

TF FINANCIAL CORP  
Form 10-K  
March 27, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS  
PURSUANT TO SECTIONS 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-24168

TF FINANCIAL CORPORATION  
(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania  
(State or Other Jurisdiction of Incorporation  
or Organization)

74-2705050  
(I.R.S. Employer Identification No.)

3 Penns Trail, Newtown, Pennsylvania  
(Address of Principal Executive Offices)

18940  
(Zip Code)

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

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

Title of each class  
Common Stock, par value \$.10 per share

Name of each exchange on which registered  
The Nasdaq Stock Market LLC

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

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Exchange Act. YES  NO

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  YES  NO

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

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 definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant, based on the closing price of the registrant's Common Stock as quoted on the Nasdaq System on June 30, 2012, was \$48.4 million (1,964,609 shares at \$24.66 per share).

As of March 10, 2013 there were outstanding 2,839,931 shares of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Stockholders for the Fiscal Year Ended December 31, 2012. (Parts I, II and IV)
2. Portions of the Proxy Statement for the 2013 Annual Meeting of Stockholders. (Part III)

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PART I

TF FINANCIAL CORPORATION (THE “COMPANY”) MAY FROM TIME TO TIME MAKE WRITTEN OR ORAL “FORWARD-LOOKING STATEMENTS”, INCLUDING STATEMENTS CONTAINED IN THE COMPANY’S FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION (INCLUDING THIS ANNUAL REPORT ON FORM 10-K AND THE EXHIBITS HERETO), IN ITS REPORTS TO STOCKHOLDERS AND IN OTHER COMMUNICATIONS BY THE COMPANY, WHICH ARE MADE IN GOOD FAITH BY THE COMPANY PURSUANT TO THE “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES, SUCH AS STATEMENTS OF THE COMPANY’S PLANS, OBJECTIVES, EXPECTATIONS, ESTIMATES AND INTENTIONS, THAT ARE SUBJECT TO CHANGE BASED ON VARIOUS IMPORTANT FACTORS (SOME OF WHICH ARE BEYOND THE COMPANY’S CONTROL). THE FOLLOWING FACTORS, AMONG OTHERS, COULD CAUSE THE COMPANY’S FINANCIAL PERFORMANCE TO DIFFER MATERIALLY FROM THE PLANS, OBJECTIVES, EXPECTATIONS, ESTIMATES AND INTENTIONS EXPRESSED IN SUCH FORWARD-LOOKING STATEMENTS: THE STRENGTH OF THE UNITED STATES ECONOMY IN GENERAL AND THE STRENGTH OF THE LOCAL ECONOMIES IN WHICH THE COMPANY CONDUCTS OPERATIONS; THE EFFECTS OF, AND CHANGES IN, MONETARY AND FISCAL POLICIES AND LAWS, INCLUDING INTEREST RATE POLICIES OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, INFLATION, INTEREST RATES, MARKET AND MONETARY FLUCTUATIONS; THE TIMELY DEVELOPMENT OF AND ACCEPTANCE OF NEW PRODUCTS AND SERVICES OF THE COMPANY AND THE PERCEIVED OVERALL VALUE OF THESE PRODUCTS AND SERVICES BY USERS, INCLUDING THE FEATURES, PRICING AND QUALITY COMPARED TO COMPETITORS’ PRODUCTS AND SERVICES; THE IMPACT OF CHANGES IN FINANCIAL SERVICES’ LAWS AND REGULATIONS (INCLUDING THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT AND OTHER LAWS CONCERNING TAXES, BANKING, SECURITIES AND INSURANCE); TECHNOLOGICAL CHANGES; OUR ABILITY TO REALIZE THE ANTICIPATED BENEFITS FROM OUR ACQUISITION OF ROEBLING FINANCIAL CORP, INC.; CHANGES IN CONSUMER SPENDING AND SAVING HABITS; AND THE SUCCESS OF THE COMPANY AT MANAGING THE RISKS INVOLVED IN THE FOREGOING.

THE COMPANY CAUTIONS THAT THE FOREGOING LIST OF IMPORTANT FACTORS IS NOT EXCLUSIVE. THE COMPANY DOES NOT UNDERTAKE TO UPDATE ANY FORWARD-LOOKING STATEMENT, WHETHER WRITTEN OR ORAL, THAT MAY BE MADE FROM TIME TO TIME BY OR ON BEHALF OF THE COMPANY.

Item 1.

Business

BUSINESS OF THE COMPANY

On July 13, 1994, the Company consummated its public offering of 5,290,000 shares of its common stock and acquired 3rd Fed Bank (the “Bank”) as part of the Bank’s mutual-to-stock conversion. The Company was originally incorporated under Delaware law in March 1994 and subsequently reorganized as a Pennsylvania Corporation in May 2011. In 2011, the Bank elected to convert from a federally-regulated and chartered financial institution to a state-chartered savings bank and submitted an election to remain a savings association for purposes of holding company regulation following the conversion. The Bank received approval for this conversion from the State of Pennsylvania on December 27, 2011. The official charter conversion became effective January 30, 2012. As a result, the name of the Bank was changed from Third Federal Bank to 3rd Fed Bank.

The Company is a savings and loan holding company and is subject to regulation by the Pennsylvania Department of Banking and Securities (the “Department of Banking”), the Board of Governors of the Federal Reserve System (the “FRB”), and the Securities and Exchange Commission (the “SEC”). The Company does not transact any material business other than through its direct and indirect subsidiaries: 3rd Fed Bank, Teragon Financial Corporation, Penns Trail Development Corporation, and Third Delaware Corporation. At December 31, 2012, the Company had total assets of \$711.8 million, total liabilities of \$628.9 million and stockholders’ equity of \$82.9 million.

#### BUSINESS OF THE BANK

The Bank is a community oriented Pennsylvania-chartered stock savings bank offering a variety of financial services to meet the needs of the communities it serves. The Bank’s deposits are insured up to the maximum amount allowable by the Federal Deposit Insurance Corporation (the “FDIC”).

As of December 31, 2012 the Bank operated thirteen branch offices in Bucks and Philadelphia Counties, Pennsylvania and in Mercer County, New Jersey.

The Bank attracts deposits from the general public and uses such deposits, together with borrowings and other funds primarily to originate or purchase loans secured by first mortgages on owner-occupied, one-to four-family residences in its market area and to invest in mortgage-backed and investment securities. At December 31, 2012, one-to four-family residential mortgage loans totaled \$324.4 million or 61% of the Bank's total loan portfolio. At that same date, the Bank had approximately \$44.6 million or 6% of total assets invested in mortgage-backed securities and \$59.6 million or 8% of total assets in investment securities. The Bank also originates commercial real estate and multi-family, construction and consumer loans.

The Bank has two subsidiaries, Third Delaware Corporation, which was incorporated in 1998 for the purpose of holding and managing mortgage-backed securities and investment securities for the Bank, and Teragon Financial Corporation which holds a 75% limited partnership interest in a captive title insurance agency, Third Fed Abstract, L. P. During 2007, Teragon Financial Corporation was granted approval by the Commonwealth of Pennsylvania to conduct business as an insurance agency.

#### Pending Acquisition of Roebing Financial Corp, Inc.

On December 28, 2012, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Roebing Financial Corp, Inc. ("Roebing"), the parent company of Roebing Bank, under which the Company will acquire Roebing for approximately \$14.5 million in stock and cash.

Under the terms of the Merger Agreement, Roebing will merge with and into the Company (the "Merger") after which Roebing Bank will merge with and into the Bank. Each outstanding share of Roebing common stock will be converted into the right to receive \$8.60 per share or 0.364 shares of the Company's common stock, at the election of Roebing shareholders, subject to proration. The aggregate cash consideration to be paid pursuant to the Merger Agreement must not exceed 50% of the total merger consideration (including any cash paid in connection with shares held by the employee stock ownership plan and not allocated to participant accounts). Cash will be paid in lieu of fractional shares at a value based on the average closing sale price of the Company's common stock for the twenty trading days immediately prior to the closing date.

In the event of a greater than 15% decline in market value of the Company's common stock immediately prior to the announcement of the Merger, which percentage decline exceeds any decline in the NASDAQ Bank Index from its starting point by more than 15%, Roebing may be able to terminate the Merger Agreement unless the Company increases the number of shares into which Roebing common stock may be converted.

The Merger is intended to qualify as a tax-free reorganization for federal income tax purposes. As a result, the shares of Roebing exchanged for the Company's shares will be transferred on a tax-free basis. The Merger is expected to close during the second or third quarter of 2013. If the Merger is not consummated under certain circumstances, Roebing has agreed to pay the Company a termination fee of \$650,000.

#### Market Area

The Bank offers a wide range of consumer and business products at its thirteen full service branch offices located in Bucks and Philadelphia Counties in Pennsylvania, and Mercer County in New Jersey. Five of the branch offices are located in Bucks County, the third wealthiest county in Pennsylvania. Bucks County is a growing region offering opportunity for growth for the Bank. Six branches are located in the northeast section of Philadelphia where the Bank

was founded. Although Philadelphia County is experiencing population decline, the Bank's branches in this section of Philadelphia represent a deposit stronghold. The remaining two branches are in Mercer County, New Jersey, which has an expanding population and represents another growth area for the Bank.

### Competition

The Bank faces varying degrees of competition from banks, thrift institutions and credit unions at its various branch locations. Stronger competition has come from local and very large regional commercial banks based in and around the Philadelphia area. Based upon the latest available data, at June 30, 2012 the Company's share of deposits in each of the counties in which it operates was as follows:

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County, State	Market Share for Entire County	Market Share for ZIP Codes Including Company Branches
Philadelphia, Pennsylvania	0.51%	9.66%
Bucks, Pennsylvania	1.45%	4.48%
Mercer, New Jersey	0.75%	6.44%

#### Lending Activities

General. The Bank's loan portfolio composition consists primarily of adjustable-rate ("ARM") and fixed-rate first mortgage loans secured by one-to four-family residences. The Bank also makes commercial real estate and multi-family loans, construction loans and consumer and other loans. At December 31, 2012, the Bank's mortgage loans outstanding were \$486.1 million, of which \$324.4 million were secured by first mortgages on one-to four-family residential property. Of the one-to four-family residential mortgage loans outstanding at that date, 14% were ARMs and 86% were fixed-rate loans. At that same date, commercial loans secured by real estate totaled \$145.5 million, and construction loans totaled \$16.3 million. The construction loans are predominately floating-rate, prime-rate-based loans.

Consumer and other loans held by the Bank totaled \$42.0 million or 8% of total loans outstanding at December 31, 2012, of which \$40.1 million consisted of home equity and second mortgage loans. At that same date commercial business loans totaled \$4.6 million or 1% of total loans.

The following table sets forth the composition of the Bank's loan portfolio and mortgage-backed and related securities portfolios in dollar amounts and in percentages of the respective portfolios at the dates indicated.

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	2012		2011		At December 31, 2010		2009		2008
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount
	(Dollars in thousands)								
Loans receivable:									
Mortgage loans:									
Residential mortgages	\$323,665	60.84 %	\$277,824	55.44 %	\$269,077	52.84 %	\$271,651	50.85 %	\$281,870
Commercial – real estate secured	145,454	27.34 %	156,450	31.22 %	163,910	32.19 %	168,098	31.46 %	168,233
Construction loans	16,288	3.06 %	16,336	3.26 %	18,799	3.69 %	29,671	5.55 %	30,633
Total mortgage loans	485,407	91.24 %	450,610	89.92 %	451,786	88.72 %	469,420	87.86 %	480,736
Consumer loans:									
Home equity and second mortgage	40,143	7.55 %	44,165	8.81 %	49,430	9.71 %	54,811	10.26 %	56,233
Other consumer	1,835	0.34 %	1,971	0.39 %	2,407	0.47 %	2,565	0.48 %	2,287
Total consumer and other loans	41,978	7.89 %	46,136	9.20 %	51,837	10.18 %	57,376	10.74 %	58,520
Commercial loans:									
Commercial and industrial loans	4,646	0.87 %	4,414	0.88 %	5,575	1.10 %	7,462	1.40 %	8,227
Total commercial-business loans	4,646	0.87 %	4,414	0.88 %	5,575	1.10 %	7,462	1.40 %	8,227
Total loans	532,031	100.00 %	501,160	100.00 %	509,198	100.00 %	534,258	100.00 %	547,483
Net of:									
Deferred loan origination costs and unamortized premiums	1,611		1,065		658		609		704
Allowance for loan losses	(6,922 )		(8,100 )		(8,328 )		(5,215 )		(3,855 )
Total loans, held for investment, net	\$526,720		\$494,125		\$501,528		\$529,652		\$544,333
Loans held for sale:									
Mortgage loans:									
Residential mortgages	\$706	100.00 %	\$488	100.00 %	\$130	100.00 %	\$1,082	100.00 %	\$1,659
Total loans held for sale	\$706	100.00 %	\$488	100.00 %	\$130	100.00 %	\$1,082	100.00 %	\$1,659
Mortgage-backed securities held to maturity:									
Federal Home Loan Mortgage Corporation (“FHLMC”)	\$342	17.40 %	\$449	17.35 %	\$566	17.86 %	\$754	20.20 %	\$1,100
Federal National Mortgage Association (“FNMA”)	895	45.55 %	1,242	47.99 %	1,489	46.99 %	1,698	45.49 %	2,141



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Government National  
Mortgage

Association ("GNMA")	728	37.05 %	897	34.66 %	1,114	35.15 %	1,281	34.31 %	1,533
Total mortgage-backed securities held to maturity	\$1,965	100.00 %	\$2,588	100.00 %	\$3,169	100.00 %	\$3,733	100.00 %	\$4,774

Mortgage-backed securities  
available-for-sale:

FHLMC	\$2,159	5.06 %	\$3,586	6.36 %	\$2,355	3.54 %	\$3,440	4.40 %	\$4,504
FNMA	30,001	70.30 %	23,454	41.60 %	9,734	14.64 %	9,146	11.70 %	12,320
GNMA	726	1.70 %	1,140	2.02 %	1,637	2.46 %	1,886	2.41 %	—

Real estate investment  
mortgage

conduit ("REMICs")	9,788	22.94 %	28,202	50.02 %	52,765	79.36 %	63,726	81.49 %	90,393
Total mortgage-backed securities available for sale	\$42,674	100.00 %	\$56,382	100.00 %	\$66,491	100.00 %	\$78,198	100.00 %	\$107,211

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Loan Maturity and Repricing Information. The following table sets forth certain information at December 31, 2012, regarding the dollar amount of loans maturing in the Bank's loan portfolio based on their maturity date. Demand loans, loans having no stated schedule of repayments and no stated maturity, overdrafts and delinquent loans maturing prior to December 31, 2012 are reported as due in one year or less. The table does not include prepayments or scheduled principal repayments.

	Due 1/1/13 - 12/31/13	Due 1/1/14 - 12/31/17	Due After 12/31/17
	(In thousands)		
Loans held for sale:			
Residential mortgages	\$—	\$—	\$706
Total loans held for sale	\$—	\$—	\$706
Loans receivable:			
Residential mortgages	\$243	\$ 7,743	\$315,679
Commercial – real estate secured	15,277	5,902	124,275
Construction loans	16,288	—	—
Consumer and other	159	3,725	38,094
Commercial and industrial loans	988	1,245	2,413
Total loans receivable	\$32,955	\$ 18,615	\$480,461

The following table sets forth the dollar amount of all loans due after December 31, 2013, which have predetermined interest rates and which have floating or adjustable interest rates. Loans which have rate adjustments after ten years are considered to have predetermined rates.

	Predetermined Rates	Floating or Adjustable Rate
	(In thousands)	
Loans held for sale:		
Residential mortgages	\$706	\$ —
Total loans held for sale	\$706	\$ —
Loans receivable:		
Residential mortgages	\$275,616	\$ 47,806
Commercial – real estate secured	18,325	111,852
Consumer and other	21,098	20,721
Commercial and industrial loans	3,479	179
Total loans receivable	\$318,518	\$ 180,558

One-to Four-Family Mortgage Lending. The Bank offers first mortgage loans secured by one-to four-family residences in the Bank's lending area. Typically, such residences are single-family homes that serve as the primary residence of the owner. The Bank generally originates and invests in one-to four-family residential mortgage loans in amounts up to 80% of the lesser of the appraised value or selling price of the mortgaged property. Loans originated in amounts over 80% of the lesser of the appraised value or selling price of the mortgaged property must be owner-occupied and private mortgage insurance is typically required.

Loan originations are obtained through the Bank's retail banking channels, the local community, and referrals from established builders and realtors within the Bank's lending area using direct advertising in local newspapers, branch

signage and promotions, and word of mouth referrals. The Bank also has a mortgage lending department that is separate as to its sales efforts from the consumer lending department of the Bank. This department employs a lending manager and several commissioned loan officers. The mortgage loan officers support the Bank's branches and customers, and additionally engage in calling efforts directed toward realtors, builders, other loan originators and others that can be sources of lending business for the Bank.

The Bank offers a variety of ARM loans with terms of 30 years which adjust at the end of 6 months, one, three, five, seven and ten years and adjust by a maximum of 3% to 5% per adjustment with a lifetime cap of 5% to 6% over the life of the loan.

The Bank offers fixed-rate mortgage loans with terms of 10 to 30 years, which are payable monthly. Interest rates charged on fixed-rate mortgage loans are competitively priced based on market conditions. The origination fees for fixed-rate loans range from 0% to 3% depending on the underlying loan coupon. Generally, the Bank's standard underwriting guidelines for fixed-rate mortgage loans conform to FNMA guidelines.

The Bank sells a portion of its conforming fixed-rate mortgage loan originations in the secondary market to FNMA while retaining the servicing rights on these loans. As of December 31, 2012, the Bank's portfolio of loans serviced for FHLMC or FNMA totaled approximately \$127.9 million. The Bank also brokers a small portion of its loan closings to correspondents on a servicing released basis. However, the Bank is primarily a portfolio lender.

**Commercial Lending.** The Bank originates permanent loans secured by commercial real estate including non-owner occupied residential, multi-family dwelling units, professional office buildings and hotels/motels. The Bank generally originates commercial real estate and multi-family loans up to 75% of the appraised value of the property securing the loan. Currently, it is the Bank's practice to originate commercial real estate and multi-family loans primarily on properties in its general market area. The commercial real estate and multi-family loans in the Bank's portfolio consist of fixed-rate, ARM and balloon loans originated at prevailing market rates for terms of up to 25 years, and typically either have a scheduled interest rate reset or are callable by the Bank after a 5 to 10 year period.

Loans secured by commercial and multi-family real estate are generally larger and involve a greater degree of risk than one-to-four-family residential mortgage loans. Of primary concern in commercial and multi-family real estate lending is the feasibility and cash flow potential of the project and the borrower's creditworthiness. Loans secured by income properties are generally larger and involve greater risks than residential mortgage loans because payments on loans secured by income properties are often dependent on successful operation or management of the properties. As a result, repayment of such loans may be impacted to a greater extent by adverse conditions in the real estate market or the economy than residential real estate loans. In order to monitor cash flows on income properties, the Bank requires borrowers and loan guarantors, if any, to provide annual financial statements and rent rolls on multi-family loans. Similarly, on commercial office buildings and hotel properties, the Bank requires minimum debt service coverage and obtains operating statements of such properties. At December 31, 2012, the five largest commercial real estate and multi-family loans totaled \$26.0 million with no single loan larger than \$7.8 million.

**Construction and Land Acquisition Lending.** At December 31, 2012, the Bank's construction and land acquisition loans were \$16.3 million or 3% of the Bank's total loan portfolio. Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction or development and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the construction. If the estimate of value proves to be inaccurate, the Bank may be confronted, at or prior to the maturity of the loan, with a project having a value which is insufficient to assure full repayment. Land acquisition lending is susceptible to the risks of obtaining necessary approvals and permits, and the feasibility of the project once such approvals are obtained. At December 31, 2012, the five largest construction and land acquisition loans totaled \$14.9 million with no single loan larger than \$6.0 million.

Consumer and Other Loans. The Bank also offers consumer and other loans in the form of home equity and second mortgage loans (referred to hereinafter collectively as “second mortgage loans”), automobile loans and student loans. These loans totaled \$42.0 million or 8% of the Bank’s total loan portfolio at December 31, 2012. The Bank originates consumer loans through its retail banking channel and mortgage loan department.

In connection with consumer loan applications, the Bank verifies the borrower’s income and reviews a credit bureau report. In addition, the relationship of the loan to the value of the collateral is evaluated. All automobile loan applications are reviewed and approved by the Bank. The Bank reviews the credit report of the borrower as well as the value of the vehicle which secures the loan.

Consumer loans tend to be originated at higher interest rates than conventional residential mortgage loans and for shorter terms, thus facilitating the Bank’s interest rate risk management. Consumer loans can have a higher risk of default than residential mortgage loans. However, at December 31, 2012, \$0.2 million or 1% of the Bank’s consumer loans were delinquent more than 90 days, compared to \$2.2 million or 1% of residential one-to four-family loans.

The Bank offers second mortgage loans on one-to four-family residences. At December 31, 2012, second mortgage and home equity loans totaled \$40.1 million, or 8% of the Bank's total loan portfolio. Second mortgage loans are offered as fixed-rate loans for a term not to exceed 15 years or prime-rate-based floating rate loans with amortization periods up to 15 years and in some cases, an interest-only period of up to the first 60 months of the loan term. Such loans are only made on owner-occupied one-to four-family residences and are subject to a 90% combined loan to value ratio. The underwriting standards for second mortgage loans are the same as the Bank's standards applicable to one-to four-family residential loans.

**Commercial and Industrial Loans.** The Bank makes commercial business loans predominantly on a secured or guaranteed basis. The terms of these loans generally do not exceed five years. These loans can have floating interest rates which adjust with changes in market interest rates, usually the prime rate, or have a fixed rate related to their term to maturity. The Bank's commercial business loans primarily consist of short-term loans for equipment, working capital, business expansion, interim financing for the purchase of income-producing property and inventory financing, and may not be real estate secured.

The Bank customarily requires a personal guaranty of payment by the principals of any borrowing entity and reviews the financial statements and income tax returns of the guarantors. At December 31, 2012, the Bank had approximately \$4.6 million outstanding in commercial business loans, which represented approximately 1% of its total loan portfolio. At December 31, 2012, the five largest commercial business loans totaled \$3.4 million with no single loan larger than \$1.5 million.

**Loan Approval Authority and Underwriting.** The Board of Directors of the Bank sets the authority to approve loans based on the amount, type of loan (i.e., secured or unsecured) and total exposure to the borrower. Where there are one or more existing loans to a borrower, the level of approval required is governed by the proposed total exposure including the new loan. The Board has approved loan authority and limits for certain of the Bank's lending personnel and senior officers, including the president of the Bank. Individual approval authority ranges from \$125,000 to \$750,000 for secured loans, and \$25,000 to \$100,000 for unsecured loans. Members of an in-house loan committee including four senior members of management can approve in certain combinations all loans over \$750,000 up to \$2.0 million. The committee has the authority to approve secured loans up to \$2.0 million and unsecured loans up to \$200,000. Secured loans greater than \$2.0 million through \$5.0 million and unsecured loans greater than \$200,000 through \$5.0 million require the approval of the Director's Board Loan Committee composed of four members of the Board of Directors of the Bank. All loans over \$5 million or loans that cause the aggregate lending relationship to exceed \$5.0 million must be approved by the Bank's Board of Directors.

One-to four-family residential mortgage loans are generally underwritten according to FNMA guidelines. For all loans originated by the Bank, upon receipt of a completed loan application from a prospective borrower, a credit report is obtained, income and certain other information is verified and, if necessary, additional financial information may be required. The Bank does not engage in sub-prime, stated income or "no-doc" style portfolio lending. An appraisal of the real estate intended to secure the proposed loan is required and is performed by an independent appraiser designated and approved by the Bank. The Bank makes construction/permanent loans on individual properties. Funds advanced during the construction phase are held in a loan-in-process account and disbursed based upon various stages of completion. An independent appraiser or loan officer determines the stage of completion based upon a physical inspection of the construction and funds are advanced only for work in place. It is the Bank's policy to obtain title insurance or a title opinion on all real estate first mortgage loans in excess of \$500,000. Borrowers must also obtain hazard or flood insurance (for loans on property located in a flood zone) prior to closing the loan.

**Loans to One Borrower.** Under applicable Pennsylvania and federal law, the Bank has, subject to certain exemptions, a lending limit to one borrower in an amount equal to 15% of the Bank's capital account. In addition, the Bank may

extend credit to a single borrower secured by federal and state securities and other specified collateral in an amount up to 15% of its capital account. A Pennsylvania bank's capital account includes the aggregate of all capital, surplus, undivided profits, capital securities, and general reserves for loan losses. The Bank's maximum loan-to-one borrower limit was approximately \$12.1 million as of December 31, 2012 and the Bank's five largest aggregate lending relationships pursuant to the loans to one borrower regulations had balances ranging from \$6.4 to \$8.7 million.

#### Mortgage-Backed Securities

To supplement lending activities, the Bank invests in residential mortgage-backed securities. The majority of such securities are classified as available for sale. In addition, they serve as collateral for borrowings and, through repayments, are a source of liquidity.

The mortgage-backed securities portfolio as of December 31, 2012, consisted of pass-through certificates issued by the FHLMC (\$2.5 million), GNMA (\$1.5 million), FNMA (\$30.9 million), and REMICs formed from pass-through certificates issued by these same agencies (\$9.8 million).

At December 31, 2012, the amortized cost of mortgage-backed securities totaled \$43.2 million, or 6% of total assets, and the fair value of such securities totaled approximately \$44.9 million.

The Bank's mortgage-backed securities which are so-called "pass-through" represent a participation interest in a pool of single-family or multi-family mortgages, the principal and interest payments on which are passed through intermediaries (generally quasi-governmental agencies) to investors such as the Bank. Such quasi-governmental agencies, which guarantee the payment of principal and interest to investors, include FHLMC, FNMA and GNMA. The REMIC securities are composed of the same loan types as the pass-through certificates, but offer differing characteristics as to their expected cash flows depending on the class of such securities purchased. The Bank's REMICs are primarily "planned amortization classes" ("PAC"), "very accurately defined maturity" ("VADM") classes, and short-term "sequential" classes that, when purchased, offered a high probability of predictable cash flows.

**Mortgage-Backed Securities Carrying Value.** The following table sets forth the carrying value of the Bank's mortgage-backed securities held in portfolio at the dates indicated.

	2012	At December 31, 2011      2010 (In thousands)	
<b>Held to maturity:</b>			
GNMA-fixed rate	\$728	\$897	\$1,114
FHLMC ARMs	5	9	14
FHLMC-fixed rate	337	440	552
FNMA-fixed rate	895	1,242	1,489
<b>Total mortgage-backed securities held to maturity</b>	<b>\$1,965</b>	<b>\$2,588</b>	<b>\$3,169</b>
<b>Available-for-sale:</b>			
GNMA-fixed rate	\$726	\$1,140	\$1,637
FHLMC-fixed rate	2,159	3,586	2,355
FNMA-fixed rate	30,001	23,454	9,734
REMICs-fixed rate	9,788	28,202	52,765
<b>Total mortgage-backed securities available for sale</b>	<b>\$42,674</b>	<b>\$56,382</b>	<b>\$66,491</b>

**Mortgage-Backed Securities Maturity.** The following table sets forth the maturity and the weighted average coupon ("WAC") of the Bank's mortgage-backed securities portfolio at December 31, 2012. The table does not include estimated prepayments. Adjustable-rate mortgage-backed securities are shown as maturing based on contractual maturities.

Contractually Due	Held to Maturity		Available for Sale			
	WAC	WAC	WAC	WAC	WAC	WAC
	(Dollars in thousands)					
Less than 1 year	\$—	—	%	\$347	4.83	%
1 to 3 years	—	—	%	2,098	5.10	%
3 to 5 years	20	6.96	%	—	—	%
5 to 10 years	218	4.96	%	9,642	3.72	%
10 to 20 years	1,727	6.36	%	22,110	3.38	%
Over 20 years	—	—	%	8,477	4.38	%
<b>Total mortgage-backed securities</b>	<b>\$1,965</b>	<b>6.21</b>	<b>%</b>	<b>\$42,674</b>	<b>3.75</b>	<b>%</b>

#### Nonperforming and Problem Assets

**Loan Collection.** When a borrower fails to make a required payment on a loan, the Bank takes a number of steps to have the borrower cure the delinquency and restore the loan to current status. In the case of residential mortgage loans



and consumer loans, the Bank generally sends the borrower a written notice of non-payment after the loan is 15 days past due. In the event payment is not then received, additional letters and phone calls are made. If the loan is still not brought current and it becomes necessary for the Bank to take legal action, which typically occurs after a loan is delinquent more than 90 days, the Bank will commence foreclosure proceedings against any real property that secures the loan and attempt to repossess any personal property that secures a consumer loan. 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 obtained by the Bank at foreclosure.

In the case of commercial real estate and multi-family loans, and construction loans, the Bank generally attempts to contact the borrower by telephone after any loan payment is ten days past due and a senior loan officer reviews all collection efforts made if payment is not received after the loan is 30 days past due. Decisions as to when to commence foreclosure actions for commercial real estate and multi-family loans and construction loans are made on a case by case basis. The Bank may consider loan work-out arrangements with these types of borrowers in certain circumstances.

**Delinquent Loans.** Generally, the Bank establishes a reserve for uncollected interest on loans past due more than 90 days; these loans are included in the table of nonaccrual loans below. Loans also are placed on a nonaccrual status when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is deducted from interest income and the further accrual of interest ceases unless the underlying facts that prompted a nonaccrual determination are deemed to have improved significantly.

**Nonperforming Assets.** The following table sets forth information regarding nonaccrual loans and real estate owned by the Bank at the dates indicated. The Bank had no loans contractually past due more than 90 days for which accrued interest has been recorded.

	At December 31,				
	2012	2011	2010	2009	2008
	(Dollars in thousands)				
Loans accounted for on a nonaccrual basis:					
Residential mortgages	\$2,265	\$5,502	\$3,618	\$1,117	\$780
Commercial – real estate secured	1,149	2,711	9,594	2,506	1,356
Construction loans	4,794	4,044	4,307	4,554	3,017
Consumer and other	151	278	1,415	107	126
Commercial and industrial loans	—	6	44	—	—
Total nonaccrual loans	8,359	12,541	18,978	8,284	5,279
Real estate owned, net	7,282	11,730	7,482	1,279	—
Total nonperforming assets	\$15,641	\$24,271	\$26,460	\$9,563	\$5,279
Total nonaccrual loans to loans	1.56	% 2.49	% 3.72	% 1.55	% 0.96
Total nonaccrual loans to total assets	1.17	% 1.84	% 2.74	% 1.16	% 0.72
Total nonperforming assets to total assets	2.20	% 3.56	% 3.82	% 1.34	% 0.72

Nonperforming commercial real estate loans include a loan with an unpaid principal balance of \$1.5 million secured by two contiguous parcels of commercial real estate and a lien on the guarantor's personal residence. The Bank has recorded a partial charge-off of \$951,000 from the allowance for loan losses, equal to the difference between the loan balance and the fair value based upon a recent appraisal. The Bank has initiated foreclosure proceedings and the borrower has filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. Additionally, \$296,000 of the allowance for loan losses has been allocated to this loan for potential acquisition or selling costs related to the properties.

Nonperforming construction loans also include two loans, with a combined balance of \$2.0 million secured by a parcel of land. The Bank has recorded a partial charge-off of \$202,000 from the allowance for loan losses equal to the difference between the recorded investment and a recent appraisal. The borrower is attempting to sell the property and intends to apply the sale proceeds to the outstanding loan balance. Additionally, \$29,000 of the allowance for loan losses has been allocated to this loan for potential acquisition or selling costs related to the property.

Nonperforming construction loans also include a participation in a commercial construction project with a principal balance due to the Bank of \$3.1 million. The Bank has recorded a partial charge-off of \$198,000 from the allowance for loan losses equal to the difference between the recorded investment and a recent appraisal. Additionally, \$1,000,000 of the allowance for loan losses has been allocated to this loan for a potential shortfall related to the disposition of the loan.

With respect to each of the remaining nonperforming loans, the Bank is taking appropriate steps to resolve the individual situations.

The Bank was not aware of any other significant potential problem loans. "Potential problem loans" are loans where information about possible credit problems of borrowers has caused management to have serious doubts about the borrowers' ability to comply with present repayment terms.

At December 31, 2012, the Bank had no foreign loans and no loan concentrations exceeding 10% of total loans. "Loan concentrations" are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions.

**Real Estate Owned.** Real estate acquired by the Bank as a result of foreclosure, judgment or by deed in lieu of foreclosure is classified as real estate owned ("REO") until it is sold. When property is acquired it is recorded at the lower of fair value, minus estimated cost to sell, or the recorded investment in the loan. If the property subsequently decreases in estimated value from the initial recorded amount, the Bank will provide a valuation allowance, through a charge to earnings, if the decrease is judged by management to be temporary. If the decrease is judged to be permanent, the Bank will reduce the recorded amount, through a charge to earnings, to the new estimated fair value.

**Allowances for Loan Losses.** The Bank provides valuation allowances for estimated losses from uncollectible loans. Management determines the adequacy of the allowance on a quarterly basis to ensure that a provision for loan losses has been charged against earnings in an amount necessary to maintain the allowance at a level that is appropriate based upon management's estimate of probable losses. Several sources of data are used in making the evaluation as to the appropriateness of the allowance.

In establishing allowances, an impairment reserve is established for loans which because of past payment history, a review of recent financial information, or other facts regarding the credit, pose a higher than normal amount of perceived risk of collection. In addition, an allowance is assigned based upon qualitative and quantitative risk factors which are inherent in class of the loan portfolio.

Although the allowance has been determined based on loan class, the total allowance is available to absorb any and all losses from any class of the loan portfolio. At December 31, 2012, management believes that the allowance for loan losses is at an acceptable level.

The following table sets forth information with respect to the allocation of the Bank's allowance for loan losses by loan type at the dates and for the periods indicated:

	For the Years Ended December 31,					
	2012	2011	2010	2009	2008	
	(Dollars in thousands)					
Balance at beginning of period	\$8,100	\$8,328	\$5,215	\$3,855	\$2,842	
Provision for loan losses	2,400	3,728	4,241	2,930	1,500	
Charge-offs:						
Residential mortgages	(768 )	(172 )	(49 )	(149 )	(12 )	
Commercial – real estate secured	(1,438 )	(2,041 )	(831 )	(278 )	—	
Construction loans	(1,182 )	(1,521 )	(59 )	(1,092 )	(347 )	
Consumer and other	(116 )	(237 )	(53 )	(88 )	(55 )	
Commercial and industrial loans	(156 )	(44 )	(146 )	(9 )	(160 )	
Recoveries:						
Residential mortgages	56	12	—	—	—	
Construction loans	—	1	—	5	—	
Consumer and other	4	8	9	13	19	
Commercial and industrial loans	22	38	1	28	68	
Balance at end of year	\$6,922	\$8,100	\$8,328	\$5,215	\$3,855	
Ratio of net charge-offs during the period to average loans outstanding during the period	0.70	% 0.79	% 0.22	% 0.29	% 0.09	%
Ratio of allowance for loan losses to nonperforming loans at the end of the period	82.81	% 64.59	% 43.88	% 63.00	% 73.00	%
Ratio of allowance for loan losses to loans receivable at the end of the period	1.30	% 1.61	% 1.63	% 0.98	% 0.71	%

The following table sets forth the allocation of the Bank's allowance for loan losses by loan category and the percent of loans in each category to total loans receivable, gross, at the dates indicated.

	2012		2011		2010		2009		2008	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
At December 31, (Dollars in thousands)										
At end of period allocated to:										
Residential mortgages	\$1,849	60.8 %	\$2,194	55.5 %	\$1,839	52.8 %	\$962	50.9 %	\$1,461	51.5 %
Commercial – real estate secured	2,607	27.3 %	3,071	31.2 %	3,099	32.2 %	2,031	31.5 %	1,108	30.7 %
Construction loans	1,697	3.1 %	1,830	3.2 %	2,479	3.7 %	1,736	5.5 %	953	5.6 %
Consumer and other loans	262	7.9 %	470	9.2 %	623	10.2 %	317	10.7 %	259	10.7 %
Commercial and industrial loans	119	0.9 %	138	0.9 %	76	1.1 %	169	1.4 %	74	1.5 %
Unallocated	388	— %	397	— %	212	— %	—	— %	—	— %
<b>Total allowance</b>	<b>\$6,922</b>	<b>100.0 %</b>	<b>\$8,100</b>	<b>100.0 %</b>	<b>\$8,328</b>	<b>100.0 %</b>	<b>\$5,215</b>	<b>100.0 %</b>	<b>\$3,855</b>	<b>100.0 %</b>

#### Investment Securities

The purchase of investment securities is designed primarily to provide and maintain liquidity, to generate a favorable return on investments without incurring undue interest rate and credit risk, and to complement the Bank's lending activities. In establishing its investment strategies, the Bank considers its business and growth plans, the economic environment, the types of securities to be held and other factors. Pennsylvania-chartered savings banks have the authority to invest in various types of assets, including U.S. Treasury obligations, securities of various federal and state agencies, certain certificates of deposit of insured depository institutions, certain bankers acceptances and bills of exchange, and commercial paper and other corporate debt obligations.

The following table sets forth certain information regarding the amortized cost and fair values of the Bank's investment securities at the dates indicated.

	2012		2011		2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
At December 31, (In thousands)						
Interest-earning deposits	\$26,440	\$26,440	\$10,430	\$10,430	\$4,219	\$4,219
Securities available for sale:						

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U.S. government and agency obligations	\$—	\$—	\$2,995	\$3,030	\$6,000	\$6,059
State and political subdivisions	55,254	59,610	51,287	55,091	47,348	48,208
Corporate debt securities	—	—	—	—	3,340	3,563
Total	\$55,254	\$59,610	\$54,282	\$58,121	\$56,688	\$57,830

## Investment Portfolio Maturities

The following table sets forth certain information regarding the amortized cost, weighted average yields and maturities of the Bank's investment securities portfolio, exclusive of interest-earning deposits, at December 31, 2012. Yields on tax exempt obligations have been computed on a tax equivalent basis.

	One Year or Less		One to Five Years		Five to Ten Years		More than Ten Years		Total Investment Securities		Fair Value
	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	
State and political subdivisions	\$602	5.18 %	\$9,514	5.30 %	\$25,154	5.11 %	\$19,984	5.20 %	\$55,254	5.18 %	\$59,610

(Dollars in thousands)

## Sources of Funds

General. Deposits, borrowings, loan repayments and cash flows generated from operations are the primary sources of the Bank's funds for use in lending, investing and other general purposes.

Deposits. The Bank offers a variety of deposit accounts having a range of interest rates and terms. The Bank's deposits consist of regular savings, noninterest-bearing checking, NOW checking, money market, and certificate accounts. Of the deposit accounts, \$38.3 million or 7% consist of IRA, Keogh or SEP retirement accounts at December 31, 2012.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates and competition. The Bank's deposits are primarily obtained from areas surrounding its offices, and the Bank relies primarily on customer service and long-standing relationships with customers to attract and retain these deposits. The Bank has historically maintained a high level of core deposits consisting of regular savings, money market, noninterest-bearing checking, and NOW checking, which has contributed to a low cost-of-funds. At December 31, 2012, core deposits amounted to 69% of total deposits.

The following table sets forth the distribution of the Bank's deposit accounts at the dates indicated and the weighted average nominal interest rates on each category of deposits presented. The Bank does not have a significant amount of deposits from outside its market area. Management does not believe that the use of year end balances instead of average balances resulted in any material difference in the information presented.

	At December 31,									
	2012			2011			2010			
	Amount	Percent of Total Deposits	Weighted Average Nominal Rate	Amount	Percent of Total Deposits	Weighted Average Nominal Rate	Amount	Percent of Total Deposits	Weighted Average Nominal Rate	
Transaction Accounts:										
Interest-bearing checking accounts	\$ 76,370	13.63 %	0.23 %	\$ 65,677	11.91 %	0.34 %	\$ 56,157	10.21 %	0.31 %	
Money market accounts	153,827	27.45 %	0.51 %	155,010	28.12 %	0.62 %	149,744	27.22 %	0.80 %	

(Dollars in thousands)



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Noninterest-bearing checking accounts	52,433	9.36 %	—	43,910	7.96 %	—	40,389	7.34 %	—
Total transaction accounts	282,630	50.44 %	0.34 %	264,597	47.99 %	0.45 %	246,290	44.77 %	0.56 %
Passbook accounts	106,268	18.97 %	0.23 %	105,617	19.16 %	0.39 %	99,686	18.12 %	0.46 %
Certificates of deposit	171,417	30.59 %	1.06 %	181,074	32.85 %	1.56 %	204,159	37.11 %	2.08 %
Total deposits	\$ 560,315	100.00 %	0.54 %	\$ 551,288	100.00 %	0.79 %	\$ 550,135	100.00 %	1.10 %

At December 31, 2012, the Bank had outstanding certificates of deposit in amounts of \$100,000 or more maturing as follows:

Maturing Period	Amount (In thousands)
Three months or less	\$ 5,651
Over three through six months	6,829
Over six through 12 months	20,393
Over 12 months	17,841
Total	\$ 50,714

Borrowings. Deposits are the primary source of funds of the Bank's lending and investment activities and for its general business purposes. The Bank may obtain advances from the Federal Home Loan Bank ("FHLB") of Pittsburgh to supplement its supply of lendable funds. Advances from the FHLB are typically secured by a pledge of the Bank's stock in the FHLB and a portion of the Bank's first mortgage loans. The Bank may also access the Federal Reserve Bank discount window. The following tables set forth the maximum month-end balance, period ending balance, and weighted average balance of outstanding FHLB advances at the dates and for the periods indicated, together with the applicable weighted average interest rates.

	At December 31,					
	2012		2011		2010	
	(Dollars in thousands)					
FHLB advances	\$60,656		\$46,908		\$61,987	
Weighted average interest rate	1.88	%	3.37	%	3.73	%

	Years Ended December 31,					
	2012		2011		2010	
	(Dollars in thousands)					
Maximum balance of FHLB advances	\$83,238		\$65,001		\$82,299	
Weighted average balance of FHLB advances	56,837		55,274		74,758	
Weighted average interest rate of FHLB advances	2.47	%	3.52	%	3.93	%

#### Subsidiary Activity

At December 31, 2012, the Bank had two wholly-owned operating subsidiaries, Third Delaware Corporation and Teragon Financial Corporation. Third Delaware Corporation was formed in 1998 for the purpose of investing in securities. At December 31, 2012, the Bank had \$156.9 million invested in Third Delaware Corporation. During 2004, Teragon Financial Corporation ("Teragon") invested \$7,500 in a limited partnership entitled Third Fed Abstract, L. P., whose purpose is to operate a title insurance agency, primarily to capture certain title insurance premiums generated by the Bank's lending activities. At December 31, 2012 the Bank had an investment of \$184,000 in Teragon. During 2007, Teragon was granted approval by the state of Pennsylvania to conduct business as an insurance agency, and during 2012, Teragon received \$24,000 of insurance commissions.

#### Personnel

As of December 31, 2012, the Company had 154 full-time and 13 part-time employees. None of the Company's employees are represented by a collective bargaining group. The Company believes that its relationship with its employees is good.

#### REGULATION

Set forth below is a brief description of all material laws and regulations which relate to the regulation of the Bank and the Company. The description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

Financial Reform Legislation. On July 21, 2010, the President signed the Dodd-Frank Act into law. The Dodd-Frank Act will likely result in dramatic changes across the financial regulatory system, some of which became effective immediately and some of which will not become effective until various future dates. Implementation of the Dodd-Frank Act will require many new rules to be made by

various federal regulatory agencies over the next several years, including our current and future regulatory agencies, and the effect of many of the Dodd-Frank Act's provisions will be determined through the rulemaking process.

The Dodd-Frank Act includes provisions that, among other effects:

- Merges the Office of Thrift Supervision ("OTS") into the Office of the Comptroller of the Currency ("OCC") and restructures the authority of the other two bank regulatory agencies. The federal thrift charter is preserved with the Federal Reserve given authority over savings and loan holding companies.

- Creates a new agency, the Bureau of Consumer Financial Protection ("CFPB"), to centralize responsibility for consumer financial protection responsible for implementing, examining and enforcing compliance with federal consumer financial laws such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and the Truth in Saving Act, among others. Depository institutions that have assets of \$10 billion or less, such as us, will continue to be supervised by their primary federal regulators. The CFPB will also have data collecting powers for fair lending purposes for small business and mortgage loans, as well as authority to prevent unfair, deceptive and abusive practices.

- Imposes new consumer protection requirements in mortgage loan transactions, including requiring creditors to make reasonable, good faith determinations that consumers have a reasonable ability to repay mortgage loans, prohibiting originators of residential mortgage loans from being paid compensation (such as a "yield spread premium") that varies based on the terms of the loan other than the principal amount of the loan, requiring new disclosure requirements for residential mortgage loans, requiring additional disclosures in periodic loan account statements, amending the Truth-in-Lending Act's "high-cost" mortgage provisions, and adopting certain other revisions.

- Changes the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminates the ceiling on the size of the FDIC's Deposit Insurance Fund ("DIF"), and increases the required minimum reserve ratio for the DIF, from 1.15% to 1.35% of insured deposits.

- Increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2008, with noninterest-bearing transaction accounts having unlimited deposit insurance through December 31, 2012.

- Adopts changes to corporate governance requirements, including requiring shareholder votes on executive compensation and proxy access by shareholders that apply to all public companies.

- Repeals various banking law provisions prohibiting the payment of interest on demand deposits.

- Requires the Federal Reserve to adopt rules to regulate the reasonableness of debit card interchange fees charged by financial institutions with \$10 billion or more in assets with respect to electronic debit transactions. The amount of such fees must be "reasonable and proportional" to the cost incurred by the issuer. Issuers that, together with their affiliates, have assets of less than \$10 billion would not be covered by the rules.

Some of these provisions may have the consequence of increasing our expenses, decreasing our revenues, and changing the activities in which we choose to engage. At a minimum, we expect that the Dodd-Frank Act will increase our operating and compliance costs. The specific impact of the Dodd-Frank Act on our current activities or new financial activities will be considered in the future, and our financial performance and the markets in which we

operate will depend on the manner in which the relevant agencies develop and implement the required rules and the reaction of market participants to these regulatory developments. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers, or the financial industry in general.

## Company Regulation

**General.** The Company is a unitary savings and loan holding company subject to regulatory oversight by the FRB. As such, the Company is required to register and file reports with the FRB and is subject to regulation and examination by the FRB. In addition, the FRB has enforcement authority over the Company and its non-savings association subsidiaries, which also permits the FRB to restrict or prohibit activities that are determined to be a serious risk to the subsidiary institution. This regulation and oversight is intended primarily for the protection of the depositors of the Bank and not for the benefit of stockholders of the Company.

The Company must obtain the prior approval of the Federal Reserve before it may acquire control of another bank or savings institution, merge or consolidate with another bank holding company or savings and loan holding company or acquire all or substantially all of the assets of another bank, savings institution or depository institution holding company. The Company must also obtain prior Federal Reserve approval before it may acquire ownership or control of any voting shares of any bank, savings institution or depository institution holding company if, after such acquisition, the Company would directly or indirectly own or control more than 5% of such shares. The Company is also required to file certain reports with, and otherwise comply with, the rules and regulations of the FRB and the SEC.

**Sarbanes-Oxley Act of 2002.** The Sarbanes-Oxley Act of 2002 (the “Act”) implemented legislative reforms intended to address corporate and accounting fraud and improve public company reporting. The SEC has promulgated new regulations pursuant to the Act and may continue to propose additional implementing or clarifying regulations as necessary in furtherance of the Act. The passage of the Act by Congress and the implementation of new regulations by the SEC subject publicly-traded companies to additional and more cumbersome reporting regulations and disclosure. Compliance with the Act and corresponding regulations may increase the Company’s expenses.

**Financial Modernization.** The Gramm-Leach-Bliley Act (“GLB”) permits qualifying bank holding companies to become financial holding companies and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. GLB defines “financial in nature” to include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the FRB has determined to be closely related to banking. A qualifying bank also may engage, subject to limitations on investment, in activities that are financial in nature, other than insurance underwriting, insurance company portfolio investment, real estate development, and real estate investment, through a financial subsidiary of the bank.

GLB also prohibits new unitary thrift holding companies from engaging in nonfinancial activities or from affiliating with a nonfinancial entity. As a grandfathered unitary thrift holding company, the Company has retained its authority to engage in nonfinancial activities.

**Qualified Thrift Lender Test.** As a unitary savings and loan holding company, the Company generally is not subject to activity restrictions, provided the Bank satisfies the QTL test. See “Bank Regulation — Qualified Thrift Lender Test.” If the Company acquires control of another savings association as a separate subsidiary, it would become a multiple savings and loan holding company, and the activities of the Company and any of its subsidiaries (other than the Bank) would become subject to restrictions applicable to bank holding companies unless such other associations each also qualify as a QTL and were acquired in a supervisory acquisition.

**Restrictions on Dividends.** The Federal Reserve has issued a policy statement on the payment of cash dividends by bank and savings and loan holding companies, which expresses the Federal Reserve’s view that a holding company should pay cash dividends only to the extent that the holding company’s net income for the past year is sufficient to

cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality and overall financial condition. The Federal Reserve also indicated that it would be inappropriate for a holding company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the federal prompt corrective action regulations, the Federal Reserve may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized."

#### Bank Regulation

General. As a Pennsylvania-chartered, FDIC insured savings bank, the Bank is subject to extensive regulation and regular examination by the Department of Banking and by the FDIC, which insures its deposits to the maximum extent permitted by law. The federal and state laws and regulations applicable to banks regulate, among other things, the scope of their business, their investments, the reserves required to be kept against deposits, the timing of the availability of deposited funds and the nature and amount of and collateral for certain loans.

The Bank must file reports with the Department of Banking and the FDIC concerning its financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with or acquisitions of other banks or savings

institutions. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the FDIC 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 adequate loan loss reserves for regulatory purposes. Any change in such regulations, whether by the Department of Banking, the FDIC or the Congress could have a material adverse impact on the Company, the Bank and their operations.

Pennsylvania Savings Bank Law. The Pennsylvania Banking Code (“Banking Code”) contains detailed provisions governing the organization, location of offices, rights and responsibilities of directors, officers, and employees, as well as the corporate powers, lending authority, savings and investment operations and other aspects of the Bank and its affairs. The Banking Code delegates extensive rule-making power and administrative discretion to the Department of Banking so that the supervision and regulation of state-chartered savings banks may be flexible and readily responsive to changes in economic conditions and in savings and lending practices.

The Banking Code also provides state-chartered savings banks with all the powers enjoyed by the federal savings institutions, subject to regulation by the Department of Banking. The Federal Deposit Insurance Corporation Act, however, prohibits state-chartered banks from making new investments, loans, or becoming involved in activities as principal and equity investments that not permitted for national banks unless (1) the FDIC determines the activity or investment does not pose a significant risk of loss to the Deposit Insurance Fund and (2) the bank meets all applicable capital requirements. Accordingly, the additional operating authority provided to the Bank by the Banking Code is significantly restricted by the Federal Deposit Insurance Corporation Act.

Insurance of Deposit Accounts. The Bank’s deposits are insured by the DIF of the FDIC. Pursuant to the Dodd-Frank Act, the Federal Deposit Insurance Act was amended to increase the maximum deposit insurance amount from \$100,000 to \$250,000 and extended the unlimited deposit insurance coverage for noninterest-bearing transaction accounts until December 31, 2012. The FDIC determines insurance premiums based on a number of factors, primarily the risk of loss that insured institutions pose to the DIF.

In May 2009, the FDIC imposed a 5 basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009, subject to a limit that the amount of the special assessment for any institution cannot exceed 10 basis points times the institution's deposit insurance assessment base for the second quarter 2009. Further, in November 2009, the FDIC adopted a final rule imposing a 13-quarter prepayment of FDIC premiums. The prepayment amount was paid in December 2009 and represented an estimated prepayment for deposit insurance assessments for the fourth quarter of 2009 through the fourth quarter of 2012. The prepayment amount will be used to offset future FDIC premiums beginning with the March 2010 payment.

The Dodd-Frank Act eliminated the previous statutory maximum limit on the FDIC’s reserve ratio (which is generally the ratio of the DIF balance to the estimated amount of deposits insured by the DIF) and set the minimum reserve ratio to not less than 1.35 percent of estimated insured deposits or the comparable percentage of the FDIC’s assessment base. The Dodd-Frank Act also required the FDIC to take the steps necessary to attain the 1.35 percent ratio by September 30, 2020, subject to an offsetting requirement for certain institutions.

The large number of bank failures during the last several years have significantly increased the DIF’s losses such that its reserve ratio is less than the mandated minimum. As a result, the FDIC established a restoration plan in October 2008 and has amended the plan several times since then. Most recently, the FDIC amended the restoration plan on October 19, 2010 in response to the Dodd-Frank Act to provide for reaching the 1.35% reserve ratio by September 30, 2020. The amended restoration plan also provided that the FDIC will forego the uniform 3 basis point increase in



initial deposit insurance assessment rates that were previously scheduled to take effect on January 1, 2011 and to otherwise maintain the current schedule of assessment rates for all insured depository institutions. Also under the amended plan, the FDIC will pursue further rulemaking in 2011 regarding the method that will be used to reach 1.35 percent by September 30, 2020 and regarding the Dodd-Frank Act requirement that the FDIC offset the effect on insured depository institutions with total consolidated assets of less than \$10 billion of the statutory requirement that the reserve ratio reach 1.35 percent by September 30, 2020, rather than 1.15 percent by the end of 2016 (which was required under the prior restoration plan). At least semiannually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase assessment rates, following notice-and-comment rulemaking if required. The FDIC may also lower assessment rates following notice-and comment rulemaking if required. Institutions may continue to use assessment credits (for regular quarterly assessments and for any special assessments) without additional restriction (other than those imposed by law) during the term of the restoration plan.

On February 7, 2011, the FDIC issued a final rule to implement changes to the assessment base used to determine risk-based premiums for insured depository institutions as required under the Dodd-Frank Act and also changed the risk-based pricing system necessitated by changes to the assessment base. These changes took effect for the quarter beginning April 1, 2011, and were reflected in the invoices for DIF assessments due September 30, 2011.

Future changes in insurance premiums could have an adverse effect on the operating expenses and results of operations and we cannot predict what insurance assessment rates will be in the future.

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. We do not know of any practice, condition or violation that might lead to termination of its deposit insurance.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund.

**Regulatory Capital Requirements.** The FDIC has promulgated capital adequacy requirements for state-chartered banks that, like us, are not members of the Federal Reserve System. The FDIC's capital regulations require banks to meet two capital standards: (1) a leverage capital requirement of Tier 1 capital equal to at least 4% of total adjusted assets; (2) a risk-based capital requirement of qualifying total capital equal to at least 8.0% of total risk-weighted assets. In addition, the FDIC's prompt corrective action regulation provides that a bank that has less than the minimum leverage capital requirement will be deemed to be "undercapitalized" and will be subject to various capital plan and activities restriction requirements. The prompt corrective action regulation also provides that any insured depository institution with a ratio of Tier 1 capital to total assets that is less than 2.0% is deemed to be operating in an unsafe or unsound condition pursuant to Section 8(a) of the Federal Deposit Insurance Act and could be subject to termination of deposit insurance.

The Bank is also subject to minimum capital requirements imposed by the Department of Banking on Pennsylvania-chartered depository institutions. Under the Department of Banking's capital regulations, a Pennsylvania bank or savings bank must maintain a minimum leverage ratio of Tier 1 capital (as defined under the FDIC's capital regulations) to total assets of 4%. In addition, the Department of Banking has the supervisory discretion to require a higher leverage ratio for any institution based on the institution's substandard performance in any of a number of areas.

At December 31, 2012, the Bank was in compliance with all of its regulatory capital requirements.

**Dividend Limitations.** The Banking Code provides that dividends may be declared and paid by a Pennsylvania bank only out of accumulated net earnings and may not be declared or paid unless surplus (retained earnings) is at least equal to contributed capital. The Bank has not declared or paid any dividends that have caused its retained earnings to be reduced below the amount required. In addition, the Bank may not declare or pay a dividend if the Bank is in default in payment of any assessment due the FDIC or if the effect of the dividend would be to reduce the regulatory capital of the Bank below the amount required for the liquidation account established at the time of the Bank's mutual-to-stock conversion. Furthermore, as the subsidiary of a savings and loan holding company, the Bank is required to provide the FRB with notice of a proposed capital distribution at least 30 days before declaring a dividend to the Company.

**Qualified Thrift Lender Test.** The Home Owners' Loan Act ("HOLA"), as amended, requires subsidiary institutions of savings and loan holding companies to meet a QTL test. If the Bank maintains an appropriate level of Qualified Thrift Investments (primarily residential mortgages and related investments, including certain mortgage-backed securities) ("QTIs") and otherwise qualifies as a QTL, the Company will continue its status as a grandfathered unitary savings and loan holding company. The required percentage of QTIs is 65% of portfolio assets (defined as all assets minus intangible assets, property used by the institution in conducting its business and liquid assets equal to 10% of total assets). Certain assets are subject to a percentage limitation of 20% of portfolio assets. In addition, savings institutions may include shares of stock of the FHLBs, FNMA and FHLMC as qualifying QTIs. The method for measuring

compliance with the QTL test requires an institution to be in compliance nine out of every 12 months. As of December 31, 2012, the Bank was in compliance with its QTL requirement with 69.04% of its assets invested in QTIs.

Federal Home Loan Bank System. The Bank is a member of the FHLB of Pittsburgh, one of 12 regional FHLBs that administer the home financing credit function of savings associations. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the Board of Directors of the FHLB.

As a member, the Bank is required to purchase and maintain an investment in the capital stock of the FHLB of Pittsburgh in an amount equal to 4.60% of its advances outstanding from the FHLB plus 0.35% of its member asset value ("MAV"). The FHLB determines the Bank's MAV by assigning a borrowing factor to the Bank's investment in loans and securities. At December 31, 2012, the Bank was in compliance with this requirement with a MAV of \$337.0 million and \$5.4 million in FHLB stock.

Federal Reserve System. The Federal Reserve Board requires all depository institutions to maintain noninterest-bearing reserves at specified levels against their transaction accounts (primarily checking, NOW and Super NOW checking accounts) and non-personal time deposits. As of December 31, 2012, no reserves were required to be maintained on the first \$11.5 million of transaction accounts, (increasing to \$12.4 million in 2013), reserves of 3% were required to be maintained against the next \$59.5 million (increasing to \$67.1 million in 2013) of transaction accounts and a reserve of 10% against all remaining transaction accounts. This percentage is subject to adjustment by the Federal Reserve Board. Because required reserves must be maintained in the form of vault cash or in a noninterest-bearing account at a Federal Reserve Bank, the effect of the reserve requirement may reduce the amount of an institution's interest-earning assets.

Savings associations have authority to borrow from the Federal Reserve Bank "discount window."

### Proposed Changes to Regulatory Capital Requirements

The federal banking agencies have issued a series of proposed rulemakings to conform their regulatory capital rules with the international regulatory standards agreed to by the Basel Committee on Banking Supervision in the accord often referred to as "Basel III". The proposed revisions would establish new higher capital ratio requirements, tighten the definitions of capital, impose new operating restrictions on banking organizations with insufficient capital buffers and increase the risk weighting of certain assets including residential mortgages. The proposed new capital requirements would apply to all banks and savings associations, bank holding companies with more than \$500 million in assets and all savings and loan holding companies regardless of asset size. The following discussion summarizes the proposed changes which are most likely to affect the Company and the Bank.

**New and Higher Capital Requirements.** The proposed regulations would establish a new capital measure called "Common Equity Tier 1 Capital" which would consist of common stock instruments and related surplus (net of treasury stock), retained earnings, accumulated other comprehensive income and, subject to certain adjustments, minority common equity interests in subsidiaries. Unlike the current rules which exclude unrealized gains and losses on available-for-sale debt securities from regulatory capital, the proposed rules would generally require accumulated other comprehensive income to flow through to regulatory capital. Depository institutions and their holding companies would be required to maintain Common Equity Tier 1 Capital equal to 4.5% of risk-weighted assets by 2015.

The proposed regulations would increase the required ratio of Tier 1 Capital to risk-weighted assets from the current 4% to 6% by 2015. Tier 1 Capital would consist of Common Equity Tier 1 Capital plus Additional Tier 1 Capital elements which would include non-cumulative perpetual preferred stock. Neither cumulative preferred stock (other than cumulative preferred stock issued to the U.S. Treasury under the TARP Capital Purchase Program or the Small Business Lending Fund) nor trust preferred would qualify as Additional Tier 1 Capital. These elements, however, could be included in Tier 2 Capital which could also include qualifying subordinated debt. The proposed regulations would also require a minimum Tier 1 leverage ratio of 4% for all institutions eliminating the 3% option for institutions with the highest supervisory ratings. The minimum required ratio of total capital to risk-weighted assets would remain at 8%.

**Capital Buffer Requirement.** In addition to higher capital requirements, depository institutions and their holding companies would be required to maintain a capital buffer of at least 2.5% of risk-weighted assets over and above the minimum risk-based capital requirements. Institutions that do not maintain the required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital buffer requirement would be phased in over four years beginning in 2016. The capital buffer requirement effectively

raises the minimum required risk-based capital ratios to 7% Common Equity Tier 1 Capital, 8.5% Tier 1 Capital and 10.5% Total Capital on a fully phased-in basis.

**Changes to Prompt Corrective Action Capital Categories.** The Prompt Corrective Action rules would be amended to incorporate a Common Equity Tier 1 Capital requirement and to raise the capital requirements for certain capital categories. In order to be adequately capitalized for purposes of the prompt corrective action rules, a banking organization would be required to have at least an 8% Total Risk-Based Capital Ratio, a 6% Tier 1 Risk-Based Capital Ratio, a 4.5% Common Equity Tier 1 Risk Based Capital Ratio and a 4% Tier 1 Leverage Ratio. To be well capitalized, a banking organization would be required to have at least a 10% Total Risk-Based Capital Ratio, an 8% Tier 1 Risk-Based Capital Ratio, a 6.5% Common Equity Tier 1 Risk Based Capital Ratio and a 5% Tier 1 Leverage Ratio.

**Additional Deductions from Capital.** Banking organizations would be required to deduct goodwill and other intangible assets (other than certain mortgage servicing assets), net of associated deferred tax liabilities, from Common Equity Tier 1 Capital. Deferred tax assets arising from temporary timing differences that could not be realized through net operating loss carrybacks would continue to be deducted if they exceed 10% of Common Equity Tier 1 Capital. Deferred tax assets that could be realized through NOL carrybacks would not be deducted but would be subject to 100% risk weighting. Defined benefit pension fund assets, net of any associated deferred tax liability, would be deducted from Common Equity Tier 1 Capital unless the banking organization has

unrestricted and unfettered access to such assets. Reciprocal cross-holdings in the capital instruments of any other financial institution would now be deducted from capital, not just holdings in other depository institutions. For this purpose, financial institutions are broadly defined to include securities and commodities firms, hedge and private equity funds and non-depository lenders. Banking organizations would also be required to deduct non-significant investments (less than 10% of outstanding stock) in other financial institutions to the extent these exceed 10% of Common Equity Tier 1 Capital subject to a 15% of Common Equity Tier 1 Capital cap. Greater than 10% investments must be deducted if they exceed 10% of Common Equity Tier 1 Capital. If the aggregate amount of certain items excluded from capital deduction due to a 10% threshold exceeds 17.65% of Common Equity Tier 1 Capital, the excess must be deducted. Savings associations would continue to be required to deduct investments in subsidiaries engaged in activities not permitted for national banks.

Changes in Risk-Weightings. The proposed regulations would apply a 250% risk-weighting to mortgage servicing rights, deferred tax assets that cannot be realized through NOL carrybacks and significant (greater than 10%) investments in other financial institutions. The proposed rules would also significantly change the risk-weighting for residential mortgages. Current capital rules assign a 50% risk-weighting to “qualifying mortgage loans” which generally consist of residential first mortgages with an 80% loan-to-value ratio (or which carry mortgage insurance that reduces the bank’s exposure to 80%) that are not more than 90 days past due. All other mortgage loans have a 100% risk weight. Under the proposed regulations, one-to-four family residential mortgage loans would be divided into two broad risk categories with their risk-weighting determined by their loan-to-value ratio without regard to mortgage insurance. Prudently underwritten 30-year residential mortgages providing for regular periodic payments that do not result in negative amortization or balloon payments or allow payment deferrals and caps on annual and lifetime interest rate adjustments and which are not more than 90 days past due would be assigned a risk weighting from 35% for loans with a 60% or lower loan-to-value ratio to 100% for loans over 90%. Residential mortgage loans in this category with a loan-to-value ratio greater than 60% but not more than 80% would continue to carry a 50% risk weighting. All other residential mortgage loans would be risk-weighted between 100% to 200%. The proposal also creates a new 150% risk-weighting category for “high volatility commercial real estate loans” which are credit facilities for the acquisition, construction or development of real property other than one- to four-family residential properties or commercial real projects where: (i) the loan-to-value ratio is not in excess of interagency real estate lending standards; and (ii) the borrower has contributed capital equal to not less than 15% of the real estate’s “as completed” value before the loan was made.

Item 1A. Risk Factors

Not applicable.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company is located and conducts its business at 3 Penns Trail, Newtown, Pennsylvania. At December 31, 2012, the Bank operated from its administrative offices and thirteen branch offices located in Philadelphia and Bucks Counties, Pennsylvania and Mercer County, New Jersey. The Bank also owns one parcel of land and a building behind its Doylestown branch office. The parcel is available to be leased to a third-party. The net book value of the lot was \$10,000. In addition, a subsidiary of the Company, Penns Trail Development Corporation, owns investment property with a book value of \$694,000.

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The following table sets forth certain information regarding the Bank's operating properties:

Location	Leased or Owned
<b>ADMINISTRATIVE OFFICE</b>	
Newtown Office 3 Penns Trail Newtown, PA 18940	Owned
<b>BRANCH AND LOAN OFFICES</b>	
Frankford Office 4625 Frankford Avenue Philadelphia, PA 19124	Leased
Ewing Office 2075 Pennington Road Ewing, NJ 08618	Owned

Hamilton Office 1850 Route 33 Hamilton Square, NJ 08690	Owned
Fishtown Office York & Memphis Streets Philadelphia, PA 19125	Owned
Cross Keys Office 834 North Easton Road Doylestown, PA 18902	Owned
Bridesburg Office Orthodox & Almond Streets Philadelphia, PA 19137	Owned
New Britain Office 600 Town Center New Britain, PA 18901	Leased
Newtown Office 950 Newtown Yardley Road Newtown, PA 18940	Leased
Mayfair Office Roosevelt Blvd. at Unruh Philadelphia, PA 19149	Owned
Doylestown Office 60 North Main Street Doylestown, PA 18901	Owned
Feasterville Office 1201 Buck Road Feasterville, PA 19053	Leased
Woodhaven Office 12051 Knights Road Philadelphia, PA 19154	Leased
Girard Office 136 West Girard Avenue Philadelphia, PA 19123	Leased
<b>PROCESSING OPERATIONS</b> Operations Center 62-66 Walker Lane	Owned



Newtown, PA 18940

Operations Center  
98 Walker Lane  
Newtown, PA 18940

Leased

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Item 3. Legal Proceedings

Neither the Company nor its subsidiaries are involved in any pending legal proceedings, other than routine legal matters occurring in the ordinary course of business that in the aggregate involve amounts which are believed by management to be material to the consolidated financial condition or results of operations of the Company.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Information relating to the market for Registrant's common equity and related stockholder matters appears under the section captioned "Corporate Profile and Related Information —Stock Market Information," "—Dividend Policy" and "—Stock Price and Dividend History" in the Registrant's 2012 Annual Report to Stockholders and is incorporated herein by reference.

The following table provides information on repurchases by the Company of its common stock in each month for the three months ended December 31, 2012:

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs
October 1, 2012 - October 31, 2012	—	—	—	101,957
November 1, 2012 - November 30, 2012	—	—	—	101,957
December 1, 2012 - December 31, 2012	—	—	—	101,957

Item 6. Selected Financial Data

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information under the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrant's 2012 Annual Report to Stockholders is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information under the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Registrant’s 2012 Annual Report to Stockholders is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The Consolidated Financial Statements of TF Financial Corporation and its subsidiaries included in the Registrant’s 2012 Annual Report to Stockholders are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Disclosure Controls and Procedures

Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")), the Company's principal executive officer and principal financial officer have concluded that as of the end of the period covered by this Annual Report on Form 10-K such disclosure controls and procedures are effective.

(b) Internal Control Over Financial Reporting

Management's report on internal control over financial reporting is included in the Registrant's 2012 Annual Report to Stockholders and is incorporated herein by reference. Neither this Annual Report on Form 10-K nor the Annual Report to Stockholders includes an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report on Form 10-K.

(c) Changes in Internal Control Over Financial Reporting.

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

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information contained under the sections captioned "Proposal I — Election of Directors — General Information and the Nominees; Security Ownership of Management" and "— Biographical Information", "—Meetings and Committees of the Board of Directors", "—Director Nomination Process" ,and "Additional Information About Directors and Executive Officers —Section 16(a) Beneficial Ownership Reporting Compliance" in the Registrant's definitive proxy statement for the Registrant's 2013 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference.

The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or persons performing such functions. The Code of Ethics can be obtained without charge by sending a written request to the Corporate Secretary, TF Financial Corporation, 3 Penns Trail, Newtown, Pennsylvania 18940.

Item 11. Executive Compensation

The information relating to executive compensation is incorporated herein by reference to the information contained under the sections captioned "Executive Compensation" and "Director Compensation" in the Registrant's Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the Section captioned “Voting Securities and Principal Holders Thereof” in the Registrant’s Proxy Statement.

(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the sections captioned “Security Ownership of Certain Beneficial Owners” and “Proposal I — Election of Directors” in the Registrant’s Proxy Statement.

(c) Management of the Company knows of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.

(d) Securities Authorized for Issuance Under Equity Compensation Plans

Set forth below is information as of December 31, 2012 with respect to compensation plans under which equity securities of the Registrant are authorized for issuance.

EQUITY COMPENSATION PLAN INFORMATION

	(a)	(b)	(c)
	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders	89,279	\$ 24.08	275,000
Equity compensation plans not approved by shareholders	—	—	—
Total	89,279	\$ 24.08	275,000

For information regarding the material features of the Registrant’s equity compensation plans, see Note 1 and Note 10 to the Consolidated Financial Statements included as part of Exhibit 13 to this report.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information relating to certain relationships and related transactions is incorporated herein by reference to the information contained under the section captioned “Additional Information About Directors and Executive Officers — Certain Relationships and Related Transactions and Director Independence” in the Registrant’s Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information relating to this item is incorporated herein by reference to the information contained under the section captioned “Additional Information About Directors and Executive Officers — Principal Accounting Firm Fees” in the Registrant’s Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as a part of this report(1):

(1) The following financial statements and the reports of the independent auditor of the Company included in the Company’s 2012 Annual Report to Stockholders are incorporated herein by reference.

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Management's Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2012 and 2011

Consolidated Statements of Income For the Years Ended December 31, 2012 and 2011

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012 and 2011

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2012 and 2011

Consolidated Statements of Cash Flows for the Years Ended December 31, 2012 and 2011

Notes to Consolidated Financial Statements

All other schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits

(a) The following exhibits are filed as part of this report.

- 2.1 Agreement and Plan of Merger, dated December 28, 2012, by and among TF Financial Corporation, 3rd Fed Bank, Roebing Financial Corp, Inc. and Roebing Bank (1)
- 3.1 Amended and Restated Articles of Incorporation of TF Financial Corporation (2)
- 3.2 Bylaws of TF Financial Corporation
- 4.0 Stock Certificate of TF Financial Corporation (3)
- 10.1 Third Federal Savings and Loan Association Management Stock Bonus Plan (3)
- 10.2 Third Federal Savings Bank Directors Consultation and Retirement Plan (4)
- 10.3 Severance Agreement with Kent C. Lufkin (5)
- 10.4 Agreement and General Release with Floyd P. Hagggar (6)
- 10.5 Severance Agreement with Dennis R. Stewart (7)
- 10.6 TF Financial Corporation 1997 Stock Option Plan (8)
- 10.7 Severance Agreement with Robert N. Dusek (9)
- 10.8 TF Financial Corporation Incentive Compensation Plan (10)
- 10.9 TF Financial Corporation 2005 Stock-Based Incentive Plan (11)
- 10.10 Severance Agreement with Elizabeth Kaspem (12)
- 10.11 TF Financial Corporation Stock Repurchase Plan (13)
- 10.12 TF Financial Corporation 2011 Directors Stock Compensation Plan (14)
- 10.13 TF Financial Corporation 2012 Stock Option Plan
- 10.14 Agreement by and among TF Financial Corporation, Dennis Pollack, Lawrence B. Seidman, 2514 Multi-Strategy Fund, LP, Broad Park Investors, LLC, CBPS, LLC, LSBK06-08, LLC, Seidman and Associates, LLC, Seidman Investment Partnership, LP and Seidman Investment Partnership II, LP (15)
- 10.15 Amendment No. 1 to Agreement by and among TF Financial Corporation, Dennis Pollack, Lawrence B. Seidman, 2514 Multi-Strategy Fund, LP, Broad Park Investors, LLC, CBPS, LLC, LSBK06-08, LLC, Seidman and Associates, LLC, Seidman Investment Partnership, LP and Seidman Investment Partnership II, LP (16)
- 13.0 2012 Annual Report to Stockholders
- 21.0 Subsidiary Information
- 23.0 Consent of Independent Registered Public Accounting Firm-S.R. Snodgrass, A.C.
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.0 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document \*
- 101.SCH XBRL Taxonomy Extension Schema Document \*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document \*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document \*
- 101.LAB XBRL Taxonomy Extension Labels Linkbase Document \*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document \*

\* Submitted as Exhibits 101 to this Form 10-K are documents formatted in XBRL (Extensible Business Reporting Language). Pursuant to Rule 406T of Regulation S-T,



these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

- (1) Incorporated herein by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on December 28, 2012.
- (2) Incorporated herein by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 4, 2011.
- (3) Incorporated herein by reference to the Exhibits to Form S-1, Registration Statement, File No. 33-76960.
- (4) Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.
- (5) Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.
- (6) Incorporated herein by reference to the Registrant's Form 8-K/A filed with the Securities and Exchange Commission on February 21, 2013.
- (7) Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.
- (8) Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.
- (9) Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
- (10) Incorporated herein by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on October 20, 2004.
- (11) Incorporated herein by reference to the Registrant's Form S-8 filed with the Securities and Exchange Commission on May 20, 2005.
- (12) Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
- (13) Incorporated herein by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on October 25, 2007.
- (14) Incorporated herein by reference to the Registrant's Form S-8 filed with the Securities and Exchange Commission on June 29, 2011.
- (15) Incorporated herein by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on November 7, 2011.
- (16) Incorporated herein by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on December 5, 2012.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

TF FINANCIAL CORPORATION

Dated: March 27, 2013

By: /s/ Kent C. Lufkin  
Kent C. Lufkin  
President and Chief Executive  
Officer  
(Duly Authorized  
Representative)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of March 27, 2013.

By: /s/ Kent C. Lufkin  
Kent C. Lufkin  
President and Chief Executive  
Officer  
(Principal Executive Officer)

By: /s/ Dennis R. Stewart  
Dennis R. Stewart  
Executive Vice President, Chief  
Financial Officer and Treasurer  
(Principal Financial and Accounting  
Officer)

By: /s/ Robert N. Dusek  
Robert N. Dusek  
Chairman of the Board

By: /s/ Carl F. Gregory  
Carl F. Gregory  
Director

By: /s/ Dennis Pollack  
Dennis Pollack  
Director

By: /s/ Joseph F. Slabinski, III  
Joseph F. Slabinski, III  
Director

By: /s/ Kenneth A. Swanstrom  
Kenneth A. Swanstrom  
Director

By: /s/ Albert M. Tantala, Sr.  
Albert M. Tantala, Sr.  
Director

By: /s/ James B. Wood  
James B. Wood  
Director