into a memorandum of understanding with the respective plaintiffs regarding the settlement of the two lawsuits. Pursuant to the memorandum of understanding, Prudential and Polonia filed with the SEC and made publicly available to shareholders of Polonia certain supplemental disclosures, Polonia agreed to waive the prohibition in the nondisclosure agreements entered into by Polonia with potential interested parties with respect to a party subject thereto being prohibited from asking Polonia to waive the standstill provisions that require such party to refrain from pursuing various actions that relate to acquisition of control of Polonia without the prior written consent of the Polonia board of directors during the specified time period, Prudential agreed to waive the enforcement of the provision in the merger agreement prohibiting Polonia from waiving the foregoing restriction contained in the nondisclosure agreements, and the parties agreed to provide each other with customary mutual releases concerning the claims related to the merger agreement and the merger, including the initiation and the prosecution of any litigation, subject to approval of the Circuit Court.

If the Circuit Court approves the settlement contemplated in the memorandum of understanding, both the Parshall lawsuit and the Baron lawsuit will be dismissed with prejudice, and all claims that were or could have been brought

challenging any aspect of the merger, the merger agreement, and any disclosure made in connection therewith will be released and barred. Under the terms of the memorandum, counsel for the plaintiffs have reserved the right to seek an award of attorneys' fees and expenses. The defendants have reserved the right to contest the amount of any fee and expense petition that plaintiffs may pursue. The amount of any fees and expense awarded, if any, will ultimately be determined and approved by the court, and will not affect the amount of merger consideration to be paid by Prudential. Polonia or its successor or insurer will pay any fees and expenses potentially awarded by the court. In the memorandum, the parties also have agreed to negotiate in good faith to prepare a stipulation of settlement to be filed with the court and other documentation as may be required to effectuate the settlement. Pursuant to the memorandum of understanding, plaintiffs' counsel is permitted to conduct reasonable confirmatory discovery as plaintiffs' counsel believes in good faith is reasonably appropriate and necessary and as agreed to by the parties to confirm the fairness and reasonableness of the terms of the Settlement. There can be no assurance that the parties ultimately will enter into a stipulation of settlement or that the court will approve the settlement even if the parties were to enter into such stipulation. The proposed settlement contemplated by the memorandum of understanding will become void in the event that the parties do not enter into such stipulation or the Circuit Court does not approve the settlement.

Prudential and the other defendants deny all of the allegations in the lawsuits and believe the disclosures previously included in the proxy statement provided to the Polonia shareholders and the provisions of the nondisclosure agreements and the merger agreement are appropriate under the law. Nevertheless, Prudential and the

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other defendants agreed to settle the putative class action lawsuits in order to avoid the costs, disruptions and distraction of further litigation.

Prudential and the other defendants have vigorously denied, and continue to vigorously deny, that they have committed or aided and abetted in the commission of any violation of law or engaged in any of the wrongful acts that were alleged in the lawsuits, and expressly maintain that, to the extent applicable, they diligently and scrupulously complied with their fiduciary and other legal burdens and entered into the memorandum of understanding solely to eliminate the burden and expense of further litigation and to put the claims that were or could have been asserted to rest.

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THE MERGER AGREEMENT

The following describes certain aspects of the merger, including certain material provisions of the merger agreement. The following description of the merger agreement is subject to, and qualified in its entirety by reference to, the merger agreement, which is attached to this proxy statement as Annex A and is incorporated by reference into this proxy statement. We urge you to read the merger agreement carefully and in its entirety, as it is the legal document governing this merger.

Terms of the Merger

Each of the Prudential board of directors and the Polonia board of directors has adopted and approved the agreement and plan of merger, which provides for Prudential's acquisition of Polonia and the merger of Polonia with and into Prudential and the substantially simultaneous merger of Polonia Bank with and into Prudential Bank. Each share of Prudential common stock issued and outstanding immediately prior to completion of the merger will remain issued and outstanding as one share of common stock of Prudential. Each share of Polonia common stock issued and outstanding at the effective time of the merger (with the exception of Company-Owned Stock, as defined below and shares of Polonia common stock owned by shareholders exercising their dissenters' rights) will be converted into shares of Prudential common stock or cash, or a combination of shares of Prudential common stock and cash, as described below. See "— Consideration to Be Received in the Merger." Company-Owned Stock means shares of Polonia held in treasury by Polonia or any shares of Polonia held by Prudential immediately prior to the effective time of the merger (other than shares held in a fiduciary capacity or in connection with debts previously contracted). Each share of Polonia common stock held as Company-Owned Stock immediately prior to the effective time of the merger will be canceled and retired and no consideration will be issued in exchange for Company-Owned Stock. As of the date of this document, Prudential does not own any shares of common stock of Polonia.

The Prudential articles of incorporation and bylaws of Prudential as in effect at the time of the merger will be the articles of incorporation and bylaws of Prudential as the surviving entity after the completion of the merger. The merger agreement provides that Prudential may change the method of effecting the merger. No such change will alter the amount or kind of merger consideration to be provided under the merger agreement, adversely affect the tax consequences to Polonia shareholders, or materially jeopardize or delay obtaining consents or regulatory approvals relating to the merger, satisfaction of a closing condition or otherwise adversely affect Polonia or Polonia shareholders.

Closing and Effective Time of the Merger

The merger will be completed no later than the twentieth calendar day following the satisfaction or waiver of all conditions to the merger discussed in this proxy statement and set forth in the merger agreement, or within five business days of the acceptance by Prudential of the closing balance sheet of Polonia, prepared as set forth in the merger agreement, whichever is later, or on such other date as may be agreed to in writing by the parties. See "—Conditions to Complete the Merger." The merger shall become effective on the date and time specified in the articles of merger filed with the Department of State of the Commonwealth of Pennsylvania and the Maryland State Department of Assessments and Taxation. It is currently anticipated that the effective time of the merger will occur at the end of the fourth quarter of calendar 2016 or early in the first quarter of calendar 2017, but Prudential and Polonia cannot guarantee when or if the merger will be completed.

Consideration to be Received in the Merger

As a result of the merger each Polonia shareholder will have the right, with respect to each share of Polonia common stock held (excluding Company-Owned Stock and shares of Polonia common stock owned by shareholders exercising their dissenters' rights), to elect to receive either 0.7591 of a share of Prudential common stock or $11.28 in cash, subject to adjustment as described in this proxy statement.

Under the terms of the merger agreement, 50% of the issued and outstanding shares of Polonia common stock will be exchanged for Prudential common stock and 50% will be exchanged for cash. To the extent necessary to satisfy the provisions of the merger agreement specifying the amounts of these relative types of consideration, certain allocation and proration procedures, described below in "—Proration Procedures," will be used.

The merger agreement provides that the exchange ratio of 0.7591 of a share of Prudential common stock for a share of Polonia common stock and the per share cash consideration of $11.28 are subject to adjustment in certain limited situations. In the event that the Polonia consolidated stockholders' equity as of the month end succeeding the receipt of (i) the approval of the merger agreement by the Polonia shareholders at the Polonia special meeting as well as (ii) all of the required regulatory approvals necessary to consummate the merger of Polonia with and into Prudential, referred to as the final statement date, is less than $37,401,000 (the amount of Polonia's consolidated stockholders' equity as of April 30, 2016), then both the exchange ratio and the per share cash consideration will be adjusted downward to reflect the amount of the difference between $37,401,000 and the Polonia consolidated stockholders' equity as of final statement date. For this purpose, the calculation of Polonia consolidated stockholders' equity shall exclude (i) any change after April 30, 2016 in the net accumulated other comprehensive income (loss) related to unrealized gains or losses on available for sale securities, (ii) the after-tax impact of any net gains on the sale of investment securities and/or loans realized after April 30, 2016, (iii) the after-tax impact of any accruals, reserves or charges resulting from expenses of the merger and other transactions contemplated by the merger agreement incurred after April 30, 2016 including but not limited to Polonia investment banking fees, attorney's and accountant's fees, amounts owing and paid under management contracts and termination fees under any material contracts that are terminated in connection with the merger or actions required to be taken by Polonia pursuant to the terms of the merger agreement (subject to certain exceptions), (iv) the after-tax impact of any recoveries on or before the final statement date of reserves taken by Polonia on or before April 30, 2016 with respect to litigation pending as of the date of the merger agreement as the result of entry into a binding settlement agreement or arbitration award or entry of a final judicial determination of a court of competent jurisdiction prior to the final statement date with respect to such litigation, and (v) the after-tax impact of any recoveries or reversals on or before the final statement date of the liability recorded, as reflected in the audited financial statements for the year ended December 31, 2015, with respect to the post-retirement deferred compensation and split dollar arrangement with the previous president of Polonia as a result of entry into a binding agreement with such person with respect to the benefits due thereto pursuant to such benefit arrangements prior to the final statement date.

The exchange ratio and the per share cash consideration are subject to potential upward adjustment to reflect (i) the after-tax impact of any recoveries referenced in subclauses (iv) and (v) in the preceding paragraph experienced by Polonia achieved prior to the final statement date less (ii) the aggregate legal and accounting fees and expenses incurred with respect to the merger agreement and the transactions contemplated thereby, but only to the extent such aggregate legal and accounting fees and expenses incurred on or before the final statement date exceed $350,000, collectively referred to as the net equity adjustment. In such situation, the exchange ratio and the per share cash consideration, as they may have been adjusted downward as noted above, will be correspondingly adjusted to reflect the amount of such net equity adjustment.

If, as of the final statement date, the Polonia consolidated stockholders' equity, as calculated in accordance with the merger agreement, is less than $37,401,000, the per share cash consideration and the exchange ratio shall be reduced as set forth below, subject to possible increase:

(i) the per share cash consideration will be reduced from $11.28 by an amount equal to (i) $37,401,000 minus (ii) the Polonia consolidated stockholders' equity as of the final statement date, with such difference being divided by the

number of issued and outstanding shares of Polonia common stock immediately preceding the closing of the merger, rounded to the nearest cent; and

(ii) the exchange ratio shall be reduced by (i) subtracting from $37,401,000 the Polonia consolidated stockholders' equity as of the final statement date, (ii) dividing the difference in clause (i) by the number of issued and outstanding shares of Polonia common stock immediately preceding the closing of the merger, (iii) dividing the quotient in clause (ii) by $14.86, and (iv) subtracting the quotient in clause (iii) from the exchange ratio, with the adjusted exchange ratio being rounded to the nearest ten-thousandth.

If the net equity adjustment is a positive dollar amount, then the per share cash consideration and the exchange ratio (in each case after reflecting any downward adjustment determined as described above) shall be increased as set forth below:

(i) the per share cash consideration (after reflecting any downward adjustment determined as described above) will be increased by an amount equal to the net equity adjustment divided by the number of issued

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and outstanding shares of Polonia common stock immediately preceding the closing of the merger, rounded to the nearest cent.

(ii) the exchange ratio (after reflecting any downward adjustment determined as described above) shall be increased by (i) dividing the net equity adjustment by the number of issued and outstanding shares of Polonia common stock immediately preceding the closing of the merger, (ii) dividing the quotient in clause (i) by $14.86, and (iii) adding the quotient in clause (ii) to the exchange ratio with the adjusted exchange ratio being rounded to the nearest ten-thousandth.

As of the date hereof, Prudential and Polonia do not know if any adjustments to the exchange ratio and the per share cash consideration will be required as a result of the calculation of Polonia's consolidated stockholders' equity as of the final statement date. At September 30, 2016, Polonia's consolidated stockholders' equity was approximately $37,093,000. This amount does not reflect any adjustments as provided in accordance with the terms of the merger agreement as described above.

Cash Election

The merger agreement provides that each Polonia shareholder who makes a valid cash election will have the right to receive, in exchange for each share of Polonia common stock held by such holder, cash equal to $11.28, subject to adjustment as previously described, without interest. If the holders of more than 50% of the outstanding shares of Polonia common stock elect to receive the cash consideration for their shares, the exchange agent will apply the proration procedures described below in "—Proration Procedures," and Polonia shareholders who elected only cash consideration will receive a mix of cash consideration and stock consideration.

Stock Election

The merger agreement provides that each Polonia shareholder who makes a valid stock election will have the right to receive, in exchange for each share of Polonia common stock held, 0.7591 of a share of Prudential common stock, subject to possible adjustment as previously described. Under the terms of the merger agreement, if Polonia shareholders, collectively, elect stock consideration in an aggregate amount greater than 50% of the outstanding shares of Polonia common stock, the exchange agent will apply the proration procedures described below in "—Proration Procedures," and Polonia shareholders who elected only stock consideration will receive a mix of cash consideration and stock consideration

No fractional shares of Prudential common stock will be issued to any holder of Polonia common stock upon completion of the merger. For each fractional share that would otherwise be issued, Prudential will pay cash in an amount determined by multiplying (1) the fraction of a share (after taking into account all shares of Polonia common stock held by such holder at the effective time of the merger and rounded to the nearest thousandth when expressed in decimal form) of Prudential common stock to which such holder would otherwise have been entitled to receive, and (2) the quotient obtained by dividing (x) the per share cash consideration by (y) the exchange ratio. For purposes of determining any fractional share interest, all shares of Polonia common stock owned by a Polonia shareholder shall be combined so as to calculate the maximum number of whole shares of Prudential common stock issuable to such Polonia shareholder pursuant to the merger agreement. No interest will be paid or accrued on cash payable to holders in lieu of fractional shares.

Non-Election Shares

If a Polonia shareholder does not make an election to receive cash or Prudential common stock in the merger, or the shareholder’s elections are not received by the exchange agent by the election deadline, or the election form is not properly completed and/or is not signed, the Polonia shareholder will be deemed to not have made an election. Polonia shareholders not making an election will receive merger consideration depending on, and after giving effect to, the valid elections that have been made by other Polonia shareholders. The proration procedures described below will then be used to determine the form of consideration to be received by Polonia shareholders not making an election. If the Polonia shareholder does not make an election, he or she may receive only cash, only shares of Prudential common stock or a mixture of cash and shares of Prudential common stock.

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Proration Procedures

It is unlikely that the elections made by Polonia shareholders will be made in the exact proportions of cash consideration and stock consideration provided for in the merger agreement. As a result, the merger agreement included procedures to be followed if Polonia shareholders in the aggregate elect to receive more or less cash or shares of Prudential common stock than provided for in the merger agreement. These procedures are summarized below.

If Stock Consideration Is Oversubscribed

If Polonia shareholders elect to receive, in the aggregate, more shares of Prudential common stock than Prudential has agreed to issue in the merger pursuant to the terms of the merger agreement, then:

- all Polonia shareholders who have elected to receive cash or who have made no election will receive the cash consideration in exchange for their Polonia shares; and

- all Polonia shareholders who elected to receive shares of Prudential common stock will receive a pro rata portion of the Prudential shares of common stock available for issuance pursuant to terms of the merger agreement plus cash consideration for those shares of Polonia common stock that are not exchanged for shares of Prudential common stock.

If Stock Consideration Is Undersubscribed

If Polonia shareholders elect to receive, in the aggregate, fewer shares of Prudential common stock than the number of shares to be issued pursuant to the terms of the merger agreement (by the holders of more than 50% of Polonia shares of common stock electing to receive cash in exchange for their shares of Polonia common stock), then all Polonia shareholders who have elected to receive shares of Prudential common stock will receive shares of Prudential common stock in exchange for their Polonia shares and those shareholders who elected to receive cash or who have made no election will be treated in the following manner:

- if the number of shares held by Polonia shareholders who have made no election, if exchanged for shares of Prudential common stock based upon the exchange ratio, is sufficient to make up the shortfall in the number of shares of Prudential common stock to be issued pursuant to the terms of the merger agreement, then all Polonia shareholders who elected cash consideration will receive cash in exchange for their Polonia shares, and those shareholders who

made no election will receive a combination of cash and shares of Prudential common stock in such proportion as is necessary to make up the shortfall; or

- if the number of shares held by Polonia shareholders who have made no election, if exchanged for shares of Prudential common stock based upon the exchange ratio, is insufficient to make up the shortfall in the number of shares of Prudential common stock to be issued pursuant to the terms of the merger agreement, then all Polonia shareholders who made no election will receive shares of Prudential common stock and those Polonia shareholders who elected to receive cash consideration will receive a combination of cash and shares of Prudential common stock in such proportion as is necessary to make up the shortfall.

Conversion of Shares; Letter of Transmittal; Exchange of Certificates

The conversion of Polonia common stock into the right to receive the merger consideration will occur automatically at the effective time of the merger. As soon as reasonably practicable after completion of the merger but in any event within five business days, the exchange agent will mail to each Polonia shareholder who has not submitted an election form, a letter of transmittal with instructions on how to exchange certificates representing shares of Polonia common stock for the merger consideration, to be received in the merger pursuant to the terms of the merger agreement.

Dissenters' Rights

The shares of Polonia stock that are held by a Polonia shareholder who has perfected his or her right to dissent under applicable law will not be converted into, nor represent a right to receive, the merger consideration.

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Instead, such dissenting shareholder will be entitled to the rights granted by the MGCL. If any dissenting Polonia shareholder withdraws or loses his or her rights under the MGCL, the shares of Polonia common stock held by such shareholder will be converted into the right to receive the merger consideration in accordance with the merger agreement. No Polonia shareholders gave notice of an intent to dissent prior to Polonia's special meeting of shareholders can exercise their dissenters' rights and thus no Polonia shareholders.

Dividends and Distributions

Until Polonia common stock certificates are surrendered for exchange, any dividends or other distributions declared after the effective time of the merger with respect to Prudential common stock into which shares of Polonia common stock may have been converted will accrue but will not be paid. Prudential will pay to former Polonia shareholders any unpaid dividends or other distributions, without interest, only after they have surrendered their Polonia stock certificates.

Pursuant to the merger agreement, prior to the effective time of the merger, Polonia and its subsidiaries may not declare or pay any dividend or distribution on its capital stock.

Representations and Warranties

The merger agreement contains customary representations and warranties of Polonia and Prudential relating to their respective businesses. The representations must be true and correct in accordance with the materiality standards set forth in the merger agreement, as of the date of the merger agreement and at the effective date of the merger as though made at and as of such time (except that representations and warranties that by their terms speak as of the date of the merger agreement or some other date must be true and correct as of such date). The representations and warranties in the merger agreement do not survive the effective time of the merger.

Each of Prudential and Polonia has made representations and warranties to the other regarding, among other things:

- corporate matters, including due organization and qualification;
- capitalization;

- authority relative to execution and delivery of the merger agreement and the absence of breach or violations of organizational documents or other obligations as a result of the merger;
- required governmental filings and consents;
- the timely filing of reports with governmental entities, and the absence of investigations by regulatory agencies;
- financial statements and the absence of undisclosed liabilities;
- tax matters;
- the absence of circumstances and events reasonably likely to have a material adverse effect on the business of Polonia and Prudential;
- ownership of property;
- insurance coverage;
- legal proceedings;
- compliance with applicable law;
- employee matters, including employee benefit plans;
- brokers, finders and financial advisors;

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- environmental matters;
- loan related matters;
- availability of corporate documents;
- related party transactions;
- the vote required to approve the merger;
- information supplied; and
- investment securities and commodities.

Polonia has also made additional representations and warranties to Prudential regarding deposits, material contracts, real estate leases, bank regulatory reports, receipt of its financial advisor's fairness opinion, intellectual property and other certain types of contracts, risk management instruments and absence of fiduciary or trust accounts.

Prudential also has made representations and warranties to Polonia regarding its common stock.

The representations and warranties described above and included in the merger agreement were made by Prudential and Polonia to each other. These representations and warranties were made as of specific dates, may be subject to important qualifications and limitations agreed to by Prudential and Polonia in connection with negotiating the terms of the merger agreement (including by reference to information contained in disclosure schedules delivered by the parties under the merger agreement), and may have been included in the merger agreement for the purpose of allocating risk between Prudential and Polonia rather than to establish matters as facts. Accordingly, the representations and warranties and other provisions of the merger agreement should not be read alone, but instead should be read only in conjunction with the information provided elsewhere in this proxy statement and in the documents incorporated by reference into this proxy statement.

Covenants and Agreements

Each of Polonia and Prudential has undertaken customary covenants that place restrictions on it and its subsidiaries until the effective time of the merger. In general, each of Prudential and Polonia has agreed to operate its respective business in the usual, regular and ordinary course of business, use commercially reasonable efforts to preserve intact its business organization and assets and maintain its rights and franchises, and voluntarily take no action that would materially and adversely affect the ability to obtain any regulatory approvals required for the merger or materially affect its ability to perform its covenants under the merger agreement.

In addition, Polonia has agreed that, with certain exceptions and except with Prudential's prior written consent (which, with certain exceptions, is not to be unreasonably withheld, conditioned or delayed), that Polonia will not, and will not permit any of its subsidiaries to, among other things, undertake the following extraordinary actions:

- change or waive any provision of its articles of incorporation, charter or bylaws, except as required by law, or appoint a new director to the board of directors;

- change the number of authorized or issued shares of its capital stock, issue any shares of Polonia common stock, including any shares that are held as treasury stock as of the date of the merger agreement, or issue or grant any right or agreement of any character relating to its authorized or issued capital stock or any securities convertible into shares of such stock, make any grant or award under the Polonia stock benefit plans, or split, combine or reclassify any shares of capital stock, or declare, set aside or pay any dividend or other distribution in respect of capital stock or redeem, repurchase or otherwise acquire any shares of capital stock, except that Polonia may issue, redeem or repurchase shares of Polonia common stock in connection with the valid exercise or in connection with the vesting of restricted stock awards, in accordance with the information set forth in the disclosure schedules to

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the merger agreement, of presently outstanding Polonia options and restricted stock awards issued under the Polonia stock benefit plans;

- enter into, amend, extend (including not allowing agreements to extend which under their terms are extended unless board action is taken not to allow such extension) or terminate any contract or agreement (including without limitation any settlement agreement with respect to litigation) except in the ordinary course of business;

- make application for the opening, relocation or closing of any, or open or close any, branch or automated banking facility;

- grant or agree to pay any bonus, severance or termination to, or enter into, renew, amend or extend any employment agreement, severance agreement and/or supplemental executive agreement with, or increase in any manner the compensation or fringe benefits of, any of its directors, officers or employees, except (a) as may be required pursuant to commitments existing on the date hereof and set forth on the disclosure schedules of the merger agreement, and (b) pay increases in the ordinary course of business consistent with past practices to non-executive officers and employees provided such increases shall not exceed 2% (on an annualized basis) with respect to any individual. Except as set forth in disclosure schedules of the merger agreement, neither Polonia nor any Polonia subsidiary shall hire or promote any employee to an officer position, promote an existing officer to a more senior position, or hire any new employee at an annual rate of compensation in excess of $45,000; provided that Polonia or a Polonia subsidiary may hire at-will, non-officer employees to fill vacancies that existed as of the date of the merger agreement or which may from time to time arise in the ordinary course of business as long as the total number of full-time Polonia employees does not exceed the number as of the date of the merger agreement;

- enter into or, except as may be required by law, modify any pension, retirement, stock option, stock purchase, restricted stock, stock appreciation right, stock grant, savings, profit sharing, deferred compensation, supplemental retirement, consulting, bonus, group insurance or other employee benefit, incentive or welfare contract, plan or arrangement, or any trust agreement related thereto, in respect of any of its directors, officers or employees; or make any contributions to any defined contribution plan not in the ordinary course of business consistent with past practice;

- merge or consolidate Polonia or any Polonia subsidiary with any other corporation; sell or lease all or any substantial portion of the assets or business of Polonia or any Polonia subsidiary; make any acquisition of all or any substantial portion of the business or assets of any other person, firm, association, corporation or business organization other than in connection with foreclosures, settlements in lieu of foreclosure, troubled loan or debt restructuring, or the collection of any loan or credit arrangement between Polonia, or any Polonia subsidiary, and any other person; enter into a purchase and assumption transaction with respect to deposits and liabilities; voluntarily revoke or surrender by any Polonia subsidiary of its approval to maintain, or file an application for the relocation of, any existing branch office, or file an application for approval to establish a new branch office;

- sell or otherwise dispose of any asset of Polonia or of any Polonia subsidiary other than in the ordinary course of business consistent with past practice; except for transactions with the Federal Home Loan Bank of Pittsburgh, subject any asset of Polonia or of any Polonia subsidiary to a lien, pledge, security interest or other encumbrance (other than in connection with deposits, repurchase agreements, bankers acceptances, "treasury tax and loan" accounts established in the ordinary course of business and transactions in "federal funds" and the satisfaction of legal requirements in the exercise of trust powers); except as may be permitted pursuant the merger agreement, incur liability of any nature, including any indebtedness for borrowed money (or guarantee any indebtedness for borrowed money);

- voluntarily take any action which would result in any of the representations and warranties of Polonia set forth in the merger agreement becoming untrue or in any of the conditions set forth in the merger agreement not being satisfied, except in each case as may be required by applicable law;

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- change any method, practice or principle of accounting, except as may be required from time to time by generally accepted accounting principles (without regard to any optional early adoption date), any bank regulator responsible for regulating Polonia, or Polonia's independent accounting firm;

- except as set forth in the disclosure schedules, waive, release, grant or transfer any rights of value or modify or change any existing agreement or indebtedness to which Polonia or any Polonia subsidiary is a party;

- purchase any equity securities (other than additional shares of common stock of the Federal Home Loan Bank of Pittsburgh as may be required), or purchase any debt securities other than (a) debt securities issued by U.S. Government Agencies or direct obligations of the U.S. Treasury with final maturities not to exceed three years and a par of $1.0 million per security, and (b) any U.S. government fixed-rate mortgage-backed security with a weighted average maturity not to exceed four years that passes all applicable regulatory stress tests at the time of purchase, not to exceed $2.0 million in any one security;

- except as permitted under the merger agreement, issue or sell any equity or debt securities;

- except for commitments issued prior to the date of the merger agreement which have not yet expired and which have been disclosed on the disclosure schedules of the merger agreement, and the renewal of existing lines of credit, make any new loan or other credit facility commitment (including without limitation, lines of credit and letters of credit) without Prudential prior approval (i) to an existing credit relationship as of the date the merger agreement, in an amount in excess of $1.0 million for a commercial real estate loan and in excess of $100,000 for a commercial business loan; (ii) to a new credit relationship, in an amount in excess of $1.0 million a commercial real estate loan or $50,000 for a commercial business loan or (iii) in excess of $500,000 for a residential loan. In addition, the prior approval of Prudential is required with respect to the following: (a) any overdraft to commercial clients in excess of $35,000; (b) the granting of any new loans to directors, officers or employees or modifications to existing loans thereto except to the extent contractually required by the terms of the loans thereto and (c) any new credit or loan to an existing relationship that is rated "special mention," "substandard," or some lesser classification. With respect to any loan that requires Prudential prior approval, Prudential shall have three business days to act on such request from date the request is submitted by Polonia together with all relevant documentation for Prudential review, provided that Polonia shall first have approved such loan or credit;

- except as set forth in the disclosure schedules to the merger agreement, enter into, renew, extend or modify any other transaction (other than a deposit transaction) with any affiliate;

- enter into any futures contract, option, interest rate caps, interest rate floors, interest rate swaps, interest rate exchange agreement or other agreement or take any other action for purposes of hedging the exposure of its interest-earning assets and interest-bearing liabilities to changes in market rates of interest;

- borrow any new amounts from the Federal Home Loan Bank of Pittsburgh, other than overnight borrowings or borrowings with bullet maturities of not more than one year;

- make any change in policies in existence on the date of the merger agreement with regard to: the extension of credit, or the establishment of reserves with respect to the possible loss thereon or the charge off of losses incurred thereon; investments; asset/liability management; deposit pricing or gathering; or other banking policies except as may be required by changes in applicable law or regulations or generally accepted accounting principles, by a bank regulator;

- enter into any new line of business;

- except for the execution of the merger agreement, and the transactions contemplated therein, take any action that would give rise to an acceleration of the right to payment to any individual under any employment agreement, stock option plan or employee benefit plan;

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- make any capital expenditures in excess of $25,000 individually or $50,000 in the aggregate, other than pursuant to binding commitments existing on the date hereof and other than expenditures necessary to maintain existing assets in good repair;

- make any material change in Polonia's interest rate or fee pricing policies or practices with respect to depository accounts of Polonia Bank from those policies and practices in place as of the date of the merger agreement;

- incur any discretionary expense in excess of $25,000 individually that is not otherwise addressed in the negative covenants Polonia agreed to in the merger agreement;

- issue any certificates of deposit with a maturity longer than 24 months other than pursuant to renewals of existing certificates of deposit;

- undertake, enter into or renew (including by automatic renewal) any lease, contract or other commitment for its account, other than in the normal course of providing credit to customers as part of its banking business, involving a payment by Polonia or Polonia of more than $25,000 annually, or containing any financial commitment extending beyond 12 months from the date of the merger agreement;

- pay, discharge, settle, modify or compromise any claim, loan, action, litigation, arbitration or proceeding, other than any such payment, discharge, settlement, modification or compromise in the ordinary course of business consistent with past practice that involves solely money damages in the amount not in excess of $25,000 individually or $50,000 in the aggregate, and that does not create negative precedent for other pending or potential claims, actions, litigation, arbitration or proceedings;

- institute any new litigation or other legal or regulatory proceedings (excluding loan foreclosure or collection actions);

- foreclose upon or take a deed or title to any (a) commercial real estate, or (b) residential real estate on which, in the case of either clause (a) or (b), the presence of materials of environmental concern could be reasonably expected based on Polonia's knowledge, without first conducting a Phase I of the property and confirming that such Phase I does not indicate the presence of a materials of environmental concern;

- purchase or sell, other than in the ordinary course of business consistent with past practice, any mortgage loan servicing rights;

- issue any broadly distributed communication of a general nature to employees (including general communications relating to benefits and compensation, post-closing employment, benefit or compensation information) without prior consultation with and without the prior consent of Prudential (which shall not be unreasonably withheld, conditioned or delayed) or issue any broadly distributed communication of a general nature to customers without the prior

approval of Prudential (which shall not be unreasonably withheld, conditioned or delayed), except as required by law or for communications in the ordinary course of business consistent with past practice that do not relate to the merger or other transactions contemplated thereby;

- amend, modify or waive any non-competition, non-solicitation, no-piracy, or confidentiality agreement, or any other such restrictive agreement; or

- agree to do any of the foregoing.

Polonia and its subsidiaries also agreed to take all steps required by any relevant federal or state law or regulation or under any relevant agreement or other document to exempt or continue to exempt Prudential, Prudential Bank, the merger, the merger agreement and the transactions contemplated by the merger agreement from any provisions of an anti-takeover nature contained in Polonia's or its subsidiaries' organizational documents, and the provisions of any applicable federal or state anti-takeover laws and regulations.

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Each of Prudential and Polonia has agreed to additional covenants which include, among other things, commitments to provide certain financial and regulatory information upon request and maintain insurance in reasonable amounts.

Prudential has further agreed that Prudential will:

- take all reasonable action so that Polonia employees continuing after the merger are entitled to participate in the Prudential compensation and benefit plans to the same extent as similarly situated employees of Prudential, as further detailed in the merger agreement;
- for determining eligibility and vesting for certain Prudential employee benefit plans (and not for benefit accrual purposes except with respect to vacation, leave policies or programs and for calculating severance benefits), provide credit for meeting eligibility and vesting requirements in such plans for service as an employee of Polonia or any predecessor of Polonia;
- honor the terms of all Polonia compensation and benefit plans set forth in the disclosure schedules of the merger agreement;
- in the event of terminating the health plans of Polonia, Prudential shall make available to continuing employees and their dependents health plans of Prudential on the same basis it provides coverage to Prudential employees, as further detailed in the merger agreement;
- establish a retention bonus pool for employees of Polonia who are selected by Polonia and approved by Prudential and who remain employed through the date of the data processing systems conversion or such other date mutually agreed to by Polonia and Prudential, provided that the aggregate amount of such retention bonuses shall not exceed $50,000;
- to indemnify, defend and hold harmless all current and former officers and directors of Polonia against all claims that arise out of the fact that such person is or was a director or officer of Polonia or its subsidiaries and that relate to any matter of fact existing at or prior to the merger, to the fullest extent as would have been permitted by Polonia under Maryland law and under Polonia's articles of incorporation and bylaws;
- in certain circumstances, make proper provision so that successors and assigns of Prudential shall assume the obligations set forth in these covenants;
- maintain, for six years following the merger, Polonia's current directors' and officers' liability insurance policies covering the officers and directors of Polonia with respect to matters occurring at or prior to the merger, except that

Prudential may substitute similar policies, and that Prudential is not required to spend more than 150% of the annual cost currently expended by Polonia in order to obtain this insurance or, if Prudential determines to substitute “tail” policies with similar terms for Polonia’s existing insurance policies, it is not required to spend more than 250% of the annual cost currently expended by Polonia with respect to such insurance;

- obtain approval for listing of the shares of its common stock on Nasdaq; and

- reserve a sufficient number of shares of its common stock and maintain sufficient liquid accounts or borrowing capacity to fulfill its obligations in connection with the merger.

The merger agreement also contains mutual covenants relating to the preparation of this proxy statement, the regulatory applications and the holding of the special meeting of Polonia shareholders, respectively, access to information of Polonia and public announcements with respect to the transactions contemplated by the merger agreement. Polonia also agreed to use commercially reasonable efforts to take all actions needed to obtain necessary governmental and third-party consents and to consummate the transactions contemplated by the merger agreement and to not take any action that would or could reasonably be expected to disqualify the merger as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended.

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Polonia Shareholder Meeting

Polonia held a special meeting of its shareholders on October 25, 2016 to consider and vote on the adoption and approval of the merger agreement. At the special meeting the adoption of the merger agreement was approved by Polonia's shareholders.

Agreement Not to Solicit Other Offers

Polonia has agreed that it, its subsidiaries and their respective officers, directors, employees, investment bankers, financial advisors, attorneys, accountants, consultants, affiliates or other agents will not, directly or indirectly, (a) initiate, solicit, induce or knowingly encourage, or take any action to facilitate the making of, any inquiry, offer or proposal which constitutes, or could reasonably be expected to lead to, an "acquisition proposal" as defined in the merger agreement; (b) participate in any discussions or negotiations regarding any acquisition proposal or furnish, or otherwise afford access, to any person (other than Prudential) any information or data with respect to Polonia or any of its subsidiaries or otherwise relating to an acquisition proposal; (c) release any person from, waive any provisions of, or fail to enforce any confidentiality agreement or standstill agreement to which Polonia is a party; or (d) enter into any agreement, agreement in principle or letter of intent with respect to any acquisition proposal or approve or resolve to approve any acquisition proposal or any agreement, agreement in principle or letter of intent relating to an acquisition proposal. Any violation of the foregoing restrictions by Polonia or any Polonia representative, whether or not such representative is so authorized and whether or not such representative is purporting to act on behalf of Polonia or otherwise, shall be deemed to be a breach of the merger agreement by Polonia. The merger agreement required Polonia and its subsidiaries to, and to cause each of Polonia representatives to, immediately cease and cause to be terminated any and all existing discussions, negotiations, and communications with any persons with respect to any existing or potential acquisition proposal.

In the merger agreement:

"acquisition proposal" means any inquiry, offer or proposal (other than an inquiry, offer or proposal from Prudential), whether or not in writing, contemplating, relating to, or that could reasonably be expected to lead to, an "acquisition transaction."

"acquisition transaction" means (a) any transaction or series of transactions involving any merger, consolidation, recapitalization, share exchange, liquidation, dissolution or similar transaction involving Polonia or any of its subsidiaries; (b) any transaction pursuant to which any third party or group acquires or would acquire (whether through sale, lease or other disposition), directly or indirectly, any assets of Polonia or any of its subsidiaries

representing, in the aggregate, 25% or more of the assets of Polonia and its subsidiaries on a consolidated basis; (c) any issuance, sale or other disposition of (including by way of merger, consolidation, share exchange or any similar transaction) securities (or options, rights or warrants to purchase or securities convertible into, such securities) representing 25% or more of the votes attached to the outstanding securities of Polonia or any of its subsidiaries; (d) any tender offer or exchange offer that, if consummated, would result in any third party or group beneficially owning 25% or more of any class of equity securities of Polonia or any of its subsidiaries; or (e) any transaction which is similar in form, substance or purpose to any of the foregoing transactions, or any combination of the foregoing.

Polonia may, however, participate in discussions with, and may furnish information to, a third party in connection with a bona fide unsolicited acquisition proposal if, and only if:

- Polonia has received a bona fide unsolicited written acquisition proposal that did not result from a breach of the merger agreement;
- the board of directors of Polonia determines in good faith, after consultation with and having considered the advice of its outside legal counsel and its independent financial advisor, that such acquisition proposal constitutes a "superior proposal;"
- prior to furnishing or affording access to any information or data with respect to Polonia or any of its subsidiaries or otherwise relating to an acquisition proposal, Polonia receives from such person a confidentiality agreement with terms no less favorable to Polonia than those contained in the confidentiality agreements between Polonia and Prudential; and

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- the board of directors of Polonia determines in good faith, after consultation with and having considered the advice of its outside legal counsel, that the failure to take any such actions would be reasonably likely to violate its fiduciary duties under applicable laws.

Polonia has also agreed to promptly provide to Prudential any non-public information about Polonia that it provides to the third party making the proposal, to the extent such information was not previously provided to Prudential.

In the merger agreement:

"superior proposal" shall mean any unsolicited bona fide written proposal (on its most recently amended or modified terms, if amended or modified made by a third party to enter into an acquisition transaction on terms that the board of directors of Polonia reasonably determines in its good faith judgment, after consultation with and having considered the advice of outside legal counsel and its financial advisor, (a) would, if consummated, result in the acquisition of all, but not less than all, of the issued and outstanding shares of Polonia common stock or all, or substantially all, of the assets of Polonia and its subsidiaries on a consolidated basis; (b) would result in a transaction that (i) involves consideration to the holders of the shares of Polonia common stock that is more favorable than the merger consideration to be paid to Polonia's shareholders pursuant to the merger agreement, considering, among other things, the nature of the consideration being offered, any regulatory approvals or other risks associated with the timing of the proposed transaction in addition to those specifically contemplated by the merger agreement, and which proposal is not conditioned upon obtaining additional financing and (ii) is, in light of the other terms of such proposal, more favorable to Polonia than the merger and the transactions contemplated by the merger agreement; and (c) is reasonably likely to be completed on the terms proposed, in each case taking into account all legal, financial, regulatory and other aspects of the proposal.

In addition, Polonia has agreed that it will not approve or recommend, or publicly propose to approve or recommend, any acquisition proposal other than with respect to the Prudential merger.

Expenses and Fees

In general, each of Prudential and Polonia will be responsible for all expenses incurred by it in connection with the negotiation and completion of the transactions contemplated by the merger agreement, including the costs of printing and mailing the proxy statement for Polonia's special meeting.

Indemnification and Insurance

The merger agreement requires Prudential to indemnify Polonia's and its subsidiaries' current and former directors, officers and employees to the fullest extent as would have been permitted under applicable law and the Polonia articles of incorporation or the Polonia bylaws or similar governing documents. The merger agreement provides that in the event of any threatened or actual claim, action, suit, proceeding or investigation in which any person who is or has been a director or officer of Polonia or is threatened to be made party based in whole or in part on, or arising in whole or in part out of the fact that he or she is or was a director or officer of Polonia or any of its subsidiaries or predecessors and pertaining to any matter of fact arising, existing or occurring at or before the effective time of the merger (including the merger and the merger agreement), Prudential will defend against and respond thereto.

Prudential has agreed to indemnify and hold harmless each such indemnified party against any losses, claims, damages, liabilities, costs, expenses (including reasonable attorney's fees), judgments, and amounts paid in settlement in connection with any such threatened or actual claim, action, suit proceeding or investigation. The merger agreement also requires that Prudential provide advancement of expenses to, all past and present officers, directors and employees of Polonia and its subsidiaries in their capacities as such against all such losses, claims, damages, costs, expenses, liabilities, judgments or amounts paid in settlement to the fullest extent permitted by MGCL and Polonia's articles of incorporation and bylaws.

The merger agreement provides that Prudential will maintain for a period of six years after completion of the merger Polonia's current directors' and officers' liability insurance policies, or policies of at least the same coverage and amount and containing terms and conditions that are not less advantageous than the current policy, with respect to acts or omissions occurring prior to the effective time of the merger, except that Prudential is not

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required to incur an annual premium expense greater than 150% of Polonia's current annual directors' and officers' liability insurance premium or, if Prudential determines to substitute "tail" policies with similar terms for Polonia's existing insurance policies, it is not required to spend more than 250% of the annual cost currently expended by Polonia with respect to such insurance.

Conditions to Complete the Merger

Completion of the merger is subject to the fulfillment of certain conditions, none of which may be waived, including:

- the approval and adoption of the merger agreement by Polonia's shareholders (which has occurred);
- the absence of any law, statute, regulation, judgment, decree, injunction or other order in effect by any court or other governmental entity that prohibits completion of the transactions contemplated by the merger agreement;
- the receipt and effectiveness of all required governmental and other approvals, authorizations and consents on terms and conditions that would not have a material adverse effect on Prudential or Polonia, and the expiration of all related waiting periods required to complete the merger;
- the effectiveness of the registration statement of which this proxy statement is a part with respect to the Prudential common stock to be issued in the merger and the absence of any stop order or proceedings initiated or threatened by the SEC for that purpose;
- the approval for listing on Nasdaq Global Market of the shares of Prudential common stock issuable in the merger; and
- the receipt by each of Prudential and Polonia of a legal opinion with respect to certain United States federal income tax consequences of the merger.

Each of Prudential's and Polonia's obligations to complete the merger is also separately subject to the satisfaction or waiver of a number of conditions including:

- the absence of a material adverse effect on the other party;

- the truth and correctness of the representations and warranties of each other party in the merger agreement, subject generally to the materiality standard provided in the merger agreement, and the performance by each other party in all material respects of their obligations under the merger agreement and the receipt by each party of certificates from the other party to that effect;

- performance of all obligations in all material respects;

- obtaining all material permits, authorizations, consents, waivers, clearances or approvals required for the lawful consummation of the merger; and

- Prudential having delivered the merger consideration to the exchange agent.

Prudential and Polonia cannot provide assurance as to when or if all of the conditions to the merger can or will be satisfied or waived by the appropriate party. As of the date of this proxy statement, Prudential and Polonia have no reason to believe that any of these conditions will not be satisfied.

Termination of the Merger Agreement

The merger agreement can be terminated at any time prior to completion by mutual consent or by either party in the following circumstances:

- if there is a breach by the other party that would cause the failure of the closing conditions, unless the breach is capable of being, and is, cured within 30 days of notice of the breach and the terminating party is not itself in material breach;

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- if the merger has not been completed by February 28, 2017, unless the failure to complete the merger by that date was due to the terminating party's action or inaction;
- if the shareholders of Polonia fail to adopt the merger agreement at its special meeting;
- if any of the required regulatory approvals are denied (and the denial is final and non-appealable); or
- if any court of competent jurisdiction or governmental authority issues an order, decree, ruling or takes any other action restraining, enjoining or otherwise prohibiting the merger (and such order, decree, ruling or action is final and non-appealable).

In addition, Prudential's board of directors may terminate the merger agreement if the Polonia board of directors receives a superior proposal and enters into a letter of intent, agreement in principle or an acquisition agreement with respect to such proposal, withdraws its recommendation of the merger agreement, fails to make such a recommendation or modifies or qualifies its recommendation, in a manner adverse to Prudential, or has otherwise made a determination to accept such proposal.

Further, Polonia's board of directors may terminate the merger agreement if Polonia has received a superior proposal and has made a determination to accept such proposal.

Polonia may also terminate the merger agreement at any time during the three-day period following the tenth calendar day immediately prior to the effective time of the merger, or if such calendar day is not a trading day on the Nasdaq Stock Market, the trading day immediately preceding such calendar day (the "determination date"), if Polonia's board determines that each of the following have occurred:

- the average of the daily closing sale prices of a share of Prudential common stock as reported on Nasdaq for the 20 consecutive trading days immediately preceding the determination date is less than $11.89; and
- the decrease in the price of Prudential common stock is 20% greater than the decrease in the Nasdaq Bank Index during the same period.

However, if Polonia chooses to exercise this termination right, Prudential has the option, within five business days of receipt of notice from Polonia, to adjust the merger consideration and prevent termination under this provision.

If the merger agreement is terminated, it will become void, and there will be no liability on the part of Prudential or Polonia, except that both Prudential and Polonia will remain liable for any willful breach of the merger agreement and designated provisions of the merger agreement, including the payment of fees and expenses, and the confidential treatment of information and publicity restrictions, will survive the termination.

Termination Fee

Polonia will pay Prudential a termination fee of $1,515,000 and reimburse Prudential for all of Prudential's fees and expenses incurred in connection with the merger, including attorney, accountant and financial advisor fees, in the event that the merger agreement is terminated:

- by Prudential because Polonia has received a superior proposal and Polonia entered into an acquisition agreement with respect to the superior proposal, terminated the merger agreement, or withdrew the Polonia recommendation to its shareholders, failed to make the Polonia recommendation or modified or qualified the Polonia recommendation in a manner adverse to Prudential;

- by Polonia because Polonia received and made a determination to accept a superior proposal; or

- where Polonia enters into a definitive agreement relating to an acquisition proposal or the consummation of an acquisition proposal involving Polonia within twelve (12) months after the occurrence of any of the following: (a) the termination of the merger agreement by Prudential pursuant to a willful material breach of a representation, warranty, covenant or other agreement by Polonia, or

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(b) the failure of the shareholders of Polonia to approve the merger agreement after the public disclosure or public awareness of an acquisition proposal.

Amendment, Waiver and Extension of the Merger Agreement

Subject to applicable law, the parties may amend the merger agreement by written agreement between Polonia and Prudential executed in the same manner as the merger agreement.

At any time prior to the completion of the merger, each of the parties, by action taken or authorized by their respective board of directors, to the extent legally allowed, may:

- extend the time for the performance of any of the obligations or other acts of the other party;
- waive any inaccuracies in the representations and warranties of the other party; or
- waive compliance by the other party with any of the other agreements or conditions contained in the merger agreement.

However, after any approval of merger agreement by the shareholders of Polonia, there may not be, without further approval of such shareholders, any amendment which reduces the amount or value or changes the form of consideration to be delivered to Polonia shareholders.

ACCOUNTING TREATMENT

The merger will be accounted for as a "business combination," as that term is used under generally accepted accounting principles, for accounting and financial reporting purposes, with Prudential treated as the acquiror. Under the acquisition method of accounting, the assets (including identifiable intangible assets) and liabilities (including executory contracts and other commitments) of Polonia as of the effective time of the merger will be recorded at their respective fair values and added to those of Prudential. Any excess of purchase price over the fair values of net identifiable, tangible and intangible assets and liabilities is recorded as goodwill. Consolidated financial statements of Prudential issued after the merger would reflect these fair values and would not be restated retroactively to reflect the historical financial position or results of operations of Polonia.

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

The following summary describes generally the material U.S. federal income tax consequences of the merger to "U.S. holders" (as defined below) of Polonia common stock that exchange their shares of Polonia common stock for the merger consideration in the merger. The following discussion is based upon the Internal Revenue Code, the U.S. Treasury regulations promulgated thereunder and judicial and administrative authorities, rulings, and decisions, all as in effect on the date of this proxy statement. These authorities may change, possibly with retroactive effect, and any such change could affect the accuracy of the statements and conclusions set forth in this discussion. This discussion does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction, or under any U.S. federal laws other than those pertaining to the income tax.

The following discussion applies only to U.S. holders of shares of Polonia common stock who hold such shares as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). Further, this discussion does not purport to consider all aspects of U.S. federal income taxation that might be relevant to U.S. holders in light of their particular circumstances and does not apply to U.S. holders subject to special treatment under the U.S. federal income tax laws (such as, for example, dealers or brokers in securities, commodities or foreign currencies, traders in securities that elect to apply a mark-to-market method of accounting, banks and other financial institutions, insurance companies, mutual funds, tax-exempt organizations, holders subject to the alternative minimum tax provisions of the Internal Revenue Code, partnerships, S corporations or other pass-through entities or investors in pass-through entities, regulated investment companies, real estate investment trusts, controlled foreign corporations, passive foreign investment companies, former citizens or residents of the United States, holders whose functional currency is not the U.S. dollar, holders who hold shares of Polonia common stock as part of a hedge, straddle, constructive sale or conversion transaction or other integrated investment, holders who exercise appraisal rights, holders who actually or constructively own more than 5% of Polonia common stock, retirement plans and individual retirement accounts, and holders who acquired their shares of Polonia common stock

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through the exercise of a stock option, through a tax-qualified retirement plan or otherwise as compensation).

For purposes of this discussion, the term “U.S. holder” means a beneficial owner of Polonia common stock that is for U.S. federal income tax purposes (1) an individual citizen or resident of the United States, (2) a corporation (or entity treated as a corporation for U.S. federal income tax purposes) organized in or under the laws of the United States or any state thereof or the District of Columbia, (3) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) such trust has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes, or (4) an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source.

If an entity or an arrangement treated as a partnership for U.S. federal income tax purposes holds Polonia common stock, the tax treatment of a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Any entity treated as a partnership for U.S. federal income tax purposes that holds Polonia common stock, and any partners in such partnership, should consult their own tax advisors about the tax consequences of the merger to them.

Determining the actual tax consequences of the merger to a particular Polonia shareholder may be complex and will depend on such shareholder’s specific situation and on factors that are not within Prudential’s and Polonia’s control.

Tax Consequences of the Merger Generally

In connection with the filing with the SEC of the registration statement on Form S-4 of which this proxy statement is a part, Silver Freedman, tax counsel to Prudential, has rendered its tax opinion to Prudential and Kilpatrick Townsend, tax counsel to Polonia, has rendered its tax opinion to Polonia addressing the U.S. federal income tax consequences of the merger as described below. The discussion below of the material United States federal income tax consequences of the merger, serves, insofar as such discussion constitutes statements of United States federal income tax law or legal conclusions, as the opinion of each of Silver Freedman and Kilpatrick Townsend as to the material United States federal income tax consequences of the merger to the U.S. holders of Polonia common stock. In rendering their respective tax opinions, each counsel relied upon representations and covenants, including those contained in certificates of officers of Prudential and Polonia, reasonably satisfactory in form and substance to each such counsel. If any of the representations or assumptions upon which the opinions are based are inconsistent with the actual facts, the U.S. federal income tax consequences of the merger could be adversely affected. Copies of the tax opinions are attached as Exhibits 8.1 and 8.2 to the Registration Statement on Form S-4.

The parties intend for the merger to qualify as a "reorganization" for U.S. federal income tax purposes. It is a condition to the obligations of each of Prudential and Polonia that they receive an opinion from Silver Freedman and Kilpatrick Townsend, respectively, with each such opinion to be dated and based on the facts and law existing as of the closing date of the merger, to the effect that the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code. Neither Prudential nor Polonia currently intends to waive this opinion condition to its obligation to consummate the merger. If either Prudential or Polonia waives this opinion condition after this registration statement is declared effective by the SEC, and if the tax consequences of the merger to Polonia shareholders have materially changed, Prudential and Polonia will recirculate appropriate soliciting materials to resolicit the votes of Polonia shareholders. The closing opinions will be based on representation letters provided by Prudential and Polonia as of the closing date of the merger and on customary factual assumptions.

The opinions described above will not be binding on the Internal Revenue Service, which is referred to as the IRS, or any court. Prudential and Polonia have not sought and will not seek any ruling from the IRS regarding any matters relating to the merger, and as a result, there can be no assurance that the IRS will not assert, or that a court would not sustain, a position contrary to any of the conclusions set forth below. In addition, if any of the representations or assumptions upon which the opinions are based are inconsistent with the actual facts, the U.S. federal income tax consequences of the merger could be adversely affected.

The remainder of this discussion assumes that the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code, in which case neither Prudential nor Polonia will recognize any gain or loss

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as a result of the merger and U.S. holders of Polonia common stock will have the following federal income tax consequences:

- if a Polonia shareholder receives solely shares of Prudential common stock in the merger, upon exchanging such shareholder's Polonia common stock for Prudential common stock, the shareholder generally will not recognize gain or loss, except with respect to cash received instead of a fractional share of Prudential common stock (as discussed below);

- if a Polonia shareholder receives solely cash consideration in the merger, such shareholder will recognize gain or loss upon surrendering such shareholder's Polonia common stock in an amount equal to the difference between the amount of cash that the shareholder receives and such shareholder's aggregate adjusted tax basis in the shares of Polonia common stock that the shareholder surrenders; and

- if a Polonia shareholder receives both cash consideration (other than cash received instead of a fractional share of Prudential common stock) and stock consideration in the merger, (1) the shareholder will not recognize any loss upon surrendering such shareholder's Polonia common stock, and (2) the shareholder will recognize gain upon surrendering such shareholder's Polonia common stock equal to the lesser of (a) the excess, if any, of (i) the sum of the amount of cash that the shareholder receives plus the fair market value (determined as of the effective time of the merger) of the Prudential common stock that the shareholder receives over (ii) such shareholder's aggregate adjusted tax basis in the shares of Polonia common stock that the shareholder surrenders, and (b) the amount of cash consideration that the shareholder receives.

Gain or loss described in the second bullet point above generally will be capital gain or loss and will be long-term capital gain or loss if, as of the effective time of the merger, the holding period for such shares exceeds one year. Long-term capital gains of individuals are generally eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Any gain described in the third bullet point above will be capital gain unless the Polonia shareholder's receipt of cash has the effect of a distribution of a dividend, in which case the gain will be treated as a dividend to the extent of the shareholder's ratable share of Polonia's accumulated earnings and profits, as calculated for U.S. federal income tax purposes. For purposes of determining whether the Polonia shareholder's receipt of cash has the effect of a distribution of a dividend, the shareholder will be treated as if the shareholder first exchanged all of such shareholder's Polonia common stock solely in exchange for Prudential common stock and then Prudential immediately redeemed a portion of that stock for the cash that the shareholder actually received in the merger (referred to herein as the "deemed redemption"). Receipt of cash will generally not have the effect of a dividend to the shareholder if such receipt is "not essentially equivalent to a dividend" or "substantially disproportionate," each within the meaning of Section 302(b) of the Internal Revenue Code. In order for the deemed redemption to be "not essentially equivalent to a dividend," the deemed redemption must result in a "meaningful reduction" in the shareholder's deemed percentage stock ownership of Prudential following the merger. The determination generally requires a comparison of the percentage of the outstanding stock of Prudential that the shareholder is considered to have owned immediately before the deemed

redemption to the percentage of the outstanding stock of Prudential that the shareholder owns immediately after the deemed redemption. The IRS has indicated in rulings that any reduction in the interest of a minority shareholder that owns a small number of shares in a publicly and widely held corporation and that exercises no control over corporate affairs would result in capital gain (as opposed to dividend) treatment. For purposes of applying the foregoing tests, a shareholder will be deemed to own the stock the shareholder actually owns and the stock the shareholder constructively owns under the attribution rules of Section 318 of the Internal Revenue Code. Under Section 318 of the Internal Revenue Code, a shareholder will be deemed to own the shares of stock owned by certain family members, by certain estates and trusts of which the shareholder is a beneficiary, and by certain affiliated entities, as well as shares of stock subject to an option actually or constructively owned by the shareholder or such other persons. If, after applying these tests, the deemed redemption results in a capital gain, the capital gain will be long-term if the Polonia shareholder's holding period for the Polonia common stock is more than one year as of the date of the exchange. If, after applying these tests, the deemed redemption results in the gain recognized being classified as a dividend, such dividend will be treated as either ordinary income or qualified dividend income. Any gain treated as qualified dividend income will be taxable to the shareholder at the long-term capital gains rate, provided the shareholder held the

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shares giving rise to such income for more than 60 days during the 121-day period beginning 60 days before the effective time of the merger. The determination as to whether the shareholder will recognize a capital gain or dividend income as a result of the Polonia shareholder's exchange of Polonia common stock for a combination of Prudential common stock and cash in the merger is complex and is determined on a shareholder-by-shareholder basis.

The aggregate tax basis of the Prudential common stock that the Polonia shareholder receives in the merger, including any fractional shares deemed received and redeemed for cash as described below, will equal such shareholder's aggregate adjusted tax basis in the shares of Polonia common stock that the shareholder surrenders in the merger, decreased by the amount of any cash consideration (other than cash received instead of a fractional share of Prudential common stock) received and increased by the amount of any gain recognized. A Polonia shareholder's holding period for the shares of Prudential common stock that the shareholder receives in the merger (including any fractional share deemed received and redeemed for cash as described below) will include such shareholder's holding period for the shares of Polonia common stock that the shareholder surrenders in the merger. If the shareholder acquired different blocks of Polonia common stock at different times or at different prices, gain or loss must be calculated separately for each identifiable block of shares of Polonia common stock surrendered in the merger, and a loss realized on one block of shares may not be used to offset a gain realized on another block of shares. The basis and holding period of each block of Prudential common stock a Polonia shareholder receives will be determined on a block-for-block basis depending on the basis and holding period of the blocks of Polonia common stock exchanged for such block of Prudential common stock.

Cash Instead of Fractional Shares

If you receive cash instead of a fractional share of Prudential common stock, you will be treated as having received such fractional share of Prudential common stock pursuant to the merger and then as having received cash in exchange for such fractional share of Prudential common stock. As a result, you generally will recognize gain or loss equal to the difference between the amount of cash received instead of a fractional share and the basis in your fractional share of Prudential common stock as set forth above. Such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if, as of the effective time of the merger, the holding period for such fractional share (including the holding period of shares of Polonia common stock surrendered therefor) exceeds one year.

Net Investment Income Tax

A holder that is an individual is subject to a 3.8% tax on the lesser of: (1) his or her "net investment income" for the relevant taxable year, or (2) the excess of his or her modified adjusted gross income for the taxable year over a certain threshold (between $125,000 and $250,000 depending on the individual's U.S. federal income tax filing status). Estates and trusts are subject to similar rules. Net investment income generally would include any capital gain recognized in connection with the merger (including any gain treated as a dividend), as well as, among other items, other interest,

dividends, capital gains and rental or royalty income received by such individual.

Possible Treatment of Merger as a Taxable Transaction

The IRS may determine that the merger does not qualify as a nontaxable reorganization under Section 368(a) of the Internal Revenue Code. In that case, each Polonia shareholder would recognize a gain or loss equal to the difference between the (1) the sum of the fair market value of Prudential common stock and cash received by the Polonia shareholder in the merger, and (2) the Polonia shareholder's adjusted tax basis in the shares of Polonia common stock exchanged therefor. The likely tax treatment of the merger will not be known until the effective time of the merger, as the aggregate value of the Prudential common stock to be received by Polonia shareholders will fluctuate with the market price of the Prudential common stock.

Information Reporting and Backup Withholding

If a Polonia shareholder is a non-corporate holder of Polonia common stock, such shareholder may be subject, under certain circumstances, to information reporting and backup withholding (currently at a rate of 28 percent) on any cash payments the shareholder receives. The shareholder generally will not be subject to

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backup withholding, however, if the shareholder:

- furnishes a correct taxpayer identification number, certify that such shareholder is not subject to backup withholding and otherwise comply with all the applicable requirements of the backup withholding rules; or

- provide proof that the shareholder is otherwise exempt from backup withholding.

Any amounts withheld under the backup withholding rules are not an additional tax and will generally be allowed as a refund or credit against the Polonia shareholder's U.S. federal income tax liability, provided the shareholder timely furnishes the required information to the IRS.

Certain Reporting Requirements

If a U.S. holder that receives Prudential common stock in the merger is considered a "significant holder," such U.S. holder will be required (1) to file a statement with its U.S. federal income tax return providing certain facts pertinent to the merger, including such U.S. holder's tax basis in, and the fair market value of, the Polonia common stock surrendered by such U.S. holder, and (2) to retain permanent records of these facts relating to the merger. A "significant holder" is any Polonia shareholder that, immediately before the merger, (a) owned at least 1% (by vote or value) of the outstanding stock of Polonia, or (b) owned Polonia securities with a tax basis of $1.0 million or more.

This discussion of material U.S. federal income tax consequences is for general information purposes only and is not tax advice. Prudential shareholders who are holders of Polonia common stock are urged to consult their tax advisors with respect to the application of U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the U.S. federal estate or gift tax rules, or under the laws of any state, local, foreign or other taxing jurisdiction or under any applicable tax treaty.

INFORMATION ABOUT Polonia BANCORP

General

Polonia is a Maryland corporation that was incorporated in August 2011 to be the successor corporation to old Polonia, the former stock holding company for Polonia Bank, upon completion of the mutual-to-stock conversion of Polonia MHC, the former mutual holding company for Polonia Bank. Polonia does not engage in any business

activities apart from the ownership of Polonia Bank's capital stock. Accordingly, the information set forth in this proxy statement, including the consolidated financial statements and related financial data, relates primarily to Polonia Bank. As a savings and loan holding company, Polonia is subject to the regulation of the Board of Governors of the Federal Reserve System which we refer to as the FRB.

Polonia Bank operates as a community-oriented financial institution offering a variety of deposit products as well as providing residential real estate loans, and to a lesser degree, multi-family and nonresidential real estate loans, home equity loans and consumer loans primarily to individuals, families and small businesses located in Bucks, Philadelphia and Montgomery Counties, Pennsylvania. Polonia Bank operates from five full-service locations, including Polonia's main office in Huntingdon Valley, Pennsylvania and four branch offices in the city of Philadelphia. Polonia Bank's primary federal regulator is the OCC.

The FDIC, through the Deposit Insurance Fund, insures Polonia Bank's deposit accounts up to the applicable legal limits. Polonia Bank is a member of the Federal Home Loan Bank System.

Polonia Bank's website address is www.poloniabank.com. Information on Polonia Bank's website should not be considered a part of this proxy statement.

Market Areas

Polonia Bank is headquartered in Huntingdon Valley, Pennsylvania, which is located in the northwest suburban area of metropolitan Philadelphia and is situated between Montgomery and Bucks Counties. In addition to its main office in Montgomery County, Polonia Bank operates from four additional locations in Philadelphia County. Polonia Bank generates deposits through its five offices and conducts lending activities throughout the

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Greater Philadelphia metropolitan area, as well as in southeastern Pennsylvania and southern New Jersey. The Philadelphia metropolitan area is the fifth largest in the United States (based on United States Census data for 2010) with an estimated population of 6.0 million. The city of Philadelphia is the fifth most populous city in the United States and the largest in population and area in the Commonwealth of Pennsylvania.

The Greater Philadelphia metropolitan area's economy is heavily based upon manufacturing, refining, food and financial services. The city is home to many Fortune 500 companies, including cable television and internet provider Comcast; insurance companies CIGNA and Lincoln Financial Group; energy company Sunoco; food services company Aramark; paper and packaging company Crown Holdings Incorporated; diversified producer Rohm and Haas Company; the pharmaceutical company Glaxo SmithKline; the helicopter division of Boeing Co.; and automotive parts retailer Pep Boys. The city is also home to many universities and colleges.

Competition

Polonia faces significant competition for the attraction of deposits and origination of loans. Polonia's most direct competition for deposits has historically come from the several financial institutions operating in its market areas and, to a lesser extent, from other financial service companies such as brokerage firms, credit unions and insurance companies. Polonia also faces competition for investors' funds from money market funds, mutual funds and other corporate and government securities. At June 30, 2015, the most recent date for which deposit market share information is available, Polonia Bank held less than 1% of the deposits in the Philadelphia metropolitan area. In addition, banks owned by large bank holding companies such as PNC Financial Services Group, Inc., Wells Fargo & Company, TD Bank and Citizens Financial Group, Inc. also operate in its market areas. These institutions are significantly larger than Polonia and, therefore, have significantly greater resources.

Lending Activities

General. Polonia's loan portfolio consists primarily of one- to four-family residential real estate loans. To a much lesser extent, Polonia's loan portfolio includes multi-family and nonresidential real estate loans, home equity loans, commercial loans and consumer loans. Currently, Polonia offers only fixed-rate mortgage products.

One- to Four-Family Residential Real Estate Loans. Polonia's primary lending activity is the origination of mortgage loans to enable borrowers to purchase or refinance existing homes. Polonia offers fixed-rate mortgage loans with terms up to 30 years. The loan fees, interest rates and other provisions of mortgage loans are determined by Polonia on the basis of its own pricing criteria and competitive market conditions.

During the past several years the origination of Federal Housing Administration (“FHA”) insured loan products loans has been a primary source of business for Polonia. In 2015, the Company exited this line of business. FHA loans are made up to 96.5% of the lesser of the appraised value or purchase price and are originated and underwritten manually according to private investor and FHA guidelines. FHA loans were originated by Polonia Bank with the intention of selling the loans on a flow basis to the U.S. Department of Housing and Urban Development (“HUD”) and other private investors with servicing released. Generally, FHA loans are sold with recourse. Loan repurchase commitments are agreements to repurchase loans previously sold upon the occurrence of conditions established in the contract, including default by the borrower. This repurchase obligation triggered by the default of the underlying borrower for the FHA loans that Polonia sells usually expires 90-120 days from the date the loans are sold.

While one- to four-family residential real estate loans are normally originated with up to 30-year terms, such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full upon sale of the property pledged as security or upon refinancing the original loan. Therefore, average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans.

Polonia generally does not make conventional loans with loan-to-value ratios exceeding 80% at the time the loan is originated. Conventional loans with loan-to-value ratios in excess of 80% generally require private mortgage insurance or additional collateral. Polonia requires all properties securing mortgage loans to be appraised by a board-approved independent appraiser. Polonia generally requires title insurance on all first mortgage loans. All borrowers must obtain hazard insurance, and flood insurance is required for loans on properties located in a

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flood zone, before closing the loan. Generally, all loans are subject to the same stringent underwriting standards with the intention to hold in portfolio. In addition to the FHA loans that Polonia sells, it occasionally sells loans to (1) limit Polonia Bank's exposure to a single borrower or (2) in specific circumstances to manage the interest rate risk. All loans subject to sale are identified at the time of origination. Until mid-2015, Polonia's online loans division generated loans through the Internet for sale to the Federal Home Loan Bank of Pittsburgh through its Mortgage Partnership Finance program.

Multi-Family and Nonresidential Real Estate Loans. Polonia offers fixed-rate mortgage loans secured by multi-family and nonresidential real estate. Polonia's multi-family and nonresidential real estate loans are generally secured by owner-occupied properties, small office and apartment buildings. In addition to originating these loans, Polonia also participates in loans with other financial institutions located primarily in the Commonwealth of Pennsylvania. Such participations include adjustable-rate mortgage loans originated by other institutions.

Polonia originates fixed-rate multi-family and nonresidential real estate loans with terms up to 30 years. These loans are secured by first mortgages, and amounts generally do not exceed 80% of the property's appraised value at the time the loan is originated.

Commercial Loans. Polonia offers commercial business loans. In 2015, Polonia originated $10,000 in commercial loans. Polonia acquired commercial business loans with a fair value of $28,000 as of December 31, 2015 as a result of the Earthstar Bank acquisition in 2010.

Home Equity Loans and Lines of Credit. Polonia currently offers home equity loans with fixed interest rates for terms up to 15 years and maximum combined loan-to-value ratios of 80%. Polonia offers loans with adjustable interest rates tied to a market index in its market area.

Consumer Loans. Polonia currently offers consumer loans in the form of loans secured by savings accounts or time deposits.

The procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loan. Although the applicant's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount.

Polonia offers consumer loans secured by deposit accounts with fixed interest rates and terms up to five years.

Loan Underwriting Risks

Multi-Family and Nonresidential Real Estate Loans. Loans secured by multi-family and nonresidential real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in multi-family and nonresidential real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, Polonia generally requires borrowers and loan guarantors, if any, to provide annual financial statements on multi-family and nonresidential real estate loans. In reaching a decision on whether to make a multi-family and nonresidential real estate loan, Polonia considers the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. Polonia has generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 1.20x. Environmental surveys are obtained when circumstances suggest the possibility of the presence of hazardous materials.

Polonia underwrites all loan participations to its own underwriting standards. In addition, Polonia also considers the financial strength and reputation of the lead lender. To monitor cash flows on loan participations, Polonia requires the lead lender to provide annual financial statements for the borrower. Polonia also conducts an annual internal loan review for all loan participations.

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Commercial Loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real property the value of which tends to be more easily ascertainable, commercial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's underlying business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Loan Originations, Purchases and Sales. Loan originations come from a number of sources. The primary sources of loan originations are existing customers, walk-in traffic, advertising and referrals from customers. Polonia advertises in newspapers that are widely circulated in Montgomery, Bucks and Philadelphia Counties. Accordingly, when Polonia's rates are competitive, they attract loans from throughout Montgomery, Bucks and Philadelphia Counties. Polonia occasionally purchases loans and participation interests in loans. Generally, all loans are subject to the same stringent underwriting standards with the intention to hold in portfolio. In addition to the FHA loans that Polonia sells, it occasionally sells loans to (1) limit Polonia Bank's exposure to a single borrower or (2) in specific circumstances to manage the interest rate risk. All loans subject to sale are identified at the time of origination.

Loan Approval Procedures and Authority. Polonia's lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by its board of directors and management. A loan committee consisting of officers of Polonia Bank has authority to approve all conforming one- to four-family loans and education loans. Designated loan officers have the authority to approve savings account loans. All other loans, generally consisting of non-conforming one- to four-family loans, jumbo loans, commercial real estate and employee loans must be approved by the board of directors.

Loans to One Borrower. The maximum amount that Polonia may lend to one borrower and the borrower's related entities generally is limited, by regulation, to 15% of its stated capital and reserves. At June 30, 2016, Polonia's general regulatory limit on loans to one borrower was $5.2 million. At that date, Polonia's largest lending relationship was $2.4 million. These loans, which were made to or guaranteed by a director of Polonia or affiliated entities, are secured by four one- to four-family properties and two commercial real estate properties. These loans were performing in accordance with their original terms at June 30, 2016.

Loan Commitments. Polonia issues commitments for fixed-rate mortgage loans conditioned upon the occurrence of certain events. Commitments to originate mortgage loans are legally binding agreements to lend to Polonia's customers. Generally, Polonia's mortgage loan commitments expire after 60 days.

Investment Activities

Polonia has legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies and municipal governments, corporate securities, mortgage-backed securities, deposits at the Federal Home Loan Bank of Pittsburgh and time deposits of federally insured institutions. Within certain regulatory limits, Polonia also may invest a portion of its assets in mutual funds. Polonia also is required to maintain an investment in Federal Home Loan Bank of Pittsburgh stock. While Polonia has the authority under applicable law to invest in derivative securities, its investment policy does not permit this investment. Polonia had no investments in derivative securities at June 30, 2016.

Polonia’s investment objectives are to provide and maintain liquidity, to establish an acceptable level of interest rate and credit risk, to provide an alternate source of low-risk investments when demand for loans is weak and to generate a favorable return. Polonia’s board of directors has the overall responsibility for the investment portfolio, including approval of its investment policy and appointment of the Asset/Liability and Investment Committee. Individual investment transactions are reviewed and ratified by Polonia’s board of directors monthly.

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Deposit Activities and Other Sources of Funds

General. Deposits, borrowings and loan repayments are the major sources of Polonia's funds for lending and other investment purposes. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and money market conditions.

Deposit Accounts. Substantially all of Polonia's depositors are residents of the Commonwealth of Pennsylvania. Deposits are attracted, by advertising and through Polonia's website, from within its market areas through the offering of a broad selection of deposit instruments, including non-interest-bearing demand accounts (such as checking accounts), interest-bearing accounts (such as NOW and money market accounts), regular savings accounts and time deposits. Generally, Polonia does not utilize brokered funds. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of Polonia's deposit accounts, it considers the rates offered by its competition, its liquidity needs, profitability to us, matching deposit and loan products and customer preferences and concerns. Polonia generally reviews its deposit mix and pricing weekly. Polonia's current strategy is to offer competitive rates and to be in the middle to high-end of the market for rates on all types of deposit products.

Borrowings. Polonia utilizes advances from the Federal Home Loan Bank of Pittsburgh to supplement its supply of funds for lending and investment. The Federal Home Loan Bank functions as a central reserve bank providing credit for its member financial institutions. As a member, Polonia is required to own capital stock in the Federal Home Loan Bank and are authorized to apply for advances on the security of such stock and certain of its whole first mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the Federal Home Loan Bank's assessment of the institution's creditworthiness.

Regulatory Matters

Effective October 21, 2014, Polonia Bank and the OCC entered into a formal written agreement (the "Agreement"). The Agreement relates to the findings of the OCC following its regularly scheduled examination of Polonia Bank that began in the second quarter of 2014. The Agreement provides, among other things, that within specified time frames, Polonia Bank will:

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establish a Compliance Committee of its Board of Directors to monitor and coordinate Polonia Bank's adherence to the Agreement and to prepare periodic reports describing Polonia Bank's progress in complying with the Agreement;

- ensure that it has competent management in place, undertake periodic reviews of Polonia Bank's management, implement a program to enhance and improve the skills Polonia Bank's management team, where necessary, act to fill any vacancies among Polonia Bank's senior executive officers within prescribed timeframes and in accordance with regulations of the OCC;

- revise its written strategic plan and submit such revised plan to the OCC for review, with such strategic plan establishing objectives for Polonia Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital and liquidity adequacy, product line development, outsourcing and market segments, together with strategies to achieve Polonia Bank's objectives;

- implement a revised asset liability management program to address Polonia Bank's interest rate risk tolerance;

- implement a mortgage banking operations risk management program;

- confirm the terms of Polonia Bank's current outstanding obligation to fund third party obligations and implement a program for oversight of Polonia Bank's mortgage origination funding activities;

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- implement a revised internal audit program;
- implement a program relating to the compensation payable to Polonia Bank's executive officers, employees and directors to ensure that such compensation is reasonable and not excessive; and
- implement a revised third party risk management program that is consistent with OCC guidance.

On November 10, 2015, Polonia Bank and the OCC entered into an amendment (the "Amendment") to the Agreement. The Amendment relates to the findings of the OCC following its regularly scheduled examination of Polonia Bank that began in the second quarter of 2015. The Amendment provides, among other things, that within specified time frames, Polonia Bank will:

- Submit to the OCC a revised written compliance management program and, upon receipt of no supervisory objection, adopt and implement such program; and
- Engage an independent consultant to review all loans originated by Polonia Bank's FHA department for the calendar years 2012, 2013 and 2014 to determine compliance with the Real Estate Settlement Procedures Act of 1974 and regulations thereunder; submit to the OCC the results of the consultant's review and a remediation plan for resolving any violations found in such review; and, upon receipt of no supervisory objection, adopt and implement the remediation plan.

Articles II through X of the Agreement, which imposed substantive requirements on Polonia Bank, remain in effect without modification. The Agreement and the Amendment and each of their provisions will remain in effect unless and until the provisions are amended, suspended, waived, or terminated in writing by the OCC.

As a result of entering into the Agreement, Polonia Bank is deemed to be in "troubled condition" and is not considered an "eligible institution" under applicable regulations. As a result, Polonia Bank remains ineligible for expedited processing of any applications that it might file and must obtain the approval of the OCC prior to effecting any change in its directors or senior executive officers. In addition, Polonia Bank is restricted from paying any capital distributions without prior approval of the OCC.

In addition, the OCC imposed individual minimum capital requirements ("IMCRs") on Polonia Bank effective January 20, 2015. The IMCRs require Polonia Bank to maintain a leverage ratio (equal to Tier 1 capital to average total consolidated assets) of at least 10.00% and a total capital ratio (equal to total capital to total risk-weighted assets) of at least 15.00%. Absent the IMCRs, Polonia Bank must maintain a leverage ratio of at least 5.00% and a total capital ratio of at least 10.00% to be considered well-capitalized. At June 30, 2016, Polonia Bank had a Tier 1 leverage ratio

of 11.24% and a total risk-based capital ratio of 24.95%.

On February 17, 2015, Polonia entered into a Memorandum of Understanding ("MOU") with the Federal Reserve Bank of Philadelphia. Among other things, the MOU prohibits Polonia from paying dividends, repurchasing its stock or making other capital distributions without prior written approval of the Federal Reserve Bank of Philadelphia.

Personnel

As of June 30, 2016, Polonia had 44 full-time employees and 12 part-time employees, none of whom is represented by a collective bargaining unit. Polonia believes its relationship with its employees is good.

Subsidiaries

Polonia Bank has two wholly-owned subsidiaries, PBMHC Company ("PBMHC"), a Delaware corporation, and Community Abstract Agency LLC, a Pennsylvania limited liability company. PBMHC was formed in 1997 to hold certain assets and conduct certain investment activities of Polonia Bank. Community Abstract Agency LLC was formed in 1999 to provide title insurance services.

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Regulation of Polonia Bank

Polonia Bank, as a federal savings association, is currently subject to extensive regulation, examination and supervision by the OCC, as its primary federal regulator, and by the FDIC as the insurer of its deposits. Polonia Bank is a member of the Federal Home Loan Bank System and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. Polonia Bank must file reports with the OCC concerning its activities and financial condition in addition to obtaining regulatory approvals before entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the OCC to evaluate Polonia Bank's safety and soundness and compliance with various regulatory requirements. This regulatory structure is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of an adequate allowance for loan losses for regulatory purposes. Any change in such policies, whether by the OCC, the FDIC or Congress, could have a material adverse impact on Polonia and Polonia Bank and their operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") made extensive changes to the regulation of Polonia Bank. Under the Dodd-Frank Act, the Office of Thrift Supervision was eliminated and responsibility for the supervision and regulation of federal savings associations such as Polonia Bank was transferred to the OCC on July 21, 2011. The OCC is the agency that is primarily responsible for the regulation and supervision of national banks. Additionally, the Dodd-Frank Act created a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau assumed responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations and has authority to impose new requirements. However, institutions of less than $10 billion in assets, such as Polonia Bank, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the enforcement authority of, their prudential regulators.

Certain of the regulatory requirements that are or will be applicable to Polonia Bank and Polonia are described below. This description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations and their effects on Polonia Bank and Polonia.

Federal Banking Regulation

Business Activities. The activities of federal savings banks, such as Polonia Bank, are governed by federal laws and regulations. Those laws and regulations delineate the nature and extent of the business activities in which federal savings banks may engage. In particular, certain lending authority for federal savings banks, *e.g.*, commercial, non-residential real property loans and consumer loans, is limited to a specified percentage of the institution's capital or assets.

Capital Requirements. On July 9, 2013, the federal bank regulatory agencies issued a final rule that revised their risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision (“Basel III”) and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions and top-tier bank and savings and loan holding companies with total consolidated assets of $1 billion or more.

The rule established a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4.0% to 6.0% of risk-weighted assets) and assigned a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property.

The rule also included changes in what constitutes regulatory capital, some of which are subject to a two-year transition period. These changes include the phasing-out of certain instruments as qualifying capital. In addition, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of common stock are required to be deducted from capital, subject to a two-year transition period.

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Finally, Tier 1 capital includes accumulated other comprehensive income (which includes all unrealized gains and losses on available for sale debt and equity securities), subject to a two-year transition period.

The new capital requirements also include changes in the risk weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and nonresidential mortgage loans that are 90 days past due or otherwise on nonaccrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; a 250% risk weight (up from 100%) for mortgage servicing rights and deferred tax assets that are not deducted from capital; and increased risk weights (from 0% to up to 600%) for equity exposures.

Finally, the rule limits capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements.

The final rule became effective on January 1, 2015. The capital conservation buffer requirement is being phased in beginning January 1, 2016, at 0.625% of risk-weighted assets, increasing each year until fully implemented at 2.5% on January 1, 2019.

As of June 30, 2016, Polonia Bank met all capital adequacy requirements.

Prompt Corrective Regulatory Action. The OCC is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, a savings association that has a ratio of total capital to risk-weighted assets of less than 8%, a ratio of Tier 1 (core) capital to risk-weighted assets of less than 4% or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." A savings association that has a total risk-based capital ratio of less than 6%, a Tier 1 capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and a savings association that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the OCC is required to appoint a receiver or conservator within specified time frames for an institution that is "critically undercapitalized." The regulation also provides that a capital restoration plan must be filed with the OCC within 45 days of the date a savings association is deemed to have received notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Compliance with the plan must be guaranteed by any parent holding company up to the lesser of 5% of the savings association's total assets when it was deemed to be undercapitalized or the amount necessary to achieve compliance with applicable capital requirements. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The OCC could

also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. Significantly and critically undercapitalized institutions are subject to additional mandatory and discretionary measures.

Insurance of Deposit Accounts. Polonia Bank's deposits are insured up to applicable limits ($250,000 per account) by the Deposit Insurance Fund of the FDIC. Under the FDIC's existing risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors, with less risky institutions paying lower assessments. An institution's assessment rate depends upon the category to which it is assigned.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of $10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of Polonia Bank. Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation,

rule, order or condition imposed by the FDIC or the OCC. The management of Polonia Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Loans to One Borrower. Federal law provides that savings associations are generally subject to the limits on loans to one borrower applicable to national banks. Generally, subject to certain exceptions, a savings association may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily-marketable collateral.

Qualified Thrift Lender Test. Federal law requires savings associations to meet a qualified thrift lender test. Under the test, a savings association is required to either qualify as a "domestic building and loan association" under the Internal Revenue Code or maintain at least 65% of its "portfolio assets" (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business) in certain "qualified thrift investments" (primarily residential mortgages and related investments, including certain mortgage-backed securities but also including education, credit card and small business loans) in at least nine months out of each 12-month period.

A savings association that fails the qualified thrift lender test is subject to certain operating restrictions and the Dodd-Frank Act also specifies that failing the qualified thrift lender test is a violation of law that could result in an enforcement action and dividend limitations. As of June 30, 2016, Polonia Bank met the qualified thrift lender test.

Limitation on Capital Distributions. Federal regulations impose limitations upon all capital distributions by a savings association, including cash dividends, payments to repurchase its shares and payments to shareholders of another institution in a cash-out merger. Under the regulations, an application to and the prior approval of the OCC is required before any capital distribution if the institution does not meet the criteria for "expedited treatment" of applications under OCC regulations (*i.e.*, generally, examination and Community Reinvestment Act ratings in the two top categories), the total capital distributions for the calendar year exceed net income for that year plus the amount of retained net income for the preceding two years, the institution would be undercapitalized following the distribution or the distribution would otherwise be contrary to a statute, regulation or agreement with the OCC. If an application is not required, the institution must still provide 30 days prior written notice to the Board of Governors of the Federal Reserve System of the capital distribution if, like Polonia Bank, it is a subsidiary of a holding company, as well as an informational notice filing to the OCC. If Polonia Bank's capital ever fell below its regulatory requirements or the OCC notified it that it was in need of increased supervision, its ability to make capital distributions could be restricted. In addition, the OCC could prohibit a proposed capital distribution by any institution, which would otherwise be permitted by the regulation, if the OCC determines that such distribution would constitute an unsafe or unsound practice.

Standards for Safety and Soundness. The federal banking agencies have adopted Interagency Guidelines prescribing Standards for Safety and Soundness in various areas such as internal controls and information systems, internal audit, loan documentation and credit underwriting, interest rate exposure, asset growth and quality, earnings and compensation, fees and benefits. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the OCC determines that a savings association fails to meet any standard prescribed by the guidelines, the OCC may require the institution to submit an acceptable plan to achieve compliance with the standard.

Community Reinvestment Act. All federal savings associations have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. An institution's failure to satisfactorily comply with the provisions of the Community Reinvestment Act could result in denials of regulatory applications. Responsibility for administering the Community Reinvestment Act, unlike other fair lending laws, is not being transferred to the Consumer Financial Protection Bureau. Polonia Bank received a "satisfactory" Community Reinvestment Act rating in its most recently completed examination.

Transactions with Related Parties. Federal law limits Polonia Bank's authority to engage in transactions with "affiliates" (*e.g.*, any entity that controls or is under common control with Polonia Bank, including Polonia and their other subsidiaries). The aggregate amount of covered transactions with any individual affiliate is limited to

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10% of the capital and surplus of the savings association. The aggregate amount of covered transactions with all affiliates is limited to 20% of the savings association's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type specified by federal law. The purchase of low quality assets from affiliates is generally prohibited. Transactions with affiliates must generally be on terms and under circumstances that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings associations are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings association may purchase the securities of any affiliate other than a subsidiary.

The Sarbanes-Oxley Act of 2002 generally prohibits loans by Polonia to its executive officers and directors. However, the law contains a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws. Under such laws, Polonia Bank's authority to extend credit to executive officers, directors and 10% shareholders ("insiders"), as well as entities such persons control, is limited. The laws limit both the individual and aggregate amount of loans that Polonia Bank may make to insiders based, in part, on Polonia Bank's capital level and requires that certain board approval procedures be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. Loans to executive officers are subject to additional limitations based on the type of loan involved.

Enforcement. The OCC currently has primary enforcement responsibility over savings associations and has authority to bring actions against the institution and all institution-affiliated parties, including shareholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful actions likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors to institution of receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1 million per day in especially egregious cases. The FDIC has the authority to recommend to the OCC that enforcement action be taken with respect to a particular savings association. If action is not taken by the OCC, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

Federal Home Loan Bank System. Polonia Bank is a member of the Federal Home Loan Bank System, which consists of 11 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. Polonia Bank, as a member of the Federal Home Loan Bank of Pittsburgh, is required to acquire and hold shares of capital stock in that Federal Home Loan Bank. Polonia Bank was in compliance with this requirement at June 30, 2016.

Federal Reserve Board System. The Federal Reserve Board regulations require savings associations to maintain noninterest earning reserves against their transaction accounts (primarily Negotiable Order of Withdrawal (NOW) and

regular checking accounts). The regulations generally provide that reserves be maintained against aggregate transaction accounts. Polonia Bank is required to maintain average daily reserves equal to 3% on aggregate transaction accounts of up to $89.0 million, plus 10% on the remainder, and the first $13.3 million of otherwise reservable balances will be exempt. These reserve requirements are subject to adjustment by the FRB. Polonia Bank is in compliance with the foregoing requirements.

Other Regulations

Polonia Bank's operations are also subject to federal laws applicable to credit transactions, including the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

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- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;

- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;

- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and

- rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of Polonia Bank also are subject to laws such as the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and

- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check.

Holding Company Regulation

General. As a savings and loan holding company, Polonia is subject to Federal Reserve Board regulations, examinations, supervision, reporting requirements and regulations regarding its activities. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to Polonia Bank.

Pursuant to federal law and regulations and policy, a savings and loan holding company such as Polonia may generally engage in the activities permitted for financial holding companies under Section 4(k) of the Bank Holding Company Act and certain other activities that have been authorized for savings and loan holding companies by regulation.

Federal law prohibits a savings and loan holding company from, directly or indirectly or through one or more subsidiaries, acquiring more than 5% of the voting stock of another savings association, or savings and loan holding company thereof, without prior written approval of the Federal Reserve Board or from acquiring or retaining, with certain exceptions, more than 5% of a non-subsidiary holding company or savings association. A savings and loan holding company is also prohibited from acquiring more than 5% of a company engaged in activities other than those authorized by federal law or acquiring or retaining control of a depository institution that is not insured by the FDIC. In evaluating applications by holding companies to acquire savings associations, the Federal Reserve Board must consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community and competitive factors.

The Federal Reserve Board is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings associations in more than one state, except: (i) the approval of interstate supervisory acquisitions by savings and loan holding companies; and (ii) the acquisition of a savings association in another state if the laws of the state of the target savings association specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

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Source of Strength. The Dodd-Frank Act also extends the “source of strength” doctrine to savings and loan holding companies. The regulatory agencies must promulgate regulations implementing the “source of strength” policy that holding companies act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

Polonia Bank must notify the Federal Reserve Board prior to paying a dividend to Polonia. The Federal Reserve Board may disapprove a dividend if, among other things, the Federal Reserve Board determines that the federal savings bank would be undercapitalized on a pro forma basis or the dividend is determined to raise safety or soundness concerns.

Acquisition of Polonia. Under the Federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire direct or indirect “control” of a savings and loan holding company or savings association. Under certain circumstances, a change of control may occur, and prior notice is required, upon the acquisition of 10% or more of the outstanding voting stock of the company or institution, unless the Federal Reserve Board has found that the acquisition will not result in a change of control. Under the Change in Bank Control Act, the Federal Reserve Board generally has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that acquires control would then be subject to regulation as a savings and loan holding company.

Legal Proceedings

On August 5, 2015, Lane Brennen, a former employee of Polonia Bank, filed a complaint in state court naming Polonia Bank, Polonia Bank’s former chief executive officer, Polonia Bank’s chief financial officer, Polonia Bank’s former chief lending officer and an employee of Polonia Bank as defendants (*Lane Brennen v Polonia Bank et al.*, Philadelphia Court of Common Pleas, Case ID 150800526). The complaint alleges claims for breach of his employment contract, violation of Pennsylvania’s Wage Payment and Collection Law, and for unlawful retaliation and demands an accounting. Mr. Brennen seeks compensation that he alleges is owed to him under the terms of his employment agreement, as well as other compensatory and punitive damages. Polonia Bank intends to vigorously defend against these claims. However, the defense may not be successful and insurance may not be available or adequate to fund any judgment, settlement or costs of defense of this action. The individual defendants may be entitled to indemnification from Polonia Bank, for which there may be no insurance coverage. Polonia Bank has asserted claims against Mr. Brennen for breach of contract and breach of fiduciary duties.

On December 9, 2015, Jerry Markopoulos, a former employee of Polonia Bank, filed a complaint naming Polonia Bank, Polonia Bank’s Chairman, Polonia Bank’s chief executive officer, and Polonia Bank’s former chief lending officer as defendants (*Markopoulos v. Polonia Bank et al.*, United States District Court for the Eastern District of

Pennsylvania, Case No. 2:15-cv-06520). The complaint alleges claims for breach of his employment contract, violation of Pennsylvania's Wage Payment and Collection Law, and for unlawful retaliation and demands for an accounting. Mr. Markopoulos seeks compensation that he alleges is owed to him under the terms of his employment agreement, as well as other compensatory damages and costs and expenses. Polonia Bank intends to vigorously defend against these claims. However, the defense may not be successful and insurance may not be available or adequate to fund any judgment, settlement or costs of defense of this action. The individual defendants may be entitled to indemnification from Polonia Bank, for which there may be no insurance coverage.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Polonia's business activities are the ownership of the outstanding capital stock of Polonia Bank. Currently, Polonia neither owns or leases any property, but instead uses the premises, equipment and other property of Polonia Bank and pays appropriate rental fees, as required by applicable law and regulations. In the future, Polonia may acquire or organize other operating subsidiaries; however, there are no current plans, arrangements, or understandings, written or oral, to do so.

Income. Polonia's primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that Polonia earns on its loans and securities, and interest

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expense, which is the interest that it pays on its deposits and Federal Home Loan Bank borrowings. Other significant sources of pre-tax income are service charges on deposit accounts and other loan fees (including loan brokerage fees and late charges). In addition, Polonia recognizes gains or losses from the sale of loans and investments in years that it has such sales.

Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and value of the portfolio, information about specific borrower situations, and estimated collateral values, economic conditions, and other factors. Allocation of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

Expenses. The non-interest expenses Polonia incurs in operating its business consist of salaries and employee benefits expenses, occupancy and equipment expenses, marketing expenses and various other miscellaneous expenses.

Salaries and employee benefits consist primarily of: salaries and wages paid to Polonia's employees; payroll taxes; and expenses for health insurance and other employee benefits.

Occupancy and equipment expenses, which are the fixed and variable costs of buildings and equipment, consist primarily of depreciation charges, furniture and equipment expenses, maintenance, real estate taxes and costs of utilities. Depreciation of premises and equipment is computed using the straight-line method based on the useful lives of the related assets, which range from three to 40 years.

Marketing expenses include expenses for advertisements, promotions, third-party marketing services and premium items.

Other expenses include expenses for supplies, telephone and postage, data processing, contributions and donations, director and committee fees, insurance and surety bond premiums and other fees and expenses.

Critical Accounting Policies

Polonia considers accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. Polonia considers the following to be Polonia's critical accounting policies.

Securities. Securities are reported at fair value adjusted for premiums and discounts which are recognized in interest income using the interest method over the period to maturity. Declines in the fair value of individual securities below their amortized cost, and that are deemed to be other than temporary, will be written down to current market value and included in earnings as realized losses. Management systematically evaluates securities for other than temporary declines in fair value on a quarterly basis.

Allowance for loan losses. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Polonia's periodic evaluation of the adequacy of the allowance for loan losses is determined by management through evaluation of the loss exposure on individual non-performing, delinquent and high-dollar loans; review of economic conditions and business trends; historical loss experience and growth and composition of the loan portfolio, as well as other relevant factors.

A quantitative analysis is utilized to support the adequacy of the allowance for loan losses. This analysis includes review of historical charge-off rates for loan categories, fluctuations and trends in the amount of classified loans and economic factors. Significant to this analysis are any changes in observable trends that may be occurring relative to loans to assess potential weaknesses within the credit. Current economic factors and trends in risk ratings are considered in the determination and allocation of the allowance for loan losses.

Income Taxes. Polonia files a consolidated federal income tax return. Deferred tax assets and liabilities are computed based on the difference between the financial statement and the income tax basis of assets and liabilities

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using the enacted marginal tax rates. Deferred income taxes or benefits are based on changes in the deferred tax asset or liability from period to period. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which such items are expected to be realized or settled. As changes in tax rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Comparison of Financial Condition at June 30, 2016 and December 31, 2015

Total assets at June 30, 2016 were $284.3 million, a decrease of $7.3 million from total assets of $291.6 million at December 31, 2015. The purchase of certificates of deposit and investment securities resulted in a shift in Polonia's asset mix, as cash and cash equivalents were reinvested into higher yielding assets. Deposits declined due to competitive conditions, as Polonia allowed some deposit run-off to manage its liquidity needs. FHLB advances remained unchanged. However, Polonia was able to reduce its borrowing costs as a result of a shift from long-term to short-term maturities. The decrease in other liabilities related to a $2.0 million liability established in December 2015 for securities trades that settled in January 2016. Total stockholders' equity at June 30, 2016 was $37.4 million as compared to $37.5 million at December 31, 2015.

Cash and cash equivalents decreased to $15.4 million from $31.1 million during the six months ended June 30, 2016, primarily as the result of the purchase of $24.0 million in certificates of deposit and $22.0 million in investment securities.

Certificates of deposit increased to $24.8 million from $16.0 million during the six months ended June 30, 2016, primarily as a result of the purchase of $24.0 million in certificates of deposit, partially offset by the maturity of $15.2 million in certificates of deposit. The increase in certificates of deposit was completed to increase the yield on liquid assets while at the same time remaining short in terms of duration.

Investment securities available for sale increased to $59.3 million from $54.9 million during the six months ended June 30, 2016, an increase of $4.4 million, or 8.0%. The increase in investment securities available for sale was attributable to the purchase of $22.0 million in securities, partially offset by the sale of $13.5 million in securities and $4.7 million in repayments and maturities.

Total loans decreased $4.1 million, or 2.4%, to $169.4 million at June 30, 2016, compared to $173.5 million at December 31, 2015. The decrease in total loans was primarily the result of repayment and payoffs of loans.

Total deposits decreased to $183.3 million from $188.2 million during the six months ended June 30, 2016, a decrease of $4.9 million, or 2.6%. Deposits declined due to competitive conditions, as Polonia allowed some deposit run-off to manage its liquidity needs.

Total FHLB advances remained unchanged at $56.0 million during the six months ended June 30, 2016.

Comparison of Operating Results For the Six Months Ended June 30, 2016 and 2015

General. Polonia recorded a net loss of $292,000 during the six months ended June 30, 2016 compared to net income of $27,000 during the six months ended June 30, 2015. The decrease in net income for the six-month period ended June 30, 2016 was primarily related to a decrease in noninterest income and a decrease in net interest income, partially offset by a decrease in noninterest expense, a decrease in income tax expense and a decrease in the provision for loan losses.

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Net Interest Income. The following table summarizes changes in interest income and expense for the six months ended June 30, 2016 and 2015.

	Six Months Ended June 30,	
	2016	**2015**
	(Dollars in thousands)	
Interest and dividend income:		
Loans receivable	$ 3,799	$ 4,386
Investment securities	592	701
Other interest and dividend income	235	201
Total interest and dividend income	4,626	5,288
Interest expense:		
Deposits	802	855
FHLB advances – short term	-	-
FHLB advances – long term	712	735
Advances by borrowers for taxes and insurance	2	2
Total interest expense	1,516	1,592
Net interest income	$ 3,110	$ 3,696

The following table summarizes average balances and average yields and costs for the six months ended June 30, 2016 and 2015.

	Six Months Ended June 30,			
	2016		**2015**	
	Average Balance	**Yield/ Cost**	**Average Balance**	**Yield/ Cost**
	(Dollars in thousands)			
Assets:				
Interest-earning assets:				
Loans	$171,188	4.39 %	$199,635	4.37 %
Investment securities	55,468	2.11	53,535	2.60
Other interest-earning assets	46,408	1.02	30,827	1.31
Total interest-earning assets	273,064	3.41 %	283,997	3.75 %
Noninterest-earning assets:	14,871		17,194	
Allowance for Loan Losses	(1,250)		(1,377)	
Total assets	$286,685		$299,814	
Liabilities and equity:				
Interest-bearing liabilities:				
Interest-bearing demand deposits	$15,294	0.18 %	$13,420	0.17 %
Money Market Deposits	34,296	0.37	36,111	0.37
Savings accounts	30,092	0.15	28,287	0.15

Time deposits	100,755	1.40		111,535	1.37	
Total interest-bearing deposits	180,437	0.89	%	189,353	0.91	%
FHLB advances – short term	38	0.00		-	-	
FHLB advances – long term	55,434	2.58		58,503	2.53	
Advances by borrowers for taxes and insurance	1,011	0.40		1,168	0.35	
Total interest-bearing liabilities	236,920	1.29	%	249,024	1.29	%
Noninterest-bearing liabilities:	11,221			11,645		
Total liabilities	248,141			260,669		
Retained earnings	38,544			39,145		
Total liabilities and retained earnings	$286,685			$299,814		
Interest rate spread		2.12	%		2.46	%
Net yield on interest-earning assets		2.29	%		2.62	%
Ratio of average interest-earning assets to average interest-bearing liabilities		115.26	%		114.04	%

Net Interest Income. Net interest income for the six months ended June 30, 2016 decreased $586,000 from the same period last year. Polonia's net interest rate spread decreased to 2.12% for the six months ended June 30, 2016 from 2.46% for the same period last year. The primary reasons for the decrease in net interest income for the six-month period were a lower average balance of loans, a lower average yield earned on investment securities and other interest-earning assets, partially offset by a higher average balance of other interest-earning assets, a lower average balance of deposits, a lower average balance of FHLB advances and a higher average yield earned on loans.

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Provision for Loan Losses. For the six months ended June 30, 2016 there was no provision for loan losses recorded as compared to $73,000 for the six months ended June 30, 2015. The provisions reflect management's assessment of lending activities, changes in the loan portfolio, increased nonperforming loans, levels of current delinquencies and current economic conditions. There were loan charge-offs of $40,000 during the six months ended June 30, 2016 as compared to loan charge-offs of $128,000 during the six months ended June 30, 2015. There were loan recoveries of $13,000 during the six months ended June 30, 2016. There were no loan recoveries during the six months ended June 30, 2015.

Noninterest Income. The following table shows the components of noninterest income for the six months ended June 30, 2016 and 2015.

	Six Months Ended June 30,	
	2016	**2015**
	(Dollars in thousands)	
Service fees on deposit accounts	$ 47	$ 53
Earnings on bank-owned life insurance	(11)	(4)
Investment securities gain, net	641	-
Gain on sale of loans, net	-	1,690
Rental income	135	131
Other	(18)	411
Total	$ 794	$ 2,281

The $1.5 million decrease in noninterest income during the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 was due primarily to a $1.7 million decrease in gains on the sale of loans and a $430,000 decrease in other noninterest income, partially offset by an increase of $641,000 in investment securities gains. The decrease in the gain on the sale of loans was due to the elimination of the Retail Mortgage Banking Group. The decrease in other income was primarily due to the decrease of $305,000 in the value of non-qualified deferred compensation plan assets, a $74,000 decrease in the gain on the sale of other real estate owned and a $43,000 decrease in proceeds received from the surrender of life insurance policies.

Noninterest Expense. The following table shows the components of noninterest expense for the six months ended June 30, 2016 and 2015.

	Six Months Ended June 30,	
	2016	**2015**
	(Dollars in thousands)	

Compensation and employee benefits	$ 2,018	$ 2,986
Occupancy and equipment	609	644
Federal deposit insurance premiums	257	279
Data processing expense	211	198
Professional fees	337	376
Other	894	1,365
Total	$ 4,326	$ 5,848

The $1.5 million decrease in noninterest expense during the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 was primarily due to a $968,000 decrease in compensation and employee benefits, a $471,000 decrease in other noninterest expense, a $39,000 decrease in professional fees, a $35,000 decrease in occupancy and equipment and a $22,000 decrease in federal deposit insurance premiums, partially offset by a $13,000 increase in data processing expense. The decrease in compensation and employee benefits was the result of changes in staffing and employee benefits and the elimination of the Retail Mortgage Banking Group. The decrease in other expense was primarily related to a $305,000 decrease in the expense related to the non-qualified deferred compensation plan liabilities, a $137,000 decrease in loan expense, a $52,000 decrease in advertising expense, partially offset by a $33,000 increase in the expense related to the amortization of the FDIC indemnification asset.

Income Taxes. Polonia recorded a tax benefit of $130,000 for the six months ended June 30, 2016 as compared to tax expense of $29,000 during the six months ended June 30, 2015. The tax benefit resulted from the increase in its taxable operating losses.

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Liquidity and Capital Management

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term nature. Polonia's primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities and borrowings from the FHLB of Pittsburgh. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

Polonia regularly adjust its investments in liquid assets based upon its assessment of (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities and (4) the objectives of its asset/liability management policy.

Polonia's most liquid assets are cash and cash equivalents. The levels of these assets depend on its operating, financing, lending and investing activities during any given period. At June 30, 2016, cash and cash equivalents totaled $15.4 million. Securities classified as available for sale, which provide additional sources of liquidity, totaled $59.3 million at June 30, 2016. In addition, at June 30, 2016 Polonia had the ability to borrow a total of approximately $117.3 million from the FHLB of Pittsburgh. On June 30, 2016, Polonia had $56.0 million of borrowings outstanding. Any growth of Polonia's loan portfolio may require it to borrow additional funds.

At June 30, 2016, Polonia had $397,000 in mortgage loan commitments outstanding and $5.6 million in unused lines of credit. Time deposits due within one year of June 30, 2016 totaled $46.3 million, or 47.5% of time deposits. If these maturing deposits do not remain with Polonia, Polonia will be required to seek other sources of funds, including other time deposits and borrowings. Depending on market conditions, Polonia may be required to pay higher rates on such deposits or other borrowings that Polonia currently pays on the time deposits due on or before June 30, 2017. Polonia believes, however, based on past experience that a significant portion of its time deposits will remain with it. Polonia has the ability to attract and retain deposits by adjusting the interest rates offered.

Polonia's primary investing activities are the origination of loans and the purchase of securities. Polonia's primary financing activities consist of activity in deposit accounts and FHLB advances. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by Polonia and its local competitors and other factors. Polonia generally manages the pricing of its deposits to be competitive and to increase core deposit relationships. Occasionally, Polonia offers promotional rates on certain deposit products to attract deposits.

Polonia Bancorp is a separate entity from Polonia Bank and must provide for its own liquidity. In addition to its operating expenses, Polonia Bancorp may utilize its cash position for the payment of dividends or to repurchase

common stock, subject to applicable restrictions. Polonia Bancorp's primary source of funds is dividends from Polonia Bank. Payment of such dividends to Polonia Bancorp by Polonia Bank is limited under federal law. The amount that can be paid in any calendar year, without prior regulatory approval, cannot exceed the retained net earnings (as defined) for the year plus the preceding two calendar years. Polonia believes that such restriction will not have an impact on Polonia's ability to meet its ongoing cash obligations.

Capital Management. Polonia Bank is subject to various regulatory capital requirements administered by the Office of the Comptroller of Currency, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At June 30, 2016, Polonia Bank exceeded all of its regulatory capital requirements.

Off-Balance Sheet Arrangements. In the normal course of operations, Polonia engages in a variety of financial transactions that, in accordance with U.S. Generally Accepted Accounting Principles, are not recorded in its financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments.

For six months ended June 30, 2016 and the year ended December 31, 2015 Polonia engaged in no off-balance sheet transactions reasonably likely to have a material effect on its financial condition, results of operations or cash flows.

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Financial Condition at December 31, 2015

Total assets at December 31, 2015 were $291.6 million, a decrease of $16.7 million, or 5.4%, from total assets of $308.3 million at December 31, 2014. The decrease in assets resulted primarily from a $40.1 million decrease in total loans, a $4.5 million decrease in other assets and a $4.2 million decrease in loans held for sale, partially offset by an $18.9 million increase in cash and cash equivalents and a $16.0 million increase in certificates of deposit. Total liabilities at December 31, 2015 were $254.1 million compared to $271.4 million at December 31, 2014, a decrease of $17.3 million, or 6.4%. Total stockholders' equity increased to $37.5 million at December 31, 2015 from $36.9 million at December 31, 2014, an increase of $600,000, or 1.6%, primarily as a result of Polonia's operating income, the exercise of options covering 15,580 shares, a reduction in unallocated ESOP shares and an increase in accumulated other comprehensive income.

Cash and cash equivalents increased to $31.1 million from $12.2 million during the year ended December 31, 2015, an increase of $18.9 million, or 154.9%. The increase in cash and cash equivalents was attributable, in part, to the decrease of $40.1 million in total loans. The decrease in loans was partially due to the sale of $26.6 million in loans held for investment. Also contributing to the increase in cash and cash equivalents was a $4.2 million decrease in the loans held for sale and a $1.6 million decrease in investment securities, partially offset by a $16.0 increase in certificates of deposit.

Investment securities available for sale increased to $54.9 million from $11.7 million during the year ended December 31, 2015, an increase of $43.2 million, or 369.2%. The increase in investment securities available for sale was attributable to a transfer of $40.1 million of investment securities held to maturity and the purchase of $17.6 million in securities, partially offset by $8.1 million in sales of securities, $3.5 million in payments received and $3.3 million in calls or maturities.

Investment securities held to maturity decreased to $0 from $44.7 million during the year ended December 31, 2015, a decrease of $44.7 million, or 100.0%. The decrease in investment securities held to maturity was attributable, in part, to the transfer of $40.1 million of securities to available for sale and $4.6 million in payments received. The transfer of securities was undertaken as part of Polonia's strategy to mitigate interest rate risk.

Loans held for sale decreased to $0 from $4.2 million during the year ended December 31, 2015. The decrease in loans held for sale was due to the elimination of the Retail Mortgage Banking Group. Loans originated for sale during 2015 were $48.3 million and loans sold were $52.5 million compared to originations of $75.3 million and loans sold of $77.1 million in 2014.

Total loans decreased to $173.5 million from $213.6 million during the year ended December 31, 2015, a decrease of $40.1 million or 18.8%. The decrease in total loans was primarily the result of the sale of $26.1 million in 30-year fixed-rate jumbo loans. The loan sale was undertaken as part of Polonia's strategy to mitigate interest rate risk.

Other assets decreased to $4.4 million from $8.8 million during the year ended December 31, 2015. The decrease in other assets is primarily related to a $4.7 million distribution of Polonia's non-qualified deferred compensation plan assets held in a Rabbi Trust.

Total deposits decreased to $188.2 million from $199.6 million during the year ended December 31, 2015, a decrease of $11.4 million, or 5.7%. The decrease in deposits was attributable, in part, to the outflow of $11.0 million in time deposits, a $3.5 million decrease in money market accounts and a $400,000 decrease in noninterest bearing demand account, partially offset by a $2.1 million increase in NOW accounts and a $1.3 million increase in savings accounts. The decrease in time deposits was based on Polonia's loan demand and liquidity needs, as Polonia opted not to match competitors' rates.

Federal Home Loan Bank advances decreased to $56.0 million from $59.0 million during the year ended December 31, 2015, a decrease of $3.0 million or 5.1%. The decrease in Federal Home Loan Bank advances was due to the maturity of a $3.0 million advance during the year. Polonia utilize borrowings from the Federal Home Loan Bank of Pittsburgh to supplement Polonia's supply of funds for loans and investments.

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Other liabilities decreased to $8.8 million from $11.5 million during the year ended December 31, 2015, a decrease of $2.7 million or 23.5%. The decrease in other liabilities is related to a reduction of $4.7 million in Polonia's non-qualified deferred compensation plan liability partially offset by the liability of $2.0 million established for securities trades settling in January 2016.

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The following table sets forth the composition of Polonia's loan portfolio at the dates indicated.

	At December 31,									
	2015		2014		2013		2012		2011	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Per
	(Dollars in thousands)									
Real estate loans:										
One-to-four-family	$144,242	83.21 %	$182,272	85.46 %	$167,233	83.69 %	$101,793	73.22 %	$111,272	71
Multi-family and commercial real estate	10,414	6.01	10,783	5.06	10,564	5.29	8,501	6.11	9,439	6.
Home equity loans	2,828	1.63	2,040	0.96	2,365	1.18	2,489	1.79	2,818	1.
Home equity lines of credit	2,460	1.42	1,521	0.71	513	0.26	1,853	1.33	1,767	1.
Total real estate loans:	159,944	92.27	196,617	92.19	180,675	90.42	114,636	82.45	125,296	80
Commercial	7	0.01	—	—	—	—	—	—	—	—
Consumer:										
Education	1,234	0.71	1,558	0.73	1,806	0.90	2,228	1.60	2,885	1.
Other consumer	467	0.27	641	0.30	830	0.42	901	0.65	1,032	0.
Total consumer loans	1,701	0.98	2,199	1.03	2,636	1.32	3,129	2.25	3,917	2.
Total loans excluding covered loans	161,652	93.26	198,816	93.22	183,311	91.74	117,765	84.70	129,213	83
Covered loans	11,686	6.74	14,457	6.78	16,523	8.26	21,260	15.30	25,708	16
Total loans	173,338	100.00%	213,273	100.00%	199,834	100.00%	139,025	100.00%	154,921	10
Net deferred loan (costs) fees	113		279		117		(222)		(290)	
Allowance for loan losses on non-covered loans	(1,272)		(1,416)		(1,378)		(1,508)		(1,206)	
Allowance for loan losses on covered loans	—		—		—		—		(73)	
Loans, net	$172,179		$212,136		$198,573		$137,295		$153,352	

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The following table sets forth certain information at December 31, 2015 regarding the dollar amount of loan principal repayments becoming due during the periods indicated. The table does not include any estimate of prepayments, which significantly shorten the average life of all loans and may cause Polonia's actual repayment experience to differ from that shown below. Demand loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less.

	One-to-Four-Family Real Estate Loans	Multi-Family and Commercial Real Estate Loans	Commercial Loans	Home Equity Loans and Lines of Credit	Consumer Loans	**Covered Loans**	Total Loans
	(Dollars in thousands)						
Amounts due in:							
One year or less	$839	$ 10	$ —	$ 149	$ 262	$1,222	$2,482
More than one to five years	2,649	2,621	7	251	401	2,371	8,300
More than five years	140,754	7,783	—	4,888	1,038	8,093	162,556
Total	$144,242	$ 10,414	$ 7	$ 5,288	$ 1,701	$11,686	$173,338

The following table sets forth the dollar amount of all loans at December 31, 2015 that are due after December 31, 2016 and that have either fixed interest rates or adjustable interest rates. The amounts shown below exclude unearned interest on consumer loans and deferred loan fees.

	Fixed Rate	Adjustable Rate	**Total**
	(Dollars in thousands)		
Real estate loans:			
One-to-four-family	$143,403	$ —	$143,403
Multi-family and commercial real estate	4,275	6,129	10,404
Home equity loans and lines of credit	2,720	2,419	5,139
Commercial loans	7	—	7
Consumer loans	1,439	—	1,439
Covered loans	2,975	7,489	10,464
Total	$154,819	$ 16,037	$170,856

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Securities. The following table sets forth the amortized cost and fair values of Polonia's securities portfolio at the dates indicated.

	At December 31,					
	2015		2014		2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Securities available-for-sale:						
Fannie Mae	$25,168	$25,690	$1,446	$1,541	$2,090	$2,235
Freddie Mac	10,162	10,123	39	42	66	70
Government National Mortgage Association	400	449	469	528	556	619
Collateralized mortgage obligations – Government-sponsored entities	984	992	1,136	1,151	1,457	1,470
Total mortgage-backed securities	36,714	37,254	3,090	3,262	4,169	4,394
Corporate securities	16,921	16,958	8,293	8,450	10,701	10,877
Municipal securities	500	500	—	—	—	—
Total debt securities	54,135	54,712	11,383	11,712	14,870	15,271
Common Stock	160	160	—	—	—	—
Total	$54,295	$54,872	$11,383	$11,712	$14,870	$15,271

	At December 31,					
	2015		2014		2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Securities held-to-maturity:						
Fannie Mae	$—	$ —	$33,122	$34,438	$37,615	$38,375
Freddie Mac	—	—	11,620	11,755	13,705	13,502
Total mortgage-backed securities	$—	$ —	$44,742	$46,193	$51,320	$51,877

At December 31, 2015, Polonia had no investments in a single company or entity (other than U.S. Government-sponsored entity securities) that had an aggregate book value in excess of 10% of Polonia's equity at those dates.

Federal law requires a member institution of the Federal Home Loan Bank System to hold stock of its district Federal Home Loan Bank according to a predetermined formula. This stock is carried at cost and was $3.7 million at December 31, 2015. The Federal Home Loan Bank of Pittsburgh is permitted to increase the amount of capital stock owned by a member company to 6.0% of a member's advances, plus 1.50% of the unused borrowing capacity.

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The following table sets forth the stated maturities and weighted average yields of securities at December 31, 2015. Certain mortgage-backed securities have adjustable interest rates and will reprice annually within the various maturity ranges. These repricing schedules are not reflected in the table below. Yields are not presented on a tax-equivalent basis. Any adjustments necessary to present yields on a tax-equivalent basis are insignificant.

	One Year or Less		**More than One Year to Five Years**		**More than Five Years to Ten Years**		**More than Ten Years**		Total	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
	(Dollars in thousands)									
Securities available-for-sale:										
Fannie Mae	$24	5.30 %	$1,390	2.85 %	$5,299	2.66 %	$18,455	2.63 %	$25,168	2.65 %
Freddie Mac	—	—	429	2.83	—	—	9,733	2.06	10,162	2.09
Government National Mortgage Association securities	—	—	3	7.55	62	7.09	335	6.63	400	6.71
Collateralized mortgage obligations – Government-sponsored entities	—	—	10	4.38	488	2.89	486	2.11	984	2.52
Corporate securities	6,431	1.40	9,583	1.71	907	2.34	—	—	16,921	1.63
Municipal securities	500	1.25	—	—	—	—	—	—	500	1.25
Total	$6,955	1.40 %	$11,415	1.90 %	$6,756	2.67 %	$29,009	2.48 %	$54,135	2.24 %

Deposits. Polonia's primary source of funds is its deposit accounts, which are comprised of noninterest-bearing accounts, interest-bearing demand accounts, money market accounts, savings accounts and time deposits. These deposits are provided primarily by individuals who live or work within Polonia's market areas. Polonia has not used brokered deposits as a source of funding. Deposits decreased $11.4 million, or 5.7% for the year ended December 31, 2015.

The following table sets forth the balances of Polonia's deposit products at the dates indicated.

	At December 31,					
	2015		2014		2013	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Noninterest-bearing Accounts	$6,137	3.26 %	$6,483	3.25 %	$5,725	2.84 %
Interest-bearing Accounts	15,712	8.35	13,562	6.80	14,685	7.30
Money market	33,809	17.96	37,260	18.67	36,771	18.27
Savings accounts	29,879	15.87	28,590	14.33	30,385	15.09
Time deposits	102,685	54.56	113,659	56.95	113,756	56.50
Total	$188,222	100.00%	$199,554	100.00%	$201,322	100.00%

The following table indicates the amount of jumbo time deposits by time remaining until maturity as of December 31, 2015. Jumbo time deposits require minimum deposits of $100,000.

Maturity Period	Time Deposits
	(Dollars in thousands)
3 Months or less	$ 2,918
Over 3 Through 6 Months	4,232
Over 6 Through 12 Months	11,857
Over 12 Months	32,858
Total	$ 51,865

The following table sets forth Polonia's time deposits classified by rates at the dates indicated.

	At December 31,		
	2015	2014	2013
	(Dollars in thousands)		
0.01 - 0.99%	$25,476	$35,133	$36,560

1.00 - 1.99%	47,048	45,936	46,621
2.00 - 3.99%	30,161	32,590	30,575
Total	$102,685	$113,659	$113,756

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The following table sets forth the amount and maturities of time deposits classified by rates at December 31, 2015.

	Amount Due						
	Less Than One Year	More Than One Year to Two Years	More Than Two Years to Three Years	More Than Three Years to Four Years	More Than Four Years	Total	Percent of Total Time Deposits
	(Dollars in thousands)						
0.01 - 0.99%	$22,751	$ 2,552	$ 173	$ —	$ —	$25,476	24.81 %
1.00 - 1.99%	10,231	12,606	9,195	3,118	11,898	47,048	45.82
2.00 - 3.99%	6,651	11,088	7,736	3,263	1,423	30,161	29.37
Total	$39,633	$ 26,246	$ 17,104	$ 6,381	$ 13,321	$102,685	100.00 %

The following table sets forth deposit activity for the periods indicated.

	Year Ended December 31,		
	2015	2014	2013
	(Dollars in thousands)		
Beginning balance	$199,554	$201,322	$196,723
Increase (decrease) before interest credited	(13,021)	(3,483)	2,944
Interest credited	1,689	1,715	1,655
Net increase (decrease) in deposits	(11,332)	(1,768)	4,599
Ending balance	$188,222	$199,554	$201,322

Borrowings. Polonia utilizes borrowings from the Federal Home Loan Bank of Pittsburgh to supplement its supply of funds for loans and investments. All borrowings from the Federal Home Loan Bank are secured by a blanket security agreement on qualifying residential mortgage loans, certain pledged investment securities and Polonia's investment in Federal Home Loan Bank stock.

	Year Ended December 31,		
	2015	2014	2013
	(Dollars in thousands)		
Maximum amount of advances outstanding at any month end during the period:			
FHLB Advances	$59,000	$59,000	$59,000
Average advances outstanding during the period:			
FHLB Advances	$57,241	$59,000	$35,160
Weighted average interest rate during the period:			
FHLB Advances	2.55 %	2.53 %	2.64 %
Balance outstanding at end of period:			

FHLB Advances	$56,000	$59,000	$59,000
Weighted average interest rate at end of period:			
FHLB Advances	2.53 %	2.49 %	2.49 %

Comparison of Results of Operations for the Years Ended December 31, 2015 and 2014

Overview. Polonia recorded a net loss of $138,000 during the year ended December 31, 2015, compared to net income of $17,000 during the year ended December 31, 2014.

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Average Balances and Yields. The following table presents information regarding average balances of assets and liabilities, as well as the total dollar amounts of interest income and dividends from average interest-earning assets and interest expense on average interest-bearing liabilities and the resulting average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. For purposes of this table, non-accrual loans are included in average balances only. Loan fees are included in interest income on loans and are insignificant. Yields are not presented on a tax-equivalent basis. Any adjustments necessary to present yields on a tax-equivalent basis are insignificant.

	Years Ended December 31,					
	2015			2014		
	Average Balance	**Interest and Dividends**	**Yield/ Cost**	**Average Balance**	**Interest and Dividends**	**Yield/ Cost**
Assets:						
Interest-earning assets:						
Loans	$192,731	$ 8,605	4.46 %	$209,915	$ 9,520	4.54 %
Investment securities	50,822	1,272	2.50	62,040	1,641	2.65
Other interest-earning assets	36,284	336	0.93	14,022	181	1.29
Total interest-earning assets	279,837	10,213	3.65 %	285,977	11,342	3.97 %
Noninterest-earning assets	16,121			16,168		
Allowance for loan losses	(1,369)			(1,400)		
Total assets	$294,589			$300,745		
Liabilities and equity:						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$13,842	$ 23	0.17 %	$15,239	$ 26	0.17 %
Money market deposits	35,456	132	0.37	34,939	128	0.37
Savings accounts	28,582	43	0.15	30,322	69	0.23
Time deposits	108,141	1,491	1.38	111,967	1,492	1.33
Total interest-bearing deposits	186,021	1,689	0.91	192,467	1,715	0.89
FHLB advances - long-term	57,241	1,461	2.55	59,000	1,492	2.53
Advances by borrowers for taxes and insurance	1,077	3	0.28	1,083	3	0.28
Total interest-bearing liabilities	244,339	3,153	1.29 %	252,550	3,210	1.27 %
Noninterest-bearing liabilities:	10,807			8,586		
Total liabilities	255,146			261,136		
Retained earning	39,443			39,609		
Total liabilities and retained earnings	$294,589			$300,745		
Net interest income		$ 7,060			$ 8,132	
Interest rate spread			2.36 %			2.70 %
Net yield on interest-bearing assets			2.52 %			2.84 %
			114.53 %			113.24 %

Ratio of average interest-earning assets to
average interest-bearing liabilities

Net interest income for the year ended December 31, 2015 decreased to $7.1 million or 12.4% from $8.1 million at December 31, 2014. The decrease in net interest income for the year ended December 31, 2015 reflects a lower average balance of loans and investment securities, partially offset by an increase in other interest earning assets, including certificates of deposit, a lower average balance of deposits and Federal Home Loan Bank advances. Also, contributing to lower net interest income was a lower average yield earned on loans, investment securities and other interest earning assets including certificates of deposit and a higher average rate paid on deposits and Federal Home Loan Bank advances. The average balance of loans decreased during the year ended December 31, 2015 primarily as a result of the sale of $26.1 million in 30-year fixed-rate jumbo loans. The lower average interest rate earned on loans reflects the current low rate environment on new loans. Interest expense for the year ended December 31, 2015 remained stable at $3.2 million. Polonia's net interest rate spread decreased to 2.36% for the year ended December 31, 2015 from 2.70% in 2014 and its net interest margin decreased to 2.52% from 2.84%.

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Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on Polonia's net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionately based on the changes due to rate and the changes due to volume.

	For the Year Ended December 31, 2015 Compared to Year Ended December 31, 2014 Increase (Decrease)			**For the Year Ended December 31, 2014 Compared to Year Ended December 31, 2013 Increase (Decrease)**		
	Due to			**Due to**		
	Volume	Rate	Net	Volume	Rate	Net
	(Dollars in thousands)					
Interest and dividend income:						
Loans receivable	$(769)	$(146)	$(915)	$ 1,425	$ (704)	$ 721
Investment securities	(284)	(85)	(369)	(199)	(66)	(265)
Other	189	(34)	155	(3)	157	154
Total interest-earning assets	$(864)	$(265)	$(1,129)	$ 1,223	$ (613)	$ 610
Interest expense:						
Interest-bearing demand deposits	$(2)	$(1)	$(3)	$ 3	$ (7)	$ (4)
Money market accounts	2	2	4	(14)	(11)	(25)
Savings accounts	(4)	(22)	(26)	—	(12)	(12)
Certificates of deposit	66	(67)	(1)	85	16	101
Total deposits	62	(88)	(26)	74	(14)	60
FHLB Advances - short-term	—	—	—	—	—	—
FHLB Advances - long-term	(45)	14	(31)	601	(38)	563
Advances by borrowers for taxes and insurance	—	—	—	—	(2)	(2)
Total interest-bearing liabilities	$17	$(74)	$(57)	$ 675	$ (54)	$ 621
Change in net interest income	$(881)	$(191)	$(1,072)	$ 548	$ (559)	$ (11)

Provision for Loan Losses. For the year ended December 31, 2015 Polonia recorded a provision for loan losses of $73,000 as compared to $210,000 for the year ended December 31, 2014. The smaller provision for loan losses in 2015 was deemed appropriate due to the decline in the loan portfolio combined with the stability in the level of classified assets. Management also reviews and adjusts the qualitative factors used to calculate the allowance for loan losses for all loans based on historical losses in Polonia's portfolio as well as the current levels of nonperforming loans in its portfolio. Management makes adjustments on a quarterly basis or more frequently as necessary. Management

made changes to the qualitative factors during 2015 based on historical losses in Polonia's portfolio as well as the current levels of nonperforming loans in its portfolio.

The provisions for the loan portfolio reflect management's assessment of lending activities, decreased non-performing loans, levels of current delinquencies and current economic conditions. Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level believed by management sufficient to cover all known and inherent losses in the loan portfolio which are both probable and reasonably estimable. Management's analysis includes consideration of Polonia's historical experience, the volume and type of lending conducted by us, the amount of its classified and criticized assets, the status of past due principal and interest payments, general economic conditions, particularly as they relate to Polonia's market area, and other factors related to the collectability of its loan portfolio.

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An analysis of the changes in the allowance for loan losses is presented under *"—*Risk Management—*Analysis and Determination of the Allowance for Loan Losses."*

Noninterest Income. The following table shows the components of non-interest income for the year ended December 31, 2015 and 2014.

	Year Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Service fees on deposit accounts	$ 105	$ 116
Earnings on bank-owned life insurance	(11)	4
Investment securities gains, net	560	—
Gain on sale of loans	2,776	3,861
Rental income	270	271
Other	430	402
Total	$ 4,130	$ 4,654

The $524,000 decrease in noninterest income during the year ended December 31, 2015 as compared to the year ended December 31, 2014 was primarily due to a $1.1 million decrease in the gain on sale of loans, partially offset by a $560,000 increase in investment securities gains.

Noninterest Expense. The following table shows the components of noninterest expense for the year ended December 31, 2015 and 2014.

	Year Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Compensation and employee benefits	$5,571	$7,142
Occupancy and equipment	1,315	1,449
Federal deposit insurance premiums	537	361
Data processing expense	410	428
Professional fees	800	660
Other	2,551	2,466
Total	$11,185	$12,506
Efficiency ratio	99.96 %	97.81 %

Total noninterest expense decreased $1.3 million, or 10.4%, to $11.2 million for the year ended December 31, 2015 from the prior year period. The decrease in noninterest expense for the year ended December 31, 2015 as compared to the prior year period was primarily the result of a $1.5 million decrease in compensation and employee benefits, a $134,000 decrease in occupancy and equipment and a $17,000 decrease in data processing expense, partially offset by a $176,000 increase in federal deposit insurance premiums, a $140,000 increase in professional fees and an $85,000 increase in other expense. The decrease in compensation and employee benefits expense is primarily the result of the elimination of the Retail Mortgage Banking Group which accounted for $1.1 million of the decrease.

Income Taxes. Polonia recorded tax expense of $70,000 for the year ended December 31, 2015 compared to a tax expense of $53,000 during the year ended December 31, 2014.

Risk Management

Overview. Managing risk is an essential part of successfully managing a financial institution. Polonia's most prominent risk exposures are credit risk, interest rate risk and market risk. Credit risk is the risk of not

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collecting the interest and/or the principal balance of a loan or investment when it is due. Interest rate risk is the potential reduction of interest income as a result of changes in interest rates. Market risk arises from fluctuations in interest rates that may result in changes in the values of financial instruments, such as available-for-sale securities that are accounted for on a mark-to-market basis. Other risks that Polonia encounters are operational risks, liquidity risks and reputation risk. Operational risks include risks related to fraud, regulatory compliance, processing errors, technology and disaster recovery. Liquidity risk is the possible inability to fund obligations to depositors, lenders or borrowers. Reputation risk is the risk that negative publicity or press, whether true or not, could cause a decline in Polonia's customer base or revenue.

Credit Risk Management. Polonia's strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans. Polonia's strategy also emphasizes the origination of one- to four-family mortgage loans, which typically have lower default rates than other types of loans and are secured by collateral that generally tends to appreciate in value.

When a borrower fails to make a required loan payment, Polonia takes a number of steps to attempt to have the borrower cure the delinquency and restore the loan to current status. When the loan becomes 15 days past due, a past due notice is generated and sent to the borrower and phone calls are made. If payment is not then received by the 30th day of delinquency, a further notification is sent to the borrower. If payment is not received by the 60th day of delinquency, a further notification is sent to the borrowers giving notice of possible foreclosure actions. If no successful workout can be achieved by the 90th day of delinquency, Polonia will commence foreclosure proceedings. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan generally is sold at foreclosure. Generally, when a consumer loan becomes 90 days past due, Polonia institutes collection proceedings and attempt to repossess any personal property that secures the loan. Polonia may consider loan workout arrangements with certain borrowers under certain circumstances.

Management reports to the board of directors monthly regarding the amount of loans delinquent more than 30 days, all loans in foreclosure and all foreclosed and repossessed property that Polonia owns.

Analysis of Non Performing and Classified Assets. Polonia considers repossessed assets and loans that are 90 days or more past due to be non performing assets. Loans are generally placed on nonaccrual status when they become 90 days delinquent at which time the accrual of interest ceases and the allowance for any uncollectible accrued interest is established and charged against operations. Typically, payments received on a nonaccrual loan are applied to the outstanding principal and interest as determined at the time of collection of the loan.

Real estate that Polonia acquires as a result of foreclosure or by deed-in-lieu of foreclosure is classified as foreclosed assets until it is sold. When property is acquired, it is recorded at the lower of its cost, which is the unpaid balance of the loan plus foreclosure costs, or fair market value at the date of foreclosure. Holding costs and declines in fair value

after acquisition of the property result in charges against income.

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The following table provides information with respect to Polonia's nonperforming assets at the dates indicated. There are no troubled debt restructurings that are 90 days past due and no accruing loans that are 90 days past due or more at the dates presented.

	At December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands)				
Non-accrual non-covered loans:					
Real estate loans:					
One-to four-family	$1,915	$1,930	$1,344	$370	$314
Multi-family and commercial real estate	138	151	—	1,485	649
Home equity loans and lines of credit	53	60	—	10	55
Consumer	155	94	110	252	296
Total non-accrual non-covered loans	2,261	2,235	1,454	2,117	1,314
Restructured loans	—	—	476	578	650
Total non-performing non-covered loans	2,261	2,235	1,930	2,695	1,964
Real estate owned	182	451	240	108	83
Total non-performing non-covered assets	2,443	2,686	2,170	2,803	2,047
Non-accrual covered loans:					
Real estate loans:					
One- to four-family	70	142	822	880	501
Multi-family and commercial real estate	82	367	111	—	179
Commercial	—	—	—	—	—
Total non-performing covered loans	152	509	933	880	680
Real estate owned	—	39	28	64	—
Total non-performing covered assets	152	548	961	944	680
Total non-performing assets (including covered loans)	$2,595	$3,234	$3,131	$3,747	$2,727
Total non-performing non-covered loans to total non-covered loans	1.40 %	1.12 %	1.02 %	2.08 %	1.52 %
Total non-performing non-covered assets to total non-covered assets	0.87 %	0.92 %	0.75 %	1.05 %	0.86 %
Total non-performing loans to total loans	1.39 %	1.28 %	1.39 %	2.58 %	1.71 %
Total non-performing assets to total assets	0.89 %	1.05 %	1.02 %	1.40 %	1.03 %

For a discussion of the specific allowance related to these assets, see *"—Analysis and Determination of the Allowance for Loan Losses."*

Interest income that would have been recorded for the years ended December 31, 2015 and 2014 had nonaccruing loans been current according to their original terms was approximately $92,000 and $111,000, respectively.

Federal regulations require Polonia to review and classify its assets on a regular basis. In addition, the OCC has the authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. “Substandard assets” must have one or more defined weaknesses and are characterized by the distinct possibility that Polonia will sustain some loss if the deficiencies are not corrected. “Doubtful assets” have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified “loss” is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. The regulations also provide for a “special mention” category, described as assets which do not currently expose Polonia to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving Polonia’s close attention. When Polonia classifies an asset as special mention, substandard or doubtful it establishes a specific allowance for loan losses. If Polonia classifies an asset as loss, it allocates an amount equal to 100% of the portion of the asset classified loss.

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The following table shows the aggregate amounts of Polonia's non-covered classified assets at the dates indicated.

	At December 31,		
	2015	2014	2013
	(Dollars in thousands)		
Special mention assets	$2,147	$1,573	$1,710
Substandard assets	3,617	4,410	4,320
Doubtful assets	—	—	—
Loss assets	—	—	—
Total classified assets	$5,764	$5,983	$6,030

Other than disclosed in the above tables, there are no other loans at December 31, 2015 that management has serious doubts about the ability of the borrowers to comply with the present loan repayment terms.

Delinquencies. The following table provides information about delinquencies in Polonia's loan portfolio at the dates indicated. Loans past due 90 days or more are placed on non-accrual status.

	At December 31,					
	2015		2014		2013	
	30-59 Days Past Due	**60-89 Days Past Due**	**30-59 Days Past Due**	**60-89 Days Past Due**	**30-59 Days Past Due**	**60-89 Days Past Due**
	(Dollars in thousands)					
Real estate loans:						
One-to-four-family	$75	$99	$32	$1,034	$877	$197
Multi-family and commercial real estate	—	—	—	—	277	—
Home equity loans and lines of credit	53	—	60	—	—	—
Consumer	17	—	108	17	20	56
Covered loans	154	205	113	—	331	309
Total	$299	$304	$313	$1,051	$1,505	$562

Analysis and Determination of the Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable incurred credit losses in the loan portfolio. Polonia evaluates the need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Polonia's methodology for assessing the appropriateness of the allowance for loan losses consists of: (1) a specific allowance on identified problem loans; and (2) a general valuation allowance on the remainder of the loan portfolio. Although Polonia determines the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio.

Specific Allowance Required for Identified Problem Loans. Polonia establishes an allowance on certain identified problem loans where the loan balance exceeds the fair market value, when collection of the full amount outstanding becomes improbable and when an accurate estimate of the loss can be documented.

General Valuation Allowance on the Remainder of the Loan Portfolio. Polonia establishes a general allowance for loans that are not delinquent to recognize the inherent losses associated with lending activities. This

general valuation allowance is determined by segregating the loans by loan category and assigning percentages to each category. The percentages are adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. These significant factors may include changes in existing general economic and business conditions affecting Polonia's primary lending areas and the national economy, staff lending experience, recent loss experience in particular segments of the portfolio, specific reserve and classified asset trends, delinquency trends and risk rating trends. The applied loss factors are reevaluated periodically to ensure their relevance in the current economic environment.

Polonia identifies loans that may need to be charged off as a loss by reviewing all delinquent loans, classified loans and other loans that management may have concerns about collectibility. For individually reviewed loans, the borrower's inability to make payments under the terms of the loan or a shortfall in collateral value would result in Polonia's allocating a portion of the allowance to the loan that was impaired.

The OCC, as an integral part of its examination process, periodically reviews Polonia's allowance for loan losses. The OCC may require Polonia to make additional provisions for loan losses based on judgments different from their own.

Polonia's historical loss experience and qualitative and environmental factors are reviewed on a quarterly basis to ensure they are reflective of current conditions in its loan portfolio and economy. In 2015, the loss factors were reviewed and adjusted as necessary.

The following table sets forth the breakdown of the allowance for loan losses on non-covered loans by loan category at the dates indicated.

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	At December 31, 2015			2014			2013			2012			2011	
	Amount	**% of Allowance to Total Allowance**	**% of Loans in Category to Total Loans**	Amount	**% of Allowance to Total Allowance**	**% of Loans in Category to Total Loans**	Amount	**% of Allowance to Total Allowance**	**% of Loans in Category to Total Loans**	Amount	**% of Allowance to Total Allowance**	**% of Loans in Category to Total Loans**	Amount	**% of Allo to Tota Allo**
	(Dollars in thousands)													
Real estate loans:														
One-to-four family	$774	61 %	89 %	$963	68 %	90 %	$908	65 %	91 %	$678	45 %	86 %	$544	45
Multi-family and commercial real estate	307	24	7	428	30	7	445	32	5	772	51	7	613	51
Home equity loans and lines of credit	28	2	3	18	1	2	8	1	2	47	3	4	28	2
Consumer	5	1	1	7	1	1	8	1	2	11	1	3	21	2
Unallocated	158	12	—	—	—	—	9	1	—	—	—	—	—	—
Total allowance for loan losses	$1,272	100%	100%	$1,416	100%	100%	$1,378	100%	100%	$1,508	100%	100%	$1,206	100%

Although Polonia believes that it uses the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and its results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while Polonia believes it has established its allowance for loan losses in conformity with generally accepted accounting principles, there can be no assurance that regulators, in reviewing its loan portfolio, will not request them to increase their allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect Polonia's financial condition and results of operations.

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Analysis of Loan Loss Experience. The following table sets forth an analysis of the allowance for loan losses at December 31, for the periods indicated.

	2015	2014	2013	2012			2011		
	Non-Covered Loans	**Non-Covered Loans**	Non-Covered Loans	Non-Covered Loans	Covered Loans	Totals	Non-Covered Loans	Covered Loans	Totals
				(Dollars in thousands)					
Allowance for loan losses at beginning of period	$1,416	$1,378	$1,508	$1,206	$73	$1,279	$834	$—	$834
Provision (credit) for loan losses	73	210	574	1,018	(21)	997	367	73	440
Charge-offs:									
One-to-four family	(217)	(172)	(440)	(336)	(33)	(369)	—	—	—
Multi-family and commercial	—	—	(111)	(388)	(19)	(407)	—	—	—
Home equity loans and lines of credit	—	—	(153)	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—	—
Total	(217)	(172)	(704)	(724)	(52)	(776)	—	—	—
Recoveries:									
One-to our family	—	—	—	2	—	2	5	—	5
Multi-family and commercial	—	—	—	6	—	6	—	—	—
Home equity loans and lines of credit	—	—	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—	—
Total	—	—	—	8	—	8	5	—	5
Net recoveries (charge-offs)	(217)	(172)	(704)	(716)	(52)	(768)	5	—	5
Allowance for loan losses at end of period	$1,272	$1,416	$1,378	$1,508	$—	$1,508	$1,206	$73	$1,279
Allowance for loan losses to non-performing Loans	56.26 %	63.36 %	71.40 %	55.96%	— %	42.18%	61.41%	10.74 %	48.37%

Allowance for loan losses to total loans outstanding at the end of the period	0.79 %	0.71 %	0.75 %	1.28 %	— %	1.08 %	0.93 %	0.28 %	0.83 %
Net (charge-offs) recoveries to average loans outstanding during the period	(0.11)%	(0.08)%	(0.49)%	(0.06)%	(0.02)%	(0.05)%	0.01 %	— %	0.01 %

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Interest Rate Risk Management. Polonia the interest rate sensitivity of its interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, increases in interest rates will adversely affect Polonia's earnings. To reduce the potential volatility of its earnings, Polonia Bancorp has sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Polonia Bancorp's strategy for managing interest rate risk emphasizes: adjusting the maturities of borrowings; adjusting the investment portfolio mix and duration; and periodically selling fixed-rate mortgage loans and available-for-sale securities. Polonia Bancorp currently does not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments.

Polonia Bancorp has an Asset/Liability Committee, which includes members of management and the board of directors, to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

Polonia Bancorp prepares an interest rate sensitivity analysis to review its level of interest rate risk. This analysis measures interest rate risk by computing changes in net portfolio value of Polonia Bancorp's cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net portfolio value represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. This analysis assesses the risk of loss in market risk sensitive instruments in the event of a sudden and sustained 100 to 400 basis point increase or a 100 basis point decrease in market interest rates with no effect given to any steps that Polonia Bancorp might take to counter the effect of that interest rate movement. Because of the low level of market interest rates, this analysis is not performed for decreases of more than 100 basis points. Polonia Bancorp measures interest rate risk by modeling the changes in net portfolio value over a variety of interest rate scenarios.

The following table, which is based on information that Polonia Bancorp provides to the OCC, presents the change in its net portfolio value at December 31, 2015, that would occur in the event of an immediate change in interest rates based on assumptions, with no effect given to any steps that Polonia might take to counteract that change.

	Estimated Net Portfolio Value			**Net Portfolio Value as % of Portfolio Value of Assets**	
Basis Point ("bp")	$ Amount	$ Change	% Change	NPV Ratio	Change (bp)

Change in Rates

(Dollars in thousands)

400	$27,276	$(17,519)	(39.11)%	10.49%	(462)%
300	31,932	(12,863)	(28.72)	11.91	(321)
200	36,401	(8,394)	(18.74)	13.14	(198)
100	41,001	(3,794)	(8.47)	14.31	(80)
0	44,795	—	—	15.12	—
(100)	49,326	4,531	10.12	16.14	103

The decrease in Polonia's net portfolio value shown in the preceding table that would occur reflects: (1) that a substantial portion of its interest-earning assets are fixed-rate residential loans and fixed-rate investment securities; and (2) the shorter duration of deposits, which reprice more frequently in response to changes in market interest rates.

Polonia uses various assumptions in assessing interest rate risk. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the methods of analyses 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 mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans and mortgage-backed securities Polonia holds, rising or falling interest rates have a significant impact on the prepayment speeds of its earning assets that in turn affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Polonia’s asset sensitivity would be reduced if prepayments slow and vice versa. While Polonia believes these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future mortgage-backed security and loan repayment activity.

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term nature. Polonia’s primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities and borrowings from the Federal Home Loan Bank of Pittsburgh. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

Polonia regularly adjusts its investments in liquid assets based upon its assessment of (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities and (4) the objectives of its asset/liability management policy.

Polonia’s most liquid assets are cash and cash equivalents. The levels of these assets depend on Polonia’s operating, financing, lending and investing activities during any given period. At December 31, 2015, cash and cash equivalents totaled $31.1 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled $54.9 million at December 31, 2015. In addition, at December 31, 2015, Polonia had the ability to borrow a total of approximately $119.5 million from the Federal Home Loan Bank of Pittsburgh. On December 31, 2015, Polonia had $56.0 million of borrowings outstanding. Any growth of Polonia’s loan portfolio may require them to borrow additional funds.

At December 31, 2015, Polonia had $268,000 in mortgage loan commitments outstanding and $4.4 million in unused lines of credit. Time deposits due within one year of December 31, 2016 totaled $39.6 million of time deposits. If these maturing deposits do not remain with us, Polonia will be required to seek other sources of funds, including other time deposits and borrowings. Depending on market conditions, Polonia may be required to pay higher rates on such deposits or other borrowings than Polonia Bancorp currently pays on the time deposits due on or before December 31, 2015. Polonia Bancorp believes, however, based on past experience that a significant portion of its time deposits will remain with them. Polonia Bancorp has the ability to attract and retain deposits by adjusting the interest rates offered.

Polonia Bancorp's primary investing activities are the origination of loans and the purchase of securities. Polonia Bancorp's primary financing activities consist of activity in deposit accounts and Federal Home Loan Bank advances. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by Polonia Bancorp and its local competitors and other factors. Polonia Bancorp generally manages the pricing of its deposits to be competitive and to increase core deposit relationships. Occasionally, Polonia Bancorp offers promotional rates on certain deposit products to attract deposits.

Polonia Bancorp is a separate entity from Polonia Bank and must provide for its own liquidity. In addition to its operating expenses, Polonia Bancorp may utilize its cash position for the payment of dividends or to repurchase common stock, subject to applicable restrictions. Polonia Bancorp's primary source of funds is dividends from Polonia Bank. Payment of such dividends to Polonia Bancorp by Polonia Bank is limited under federal law. The amount that can be paid in any calendar year, without prior regulatory approval, cannot exceed the retained net earnings (as defined) for the year plus the preceding two calendar years. Polonia Bancorp believes that such restriction will not have an impact on Polonia's ability to meet its ongoing cash obligations.

Polonia Bank is subject to various regulatory capital requirements administered by the OCC, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2015, Polonia exceeded all of its regulatory capital requirements.

Off-Balance Sheet Arrangements. In the normal course of operations, Polonia engages in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in its financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments.

For the year ended December 31, 2015 Polonia engaged in no off-balance sheet transactions reasonably likely to have a material effect on its financial condition, results of operations or cash flows.

Effect of Inflation and Changing Prices

The financial statements and related financial data presented in this proxy statement - prospectus have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation on Polonia Bancorp's operations is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

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MARKET PRICE AND DIVIDENDS

Stock Prices

Prudential's common stock trades on the Nasdaq Global Market under the symbol "PBIP." The following table sets forth the high and low prices per share of Prudential common stock, and the cash dividends declared per share for the periods indicated.

	Stock Price		Cash Dividends
	High	Low	Per Share
Fiscal 2015			
Quarter ended:			
December 31, 2014	$12.49	$12.03	$ 0.03
March 31, 2015	12.64	12.15	0.03
June 30, 2015	14.79	12.69	0.18
September 30, 2015	15.10	14.27	0.03
Fiscal 2016			
Quarter ended:			
December 31, 2015	$15.60	$14.29	0.03
March 31, 2016	16.20	13.83	0.03
June 30, 2016	15.42	13.80	0.03
September 30, 2016	15.15	13.95	0.03
Fiscal 2017			
Quarter ended:			
December 31, 2016 (through November __, 2016	$	$	$ 0.03

Until December 28, 2015, the common stock of Polonia was traded on the NASDAQ Capital Market under the symbol "PBCP." Since December 29, 2015, Polonia Bancorp common stock has been quoted on the OTC Pink Marketplace. The following table sets forth, prior to December 29, 2015, the quarterly high and low sales prices of Polonia's common stock and after December 28, 2015, the high and low bid prices. Polonia did not pay any cash dividends during any the periods presented.

	Stock Price	
	High	Low

2014		
Quarter ended:		
March 31, 2014	$10.15	$9.25
June 30, 2014	10.34	9.50
September 30, 2014	10.90	9.96
December 31, 2014	10.50	9.50
2015		
Quarter ended:		
March 31, 2014	$13.14	$10.28
June 30, 2014	13.75	12.25
September 30, 2015	15.43	11.49
December 31, 2015	13.48	11.50
2016		
Quarter ended:		
March 31, 2016	$11.98	$10.50
June 30, 2016	11.00	10.35
September 30, 2016	11.15	10.65
December 31, 2016 (through November __, 2016)		

As of the record date for the Prudential special meeting, there were 8,045,544 shares of Prudential common stock outstanding, which were held by approximately **[275]** holders of record not including the number of persons or entities whose stock is held in nominee or “street” name through various brokerage firms and banks.

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On June 1, 2016, the last trading day prior to the public announcement of the merger, the closing sale price of shares of Prudential common stock as reported on NASDAQ was $14.91. On November __, 2016, the last practicable trading day before the distribution of this proxy statement the closing sale price of shares of Prudential common stock as reported on Nasdaq was $_____.

Dividends

The payment, timing and amount of dividends by Prudential on shares of Prudential common stock in the future, either before or after the merger is completed, are subject to the determination of Prudential's board of directors and depend on cash requirements, contractual restrictions, its financial condition and earnings, legal and regulatory considerations and other factors. After the merger, Prudential currently expects to pay (when, as and if declared by the Prudential board of directors) regular quarterly cash dividends of $0.03 per share. Although Prudential has previously paid quarterly cash dividends on its shares of common stock, it is not under any obligation to do so in the future. As a holding company without any independent operation other than owning Prudential Bank, Prudential in the future will be substantially dependent upon dividends from Prudential Bank to provide funds for the payment of dividends to shareholders and to provide for other cash requirements. Both Prudential and Prudential Bank are subject to various general regulatory policies relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums.

Polonia has not paid cash dividends since its formation. Polonia is under a Memorandum of Understanding with the Federal Reserve Bank of Philadelphia the terms of which prohibit Polonia from paying dividends, repurchasing its stock or making other capital distributions without prior written approval of the Federal Reserve Bank of Philadelphia.

Whenever a dividend or other distribution is declared by Prudential on Prudential common stock, the record date for which is at or after the effective time of the merger, the declaration will include dividends or other distributions on all shares of Prudential common stock issuable pursuant to the merger agreement, but such dividends or other distributions will not be paid to the holder thereof until such holder has duly surrendered its Polonia common stock certificates in accordance with the merger agreement.

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LEGAL MATTERS

The validity of the shares of Prudential common stock to be issued in connection with the merger has been passed upon for Prudential by Silver Freedman. Certain U.S. federal income tax consequences relating to the merger will be passed upon for Prudential by Silver Freedman and for Polonia by Kilpatrick Townsend & Stockton LLP.

EXPERTS

The consolidated financial statements of Prudential as of September 30, 2015 and 2014, and for each of the years in the three-year period ended September 30, 2015, and management's assessment of the effectiveness of internal control over financial reporting as of September 30, 2015, have been incorporated in this proxy statement by reference to Prudential's Annual Report on Form 10-K for the year ended September 30, 2015 in reliance upon the reports of S.R. Snodgrass, P.C., independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

The consolidated balance sheets of Polonia as of December 31, 2015 and 2014, and the related consolidated statements of income (loss), comprehensive income (loss), changes in stockholders' equity and cash flows for each of the years ended December 31, 2015 and 2014, included herein have been audited by S.R. Snodgrass, P.C., an independent registered public accounting firm, as set forth in its report thereon, included herein. Such consolidated financial statements are included herein in reliance upon such report given on the authority of said firm as experts in auditing and accounting.

OTHER MATTERS

As of the date of this proxy statement, Prudential's board of directors does not know of any matters that will be presented for consideration at its special meeting other than those described in this proxy statement. As discussed elsewhere herein, Prudential's shareholders may, however, be asked to vote on a proposal to adjourn its special meeting to allow more time to solicit votes for the approval of the proposal to issue shares of Prudential common stock to Polonia shareholders in the merger. If any other matters properly come before the Prudential special meeting, or any adjournment or postponement of such meeting and such matters are voted upon, your returned proxy will be deemed to confer discretionary authority on the individuals named as proxies to vote the shares represented by these proxies as to any of these matters, in their discretion. The individuals named as proxies on the Prudential proxy card intend to vote or not to vote on any such matters in accordance with the recommendation of Prudential's board of directors.

SOLICITATION OF PROXIES

The cost of the solicitation of proxies for the Prudential special meeting will be borne by Prudential. Prudential will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by it in sending the proxy materials to the beneficial owners of Prudential's common stock. In addition to solicitations by mail, directors, officers and employees of Polonia may solicit proxies personally or by telephone without additional compensation.

DEADLINES FOR SUBMITTING SHAREHOLDER PROPOSALS

Shareholder Proposals. Any proposal which a shareholder wishes to have included in the proxy materials of Prudential relating to the next annual meeting of shareholders of Prudential, which is expected to be held in February 2017, must have been received at the principal executive offices of Prudential, 1834 West Oregon Avenue, Philadelphia, Pennsylvania 19145, Attention: Dennis Pollack, President and Chief Executive Officer, no later than September 10, 2016. If such proposal is in compliance with all of the requirements of Rule 14a-8 under the Securities Exchange Act of 1934, it will be included in the proxy statement and set forth on the form of proxy issued for such annual meeting of shareholders. No such proposals were received by Prudential.

Shareholder proposals which are not submitted for inclusion in Prudential's proxy materials pursuant to Rule 14a-8 may be brought before an annual meeting pursuant to Section 2.10 of Prudential's Bylaws. Notice of the proposal must have been given in writing and delivered to, or mailed and received at, our principal executive offices

by September 10, 2016. The notice must include the information required by Section 2.10 of our Bylaws. No such proposals were received by Prudential.

Shareholder Nominations. Our Bylaws provide that, subject to the rights of the holders of any class or series of stock having a preference over the common stock as to dividends or upon liquidation, all nominations for election to the Board of Directors, other than those made by the Board or a committee thereof, shall be made by a shareholder who has complied with the notice and information requirements contained in Section 3.12 of our Bylaws. Written notice of a shareholder nomination generally must be communicated to the attention of the Secretary and either delivered to, or mailed and received at, our principal executive offices not later than, with respect to an annual meeting of shareholders, 120 days prior to the anniversary date of the mailing of proxy materials by us in connection with the immediately preceding annual meeting of shareholders or, in the case of the 2017 annual meeting, by September 10, 2016. Prudential did not receive any shareholder nominations for the 2017 annual meeting.

WHERE YOU CAN FIND MORE INFORMATION

Prudential has filed a registration statement with the SEC under the Securities Act that registers the issuance of the shares of Prudential common stock to be issued in the merger to Polonia shareholders. The registration statement contains additional relevant information about Prudential and its common stock, Polonia and the combined company. The rules and regulations of the SEC allow us to omit some information included in the registration statement from this proxy statement.

In addition, Prudential files reports, proxy statements and other information with the SEC under the Exchange Act. You may read and copy this information at the Public Reference Room of the SEC, 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at l-800-SEC-0330. You may also obtain copies of this information by mail from the Public Reference Room of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates, or from commercial document retrieval services.

The SEC also maintains an Internet site that contains reports, proxy statements and other information about issuers, like Prudential, that file electronically with the SEC. The address of that site is http://www.sec.gov. Prudential's internet address is http://www.prudentialsavingsbank.com. The information on Prudential's internet site is not a part of this proxy statement.

The SEC allows Prudential to incorporate by reference information in this proxy statement. This means that Prudential can disclose important information to you by referring you to another document filed separately with the SEC. The

information incorporated by reference is considered to be a part of this proxy statement, except for any information that is superseded by information that is included directly in this proxy statement.

This proxy statement incorporates by reference the documents listed below that Prudential previously filed with the SEC (excluding any portions of such documents that have been "furnished" but not "filed" with the SEC in a Current Report on Form 8-K). They contain important information about Prudential and its financial condition.

- Annual Report on Form 10-K for the fiscal year ended September 30, 2015 (filed with the SEC on December 14, 2015);

- Quarterly Reports on Form 10-Q for the fiscal quarter ended December 31, 2015 (filed with the SEC on February 9, 2016), the fiscal quarter ended March 31, 2016 (filed with the SEC on May 10, 2016 and the fiscal quarter ended June 30, 2016 (filed with the SEC on August 9, 2016);

- Definitive Proxy Statement on Schedule 14A for Prudential's 2016 Annual Meeting filed with the SEC on January 8, 2016;

- Current Reports on Form 8-K filed with the SEC on October 2, 2015, November 2, 2015, November 17, 2015, December 1, 2015, December 22, 2015, December 30, 2015, February 18, 2016, May 3, 2016, May 16, 2016, June 2, 2016, August 5, 2016, October 7, 2016, October 18, 2016 and October 25, 2016; and

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- The description of the Prudential's common stock contained in the Form 8-K filed with the SEC pursuant to Rule 12g-3(a) of the Securities Exchange Act of 1934 on October 9, 2013.

Except where the context otherwise indicates, Prudential has supplied all information contained in this proxy statement relating to Prudential, and Polonia has supplied all such information relating to Polonia.

Neither Prudential nor Polonia has authorized anyone to give any information or make any representation about the merger or Prudential or Polonia that is different from, or in addition to, that contained in this proxy statement or in any of the materials that Prudential has incorporated into this proxy statement. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this proxy statement or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this proxy statement does not extend to you. The information contained in this proxy statement speaks only as of the date of this proxy statement unless the information specifically indicates that another date applies.

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Notwithstanding the meanings attributed to them in any other section of this proxy statement, capitalized terms in the Polonia Consolidated Financial Statements and the Notes to Consolidated Financial Statements shall have the meanings set forth therein.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee

Polonia Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of Polonia Bancorp, Inc. and subsidiary as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Polonia Bancorp, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Polonia Bancorp, Inc. is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Polonia Bancorp, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Polonia Bancorp, Inc. and subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years then ended, in conformity with U.S. generally accepted accounting principles.

Wexford, Pennsylvania

April 6, 2016

S.R. Snodgrass, P.C. * 2100 Corporate Drive, Suite 400 * Wexford, Pennsylvania 15090-8399 * Phone: (724) 934-0344 * Facsimile: (724) 934-0345

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POLONIA BANCORP, INC.

CONSOLIDATED BALANCE SHEET

	December 31,	
	2015	**2014 (as restated)**
ASSETS		
Cash and due from banks	$1,785,566	$1,624,482
Interest-bearing deposits with other institutions	29,351,650	10,549,748
Cash and cash equivalents	31,137,216	12,174,230
Certificates of deposit	15,980,000	-
Investment securities available for sale	54,871,523	11,711,533
Investment securities held to maturity (fair value $46,193,447)	-	44,741,534
Loans held for sale	-	4,221,438
Loans receivable	161,765,015	199,094,306
Covered loans	11,686,062	14,457,364
Total loans	173,451,077	213,551,670
Less: Allowance for loan losses	1,272,072	1,415,983
Net loans	172,179,005	212,135,687
Accrued interest receivable	671,994	788,684
Federal Home Loan Bank stock	3,659,700	3,843,500
Premises and equipment, net	3,998,409	4,257,726
Bank-owned life insurance	4,257,456	4,268,181
FDIC indemnification asset	473,951	1,417,355
Other assets	4,381,552	8,789,803
TOTAL ASSETS	$291,610,806	$308,349,671
LIABILITIES		
Deposits	$188,222,282	$199,553,997
FHLB advances - long-term	56,000,000	59,000,000
Advances by borrowers for taxes and insurance	988,906	1,208,824
Accrued interest payable	139,397	143,798
Other liabilities	8,759,648	11,503,396
TOTAL LIABILITIES	254,110,233	271,410,015
Commitments and contingencies (Note 11)	-	-
STOCKHOLDERS' EQUITY		
Preferred stock ($.01 par value; 1,000,000 shares authorized; none issued or outstanding)	-	-
	33,488	33,341

Common stock ($.01 par value; 14,000,000 shares authorized; 3,348,827 and 3,334,130 shares issued and outstanding)		
Additional paid-in-capital	25,591,969	25,219,224
Retained earnings	12,849,370	12,987,593
Unallocated shares held by Employee Stock Ownership Plan (“ESOP”) (162,288 and 181,415 shares, respectively)	(1,354,858)	(1,517,302)
Accumulated other comprehensive income	380,604	216,800
TOTAL STOCKHOLDERS’ EQUITY	37,500,573	36,939,656
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$291,610,806	$308,349,671

See accompanying notes to the consolidated financial statements.

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POLONIA BANCORP, INC.

CONSOLIDATED STATEMENT OF INCOME (LOSS)

	Year Ended December 31,	
	2015	2014
INTEREST AND DIVIDEND INCOME		
Loans receivable	$8,605,072	$9,520,329
Investment securities	1,271,441	1,640,580
Interest-bearing deposits and other dividends	336,151	181,571
Total interest and dividend income	10,212,664	11,342,480
INTEREST EXPENSE		
Deposits	1,689,064	1,714,909
FHLB advances - long-term	1,460,619	1,492,006
Advances by borrowers for taxes and insurance	3,122	3,303
Total interest expense	3,152,805	3,210,218
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	7,059,859	8,132,262
Provision for loan losses	73,150	209,713
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,986,709	7,922,549
NONINTEREST INCOME		
Service fees on deposit accounts	104,476	116,366
Earnings on bank-owned life insurance	(10,725)	3,937
Investment securities gains, net	560,367	-
Gain on sale of loans	2,775,907	3,861,049
Rental income	270,140	271,258
Other	430,070	401,861
Total noninterest income	4,130,235	4,654,471
NONINTEREST EXPENSE		
Compensation and employee benefits	5,571,435	7,142,493
Occupancy and equipment	1,315,243	1,449,082
Federal deposit insurance premiums	536,979	360,665
Data processing expense	410,514	428,192
Professional fees	799,835	659,992
Other	2,550,702	2,466,013
Total noninterest expense	11,184,708	12,506,437
Income (loss) before income tax expense	(67,764)	70,583
Income tax expense	70,459	53,547
NET INCOME (LOSS)	$(138,223)	$17,036

EARNINGS PER SHARE - BASIC AND DILUTED	$(0.04)	$0.01
Weighted-average common shares outstanding:		
Basic	3,141,611	3,168,335
Diluted	3,141,611	3,197,496

See accompanying notes to the consolidated financial statements.

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POLONIA BANCORP, INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,	
	2015	2014
Net income (loss)	$ (138,223)	$ 17,036
Changes in net unrealized gain (loss) on investment securities available for sale	808,555	(72,060)
Tax effect	(274,909)	24,500
Reclassification adjustment for gains on sale of investment securities included in net income	(560,367)	-
Tax effect	190,525	-
Total other comprehensive income (loss)	163,804	(47,560)
Total comprehensive income (loss)	$ 25,581	$ (30,524)

See accompanying notes to the consolidated financial statements.

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POLONIA BANCORP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Unallocated Shares Held by ESOP	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2013, as previously reported	3,511,276	$35,113	$ 26,795,498	$14,853,884	$(1,648,366)	$264,360	$40,300,489
Restatement				(1,883,327)			(1,883,327)
Balance, December 31, 2013, as restated	3,511,276	35,113	26,795,498	12,970,557	(1,648,366)	264,360	38,417,162
Net income				17,036			17,036
Other comprehensive loss, net						(47,560)	(47,560)
Stock options compensation expense			81,628				81,628
Allocation of unearned ESOP shares			30,547		131,064		161,611
Allocation of unearned restricted stock			115,501				115,501
Repurchase of stock	(177,146)	(1,772)	(1,803,950)				(1,805,722)
Balance, December 31, 2014, as restated	3,334,130	33,341	25,219,224	12,987,593	(1,517,302)	216,800	36,939,656
Net income (loss)				(138,223)			(138,223)
Other comprehensive income, net						163,804	163,804
Stock options compensation expense			90,650				90,650
Allocation of unearned ESOP shares			73,582		162,444		236,026

Allocation of unearned restricted stock			84,936				84,936
Exercise of option shares	15,580	156	134,429				134,585
Repurchase of stock	(883)	(9)	(10,852)				(10,861)
Balance, December 31, 2015	3,348,827	$33,488	$25,591,969	$12,849,370	$(1,354,858)	$380,604	$37,500,573

See accompanying notes to the consolidated financial statements.

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POLONIA BANCORP, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2015	**2014**
OPERATING ACTIVITIES		
Net income (loss)	$(138,223)	$17,036
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	73,150	209,713
Depreciation, amortization, and accretion	1,122,763	1,052,214
Investment securities, gains	(560,367)	-
Proceeds from sale of loans	55,063,409	81,104,217
Net gain on sale of loans	(2,533,541)	(3,861,049)
Loans originated for sale	(48,308,430)	(75,321,638)
Net gain on sale of loans held for investment	(242,366)	-
(Gain) loss on the sale of other real estate owned	(42,160)	96,626
Earnings on bank-owned life insurance	10,725	(3,937)
Deferred federal income taxes	102,768	(466,242)
Decrease in accrued interest receivable	116,690	7,610
Decrease in accrued interest payable	(4,401)	(1,636)
Decrease in accrued payroll and commissions	(255,172)	(159,200)
Compensation expense for stock options, ESOP, and restricted stock	411,612	358,740
Other, net	(523,342)	693,420
Net cash provided by operating activities	4,293,115	3,725,874
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from principal repayments and maturities	6,808,781	3,528,225
Purchases	(15,648,402)	-
Proceeds from sales	8,616,069	-
Investment securities held to maturity:		
Proceeds from principal repayments and maturities	4,569,283	7,813,259
Purchases	-	(1,383,038)
Maturities of certificates of deposit in other institutions	11,937,000	-
Purchases of certificates of deposit in other institutions	(27,917,000)	-
Proceeds from sale of loans	26,366,649	-
Decrease (increase) in loans receivable, net	10,969,083	(16,318,842)
Decrease in covered loans	2,834,560	2,135,178
Purchase of Federal Home Loan Bank stock	(66,300)	(683,200)
Redemptions of Federal Home Loan Bank stock	250,100	515,200
Proceeds from the sale of other real estate owned	349,637	470,276
Payments received from FDIC under loss share agreement	122,270	396,156
Purchase of premises and equipment	(93,950)	(117,115)
Net cash provided by (used for) investing activities	29,097,780	(3,643,901)
FINANCING ACTIVITIES		
Decrease in deposits, net	(11,331,715)	(1,768,342)

Repayment of Federal Home Loan Bank advances - long-term	(3,000,000)	-
Decrease in advances by borrowers for taxes and insurance, net	(219,918)	(97,999)
Exercised options	134,585	-
Repurchase of stock	(10,861)	(1,805,722)
Net cash used for financing activities	(14,427,909)	(3,672,063)
Increase (decrease) in cash and cash equivalents	18,962,986	(3,590,090)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,174,230	15,764,320
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$31,137,216	$12,174,230
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid:		
Interest	$3,157,206	$3,211,854
Income taxes	455,000	775,000
Non-cash transactions:		
Loans transferred to other real estate owned	-	514,829
Transfers from premises and equipment to other real estate owned	-	213,805
Transfer of investment securities held to maturity to available for sale	40,103,961	-
Investment securities purchased not yet settled	2,012,836	-

See accompanying notes to the consolidated financial statements.

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POLONIA BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting and reporting policies applied in the presentation of the accompanying consolidated financial statements follows:

Nature of Operations and Basis of Presentation

Polonia Bancorp, Inc. (the "Company"), a Maryland corporation, was incorporated in 2011 and is a 100 percent publicly owned stock holding company of Polonia Bank (the "Bank"). The Bank was incorporated under Pennsylvania law in 1923. The Bank is a federally chartered savings bank located in Huntingdon Valley, Pennsylvania, whose principal sources of revenue emanate from its investment securities portfolio and its portfolio of residential real estate, commercial real estate, and consumer loans, as well as a variety of deposit services offered to its customers through five offices located in the Greater Philadelphia area. The Bank is subject to regulation by the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC").

The consolidated financial statements include the accounts of the Bank and the Bank's wholly owned subsidiaries, PBMHC ("PBMHC"), a Delaware investment company, and Community Abstract Agency, LLC ("CAA"). CAA provides title insurance on loans secured by real estate. All significant intercompany transactions have been eliminated in consolidation. The investment in subsidiaries on the parent company's financial statements is carried at the parent company's equity in the underlying net assets.

Use of Estimates in the Preparation of Financial Statements

The accounting principles followed by the Company and the methods of applying these principles conform to U.S. generally accepted accounting principles and to general practice within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the Consolidated Balance Sheet date and reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, and the fair value of financial instruments.

Investment Securities

Investment securities are classified at the time of purchase, based on management's intention and ability, as securities held to maturity or securities available for sale. Debt securities acquired with the intent and ability to hold to maturity are stated at cost, adjusted for amortization of premium and accretion of discount, which are computed using the interest method and recognized as adjustments of interest income. Certain other debt securities have been classified as available for sale to serve principally as a source of liquidity. Unrealized holding gains and losses for available-for-sale securities are reported as a separate component of stockholders' equity, net of tax, until realized. Realized security gains and losses are computed using the specific identification method for debt securities and the average cost method for marketable equity securities. Interest and dividends on investment securities are recognized as income when earned.

Securities are periodically reviewed for other-than-temporary impairment based upon a number of factors, including, but not limited to, the length of time and extent to which the market value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security's ability to recover any decline in its market value, and whether or not the Company intends to sell the security or whether it's more likely than not that the Company would be required to sell the security before its anticipated recovery in market value. A decline in value that is considered to be other than temporary is recorded as a loss within noninterest income in the Consolidated Statement of Income.

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1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (Continued)

The Bank is a member of the Federal Home Loan Bank ("FHLB") of Pittsburgh and as such is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment as necessary. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the FHLB; and (d) the liquidity position of the FHLB. With consideration given to these factors, management concluded that the stock was not impaired at December 31, 2015 or 2014.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. Net unrealized losses, if any, are recognized through a valuation allowance by a charge against income. Gains and losses on sales of loans held for sale are included in noninterest income. There were no loans held for sale at December 31, 2015, as compared to $4,221,438 at December 31, 2014.

Loans Receivable

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are stated at the principal amount outstanding less the allowance for loan losses and net of deferred loan origination fees and costs. Interest on loans is recognized as income when earned on the accrual method.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income,

according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Loan origination fees and certain direct loan origination costs are being deferred and the net amount amortized as an adjustment of the related loan's yield. The Company is amortizing these amounts over the contractual life of the related loans using the interest method.

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1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Acquired Loans

All loans acquired by the Company, excluding acquired consumer loans, are subject to loss share agreements with the FDIC whereby the Bank is indemnified against a portion of the losses on those loans ("covered loans"). Purchased loans acquired in a business combination, are recorded at fair value on their purchase date with no carryover of the related allowance for loan losses. In determining the fair value of purchased loans, management considers a number of factors including, among other things, the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, estimated holding periods, and net present value of cash flows expected to be received. Purchased credit-impaired loans are accounted for in accordance with guidance for certain loans or debt securities acquired in a transfer when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments. For evidence of credit deterioration since origination, the Company considered loans on a loan-by-loan basis by primarily focusing on past-due status, frequency of late payments, internal loan classification, as well as interviews with current loan officers and collection employees for other evidence that may be indicative of deterioration of credit quality. Once these loans were segregated, the Company evaluated each of these loans on a loan-by-loan basis to determine the probability of collecting all contractually required payments.

The Company deemed it appropriate to analogize the accounting guidance under Accounting Standards Codification ("ASC") 310-30 to all other loans since: (i) the discount recognized for these loans was attributable at least in part to credit quality, and (ii) the Company was unable to identify specific loans within this portfolio for which it was probable at acquisition that the Company would be unable to collect all contractually required payments receivable. The Company has aggregated all other loans into loan pools by common risk characteristics, which generally conform to loan type.

The Company evaluates expected future cash flows on all acquired loans on a quarterly basis. The difference between contractually required payments and the cash flows expected to be collected is referred to as the nonaccretable difference. Decreases to the expected cash flows will generally result in a provision for loan losses. Increases in cash flows will result in a reversal of the provision for loan losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income.

The accretable difference on purchased loans is the difference between the expected cash flows and the net present value of expected cash flows. Such difference is accreted into earnings using the effective yield method over the term of the loans.

FDIC Indemnification Asset

In connection with the Company's FDIC-assisted acquisition, the Company has recorded an FDIC indemnification asset to reflect the loss-share arrangement provided by the FDIC. Since the indemnified items are covered loans, which are measured at fair value at the date of acquisition, the FDIC indemnification asset is also measured at fair value at the date of acquisition, and is calculated by discounting the cash flows expected to be received from the FDIC.

The FDIC indemnification asset is measured separately from the related covered assets because it is not contractually embedded in the assets and is not transferable if the assets are sold. The fair value of the FDIC indemnification asset is estimated using the present value of cash flows related to the loss-share agreements based on the expected reimbursements for losses and the applicable loss-share percentages.

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1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FDIC Indemnification Asset (Continued)

The Company reviews and updates the fair value of the asset prospectively, on a quarterly basis, as loss estimates related to covered loans change. Decreases in the amount expected to be collected result in a provision for loan losses, an increase in the allowance for loan losses, and a proportional adjustment to the FDIC indemnification asset for the estimated amount to be reimbursed. Increases in the amount expected to be collected result in the reversal of any previously recorded provision for loan losses and related allowance for loan losses and adjustments to the FDIC indemnification asset, or prospective adjustment to the accretable discount if no provision for loan losses had been recorded.

The ultimate realization of the FDIC indemnification asset depends on the performance of the underlying covered assets, the passage of time, and claims paid by the FDIC. The accretion of the FDIC receivable discount is recorded in noninterest expense using the level yield method over the estimated life of the receivable.

Pursuant to the clawback provisions of the loss-share agreement for the Company's FDIC-assisted acquisition, the Company may be required to reimburse the FDIC should actual losses be less than certain thresholds established in the loss-share agreement. The amount of the clawback provision for the acquisition is included in the FDIC indemnification asset in the accompanying Consolidated Balance Sheet and is measured at fair value. It is calculated as the difference between management's estimated losses on covered loans and the loss threshold contained in the loss-share agreement, multiplied by the applicable clawback provisions contained in the loss-share agreement. This clawback amount which is payable to the FDIC upon termination of the applicable loss-share agreement is discounted back to net present value. To the extent that actual losses on covered loans are less than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss-share agreements will increase. To the extent that actual losses on covered loans are more than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss-share agreements will decrease.

Changes in the FDIC indemnification asset during the years ended December 31, 2015 and 2014, are as follows:

	Year Ended December 31,	
	2015	**2014**
Balance at the beginning of year	$ 1,417,355	$ 2,515,287
Cash payments received or receivable due from the FDIC	(122,270)	(396,156)
Increase in FDIC share of estimated losses	-	-
Net amortization	(821,134)	(701,776)

Balance at the end of year	$ 473,951	$ 1,417,355

Troubled Debt Restructurings

A loan is considered to be a troubled debt restructuring ("TDR") loan when the Company grants a concession to the borrower because of the borrower's financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, deferment of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk.

Allowance for Loan Losses

The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses inherent in its loan portfolio. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses that is charged to operations. The provision is based on management's evaluation of the adequacy of the allowance for loan losses which encompasses the overall risk characteristics of the various portfolio segments, past experience with losses, the impact of economic conditions on borrowers, and other relevant factors. The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to significant changes in the near term.

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1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

Impaired loans are typically commercial, multi-family, and commercial real estate loans for which it is probable the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. Troubled debt restructurings are also considered impaired. The Company individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. The Company may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectability while not classifying the loan as impaired, provided the loan is not a commercial or commercial real estate classification. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value or, as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Mortgage loans secured by one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances concerning the loan, the creditworthiness and payment history of the borrower, the length of the payment delay, and the amount of shortfall in relation to the principal and interest owed.

Management establishes the allowance for loan losses based upon its evaluation of the pertinent factors underlying the types and quality of loans in the portfolio. Commercial, multi-family, and commercial real estate loans are reviewed on a regular basis with a focus on larger loans along with loans which have experienced past payment or financial deficiencies. Larger commercial, multi-family, and commercial real estate loans which are 90 days or more past due are selected for impairment testing. These loans are analyzed to determine whether they are "impaired," which means that it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. All commercial, multi-family, and commercial real estate loans that are delinquent 90 days are placed on nonaccrual status are classified on an individual basis. The remaining loans are evaluated and classified as groups of loans with similar risk characteristics. The Company allocates allowances based on the factors described below, which conform to the Company's asset classification policy. In reviewing risk within the Bank's loan portfolio, management has determined there to be several different risk categories within the loan portfolio. The allowance for loan losses consists of amounts applicable to: (i) one-to-four family real estate loans; (ii) multi-family and commercial real estate loans; (iii) commercial loans, (iv) home equity loans; (v) home equity lines of credit; and (vi) education and other consumer loans. Factors considered in this process included general loan terms, collateral, and availability of historical data to support the analysis. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. Certain qualitative factors are then added to the historical allocation percentage to get the total factor to be applied to nonclassified loans. The following qualitative factors are analyzed:

- Levels of and trends in delinquencies and classification
- Trends in volume and terms
- Changes in collateral
- Changes in management and lending staff
- Economic trends
- Concentrations of credit
- Changes in lending policies
- Changes in loan review
- External factors

The Company analyzes its loan portfolio each quarter to determine the appropriateness of its allowance for loan losses.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loan Charge-Off Policies

Consumer loans are generally charged down to the fair value of collateral securing the asset when the loan is 120 days past due. Loans secured by real estate are generally charged down to the fair value of real estate securing the asset when the loan is 180 days past due. All other loans are generally charged down to the net realizable value when the loan is 90 days past due.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the useful lives of the related assets, which range from 3 to 20 years for furniture, fixtures, and equipment and 40 years for buildings. Expenditures for maintenance and repairs are charged to operations as incurred. Costs of major additions and improvements are capitalized.

Bank-Owned Life Insurance

The Company owns insurance on the lives of a certain group of key employees. The policies were purchased to help offset the increase in the costs of various fringe benefit plans including healthcare. The cash surrender value of these policies is included as an asset on the Consolidated Balance Sheet, and any increases in the cash surrender value are recorded as noninterest income on the Consolidated Statement of Income (Loss). In the event of the death of an insured individual under these policies, the Company would receive a death benefit, which would be recorded as noninterest income.

Mortgage Servicing Rights ("MSRs")

The Company has agreements for the express purpose of selling loans in the secondary market. The Company maintains servicing rights for most of these loans. Originated MSRs are recorded by allocating total costs incurred between the loan and servicing rights based on their relative fair values. MSRs are amortized in proportion to the estimated servicing income over the estimated life of the servicing portfolio. MSRs are a component of other assets on the Consolidated Balance Sheet.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Other Real Estate Owned

Other real estate owned is carried at the lower of cost or fair value minus estimated costs to sell. Valuation allowances for estimated losses are provided when the carrying value of the real estate acquired exceeds fair value minus estimated costs to sell. Operating expenses of such properties, net of related income, are expensed in the period incurred.

Federal Income Taxes

The Company and subsidiaries file a consolidated federal income tax return. Deferred tax assets and liabilities are reflected based on the differences between the financial statement and the income tax basis of assets and liabilities using the enacted marginal tax rates. Deferred income tax expense and benefit are based on the changes in the deferred tax assets or liabilities from period to period.

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1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Company has defined cash and cash equivalents as cash and due from banks and interest-bearing deposits with other institutions that have original maturities of less than 90 days.

Comprehensive Income (Loss)

The Company is required to present comprehensive income (loss) and its components in a full set of general-purpose financial statements for all periods presented. Other comprehensive income (loss) is composed exclusively of changes in the net unrealized holding gains on its available-for-sale securities portfolio. The Company has reported the effects of other comprehensive income on the Consolidated Statement of Comprehensive Income (Loss) for the years ended December 31, 2015 and 2014.

Stock Options

The Company accounts for stock options based on the grant-date fair value of all share-based payment awards that are expected to vest, including employee share options, to be recognized as expense over the requisite service period. The fair value of each option is amortized into expense on a straight-line basis between the grant date for the option and each vesting date. For the years ended December 31, 2015 and 2014, the Bank recorded $90,650 and $81,628 respectively, in expense related to share-based awards.

For purposes of computing compensation expense, the Bank estimated the fair values of stock options using the Black-Scholes option-pricing model. The model requires the use of subjective assumptions that can materially affect fair value estimates. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the option and each vesting date. The fair value of each stock option granted was estimated using the following weighted-average assumptions for grants in 2015: (1) no dividends were expected; (2) risk-free interest rates of 2.310 percent; (3) expected volatility ranging from 19.3 to 20 percent; and (4) expected lives of options of ten years.

There were 68,295 stock options granted during 2015 and no stock options granted during 2014. The weighted-average fair value of stock options granted for 2015 was $13.26. There were 15,580 options exercised

during 2015 at a weighted-average exercise price of $8.64 and no options exercised during 2014.

Recent Accounting Pronouncements

In January 2015, the FASB issued ASU 2015-01, *Income Statement – Extraordinary and Unusual Items,* as part of its initiative to reduce complexity in accounting standards. This Update eliminates from U.S. GAAP the concept of extraordinary items. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity may also apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. This Update is not expected to have a significant impact on the Company's financial statements.

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1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810).* The amendments in this Update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities; (2) eliminate the presumption that a general partner should consolidate a limited partnership; (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related-party relationships; and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. This Update is not expected to have a significant impact on the Company's financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)*, as part of its initiative to reduce complexity in accounting standards. To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. This Update is not expected to have a significant impact on the Company's financial statements.

In April 2015, the FASB issued ASU 2015-04, *Compensation – Retirement Benefits (Topic 715),* as part of its initiative to reduce complexity in accounting standards. For an entity with a fiscal year-end that does not coincide with a month-end, the amendments in this Update provide a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently from year to year. The practical expedient should be applied consistently to all plans if an entity has more than one plan. The amendments in this Update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017.

Earlier application is permitted. This Update is not expected to have a significant impact on the Company's financial statements.

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1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In April 2015, the FASB issued ASU 2015-05, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)*, as part of its initiative to reduce complexity in accounting standards. This guidance will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The amendments in this Update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. For public business entities, the FASB decided that the amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. For all other entities, the amendments will be effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016. Early adoption is permitted for all entities. This Update is not expected to have a significant impact on the Company's financial statements.

In April 2015, the FASB issued ASU 2015-06, *Earnings Per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions.* Topic 260, *Earnings Per Share*, contains guidance that addresses master limited partnerships that originated from Emerging Issues Task Force ("EITF") Issue No. 07-4, *Application of the Two-Class Method Under FASB Statement No. 128 to Master Limited Partnerships*. Under Topic 260, master limited partnerships apply the two-class method of calculating earnings per unit because the general partner, limited partners, and incentive distribution rights holders each participate differently in the distribution of available cash in accordance with the contractual rights contained in the partnership agreement. The amendments in this Update specify that for purposes of calculating historical earnings per unit under the two-class method, the earnings (losses) of a transferred business before the date of a dropdown transaction should be allocated entirely to the general partner. In that circumstance, the previously reported earnings per unit of the limited partners (which is typically the earnings per unit measure presented in the financial statements) would not change as a result of the dropdown transaction. Qualitative disclosures about how the rights to the earnings (losses) differ before and after the dropdown transaction occurs for purposes of computing earnings per unit under the two-class method are also required. The amendments in this Update are effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Earlier application is permitted. This Update is not expected to have a significant impact on the Company's financial statements.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The Update applies to reporting entities that elect to measure the fair value of an investment using the net asset value per share (or its equivalent) practical expedient. Under the amendments in this Update, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy. Removing those investments from the fair value hierarchy not only eliminates the diversity in practice resulting from the way in which investments measured at net asset value per share (or its equivalent) with future redemption dates are classified, but also ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied will continue to be included in the fair value hierarchy. A reporting entity should continue to disclose information on investments for which fair value is measured at net asset value (or its equivalent) as a practical expedient to help users understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted. This Update is not expected to have a significant impact on the Company's financial statements.

In May 2015, the FASB issued ASU 2015-08*, Business Combinations – Pushdown Accounting – Amendment to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115*. This Update was issued to amend various SEC paragraphs pursuant to the issuance of Staff Accounting Bulletin No. 115. This Update is not expected to have a significant impact on the Company's financial statements.

In May 2015, the FASB issued ASU 2015-09, *Financial Services – Insurance (Topic 944): Disclosure About Short-Duration Contracts*. The amendments apply to all insurance entities that issue short-duration contracts as defined in Topic 944, *Financial Services – Insurance*. The amendments require insurance entities to disclose for annual reporting periods certain information about the liability for unpaid claims and claim adjustment expenses. The amendments also require insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. Additionally, the amendments require insurance entities to disclose for annual and interim reporting periods a rollforward of the liability for unpaid claims and claim adjustment expenses, described in Topic 944. For health insurance claims, the amendments require the disclosure of the total of incurred-but-not-reported liabilities plus expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses. For public business entities, the amendments in this Update are effective for

annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. For all other entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017. This Update is not expected to have a significant impact on the Company's financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In June 2015, the FASB issued ASU 2015-10, *Technical Corrections and Improvements*. The amendments in this Update represent changes to clarify the FASB Accounting Standards Codification ("Codification"), correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Transition guidance varies based on the amendments in this Update. The amendments in this Update that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon the issuance of this Update. This Update is not expected to have a significant impact on the Company's financial statements.

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contract with Customers* (*Topic 606*). The amendments in this Update defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is evaluating the effect of adopting this new accounting Update.

In August 2015, the FASB issued ASU 2015-15, *Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting*. This Update adds SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. This Update is not expected to have a significant impact on the Company's financial statements.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805).* The amendments in this Update require that an acquirer recognizes adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this Update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this Update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2015, including interim periods

within those fiscal years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. This Update is not expected to have a significant impact on the Company's financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. The amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update apply to all entities that present a classified statement of financial position. For public business entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The amendments in this Update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. This Update is not expected to have a significant impact on the Company's financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (g) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (h) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease id defined as one in which: (a) the lease term is 12 months or less, and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period.

Reclassification of Comparative Amounts

Certain items previously reported have been reclassified to conform to the current year's reporting format. Such reclassifications did not affect net income or stockholders' equity.

2. RESTATEMENT

The Company determined there was an unrecorded liability related to the post retirement deferred compensation and split dollar arrangement with the previous president of the Bank which was entered into in 1997. The obligation is funded by an insurance policy described in Footnote 12. As a result the Company recorded a combined liability of $2,476,087, a related deferred tax asset of $592,760, and a reduction to retained earnings of $1,883,327.

	As of December 31, 2014		
	As Previously Reported	Adjustment	As Restated
Other Assets	$8,197,043	$592,760	$8,789,803
Total Assets	307,756,911	592,760	308,349,671

Other Liabilities	9,027,309	2,476,087	11,503,396
Total Liabilities	268,933,928	2,476,087	271,410,015
Retained Earnings	14,870,920	(1,883,327)	12,987,593
Total Stockholders’ Equity	38,822,983	(1,883,327)	36,939,656
Total Liabilities and Stockholders’ Equity	307,756,911	592,760	308,349,671

3. EARNINGS PER SHARE

There are no convertible securities which would affect the numerator in calculating basic and diluted earnings per share; therefore, net income as presented on the Consolidated Statement of Income will be used as the numerator.

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation.

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3. EARNINGS PER SHARE (Continued)

	Year Ended December 31, 2015	2014
Weighted-average common shares outstanding	3,337,038	3,407,752
Average unearned nonvested shares	(24,364)	(49,226)
Average unallocated shares held by ESOP	(171,063)	(190,191)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	3,141,611	3,168,335
Dilutive effect of stock options	-	29,161
Weighted-average shares outstanding diluted	3,141,611	3,197,496

At December 31, 2015, there were 13,719 shares of restricted stock outstanding at a price of $10.25 per share and options to purchase 136,587 shares of common stock ranging from a price of $10.25 per share to a price of $13.31 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive. At December 31, 2014, there were 34,494 shares of restricted stock outstanding at a price of $10.25 per share and options to purchase 110,976 shares of common stock at a price of $9.15 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive.

4. INVESTMENT SECURITIES

The amortized cost, gross unrealized gains, gross unrealized losses, and fair value of investment securities available for sale and held to maturity are summarized as follows:

	December 31, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities:				
Fannie Mae	$25,168,077	$ 615,222	$ (93,362)	$25,689,937
Freddie Mac	10,161,730	82,167	(120,472)	10,123,425
Government National Mortgage Association	399,799	48,639	(2)	448,436

Collateralized mortgage obligations - government-sponsored entities	984,609	23,730	(16,865)	991,474
Total mortgage-backed securities	36,714,215	769,758	(230,701)	37,253,272
Corporate securities	16,921,170	88,731	(51,995)	16,957,906
Municipal securities	499,649	106	-	499,755
Total debt securities	54,135,034	858,595	(282,696)	54,710,933
Common stock	159,816	774	-	160,590
Total investment securities	$54,294,850	$ 859,369	$ (282,696)	$54,871,523

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4. INVESTMENT SECURITIES (Continued)

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities:				
Fannie Mae	$1,445,913	$94,904	$-	$1,540,817
Freddie Mac	39,424	1,991	-	41,415
Government National Mortgage Association	469,373	58,936	-	528,309
Collateralized mortgage obligations - government-sponsored entities	1,135,489	29,125	(13,241)	1,151,373
Total mortgage-backed securities	3,090,199	184,956	(13,241)	3,261,914
Corporate securities	8,292,849	159,204	(2,434)	8,449,619
Total debt securities	$11,383,048	$344,160	$(15,675)	$11,711,533
Held to maturity				
Mortgage-backed securities:				
Fannie Mae	$33,121,331	$1,378,136	$(61,305)	$34,438,162
Freddie Mac	11,620,203	247,896	(112,814)	11,755,285
Total mortgage-backed securities	$44,741,534	$1,626,032	$(174,119)	$46,193,447

The following table shows the Company’s gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position.

	December 31, 2015					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage-backed securities:						
Fannie Mae	$8,990,826	$(93,362)	$-	$-	$8,990,826	$(93,362)
Freddie Mac	3,619,913	(13,501)	4,501,893	(106,971)	8,121,806	(120,472)
Government National Mortgage Association	1,332	(2)	-	-	1,332	(2)
Collateralized mortgage obligations - government-sponsored entities	515,046	(16,472)	5,257	(393)	520,303	(16,865)
Total mortgage-backed securities	13,127,117	(123,337)	4,507,150	(107,364)	17,634,267	(230,701)

Corporate securities	11,156,390	(51,995)	-	-	11,156,390	(51,995)
Total	$24,283,507	$(175,332)	$4,507,150	$(107,364)	$28,790,657	$(282,696)

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4. INVESTMENT SECURITIES (Continued)

	December 31, 2014 Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage-backed securities:						
Fannie Mae	$-	$ -	$ 7,153,455	$ (61,305)	$ 7,153,455	$ (61,305)
Freddie Mac	1,946,251	(3,284)	5,210,889	(109,530)	7,157,140	(112,814)
Collateralized mortgage obligations - government-sponsored entities	220,486	(4,339)	239,587	(8,902)	460,073	(13,241)
Total mortgage-backed securities	2,166,737	(7,623)	12,603,931	(179,737)	14,770,668	(187,360)
Corporate securities	1,752,260	(519)	498,085	(1,915)	2,250,345	(2,434)
Total	$ 3,918,997	$ (8,142)	$ 13,102,016	$ (181,652)	$ 17,021,013	$ (189,794)

The Company reviews its position quarterly and has asserted that at December 31, 2015 and 2014, the declines outlined in the above table represent temporary declines and the Company does not intend to sell and does not believe it will be required to sell these securities before recovery of their cost basis, which may be at maturity. There were 38 positions that were temporarily impaired at December 31, 2015. The Company has concluded that the unrealized losses disclosed above are not other than temporary but are the result of interest rate changes that are not expected to result in the non-collection of principal and interest during the period.

The amortized cost and fair value of debt securities at December 31, 2015, by contractual maturity, are shown below. Mortgage-backed securities provide for periodic, generally monthly, payments of principal and interest and have contractual maturities ranging from 3 to 30 years. 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.

	Available for Sale	
2015	**Amortized Cost**	**Fair Value**
Due within one year	$ 6,955,499	$ 6,959,758
Due after one year through five years	11,414,699	11,464,889
Due after five years through ten years	6,755,928	6,944,735
Due after ten years	29,008,908	29,341,551
Total	$ 54,135,034	$ 54,710,933

On August 1, 2015, the Company transferred all of its held-to-maturity investment securities, which consisted of $40.1 million in mortgage-backed securities, to available for sale. The purpose of this transfer was to provide additional liquidity and to provide the ability to reduce exposure to interest rate risk through the sale of longer-term securities. Subsequently, the Company sold three securities that were longer term in maturity to provide additional liquidity and to reduce exposure to interest rate risk.

For the year ended December 31, 2015, the Company realized gross gains of $560,367 and proceeds from the sale of investment securities of $8,616,069. There were no sales of securities during the year ended December 31, 2014.

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5.LOANS RECEIVABLE

Loans receivable consist of the following:

	December 31, 2015	2014
Mortgage loans:		
One-to-four family	$144,242,214	$182,272,189
Multi-family and commercial	10,414,249	10,782,954
	154,656,463	193,055,143
Commercial loans	7,181	-
Home equity loans	2,827,816	2,040,458
Home equity lines of credit (“HELOCs”)	2,459,848	1,521,341
Education loans	1,233,539	1,557,801
Other consumer loans	693	1,373
Noncovered loans purchased	466,805	639,092
Covered loans	11,686,062	14,457,364
	173,338,407	213,272,572
Less:		
Net deferred loan fees	(112,670)	(279,098)
Allowance for loan losses	1,272,072	1,415,983
Total	$172,179,005	$212,135,687

The components of covered loans by portfolio class as of December 31, were as follows:

	2015	2014
Mortgage loans:		
One-to-four family	$5,457,518	$7,846,156
Multi-family and commercial	6,200,152	6,438,651
	11,657,670	14,284,807
Commercial	28,392	172,557
Total loans	$11,686,062	$14,457,364

The outstanding balance, including interest, and carrying values of loans acquired were as follows at December 31:

2015		2014	
	Acquired Loans		Acquired Loans

	Acquired Loans with Specific Evidence of Deterioration in Credit Quality (ASC 310-30)	**Without Specific Evidence of Deterioration in Credit Quality (ASC 310-30 Analogized)**	**Acquired Loans with Specific Evidence of Deterioration in Credit Quality (ASC 310-30)**	**Without Specific Evidence of Deterioration in Credit Quality (ASC 310-30 Analogized)**
Outstanding balance	$739,499	$ 17,776,069	$807,613	$ 22,933,822
Carrying amount, net of allowance	473,500	11,679,367	481,271	14,615,185

There was no allowance for loan losses recorded for acquired loans with or without specific evidence of deterioration in credit quality as of December 31, 2015 and 2014.

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5. LOANS RECEIVABLE (Continued)

Changes in the accretable yield for acquired loans were as follows for the years ended December 31:

	2015 Acquired Loans Without Specific Evidence of Deterioration in Credit Quality (ASC 310-30 Analogized)	2014 Acquired Loans Without Specific Evidence of Deterioration in Credit Quality (ASC 310-30 Analogized)
Balance at beginning of period	$ 6,381,792	$ 7,791,222
Reclassifications and other	163,831	(331,946)
Accretion	(946,605)	(1,077,484)
Balance at end of period	$ 5,599,018	$ 6,381,792

The $946,605 and $1,077,484 recognized as accretion represents the interest income earned on these loans for the years ended December 31, 2015 and 2014, respectively. Included in reclassification and other for loans acquired without specific evidence of deterioration in credit quality was $1,311,425 and $530,696 of reclassifications from nonaccretable discounts to accretable discounts in 2015 and 2014, respectively. The remaining $(1,147,594) and $(862,642) change in the accretable yield represents reductions in contractual interest due to contractual principal prepayments during the periods ended December 31, 2015 and 2014, respectively.

The Company’s loan portfolio consists predominantly of one-to-four family unit first mortgage loans in the northwest suburban area of metropolitan Philadelphia, primarily in Montgomery and Bucks Counties. These loans are typically secured by first lien positions on the respective real estate properties and are subject to the Bank’s loan underwriting policies. In general, the Company’s loan portfolio performance at December 31, 2015 and 2014, is dependent upon the local economic conditions.

Mortgage loans serviced by the Company for others amounted to $23,893,154 and $28,441,343 at December 31, 2015 and 2014, respectively.

In the normal course of business, loans are extended to officers, directors, and corporations in which they are beneficially interested as stockholders, officers, or directors. A summary of loan activity for those officers and directors for the years ended December 31, 2015 and 2014, was as follows:

	2015	**2014**
Beginning Balance	$6,271,034	$6,232,634
Additions	25,993	1,083,650
Amounts Collected	(305,067)	(1,045,250)
Other	(136,007)	-
Ending Balance	$5,855,953	$6,271,034

A senior officer of the Company retired July 31, 2015. At that time, he had a mortgage loan and a HELOC totaling $136,007. Those loan balances are shown as deductions in the “other” column of the table above.

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6. ALLOWANCE FOR LOAN LOSSES

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses the Company has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: one-to-four family real estate, multi-family and commercial real estate, commercial loans, home equity loans, home equity lines of credit, and education and other consumer loans. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. These historical loss percentages are calculated over a three-year period for all portfolio segments. Certain qualitative factors are then added to the historical allocation percentage to get the adjusted factor to be applied to nonclassified loans. The following qualitative factors are analyzed for each portfolio segment:

- Levels of and trends in delinquencies and classifications
- Trends in volume and terms
- Changes in collateral
- Changes in management and lending staff
- Economic trends
- Concentrations of credit
- Changes in lending policies
- Changes in loan review
- External factors

These qualitative factors are reviewed each quarter and adjusted based upon relevant changes within the portfolio.

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the Consolidated Balance Sheet date. The Company considers the allowance for loan losses adequate to cover loan losses inherent in the loan portfolio, at December 31, 2015 and 2014. At December 31, 2015 and 2014, there is no allowance for loan losses related to loans covered by loss-share agreements with the FDIC.

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6. ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents the activity in the allowance for loan losses, balance in the allowance for loan losses, and recorded investment in loans by portfolio segment based on impairment method as of and for the years ended December 31:

	2015 One-to- Four Family Real Estate	Multi-Family and Commercial Real Estate	Commercial	Home Equity	HELOCs	Education and Other Consumer	Unallocated	Total
Beginning balance	$962,753	$427,636	$-	$7,590	$10,599	$6,771	$634	$1,415,983
Provision (credit) for loan losses	28,790	(121,030)	18	3,048	6,456	(1,201)	157,069	73,150
Charge-offs	(217,282)	-	-	-	-	-	-	(217,282)
Recoveries	221	-	-	-	-	-	-	221
Net (charge-offs) recoveries	(217,061)	-	-	-	-	-	-	(217,061)
Allowance at end of period	$774,482	$306,606	$18	$10,638	$17,055	$5,570	$157,703	$1,272,072
Ending balance	$774,482	$306,606	$18	$10,638	$17,055	$5,570	$157,703	$1,272,072
Ending balance: individually evaluated for impairment	$3,104	$-	$-	$-	$-	$-	$-	$3,104
Ending balance: collectively evaluated for impairment	$771,378	$306,606	$18	$10,638	$17,055	$5,570	$157,703	$1,268,968
Ending balance: loans acquired with deterioriated credit quality	$-	$-	$-	$-	$-	$-	$-	$-

Ending balance	$149,699,732	$16,614,401	$35,573	$2,827,816	$2,459,848	$1,701,037	$-	$173,338,407
Ending balance: individually evaluated for impairment	$2,027,628	$604,554	$-	$52,803	$-	$-	$-	$2,684,985
Ending balance: collectively evaluated for impairment	$142,214,586	$9,809,695	$7,181	$2,775,013	$2,459,848	$1,234,232	$-	$158,500,555
Ending balance: loans acquired with deteriorated credit quality	$5,457,518	$6,200,152	$28,392	$-	$-	$466,805	$-	$12,152,867

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6. ALLOWANCE FOR LOAN LOSSES (Continued)

	2014 One-to- Four Family Real Estate	Multi-Family and Commercial Real Estate	Commercial	Home Equity	HELOCs	Education and Other Consumer	Unallocated	Total
Beginning balance	$908,591	$444,909	$-	$4,730	$2,922	$7,858	$9,003	$1,378,013
Provision (credit) for loan losses	225,905	(17,273)	-	2,860	7,677	(1,087)	(8,369)	209,713
Charge-offs	(171,743)	-	-	-	-	-	-	(171,743)
Recoveries	-	-	-	-	-	-	-	-
Net (charge-offs) recoveries	(171,743)	-	-	-	-	-	-	(171,743)
Allowance at end of period	$962,753	$427,636	$-	$7,590	$10,599	$6,771	$634	$1,415,983
Ending balance	$962,753	$427,636	$-	$7,590	$10,599	$6,771	$634	$1,415,983
Ending balance: individually evaluated for impairment	$10,870	$-	$-	$-	$-	$-	$-	$10,870
Ending balance: collectively evaluated for impairment	$951,883	$427,636	$-	$7,590	$10,599	$6,771	$634	$1,405,113
Ending balance: loans acquired with deterioriated credit quality	$-	$-	$-	$-	$-	$-	$-	$-
Ending balance	$190,118,345	$17,221,605	$172,557	$2,040,458	$1,521,341	$2,198,266	$-	$213,272,572
Ending balance: individually evaluated for	$2,567,633	$632,717	$-	$60,475	$-	$-	$-	$3,260,825

impairment								
Ending balance: collectively evaluated for impairment	$179,704,556	$10,150,237	$-	$1,979,983	$1,521,341	$1,559,174	$-	$194,915,291
Ending balance: loans acquired with deteriorated credit quality	$7,846,156	$6,438,651	$172,557	$-	$-	$639,092	$-	$15,096,456

Credit Quality Information

The following tables represent credit exposures by internally assigned grades at December 31, 2015 and 2014. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Company’s internal credit risk grading system is based on experiences with similarly graded loans.

The Company’s internally assigned grades are as follows:

Pass – loans which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. There are six sub-grades within the pass category to further distinguish the loan.

Special Mention – loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected. The Special Mention category includes assets that are fundamentally sound yet, exhibit unacceptable credit risk or deteriorating trends or characteristics which if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Company’s credit position at some future date.

Substandard – loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard.

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6. ALLOWANCE FOR LOAN LOSSES (Continued)

Doubtful – loans classified as Doubtful have all the weaknesses inherent in a Substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances. Loans in the Doubtful category have all the weaknesses inherent in one classified as Substandard with the added characteristic that the weakness make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss – loans classified as a Loss are considered uncollectible, or of such value that continuance as an asset is not warranted. Loans in the Loss category are considered uncollectable and of little value that their continuance as bankable assets is not warranted.

The following table presents classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard, Doubtful, and Loss within the internal risk rating system as of December 31:

	2015		**2014**	
	Multi-Family and Commercial Real Estate	**Commercial**	**Multi-Family and Commercial Real Estate**	**Commercial**
Pass	$13,335,644	$ 35,573	$14,171,027	$ 172,557
Special Mention	1,977,627	-	1,699,786	-
Substandard	1,301,130	-	1,350,792	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	$16,614,401	$ 35,573	$17,221,605	$ 172,557

For one-to-four family real estate, home equity, HELOCs, and education and other consumer loans, the Company evaluates credit quality based on the performance of the individual credits. Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when they are on nonaccrual or become 90 days past due. The following table presents the recorded investment in the loan classes based on payment activity as of December 31:

2015			
		Education	**Noncovered**
One-to-Four	**Home**	**and Other**	**Loans**

	Family Real Estate	Equity	HELOCs	Consumer	Purchased
Performing	$147,714,397	$2,775,013	$2,459,848	$1,144,941	$ 400,682
Nonperforming	1,985,335	52,803	-	89,291	66,123
Total	$149,699,732	$2,827,816	$2,459,848	$1,234,232	$ 466,805

	2014				
	One-to-Four	Home		Education and Other	Noncovered Loans
	Family Real Estate	Equity	HELOCs	Consumer	Purchased
Performing	$188,046,379	$1,979,983	$1,521,341	$1,465,276	$ 639,092
Nonperforming	2,071,966	60,475	-	93,898	-
Total	$190,118,345	$2,040,458	$1,521,341	$1,559,174	$ 639,092

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6. ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Information (Continued)

The following table presents an aging analysis of the recorded investment of past-due loans at December 31:

	2015						
	30-59 Days Past Due	**60-89 Days Past Due**	**90 Days Or Greater**	**Total Past Due**	**Current**	**Total Loans Receivable**	**Recorded Investment > 90 Days and Accruing**
One-to-four family real estate	$133,937	$98,977	$1,808,449	$2,041,363	$147,658,369	$149,699,732	$ -
Multi-family and commercial real estate	94,508	204,633	139,091	438,232	16,176,169	16,614,401	-
Commercial	-	-	-	-	35,573	35,573	-
Home equity	52,803	-	-	52,803	2,775,013	2,827,816	-
HELOCs	-	-	-	-	2,459,848	2,459,848	-
Education and other consumer	17,413	-	89,291	106,704	1,127,528	1,234,232	-
Noncovered loans purchased	-	-	66,123	66,123	400,682	466,805	-
Total	$298,661	$303,610	$2,102,954	$2,705,225	$170,633,182	$173,338,407	$ -

	2014						
	30-59 Days Past Due	**60-89 Days Past Due**	**90 Days Or Greater**	**Total Past Due**	**Current**	**Total Loans Receivable**	**Recorded Investment > 90 Days and Accruing**
One-to-four family real estate	$58,481	$1,034,424	$1,798,213	$2,891,118	$187,227,227	$190,118,345	$ -
	86,027	-	431,817	517,844	16,703,761	17,221,605	-

Multi-family and commercial real estate							
Commercial	-	-	-	-	172,557	172,557	-
Home equity	60,475	-	-	60,475	1,979,983	2,040,458	-
HELOCs	-	-	-	-	1,521,341	1,521,341	-
Education and other consumer	29,265	1,497	93,898	124,660	1,434,514	1,559,174	-
Noncovered loans purchased	78,650	14,676	-	93,326	545,766	639,092	-
Total	$312,898	$1,050,597	$2,323,928	$3,687,423	$209,585,149	$213,272,572	$ -

Nonaccrual Loans

Loans are generally considered for nonaccrual status upon 90 days delinquency. When a loan is placed in nonaccrual status, previously accrued but unpaid interest is deducted from interest income.

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6. ALLOWANCE FOR LOAN LOSSES (Continued)

Nonaccrual Loans (Continued)

On the following table are the loans on nonaccrual status as of December 31. The balances are presented by class of loans.

	2015	2014
One-to-four family real estate	$1,985,335	$2,071,966
Multi-family and commercial real estate	219,927	517,844
Home equity	52,803	60,475
Education and other consumer	89,291	93,898
Noncovered consumer loans purchased	66,123	-
Total	$2,413,479	$2,744,183

Interest income on loans would have increased by approximately $92,359 and $110,958 during the years ended December 31, 2015 and 2014, respectively, if these loans had performed in accordance with their original terms. Management evaluates commercial real estate loans which are 90 days or more past due for impairment.

Impaired Loans

The following table presents the recorded investment and unpaid principal balances for impaired loans and related allowance, if applicable. Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired.

	December 31, 2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
One-to-four family real estate	$2,149,908	$2,832,646	$ -	$2,664,432	$ 16,340
Multi-family and commercial real estate	924,634	1,079,027	-	1,035,219	36,782
Commercial	-	32,077	-	-	2,368
Consumer	66,123	66,123	-	27,551	-

Home equity	52,803	55,309	-	55,920	-
With an allowance recorded:					
One-to-four family real estate	$149,842	$154,345	$ 3,104	$367,712	$ 14,934
Total:					
One-to-four family real estate	$2,299,750	$2,986,991	$ 3,104	$3,032,144	$ 31,274
Multi-family and commercial real estate	924,634	1,079,027	-	1,035,219	36,782
Commercial	-	32,077	-	-	2,368
Consumer	66,123	66,123	-	27,551	-
Home equity	52,803	55,309	-	55,920	-

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6. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued)

	December 31, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
One-to-four family real estate	$2,226,812	$2,823,616	$ -	$2,227,366	$ 31,195
Multi-family and commercial real estate	1,239,500	1,544,656	-	1,129,324	43,842
Commercial	-	84,010	-	-	4,352
Home equity	60,475	60,925	-	5,040	-
With an allowance recorded:					
One-to-four family real estate	$675,473	$676,073	$ 10,870	$682,676	$ 19,064
Total:					
One-to-four family real estate	$2,902,285	$3,499,689	$ 10,870	$2,910,042	$ 50,259
Multi-family and commercial real estate	1,239,500	1,544,656	-	1,129,324	43,842
Commercial	-	84,010	-	-	4,352
Home equity	60,475	60,925	-	5,040	-

Loan Modifications and Troubled Debt Restructurings

A loan is considered to be a troubled debt restructuring loan when the Company grants a concession to the borrower because of the borrower's financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk.

There were no loan modifications that are considered troubled debt restructurings completed during the year ended December 31, 2015.

Loan modifications that are considered troubled debt restructurings completed during the year ended December 31, 2014, were as follows:

	December 31, 2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
One-to-four family real estate	1	$ 28,615	$ 28,615
Total	1	$ 28,615	$ 28,615

For the year ended December 31, 2014, one loan was granted a term concession. There were no troubled debt restructurings modified during 2014 and 2013 that subsequently defaulted during the years ended December 31, 2015 and 2014.

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7. PREMISES AND EQUIPMENT

Premises and equipment consist of the following as of December 31:

	2015	2014
Land	$60,000	$60,000
Buildings	7,028,413	7,019,371
Furniture, fixtures, and equipment	3,204,310	3,173,568
	10,292,723	10,252,939
Less accumulated depreciation	6,294,314	5,995,213
Total	$3,998,409	$4,257,726

Depreciation expense amounted to $353,267 and $433,766 for the years ended December 31, 2015 and 2014, respectively.

8. DEPOSITS

Deposit accounts are summarized as follows as of December 31:

	2015 Amount	%	2014 Amount	%
Noninterest-bearing demand	$6,136,545	3.26 %	$6,482,695	3.25 %
NOW accounts	15,712,121	8.35	13,562,430	6.80
Money market deposit	33,809,176	17.96	37,259,728	18.67
Savings	29,879,155	15.88	28,589,859	14.33
	85,536,997	45.45	85,894,712	43.05
Time deposits:				
0.01 - 0.99%	25,476,377	13.53	35,133,409	17.60
1.00 - 1.99%	47,047,853	25.00	45,935,921	23.02
2.00 - 3.99%	30,161,055	16.02	32,589,955	16.33
	102,685,285	54.55	113,659,285	56.95
Total	$188,222,282	100.00%	$199,553,997	100.00%

The scheduled maturities of time deposits as of December 31, 2015, are as follows:

One year or less	$39,633,658
More than one year to two years	26,246,268
More than two years to three years	17,103,964
More than three years to four years	6,380,753
More than four years to five years	4,079,145
More than five years	9,241,497
Total	$102,685,285

Time deposits include those in denominations of $250,000 or more. Such deposits aggregated $6,371,546 and $6,951,417 at December 31, 2015 and 2014, respectively.

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8. DEPOSITS (Continued)

The scheduled maturities of time deposits in denominations of $250,000 or more at December 31, 2015, are as follows:

Within three months	$686,967
Three through six months	-
Six through twelve months	1,402,423
Over twelve months	4,282,156
Total	$6,371,546

Interest expense by deposit category is as follows:

	Year Ended December 31,	
	2015	2014
NOW accounts	$ 23,302	$ 25,852
Money market deposit	131,577	128,366
Savings	43,188	68,534
Time deposits	1,490,997	1,492,157
Total	$ 1,689,064	$ 1,714,909

9. FHLB ADVANCES – LONG-TERM

The following table sets forth information concerning FHLB advances – long-term:

Description	Maturity Range From	Maturity Range To	Weighted-Average Interest Rate	Stated Interest Rate Range From	Stated Interest Rate Range To	At December 31, 2015	At December 31, 2014
Convertible	03/19/18	08/27/18	3.08 %	2.13 %	4.15 %	$17,000,000	$17,000,000
Fixed rate	06/01/16	10/12/21	2.47	1.81	3.23	34,000,000	37,000,000
Mid-term repo fixed	06/20/16	06/24/16	1.13	1.06	1.17	5,000,000	5,000,000
	Total					$56,000,000	$59,000,000

Payments of FHLB borrowings are summarized as follows:

	December 31, 2015	
December 31,	Amount	Weighted-Average Rate
2016	$ 7,000,000	1.42 %
2018	28,000,000	2.62
2019	8,000,000	2.51
2020	9,000,000	2.83
2021	4,000,000	3.21
Total	$ 56,000,000	2.53 %

At December 31, 2015, the Company had three convertible select borrowings, fourteen fixed-rate borrowings, and two mid-term repo fixed borrowings. These borrowings mature from June 2016 through October 2021. All borrowings require quarterly payments of interest only. The convertible select borrowings are convertible to variable-rate advances on specific dates at the discretion of the FHLB. Should the FHLB convert these advances, the Bank has the option of accepting the variable rate or repaying the advance without penalty.

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9. FHLB ADVANCES – LONG-TERM (Continued)

All borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as investment securities and mortgage loans which are owned by the Bank free and clear of any liens or encumbrances. In addition, the Company has a maximum borrowing capacity of $119.5 million with the FHLB at December 31, 2015.

10. INCOME TAXES

The provision for income taxes consists of:

	Year Ended December 31,	
	2015	**2014**
Current tax expense	$ (32,309)	$ 519,789
Deferred taxes	102,768	(466,242)
Total	$ 70,459	$ 53,547

The tax effects of deductible and taxable temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities, respectively, are as follows:

	Year Ended December 31,	
	2015	**2014**
Deferred tax assets:		
Allowance for loan losses	$ 431,389	$ 480,319
Deferred compensation	1,639,399	2,008,061
Deferred health care	56,381	59,233
State net operating loss carryforward	47,569	79,623
Goodwill	212,036	230,094
Premises and equipment	36,949	3,292
Other	185,485	199,665
Total gross deferred tax assets	2,609,208	3,060,287
Valuation allowance	(47,565)	(79,623)
Total net deferred tax assets	2,561,643	2,980,664
Deferred tax liabilities:		
Prepaid insurance	44,312	74,211

Deferred gain on FDIC-assisted acquisition	287,206	573,564
Net unrealized gain on securities	196,069	111,685
Total gross deferred tax liabilities	527,587	759,460
Net deferred tax assets	$ 2,034,056	$ 2,221,204

The valuation allowance as of December 31, 2015 and 2014, consisted of a 100 percent allowance against specific deferred tax assets. These deferred tax assets are subject to expiration periods ranging from one year to three years. It could not be determined that it was more than likely that the Company would be in a taxable position adequate to utilize these deferred tax assets prior to their expiration. These deferred tax assets consist of the Pennsylvania Mutual Thrift tax loss carryforward. A valuation allowance was not established at December 31, 2015 and 2014, for the remaining deferred tax assets, in view of certain tax strategies, coupled with the anticipated future taxable income.

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10. INCOME TAXES (Continued)

The reconciliation of the federal statutory rate and the Company's effective income tax rate is as follows:

	Year Ended December 31,			
	2015		2014	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$(23,040)	(34.0)%	$23,998	34.0 %
Share-based compensation expense	69,277	102.2	41,389	58.6
Other, net	24,222	35.7	(11,840)	(16.7)
Actual tax expense and effective rate	$70,459	103.9 %	$53,547	75.9 %

The Bank is subject to the Pennsylvania Mutual Thrift Institutions Tax that is calculated at 11.5 percent of Pennsylvania earnings based on U.S. generally accepted accounting principles with certain adjustments.

U.S. generally accepted accounting principles prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. With few exceptions, the Company is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2012.

11. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

In the normal course of business, management makes various commitments that are not reflected in the accompanying consolidated financial statements. These commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet. The Company's exposure to credit loss in the event of nonperformance by the other parties to the financial instruments is represented by the contractual amounts as disclosed. The Company minimizes its exposure to credit loss under these commitments by subjecting them to credit approval and review procedures and collateral requirements, as deemed necessary, in compliance with lending policy guidelines. Generally, collateral, usually in the form of real estate, is required to support financial instruments with credit risk.

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11. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Commitments (Continued)

The off-balance sheet commitments consisted of the following:

	December 31, 2015	2014
Commitments to extend credit	$268,000	$1,394,997
Unused lines of credit	4,373,408	4,977,461

Commitments to extend credit consist of fixed-rate commitments with interest rates ranging from 3.00 percent to 4.25 percent at December 31, 2015. The commitments outstanding at December 31, 2015, contractually mature in less than one year.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement. These commitments consisted primarily of available commercial and personal lines of credit and loans approved but not yet funded. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Contingent Liabilities

The Company is involved in various legal actions from the normal course of business activities. Management believes the liability, if any, arising from such actions will not have a material adverse effect on the Company's financial position.

12. EMPLOYEE BENEFITS

Benefit Plan

The Company has a defined contribution pension plan (the "Plan") for all regular full-time employees meeting certain eligibility requirements. Annual contributions are discretionary but will not exceed 15 percent of eligible employees' salaries. The Plan may be terminated at any time at the discretion of the Board of Directors. There were no contributions made to the profit-sharing portion of the Plan for the years ended December 31, 2015 and 2014.

The Plan includes provisions to include employee and employer 401(k) contributions. Under the Plan, the Company will match 100 percent of the employees' eligible contributions, up to the maximum of 5 percent of each qualifying employee's salary, and an additional 10 percent of each non-qualifying employee's salary. The Company contributions for the 401(k) plan were $105,952 and $201,178 for the years ended December 31, 2015 and 2014, respectively.

Employee Stock Ownership Plan ("ESOP")

The Company maintains an ESOP for the benefit of employees who meet the eligibility requirements, which include having completed one year of service with the Company or its subsidiary and attained age 18. The ESOP trust acquired 139,421 shares of the Company's stock from proceeds from a loan with the Company. During 2012, the ESOP trust purchased 136,693 additional shares from the proceeds from an additional loan with the Company. The Company makes cash contributions to the ESOP on an annual basis sufficient to enable the ESOP to make the required loan payments. The ESOP trust's outstanding loans bear interest at 8.25 and 3.25 percent and require annual payments of principal and interest of $153,439 and $95,650 through December of 2021 and 2026, respectively.

As the debt is repaid, shares are released from the collateral and allocated to qualified employees based on the proportion of payments made during the year to remaining amount of payments due on the loan through maturity. Accordingly, the shares pledged as collateral are reported as unallocated common stock held by the ESOP shares in the Consolidated Balance Sheet. As shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares, and the shares become outstanding for earnings-per-share computations. The Company recognized ESOP expense of $236,026 and $161,611 for the years ended December 31, 2015 and 2014, respectively.

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12. EMPLOYEE BENEFITS (Continued)

Employee Stock Ownership Plan ("ESOP") (Continued)

The following table presents the components of the ESOP shares:

	December 31, 2015	2014
Allocated shares	113,826	94,699
Unreleased shares	162,288	181,415
Total ESOP shares	276,114	276,114
Fair value of unreleased shares	$1,872,804	$1,895,787

Equity Incentive Plan

Employees and non-employee corporate directors are eligible to receive awards of restricted stock and options based upon performance related requirements. Awards granted are in the form of the Company's common stock and options to purchase stock and are subject to certain vesting requirements including continuous employment or service with the Company. The Company has authorized 520,294 and 239,029 shares of the Company's common stock under the 2007 Equity Incentive Plan and the 2013 Equity Incentive Plan, respectively. The plans assist the Company in attracting, retaining, and motivating employees and non-employee directors to make substantial contributions to the success of the Company and to increase the emphasis on the use of equity as a key component of compensation.

Restricted Stock

In connection with the 2013 Equity Incentive Plan, the Company awarded 61,464 shares of restricted stock to directors, officers, and other employees of the Company on November 9, 2013. These shares vest over a five-year period ending in 2018. Compensation expense related to the vesting of shares was $84,936 and $115,501 for the years ended December 31, 2015 and 2014. As of December 31, 2015, approximately $178,508 in additional compensation expense will be recognized over the remaining service period of approximately 2.9 years.

	Number of Restricted Stock	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2014	38,245	$ 10.25
Granted	-	-
Vested	6,148	10.25
Forfeited	13,658	10.25
Nonvested at December 31, 2015	18,439	$ 10.25

Stock Options

The 2007 and 2013 Equity Incentive Plans provide for granting incentive options to key officers of the Company and nonqualified stock options to non-employee directors of the Company. A total of 180,407 and 170,735 shares, respectively, of the 2007 and 2013 plans of either authorized and unissued shares or authorized shares or authorized shares issued by and subsequently reacquired by the Bank as treasury stock shall be issuable under the plans. The plans shall terminate after the tenth anniversary of the plan. The per share exercise price of any option granted will not be less than the fair market value of a share of common stock on the date the option is granted. The options granted are vested over various time periods and are determined at the time of grant.

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12. EMPLOYEE BENEFITS (Continued)

Stock Option Plan (Continued)

The following table is a summary of the Company's stock option activity and related information for its option plan:

	December 31, 2015	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding, beginning	282,362	$ 9.15	5.09	366,681
Granted	68,295	13.26	-	-
Exercised	15,580	8.64	-	-
Forfeited	126,328	9.03	-	-
Outstanding, ending	208,749	$ 10.61	6.25	311,799
Vested and exercisable at period-end	99,478	$ 8.94	3.36	258,937

The following table summarizes the Company's nonvested options and changes therein during the year ended December 31, 2015:

	Number of Stock Options	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2014	88,781	$ 3.05
Granted	68,295	4.42
Vested	13,658	3.05
Forfeited	34,147	3.05
Nonvested at December 31, 2015	109,271	$ 3.91

Supplemental Retirement Plans

The Company has supplemental retirement plans (“SRPs”) that cover three former officers and one current senior officer of the Bank. At December 31, 2015 and 2014, $2,033,918 and $2,142,579, respectively, has been accrued under these SRPs, and this liability and the related deferred tax asset of $691,532 and $728,477, respectively, are recognized in the financial statements.

The SRPs provide an annual salary continuation benefit to the officers following their termination of employment. The SRP for a former president of the Bank provides an annual benefit, payable for the lifetime of the former president, of $75,000 adjusted annually for the change in the consumer price index. The current annual benefit is $123,000. If the former president predeceases his spouse, his surviving spouse will be entitled to a reduced benefit for the remainder of her lifetime. The SRP for the second former president provides a lifetime annual benefit equal to 60 percent of his final full year annual gross taxable compensation adjusted annually for the change in the consumer price index or 4 percent, whichever is higher. The current annual benefit is $122,000. The SRPs for one current and one former senior officer provide for an annual benefit at the rate of $50,000 per year for 20 years. If the officer terminates employment prior to age 65, the SRP benefit commences on the earlier of five years after retirement or age 65. Otherwise, the SRP benefit commences following termination of employment. The Company records periodic accruals for the cost of providing such benefits by charges to income.

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12. EMPLOYEE BENEFITS (Continued)

Supplemental Retirement Plan (Continued)

The following table illustrates the components of the net periodic benefit cost for the supplemental retirement plan:

	For the Year Ended December 31,	
	2015	2014
Components of net periodic benefit cost:		
Service cost	$83,171	$372,562
Interest cost	95,582	106,486
Net periodic benefit cost	$178,753	$479,048

Additionally, the Company has an obligation to provide a post-retirement death benefit to the designated beneficiary of a former president of the Bank. There are two components to the death benefit. The first is a lump sum benefit of $2,000,000. This benefit is not conditioned on or linked to any life insurance policy. The second component is an amount equal to 40% of the proceeds in excess of $2,000,000 payable on the death of the former president under a life insurance policy held by the Bank, provided that the total after-tax benefit does not exceed $4,000,000. At December 31, 2015 and 2014, $2,628,815 and $2,476,087, respectively, have been accrued related to this liability and the related deferred tax assets of $651,488 and $592,760, respectively, are recognized in the financial statements.

Under the SRPs with one former and one current officer, if the executive dies during the benefit payment period, the executive's designated beneficiary will receive a lump sum payment equal to the remaining payments. If the executive dies prior to retirement, his designated beneficiary will receive a lump sum payment of $1,000,000 under a split-dollar life insurance agreement with the executive.

The Company funded life insurance policies with an aggregate amount of $3,085,000 on the lives of former and current officers that currently have total death benefits of $11,975,329. The cash surrender value of these policies totaled $4,257,456 and $4,268,181 at December 31, 2015 and 2014, respectively.

The Company maintains a nonqualified deferred compensation plan for one senior officer whereby the participant is able to defer compensation to be matched 100 percent by the Company. The deferral, match, and earnings thereon are held in Rabbi Trusts. The Rabbi Trust assets are included in other assets, and the related deferred compensation

payable is included in other liabilities. The Rabbi Trust asset and the related deferred compensation payable at December 31, 2015, was $882,619. Earnings from the Rabbi Trust increase the asset and increase the deferred compensation payable. Losses from the Rabbi Trust decrease the asset and decrease the deferred compensation payable. There is no net income statement effect.

13. REGULATORY RESTRICTIONS

Federal Reserve Cash Requirements

The Bank is required to maintain average cash reserve balance in vault cash or with the Federal Reserve Bank. There was no restricted cash reserve balance at December 31, 2015.

Regulatory Capital Requirements

Federal regulations require the Bank to maintain minimum amounts of capital. Specifically, each is required to maintain certain minimum dollar amounts and ratios of total and Tier 1 capital to risk-weighted assets and of core capital to average total assets.

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act (“FDICIA”) established five capital categories ranging from “well capitalized” to “critically undercapitalized.” Should any

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13. REGULATORY RESTRICTIONS (Continued)

Regulatory Capital Requirements (Continued)

institution fail to meet the requirements to be considered “adequately capitalized,” it would become subject to a series of increasingly restrictive regulatory actions. Management believes, as of December 31, 2015 and 2014, the Bank met all capital adequacy requirements to which it is subject.

In July of 2013 the respective U.S. federal banking agencies issued final rules implementing Basel III and the Dodd-Frank Act capital requirements to be fully phased in on a global basis on January 1, 2019. The new regulations established a new tangible common equity capital requirement, increase the minimum requirement for the current Tier 1 risk-weighted asset (“RWA”) ratio, phase out certain kinds of tangibles treated as capital and certain types of instruments, and change the risk weightings of certain assets used to determine requirement capital ratios. Provisions of the Dodd-Frank Act generally require these capital rules to apply to bank holding companies and their subsidiaries. The new common equity Tier 1 capital component requires capital of the highest quality – predominantly composed of retained earnings and common stock instruments. For community banks, such as Polonia Bank, a common equity Tier 1 capital ratio of 4.5 percent became effective on January 1, 2015. The new capital rules also increased the current minimum of Tier 1 capital ratio from 4.0 percent to 6.0 percent beginning on January 1, 2015. In addition, in order to make capital distributions and pay discretionary bonuses to executive officers without restriction, an institution must also maintain greater than 2.5 percent in common equity attributable to a capital conservation buffer to be phased in from January 1, 2016 until January 1, 2019. The new rules also increase the risk weights for several categories of assets, including an increase from 100 percent to 150 percent for certain acquisition, development and construction loans and more than 90-day past-due exposures. The new capital rules maintain the general structure of the prompt corrective action rules, but incorporate the new common equity Tier 1 capital requirement and the increased Tier 1 RWA requirement into the prompt corrective action framework.

Bank holding companies are generally subject to statutory capital requirements, which were implemented by certain of the new capital regulations described above that became effective on January 1, 2015. However, the Small Banking Holding Company Policy Statement exempts certain small bank holding companies like the Company from those requirements provided that they meet certain conditions.

As of December 31, 2015 and 2014, the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well-capitalized financial institution, Total risk-based, Tier 1 risk-based, common equity, and core capital ratios must be at least 10.0 percent, 8.0 percent, 6.5 percent, and 5.0 percent, respectively. There have been no conditions or events since the notification that management believes have changed the Bank’s category.

The following table reconciles the Bank's capital under U.S. generally accepted accounting principles to regulatory capital.

	December 31, 2015	**2014 (as restated)**
Total stockholders' equity	$32,621,553	$32,475,897
Accumulated other comprehensive income	(380,093)	(216,800)
Tier 1, common equity, and core capital	32,241,460	32,259,097
Qualifying allowance for loan losses	1,272,072	1,415,983
Total risk-based capital	$33,513,532	$33,675,080

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13. REGULATORY RESTRICTIONS (Continued)

Regulatory Capital Requirements (Continued)

The Bank's actual capital ratios are presented in the following table:

	December 31, 2015 Amount	**Ratio**	**2014 Amount (as restated)**	**Ratio**
Total capital (to risk-weighted assets)				
Actual	$33,513,532	25.03%	$33,675,080	20.99%
For capital adequacy purposes	10,709,920	8.00	12,834,640	8.00
To be well capitalized	13,387,400	10.00	16,043,300	10.00
Tier 1 capital (to risk-weighted assets)				
Actual	$32,241,460	24.08%	$32,259,097	20.11%
For capital adequacy purposes	5,354,960	6.00	6,417,320	4.00
To be well capitalized	8,032,440	8.00	9,625,980	6.00
Common equity tier 1 capital (to risk-weighted assets)				
Actual	$32,241,460	24.08%	$N/A	N/A %
For capital adequacy purposes	6,024,330	4.50	N/A	N/A
To be well capitalized	8,701,810	6.50	N/A	N/A
Core capital (to adjusted assets)				
Actual	$32,241,460	10.75%	$32,259,079	10.66%
For capital adequacy purposes	11,997,400	4.00	12,102,101	4.00
To be well capitalized	14,996,750	5.00	15,127,626	5.00

The Company's ratios do not differ significantly from the Bank's ratios presented above.

The Bank accumulated approximately $1.4 million of retained earnings, which represents allocations of income to bad debt deductions for tax purposes only. Since this amount represents the accumulated bad debt reserves prior to 1987, no provision for federal income tax has been made. If any portion of this amount is used other than to absorb loan losses (which is not anticipated), the amount will be subject to federal income tax at the current corporate rate.

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14.FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing are as follows:

Level I:	Quoted prices are available in active markets for identical assets or liabilities as of the reported date.
Level II:	Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.
Level III:	Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available.

The following table presents the assets reported on the Consolidated Balance Sheet at their fair value as of December 31, 2015 and 2014, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2015			
	Level I	**Level II**	**Level III**	**Total**
Assets:				
Investment securities available for sale:				
Mortgage-backed securities	$-	$37,253,272	$ -	$37,253,272
Corporate securities	-	16,957,906	-	16,957,906
Municipal securities	-	499,755	-	499,755
Common stock	160,590	-	-	160,590
	$160,590	$54,710,933	$ -	$54,871,523

	December 31, 2014			
	Level I	**Level II**	**Level III**	**Total**
Assets:				
Investment securities available for sale:				
Mortgage-backed securities	$-	$3,261,914	$ -	$3,261,914
Corporate securities	-	8,449,619	-	8,449,619

$-	$11,711,533	$ -	$11,711,533

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2015 and 2014, are as follows:

	December 31, 2015			
	Level I	**Level II**	**Level III**	**Total**
Assets:				
Impaired loans	$-	$ -	$3,340,206	$3,340,206
Other real estate owned	-	-	182,360	182,360

	December 31, 2014			
	Level I	**Level II**	**Level III**	**Total**
Assets:				
Impaired loans	$-	$ -	$4,191,390	$4,191,390
Other real estate owned	-	-	489,837	489,837

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14. FAIR VALUE MEASUREMENTS (Continued)

	December 31, 2015				
	Quantitative Information About Level III Fair Value Measurements				
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range	Weighted Average
Impaired loans	$ 1,827,370	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 20 %	8 %
			Liquidation expenses (2)	0% to 6 %	5 %
	1,512,836	Discounted cash flows	Discount rates	5% to 8 %	7 %
Other real estate owned	182,360	Appraisal of collateral (1)	Liquidation expenses (2)	6 %	6 %

	December 31, 2014				
	Quantitative Information About Level III Fair Value Measurements				
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range	Weighted Average
Impaired loans	$ 1,624,037	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 20 %	9 %
			Liquidation expenses (2)	0% to 6 %	4 %
	2,567,353	Discounted cash flows	Discount rates	5% to 8 %	6 %
Other real estate owned	489,837	Appraisal of collateral (1)	Liquidation expenses (2)	6 %	6 %

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level III inputs, which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

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14.FAIR VALUE MEASUREMENTS (Continued)

The estimated fair values of the Company's financial instruments are as follows:

	Fair Value Measurements at December 31, 2015				
	Carrying Value	**Fair Value**	**Level I**	**Level II**	**Level III**
Financial assets:					
Cash and cash equivalents	$31,137,216	$31,137,216	$31,137,216	$-	$-
Certificates of deposit	15,980,000	16,019,950	-	-	16,019,950
Investment securities					
Available for sale	54,871,523	54,871,523	160,590	54,710,933	-
Net loans receivable	172,179,005	172,746,996	-	-	172,746,996
Accrued interest receivable	671,994	671,994	671,994	-	-
Federal Home Loan Bank stock	3,659,700	3,659,700	3,659,700	-	-
Bank-owned life insurance	4,257,456	4,257,456	4,257,456	-	-
FDIC indemnification asset	473,951	473,951	-	-	473,951
Financial liabilities:					
Deposits	$188,222,282	$190,019,274	$85,536,997	$-	$104,482,277
FHLB advances - long-term	56,000,000	57,596,000	-	-	57,596,000
Advances by borrowers for taxes and insurance	988,906	988,906	988,906	-	-
Accrued interest payable	139,397	139,397	137,397	-	-

	Fair Value Measurements at December 31, 2014				
	Carrying Value	**Fair Value**	**Level I**	**Level II**	**Level III**
Financial assets:					
Cash and cash equivalents	$12,174,230	$12,174,230	$12,174,230	$-	$-
Investment securities:					
Available for sale	11,711,533	11,711,533	-	11,711,533	-
Held to maturity	44,741,534	46,193,447	-	46,193,447	-
Loans held for sale	4,221,438	4,221,438	4,221,438	-	-
Net loans receivable	212,135,687	213,022,071	-	-	213,022,071
Accrued interest receivable	788,684	788,684	788,684	-	-
Federal Home Loan Bank stock	3,843,500	3,843,500	3,843,500	-	-
Bank-owned life insurance	4,268,181	4,268,181	4,268,181	-	-
FDIC indemnification asset	1,417,355	1,417,355	-	-	1,417,355

Financial liabilities:					
Deposits	$199,553,997	$201,952,208	$85,894,712	$-	$116,057,496
FHLB advances - long-term	59,000,000	60,711,000	-	-	60,711,000
Advances by borrowers for taxes and insurance	1,208,824	1,208,824	1,208,824	-	-
Accrued interest payable	143,798	143,798	143,798	-	-

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14.FAIR VALUE MEASUREMENTS (Continued)

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract that creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas or simulation modeling. As many of these assumptions result from judgments made by management based upon estimates that are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

As certain assets such as deferred tax assets and premises and equipment are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Company.

The Company employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

Cash and Cash Equivalents, Loans Held for Sale, Accrued Interest Receivable, Federal Home Loan Bank Stock, Accrued Interest Payable, and Advances by Borrowers for Taxes and Insurance

The fair value is equal to the current carrying value.

Certificates of Deposit

Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies contractual costs currently being offered in the existing portfolio to current market rates being offered for certificates of similar remaining maturities.

Investment Securities Available for Sale and Held to Maturity

The fair value of investment securities available for sale is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities.

Net Loans

The fair value is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted market prices were available, primarily for certain residential mortgage loans, such market rates were utilized as estimates for fair value.

Acquired loans are recorded at fair value on the date of acquisition. The fair values of loans with evidence of credit deterioration (impaired loans) are recorded net of a nonaccretable difference and, if appropriate, an accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is the nonaccretable difference, which is included in the carrying amount of acquired loans.

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14. FAIR VALUE MEASUREMENTS (Continued)

FDIC Indemnification Asset

The indemnification asset represents the present value of the estimated cash payments expected to be received from the FDIC for future losses on covered assets based on the credit adjustment estimated for each covered asset and the loss sharing percentages. These cash flows are discounted at a market-based rate to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.

Deposits and FHLB Advances

The fair values of certificates of deposit and FHLB advances are based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities. Demand, savings, and money market deposits are valued at the amount payable on demand as of year-end.

Bank-Owned Life Insurance

The fair value is equal to the cash surrender value of the life insurance policies.

Commitments to Extend Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments are presented in Note 11.

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15. ACCUMULATED OTHER COMPREHENSIVE INCOME

The activity in accumulated other comprehensive income for the years ended December 31, 2015 and 2014, is as follows:

	Accumulated Other Comprehensive Income [1] Unrealized Gains (Losses) on Securities Available for Sale
Balance at December 31, 2013	$ 264,360
Other comprehensive loss before reclassifications	(47,560)
Period change	(47,560)
Balance at December 31, 2014	216,800
Other comprehensive gain before reclassifications	533,646
Amounts reclassified from accumulated other comprehensive income	(369,842)
Period change	163,804
Balance at December 31, 2015	$ 380,604

Details regarding amounts reclassified from accumulated other comprehensive income during the period ended December 31, 2015, is as follows:

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income For the Year Ended December 31, 2015	Affected Line Item in the Consolidated Statement of Income
Investment securities available for sale [1]:		
Net investment securities gains reclassified into earnings	$ 560,367	Gain on sales of investment securities, net
Related income tax expense	(190,525)	Income taxes
Total reclassifications for the period	$ 369,842	

(1) For additional details related to unrealized gains on investment securities and related amounts reclassified from accumulated other comprehensive income see Note 3, “Investment Securities.”

There were no amounts reclassified from accumulated other comprehensive income for the year ended December 31, 2014.

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16. PARENT COMPANY

Condensed financial statements of Polonia Bancorp, Inc. are as follows:

CONDENSED BALANCE SHEET

	December 31,	
	2015	2014 (as restated)
ASSETS		
Cash	$5,154,481	$4,994,414
Investment securities available for sale	160,590	-
Loans receivable	1,576,540	1,729,815
Investment in subsidiary	31,045,014	30,746,082
Other assets	63,557	52,690
TOTAL ASSETS	$38,000,182	$37,523,001
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities	$499,609	$583,345
Stockholders' equity	37,500,573	36,939,656
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$38,000,182	$37,523,001

CONDENSED STATEMENT OF INCOME

	Year Ended December 31,	
	2015	2014
INCOME		
ESOP loan interest income	$ 95,814	$ 104,580
Investment income	20,410	22,041
Total income	116,224	126,621
EXPENSES	271,046	278,637
Loss before income tax benefit	(154,822)	(152,016)
Income tax benefit	34,235	35,867

Loss before equity in undistributed earnings of subsidiary	(120,587)	(116,149)
Equity in undistributed earnings of subsidiary	(17,636)	133,185
NET INCOME (LOSS)	$ (138,223)	$ 17,036
COMPREHENSIVE INCOME (LOSS)	$ 25,581	$ (30,524)

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16. PARENT COMPANY (Continued)

CONDENSED STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2015	**2014**
OPERATING ACTIVITIES		
Net income (loss)	$(138,223)	$17,036
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiary	17,636	(133,185)
Increase in accrued interest receivable	(593)	-
Stock compensation expense	411,612	358,740
Other, net	(94,273)	(108,924)
Net cash provided by operating activities	196,159	133,667
INVESTING ACTIVITIES		
Purchase of investment securities available for sale	(159,816)	-
Net cash used for investing activities	(159,816)	-
FINANCING ACTIVITIES		
Exercise of option shares	134,585	-
Repurchase of stock	(10,861)	(1,805,722)
Net cash provided by (used for) financing activities	123,724	(1,805,722)
Increase (decrease) in cash	160,067	(1,672,055)
CASH AT BEGINNING OF PERIOD	4,994,414	6,666,469
CASH AT END OF PERIOD	$5,154,481	$4,994,414

17. REGULATORY AGREEMENT

Effective October 21, 2014, Polonia Bank and the OCC entered into a formal written agreement (the "Agreement"). The Agreement requires the Bank to obtain regulatory approval prior to incurring any debt, repurchasing any of its stock, or paying any dividends. In addition, the Bank is required to maintain a leverage ratio of at least 10 percent and a total capital ratio of at least 15 percent. As of December 31, 2015, management believes the Bank was in compliance with all covenants included in the Agreement. The Agreement will remain in place until terminated by the OCC.

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POLONIA BANCORP, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2016	**December 31, 2015**
ASSETS		
Cash and due from banks	$1,780,306	$1,785,566
Interest-bearing deposits with other institutions	13,629,181	29,351,650
Cash and cash equivalents	15,409,487	31,137,216
Certificates of deposit	24,826,000	15,980,000
Investment securities available for sale	59,306,557	54,871,523
Loans receivable	158,520,114	161,765,015
Covered loans	10,899,926	11,686,062
Total loans	169,420,040	173,451,077
Less: allowance for loan losses	1,244,700	1,272,072
Net loans	168,175,340	172,179,005
Accrued interest receivable	697,917	671,994
Federal Home Loan Bank stock	3,514,900	3,659,700
Premises and equipment, net	3,898,824	3,998,409
Bank-owned life insurance	4,246,151	4,257,456
FDIC indemnification asset	49,014	473,951
Other assets	4,134,174	4,381,552
TOTAL ASSETS	$284,258,364	$291,610,806
LIABILITIES		
Deposits	$183,314,442	$188,222,282
FHLB advances – short term	7,000,000	-
FHLB advances – long term	49,000,000	56,000,000
Advances by borrowers for taxes and insurance	1,237,500	988,906
Accrued interest payable	153,607	139,397
Other liabilities	6,119,042	8,759,648
TOTAL LIABILITIES	246,824,591	254,110,233
Commitments and contingencies	-	-
STOCKHOLDERS' EQUITY		
Preferred stock ($.01 par value; 1,000,000 shares authorized; none issued or outstanding)	-	-
Common stock ($.01 par value; 14,000,000 shares authorized; 3,348,827 and 3,348,827 shares issued)	33,488	33,488
Additional paid-in-capital	25,703,252	25,591,969
Retained earnings	12,557,347	12,849,370
Unallocated shares held by Employee Stock Ownership Plan "ESOP" (152,723 and 162,288 shares)	(1,273,857)	(1,354,858)

Accumulated other comprehensive income	413,543	380,604
TOTAL STOCKHOLDERS' EQUITY	37,433,773	37,500,573
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$284,258,364	$291,610,806

See accompanying notes to the unaudited consolidated financial statements.

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POLONIA BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

	Six Months Ended June 30,	
	2016	2015
INTEREST AND DIVIDEND INCOME		
Loans receivable	$3,799,408	$4,385,874
Investment securities	592,154	701,587
Other interest and dividend income	234,892	201,142
Total interest and dividend income	4,626,454	5,288,603
INTEREST EXPENSE		
Deposits	802,255	855,209
FHLB advances – short term	99	-
FHLB advances – long term	712,326	735,471
Advances by borrowers for taxes and insurance	1,442	1,691
Total interest expense	1,516,122	1,592,371
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	3,110,332	3,696,232
Provision for loan losses	-	73,150
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,110,332	3,623,082
NONINTEREST INCOME		
Service fees on deposit accounts	47,229	53,371
Earnings on bank-owned life insurance	(11,305)	(4,235)
Investment securities gains, net	641,142	-
Gain on sale of loans, net	-	1,689,644
Rental income	135,154	130,544
Other	(18,380)	411,217
Total noninterest income	793,841	2,280,541
NONINTEREST EXPENSE		
Compensation and employee benefits	2,018,343	2,986,230
Occupancy and equipment	609,277	643,746
Federal deposit insurance premiums	256,376	279,560
Data processing expense	210,667	198,067
Professional fees	336,951	375,656
Other	894,172	1,364,725
Total noninterest expense	4,325,786	5,847,984
Income (loss) before income tax expense (benefit)	(421,613)	55,639
Income tax expense (benefit)	(129,590)	28,892

NET INCOME (LOSS)	$(292,023)	$26,747
EARNINGS PER SHARE – Basic and Diluted	$(0.09)	$0.01

See accompanying notes to the unaudited consolidated financial statements.

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POLONIA BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

	Six Months Ended June 30, 2016	2015
Net income (loss)	$(292,023)	$26,747
Changes in net unrealized gain (loss) on investment securities available for sale	691,049	(40,842)
Tax effect	(234,957)	13,886
Reclassification adjustment for gains on sale of Investment securities included in net income (loss)	(641,142)	-
Tax effect	217,989	-
Total other comprehensive income (loss)	32,939	(26,956)
Total comprehensive loss	$(259,084)	$(209)

See accompanying notes to the unaudited consolidated financial statements.

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POLONIA BANCORP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

	Common Stock Shares	Amount	Additional Paid-In-Capital	Retained Earnings	Unallocated Shared Held by ESOP	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2015	3,348,827	$33,488	$25,591,969	$12,849,370	$(1,354,858)	$ 380,604	$37,500,573
Net loss				(292,023)			(292,023)
Other comprehensive income, net						32,939	32,939
Stock options compensation expense			53,644				53,644
Allocation of unearned ESOP shares			22,637		81,001		103,638
Allocation of unearned RSP shares			35,002				35,002
Balance, June 30, 2016	3,348,827	$33,488	$25,703,252	$12,557,347	$(1,273,857)	$ 413,543	$37,433,773

See accompanying notes to the unaudited consolidated financial statements.

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POLONIA BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30, 2016	**2015**
OPERATING ACTIVITIES		
Net (loss) income	$(292,023)	$26,747
Adjustments to reconcile net (loss) income to net cash used for operating activities:		
Provision for loan losses	-	73,150
Depreciation, amortization, and accretion	582,729	509,465
Investment securities, gains	(641,142)	-
Proceeds from sale of loans held for sale	-	31,128,360
Net gain on sale of loans held for sale	-	(1,493,902)
Origination of loans held for sale	-	(33,377,660)
Net gain on sale of loans held for investment	-	(195,739)
Loss (gain) on the sale of other real estate owned	44,334	(61,260)
Earnings on bank-owned life insurance	11,305	4,235
Deferred federal income taxes	(779,817)	(7,266)
(Increase) decrease in accrued interest receivable	(25,923)	91,835
Increase in accrued interest payable	14,210	14,870
Decrease in accrued payroll and commissions	-	(404,033)
Compensation expense for stock options, ESOP and restricted stock	192,284	199,818
Other, net	(1,790,238)	(462,992)
Net cash used for operating activities	(2,684,281)	(3,954,372)
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from principal repayments and maturities	4,672,733	1,457,146
Purchases	(21,953,039)	-
Proceeds from sales	13,471,240	-
Investment securities held to maturity:		
Proceeds from principal repayments and maturities	-	3,817,929
Maturities of certificates of deposit	15,161,000	-
Purchases of certificates of deposit	(24,007,000)	-
Proceeds from sale of loans held for investment	-	21,091,231
Decrease in loans receivable, net	3,220,727	3,083,848
Decrease in covered loans	808,440	1,111,054
Purchases of Federal Home Loan Bank stock	(280,000)	(50,700)
Redemptions of Federal Home Loan Bank stock	424,800	183,000
Proceeds from the sale of other real estate owned	138,026	221,697
Payments received from FDIC under loss share agreement	18,826	-
Purchase of premises and equipment	(59,955)	(34,200)
Net cash provided by (used for) investing activities	(8,384,202)	30,881,005

FINANCING ACTIVITIES		
Decrease in deposits, net	(4,907,840)	(8,677,948)
Increase in FHLB advances – short term	7,000,000	-
Repayments on FHLB advances – long term	(7,000,000)	(3,000,000)
Decrease in advances by borrowers for taxes and insurance, net	248,594	199,380
Net cash used for financing activities	(4,659,247)	(11,478,568)
Increase (decrease) in cash and cash equivalents	(15,727,729)	15,448,065
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	31,137,216	12,174,230
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$15,409,487	$27,622,295
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid:		
Interest	$1,501,912	$1,577,501
Income taxes	-	455,000

See accompanying notes to the unaudited consolidated financial statements.

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POLONIA BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

Polonia Bancorp, Inc. (the "Company"), a Maryland corporation, was incorporated in August 2011 and organized by Polonia MHC, Polonia Bancorp, and Polonia Bank (the "Bank") to facilitate the second-step conversion of the Company from the mutual holding company structure to the stock holding company structure (the "Conversion"). Upon consummation of the Conversion, which occurred on November 9, 2012, the Company became the holding company for the Bank and a 100 percent publicly owned stock holding company.

The Bank was incorporated under federal law in 1923. The Bank is a federally chartered savings bank located in Huntingdon Valley, Pennsylvania, whose principal sources of revenue emanate from its investment securities portfolio and its portfolio of residential real estate, commercial real estate, and consumer loans, as well as a variety of deposit services offered to its customers through five offices located in the Greater Philadelphia area. As of December 31, 2015, the Bank was subject to regulation by the Office of Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC").

The consolidated financial statements include the accounts of the Bank and the Bank's wholly owned subsidiaries, PBHMC ("PBMHC"), a Delaware investment company, and Community Abstract Agency, LLC ("CAA"). CAA provides title insurance on loans secured by real estate. All significant intercompany transactions have been eliminated in consolidation. The investment in subsidiaries on the parent Company's financial statements is carried at the parent Company's equity in the underlying net assets.

The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six month period ended June 30, 2016 are not necessarily indicative of the results that may be expected for the full year. The December 31, 2015 Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. generally accepted accounting principles ("GAAP"). For additional information, refer to the financial statements and footnotes thereto included in the Company's Form 10-K for the year ended December 31, 2015.

Use of Estimates in the Preparation of Financial Statements. The accounting principles followed by the Company and the methods of applying these principles conform to GAAP and to general practice within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the Consolidated Balance Sheet date and reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, and the fair value of financial instruments.

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Recent Accounting and Regulatory Pronouncements

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (g) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (h) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company’s financial position or results of operations.

In March 2016, the FASB issued ASU 2016-04, *Liabilities – Extinguishments of Liabilities (Subtopic 405-20).* The standard provides that liabilities related to the sale of prepaid stored-value products within the scope of this Update are financial liabilities. The amendments in the Update provide a narrow scope exception to the guidance in Subtopic 405-20 to require that breakage for those liabilities be accounted for consistent with the breakage guidance in Topic 606. The amendments in this Update are effective for public business entities, certain not-for-profit entities, and certain employee benefit plans for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Earlier application is permitted, including adoption in an interim period. This Update is not expected to have a significant impact on the Company’s financial statements.

In March 2016, the FASB issued ASU 2016-07, *Investments – Equity Method and Joint Ventures (Topic 323)*. The Update affects all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments in this Update eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments in this Update require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. This Update is not expected to have a significant impact on the Company’s financial statements.

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606).* The amendments in this Update affect entities with transactions included within the scope of Topic 606, which includes entities that enter into contracts with customers to transfer goods or services (that are an output of the entity’s ordinary activities) in exchange for consideration. The amendments in this update do not change the core principle of the guidance in Topic 606; they simply

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clarify the implementation guidance on principal versus agent considerations. The amendments in this Update are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The amendments in this Update affect the guidance in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements of Update 2014-09. ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,* defers the effective date of Update 2014-09 by one year. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718)*. The amendments in this Update affect all entities that issue share-based payment awards to their employees. The standards in this Update provide simplification for several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as with equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. In addition to those simplifications, the amendments eliminate the guidance in Topic 718 that was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), *Share-Based Payment*. This should not result in a change in practice because the guidance that is being superseded was never effective. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any entity in any interim or annual period. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606).* The amendments in this Update affect entities with transactions included within the scope of Topic 606, which includes entities that enter into contracts with customers to transfer goods or services in exchange for consideration. The amendments in this Update do not change the core principle for revenue recognition in Topic 606. Instead, the amendments provide (1) more detailed guidance in a few areas and (2) additional implementation guidance and examples based on feedback the FASB received from its stakeholders. The amendments are expected to reduce the degree of judgment necessary to comply with Topic 606, which the FASB expects will reduce the potential for diversity arising in practice and reduce the cost and complexity of applying the guidance. The amendments in this Update affect the guidance in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*: Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instrument.* This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be

presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. SEC filers will be required to adopt the Update in fiscal years beginning after December 15, 2019, including interim periods within those years. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

Reclassification of Comparative Amounts

Certain items previously reported have been reclassified to conform to the current year's reporting format. Such reclassifications did not affect consolidated net income or consolidated stockholders' equity.

2. Business Combinations

Proposed Merger with Prudential Bancorp, Inc.

On June 2, 2016 Prudential Bancorp, Inc. ("Prudential") and Polonia entered into a merger agreement (the Merger Agreement") that provides that the Company will merge with and into Prudential, with Prudential remaining as the surviving

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entity. Following the merger, Polonia Bank will merge with and into Prudential Savings Bank with Prudential Savings Bank remaining as the surviving entity.

At the effective time of the Merger, Polonia shareholders will be entitled to elect to receive, for each share of Polonia common stock, subject to the election and adjustment procedures described in the joint proxy statement/prospectus, either 0.7591 shares of Prudential common stock or $11.28 in cash: provided, however, that 50% of the total number of outstanding shares of Polonia common stock will be converted into Prudential common stock, and the remaining outstanding shares of Polonia common stock will be converted into cash. As a result, if more Polonia shareholders elect to receive either Prudential common stock or cash than is available as merger consideration under the merger agreement, those Polonia shareholders electing the over-subscribed form of consideration may have the over-subscribed consideration proportionately reduced and substituted with consideration in the alternative form. The exchange ratio and per share cash consideration are subject to adjustment based on the amount of Polonia's stockholders equity prior to closing as calculated in accordance with the Merger Agreement.

Subject to the satisfaction or waiver of the closing conditions contained in the merger agreement, including the approval of the merger agreement by the Company's shareholders and the receipt of required regulatory approvals, Prudential and the Company expect that the merger will be completed during the fourth quarter of 2016. However, it is possible that factors outside the control of both companies, including whether or when the required regulatory approvals will be received, could result in the merger being completed at a different time or not at all.

3. Earnings Per Share

There are no convertible securities which would affect the numerator in calculating basic and diluted earnings per share; therefore, net income (loss) as presented on the Consolidated Statement of Income (Loss) will be used as the numerator.

The following table set forth the composition of the weighted-average shares (denominator) used in the basic and diluted earnings per share computation.

	Six Months Ended June 30,	
	2016	**2015**
Net income (loss):	$(292,023)	$26,747

Weighted average number of shares issued	3,348,827	3,334,130
Less weighted average number of unearned ESOP shares	(156,761)	(175,874)
Less weighted average number of nonvested restricted stock awards	(11,944)	(30,286)
Weighted average shares outstanding basic	3,180,122	3,127,970
Dilutive effect of nonvested stock	-	-
Dilutive effect of stock options	-	52,480
Weighted average shares outstanding diluted	3,180,122	3,180,450
Earnings per share:		
Basic	$(0.09)	$0.01
Diluted	(0.09)	0.01

At June 30, 2016 there were 10,647 shares of restricted stock outstanding at a grant date fair value of $10.25 per share and options to purchase 136,587 shares of common stock ranging from a price of $10.25 per share to a price of $13.31 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive. At June 30, 2015 there were 26,642 shares of restricted stock outstanding at a grant date fair value of $10.25 per share and options to purchase 95,610 shares of common stock at a price of $10.25 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive.

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4. Investment Securities

The amortized cost, gross unrealized gains and losses, fair value of investment securities available for sale and are summarized as follows:

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Mortgage-backed securities:				
Fannie Mae	$15,901,922	$304,765	$ -	$16,206,687
Freddie Mac	16,231,937	123,487	(6,454)	16,348,970
Government National Mortgage Association	366,798	48,015	(1)	414,812
Collateralized mortgage obligations-government sponsored entities	6,105,548	52,587	(11,431)	6,146,704
Total mortgage-backed securities	38,606,205	528,854	(17,886)	39,117,173
Corporate securities	17,930,125	120,521	(15,996)	18,034,650
Municipal securities	1,827,293	28,501	-	1,855,794
Total debt securities	58,363,623	677,876	(33,882)	59,007,617
Common stock	316,354	4,024	(21,438)	298,940
Total investment securities	$58,679,977	$681,900	$(55,320)	$59,306,557

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Mortgage-backed securities:				
Fannie Mae	$25,168,077	$615,222	$(93,362)	$25,689,937
Freddie Mac	10,161,730	82,167	(120,472)	10,123,425
Government National Mortgage Association	399,799	48,639	(2)	448,436
Collateralized mortgage obligations-government sponsored entities	984,609	23,730	(16,865)	991,474
Total mortgage-backed securities	36,714,215	769,758	(230,701)	37,253,272
Corporate securities	16,921,170	88,731	(51,995)	16,957,906
Municipal securities	499,649	106	-	499,755
Total debt securities	54,135,034	858,595	(282,696)	54,710,933
Common stock	159,816	774	-	160,590

Total investment securities	$54,294,850	$ 859,369	$ (282,696)	$54,871,523

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The following table shows the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position.

	June 30, 2016					
	Less Than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage-backed securities:						
Freddie Mac	$4,268,711	(6,454)	$-	-	$4,268,711	(6,454)
Government National Mortgage Association	-	-	1,273	(1)	1,273	(1)
Collateralized mortgage obligations-government sponsored entities	1,339,036	(2,884)	325,710	(8,547)	1,664,746	(11,431)
Total mortgage-backed Securities	5,607,747	(9,338)	326,983	(8,548)	5,934,730	(17,886)
Corporate securities	2,991,231	(15,996)	-	-	2,991,231	(15,996)
Total debt securities	8,598,978	(25,334)	326,983	(8,548)	8,925,961	(33,882)
Common stock	278,338	(21,438)	-	-	278,338	(21,438)
Total investment securities	$8,877,316	$(46,772)	$326,983	$(8,548)	$9,204,299	$(55,320)

	December 31, 2015					
	Less Than Twelve Months		**Twelve Months or Greater**		**Total**	
	Fair Value	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Mortgage-backed securities:						
Fannie Mae	$8,990,826	$(93,362)	$-	$-	$8,990,826	$(93,362)
Freddie Mac	3,619,913	(13,501)	4,501,893	(106,971)	8,121,806	(120,472)
Government National Mortgage Association	1,332	(2)	-	-	1,332	(2)
Collateralized mortgage obligations- government sponsored entities	515,046	(16,472)	5,257	(393)	520,303	(16,865)
Total mortgage-backed Securities	13,127,117	(123,337)	4,507,150	(107,364)	17,634,267	(230,701)
Corporate securities	11,156,390	(51,995)	-	-	11,156,390	(51,995)
Total	$24,283,507	$(175,332)	$4,507,150	$(107,364)	$28,790,657	$(282,696)

The Company reviews its position quarterly and has determined that at June 30, 2016, the declines outlined in the above table represent temporary declines and the Company does not intend to sell these securities and does not believe they will be required to sell these securities before recovery of their cost basis, which may be at maturity. There were 19 positions that were temporarily impaired at June 30, 2016. The Company has concluded that the unrealized losses disclosed above are not other than temporary but are the result of interest rate changes that are not expected to result in the non-collection of principal and interest during the period.

The amortized cost and fair value of debt securities at June 30, 2016, by contractual maturity, are shown below. Mortgage-backed securities provide for periodic, general monthly, payments of principal and interest and have contractual maturities ranging from 3 to 30 years. 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.

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	Available for Sale	
	Amortized Cost	Fair Value
Due within one year	$6,956,262	$6,963,618
Due after one year through five years	13,585,423	13,723,675
Due after five years through ten years	6,636,554	6,729,990
Due after ten years	31,185,384	31,590,334
Total	$58,363,623	$59,007,617