

MDU RESOURCES GROUP INC
Form DEF 14A
March 11, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to § 240.14a-12

MDU Resources Group, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required
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1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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- o Fee paid previously with preliminary materials.
 - o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - 1) Amount Previously Paid:
-

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

1200 West Century Avenue

Terry D. Hildestad
President and
Chief Executive Officer

Mailing Address:
P.O. Box 5650
Bismarck, ND 58506-5650
(701) 530-1000

March 11, 2011

To Our Stockholders:

Please join us for the 2011 Annual Meeting of Stockholders. The meeting will be held on Tuesday, April 26, 2011, at 11:00 a.m., Central Daylight Saving Time, at 909 Airport Road, Bismarck, North Dakota.

The formal matters are described in the accompanying Notice of Annual Meeting of Stockholders and Proxy Statement. We also will have a brief report on current matters of interest. Lunch will be served following the meeting.

We were pleased with the stockholder response for the 2010 Annual Meeting at which 88.30 percent of the common stock was represented in person or by proxy. We hope for an even greater representation at the 2011 meeting.

You may vote your shares by telephone, by the Internet, or by returning the enclosed proxy card. Representation of your shares at the meeting is very important. We urge you to submit your proxy promptly.

Brokers may not vote your shares on four of the five matters to be presented if you have not given your broker specific instructions as to how to vote. Please be sure to give specific voting instructions to your broker so that your vote can be counted.

All stockholders who find it convenient to do so are cordially invited and urged to attend the meeting in person. Registered stockholders will receive a request for admission ticket(s) with their proxy card that can be completed and returned to us postage-free. Stockholders whose shares are held in the name of a bank or broker will not receive a request for admission ticket(s). They should, instead, (1) call (701) 530-1000 to request an admission ticket(s), (2) bring a statement from their bank or broker showing proof of stock ownership as of February 25, 2011 to the annual meeting, and (3) present their admission ticket(s) and photo identification, such as a driver's license. Directions to the meeting will be included with your admission ticket.

I hope you will find it possible to attend the meeting.

Sincerely yours,

Terry D. Hildestad

MDU Resources Group, Inc. Proxy Statement

Proxy Statement

MDU RESOURCES GROUP, INC.

1200 West Century Avenue

Mailing Address:
P.O. Box 5650
Bismarck, North Dakota 58506-5650
(701) 530-1000

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD APRIL 26, 2011

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on April 26, 2011

**The 2011 Notice of Annual Meeting and Proxy Statement and 2010 Annual Report
to Stockholders are available at www.mdu.com/proxymaterials.**

March 11, 2011

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of MDU Resources Group, Inc. will be held at 909 Airport Road, Bismarck, North Dakota, on Tuesday, April 26, 2011, at 11:00 a.m., Central Daylight Saving Time, for the following purposes:

- (1) Election of ten directors nominated by the board of directors for one-year terms;
- (2) Approval of the material terms of the performance goals under the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan for purposes of Internal Revenue Code Section 162(m);
- (3) Ratification of the appointment of Deloitte & Touche LLP as the company's independent auditors for 2011;
- (4) Advisory vote to approve the compensation paid to the company's named executive officers;
- (5) Advisory vote on frequency of vote to approve the compensation paid to the company's named executive officers; and
- (6) Transaction of any other business that may properly come before the meeting or any adjournment or adjournments thereof.

The board of directors has set the close of business on February 25, 2011 as the record date for the determination of common stockholders who will be entitled to notice of, and to vote at, the meeting.

All stockholders who find it convenient to do so are cordially invited and urged to attend the meeting in person. Registered stockholders will receive a request for admission ticket(s) with their proxy card that can be completed and returned to us postage-free. Stockholders whose shares are held in the name of a bank or broker will not receive a request for admission ticket(s). They should, instead, (1) call (701) 530-1000 to request an admission ticket(s), (2) bring a statement from their bank or broker showing proof of stock ownership as of February 25, 2011 to the annual meeting, and (3) present their admission ticket(s) and photo identification, such as a driver's license. Directions to the meeting will be included with your admission ticket. We look forward to seeing you.

By order of the Board of Directors,

Paul K. Sandness
Secretary

MDU Resources Group, Inc. Proxy Statement

Proxy Statement

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MDU Resources Group, Inc. Proxy Statement

Proxy Statement

PROXY STATEMENT

The board of directors of MDU Resources Group, Inc. is furnishing this proxy statement beginning March 11, 2011 to solicit your proxy for use at our annual meeting of stockholders on April 26, 2011.

We will pay the cost of soliciting your proxy and reimburse brokers and others for forwarding proxy material to you. Georgeson Inc. additionally will solicit proxies for approximately \$8,000 plus out-of-pocket expenses.

The Securities and Exchange Commission's e-proxy rules allow companies to post their proxy materials on the Internet and provide only a Notice of Internet Availability of Proxy Materials to stockholders as an alternative to mailing full sets of proxy materials except upon request. For 2011, we have elected to use the Securities and Exchange Commission's full set delivery option, which means that while we are posting our proxy materials online, we are also mailing a full set of our proxy materials to our stockholders. We believe that mailing a full set of proxy materials will help ensure that a majority of outstanding shares of our common stock are present in person or represented by proxy at our meeting. We also hope to help maximize stockholder participation. Therefore, even if you previously consented to receiving your proxy materials electronically, you will receive a full set of proxy materials in the mail for this year's annual meeting. However, we will continue to evaluate the option of providing only a Notice of Internet Availability of Proxy Materials to some or all of our stockholders in the future.

VOTING INFORMATION

Who may vote? You may vote if you owned shares of our common stock at the close of business on February 25, 2011. You may vote each share that you owned on that date on each matter presented at the meeting. As of February 25, 2011, we had 188,793,564 shares of common stock outstanding entitled to one vote per share.

What am I voting on? You are voting on:

election of ten directors nominated by the board of directors for one-year terms

approval of the material terms of the performance goals under the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan for purposes of Internal Revenue Code Section 162(m)

ratification of the appointment of Deloitte & Touche LLP as the company's independent auditors for 2011

advisory vote to approve the compensation paid to the company's named executive officers

advisory vote on frequency of vote to approve the compensation paid to the company's named executive officers and

any other business that is properly brought before the meeting.

What vote is required to pass an item of business? A majority of our outstanding shares of common stock entitled to vote must be present in person or represented by proxy to hold the meeting.

If you hold shares through an account with a bank or broker, the bank or broker may vote your shares on some matters even if you do not provide voting instructions. Brokerage firms have the authority under the New York Stock Exchange rules to vote shares on certain matters when their customers do not provide voting instructions. However, on other matters, when the brokerage firm has not received voting instructions from its customers, the brokerage firm cannot vote the shares on that matter and a broker non-vote occurs. **This means that brokers may not vote your shares on items 1, 2, 4, and 5 if you have not given your broker specific instructions as to how to vote. Please be sure to give specific voting instructions to your broker so that your vote can be counted.**

Proxy Statement

Item 1 Election of Directors

A majority of votes cast is required to elect a director in an uncontested election. A majority of votes cast means the number of votes cast for a director's election must exceed the number of votes cast against the director's election. Abstentions and broker non-votes do not count as votes cast for or against the director's election. In a contested election, which is an election in which the number of nominees for director exceeds the number of directors to be elected, directors will be elected by a plurality of the votes cast. If a nominee becomes unavailable for any reason or if a vacancy should occur before the election, which we do not anticipate, the proxies will vote your shares in their discretion for another person nominated by the board.

Our policy on majority voting for directors and our corporate governance guidelines require any nominee for re-election as a director to tender to the board, prior to nomination, his or her irrevocable resignation from the board that will be effective, in an uncontested election of directors only, upon

receipt of a greater number of votes against than votes for election at our annual meeting of stockholders and

acceptance of such resignation by the board of directors.

Following certification of the stockholder vote, the nominating and governance committee will promptly recommend to the board whether or not to accept the tendered resignation. The board will act on the nominating and governance committee's recommendation no later than 90 days following the date of the annual meeting.

Item 2 Approval of the Material Terms of the Performance Goals under the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan for Purposes of Internal Revenue Code Section 162(m)

For purposes of Internal Revenue Code Section 162(m), approval requires a majority of votes cast to be in favor of approval. Abstentions will not count as votes cast for purposes of Internal Revenue Code approval. Approval for purposes of Delaware law requires the affirmative vote of a majority of the outstanding shares of our common stock present in person or represented by proxy at the meeting and entitled to vote on the item. Under the Delaware voting standard, abstentions will count as votes against the item. Broker non-votes are not counted as voting power present and, therefore, are not counted in the vote for purposes of Internal Revenue Code approval or under the Delaware voting standard.

Item 3 Ratification of the Appointment of Deloitte & Touche LLP as the Company's Independent Auditors for 2011

Approval of Item 3 requires the affirmative vote of a majority of our common stock present in person or represented by proxy at the meeting and entitled to vote on the proposal. Abstentions will count as votes against the proposal.

Item 4 Advisory Vote to Approve the Compensation Paid to the Company's Named Executive Officers

Approval of Item 4 requires the affirmative vote of a majority of our common stock present in person or represented by proxy at the meeting and entitled to vote on the item. Abstentions will count as votes against the item. Broker non-votes are not counted as voting power present and, therefore, are not counted in the vote.

Item 5 Advisory Vote on Frequency of Vote to Approve the Compensation Paid to the Company's Named Executive Officers

Under Delaware law, the frequency of every year, every two years, or every three years that receives the affirmative vote of a majority of our common stock present in person or represented by proxy at the meeting and entitled to vote on the proposal will be the frequency for the advisory vote on executive compensation that has been recommended by our stockholders. Abstentions will count as votes against any frequency. Broker non-votes are not counted as voting power present and, therefore, are not counted in the vote.

Unless you specify otherwise when you submit your proxy, the proxies will vote your shares of common stock for all directors nominated by the board of directors, for items 2, 3, and 4 and for 1 year in item 5.

How do I vote? There are three ways to vote by proxy:

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by calling the toll free telephone number on the enclosed proxy card

by using the Internet as described on the enclosed proxy card or

by returning the enclosed proxy card in the envelope provided.

You may be able to vote by telephone or the Internet if your shares are held in the name of a bank or broker. Follow their instructions.

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Can I revoke my proxy? Yes. You can revoke your proxy by:

filing written revocation with the corporate secretary before the meeting

filing a proxy bearing a later date with the corporate secretary before the meeting or

revoking your proxy at the meeting and voting in person.

ITEM 1. ELECTION OF DIRECTORS

All nominees for director are nominated to serve one-year terms, until the annual meeting of stockholders in 2012 and until their respective successors are elected and qualified, or until their earlier resignation, removal from office, or death.

We have provided information below about our nominees, all of whom are incumbent directors, including their ages, years of service as directors, business experience, and service on other boards of directors, including any other directorships held during the past five years. We have also included information about each nominee's specific experience, qualifications, attributes, or skills that led the board to conclude that he or she should serve as a director of MDU Resources Group, Inc. at the time we file our proxy statement, in light of our business and structure. Unless we specifically note below, no corporation or organization referred to below is a subsidiary or other affiliate of ours.

Director Nominees

Thomas Everist
Age 61

Director Since 1995
Compensation Committee

Mr. Everist has served as president and chairman of The Everist Company, Sioux Falls, South Dakota, an aggregate, concrete, and asphalt production company, since April 15, 2002. He has been a managing member of South Maryland Creek Ranch, LLC, a land development company, since June 2006, and president of SMCR, Inc., an investment company, since June 2006. He was previously president and chairman of L.G. Everist, Inc., Sioux Falls, South Dakota, an aggregate production company, from 1987 to April 15, 2002. He held a number of positions in the aggregate and construction industries prior to assuming his current position with The Everist Company. He is a director of Showplace Wood Products, Sioux Falls, South Dakota, a custom cabinets manufacturer, and has been a director of Raven Industries, Inc., Sioux Falls, South Dakota, a general manufacturer of electronics, flow controls, and engineered films since 1996, and its chairman of the board since April 1, 2009. Mr. Everist has been a director of Genetics Squared, Inc. (Everist Geonomics, Inc.), Ann Arbor, Michigan, which provides solutions for personalized medicines, since May 2002, and has been a director of Angiologix Inc., Mountain View, California, a medical diagnostic device company, since July 2010.

Mr. Everist attended Stanford University where he received a bachelor's degree in mechanical engineering and a master's degree in construction management. He is active in the Sioux Falls community and currently serves as a director on the Sanford Health Foundation, a non-profit charitable health services organization. From July 2001 to June 2006, he served on the South Dakota Investment Council, the state agency responsible for prudently investing state funds.

The board concluded that Mr. Everist should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement for the following reasons. A significant portion of MDU Resources Group, Inc.'s earnings is derived from its construction services and aggregate mining businesses. Mr. Everist has considerable business experience in this area, with more than 37 years in the aggregate and construction materials industry. He has also demonstrated success in his business and leadership skills, serving as president and chairman of his companies for over 23 years. We value other public company board service. Mr. Everist has experience serving as a director and now chairman of another public company, which enhances his contributions to our board. His leadership skills

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and experience with his own companies and on other boards enable him to be an effective board member and compensation committee chairman. Mr. Everist is our longest serving board member, providing 16 years of board experience as well as extensive knowledge of our business.

Proxy Statement

Karen B. Fagg
Age 57

Director Since 2005
Nominating and Governance Committee
Compensation Committee

Ms. Fagg has served as vice president of DOWL LLC, d/b/a DOWL HKM, an engineering and design firm, since April 2008. Ms. Fagg was president from April 1, 1995 through March 2008, and chairman and majority owner from June 2000 through March 2008 of HKM Engineering, Inc., Billings, Montana, an engineering and physical science services firm. HKM Engineering, Inc. merged with DOWL LLC on April 1, 2008. Ms. Fagg was employed with MSE, Inc., Butte, Montana, an energy research and development company, from 1976 through 1988 and from 1993 to April 1995. She served as vice president of operations and corporate development director. From 1989 through 1992, Ms. Fagg served a four-year term as director of the Montana Department of Natural Resources and Conservation, Helena, Montana, the state agency charged with promoting stewardship of Montana's water, soil, energy, and rangeland resources; regulating oil and gas exploration and production; and administering several grant and loan programs.

Ms. Fagg has a bachelor's degree in mathematics from Carroll College in Helena, Montana. She served on the board for St. Vincent's Healthcare from October 2003 until October 2009, including a term as board chair and on the board of Deaconess Billings Clinic Health System from 1994 to 2002. She is a member of the Board of Trustees of Carroll College, chairman of the board of advisors of the Charles M. Bair Family Trust, and a member of the board of directors of the Billings Chamber of Commerce. She is also a member of the Montana State University Engineering Advisory Council, whose responsibilities include evaluating the mission and goals of the College of Engineering and assisting in the development and implementation of the college's strategic plan. From 2002 through 2006, she served on the Montana Board of Investments, the state agency responsible for prudently investing state funds. From 2001 to 2005, she served on the board of Montana State University's Advanced Technology Park. From 1998 to 2007, she served on the ZooMontana Board and as vice chair from 2005 to 2006.

The board concluded that Ms. Fagg should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement for the following reasons. Construction and engineering, energy, and the responsible development of natural resources are all important aspects of our business. Ms. Fagg has business experience in all these areas, including 16 years of construction and engineering experience at DOWL HKM and its predecessor, HKM Engineering, Inc., where she has served as vice president, president, and chairman. Ms. Fagg has also had 14 years of experience in energy research and development at MSE, Inc., where she served as vice president of operations and corporate development director, and four years focusing on stewardship of natural resources as director of the Montana Department of Natural Resources and Conservation. In addition to her industry experience, Ms. Fagg brings to our board 13 years of business leadership and management experience as president and chairman of her own company, as well as knowledge and experience acquired through her service on a number of Montana state and community boards.

Terry D. Hildestad
Age 61

Director Since 2006
President and Chief Executive Officer

Mr. Hildestad was elected president and chief executive officer and a director of the company effective August 17, 2006. He had served as president and chief operating officer from May 1, 2005 until August 17, 2006. Prior to that, he served as president and chief executive officer of our subsidiary, Knife River Corporation, from 1993 until May 1, 2005. He began his career with the company in 1974 at Knife River Corporation, where he served in several operating positions before becoming its president. He additionally serves as an executive officer and as chairman of the company's principal subsidiaries and of the managing committees of Montana-Dakota Utilities Co. and Great Plains Natural Gas Co.

Mr. Hildestad has a bachelor's degree from Dickinson State University and has completed the Advanced Management Program at Harvard School of Business. Mr. Hildestad is a member of the U.S. Bancorp

Western North Dakota Advisory Board of Directors.

The board concluded that Mr. Hildestad should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement for the following reasons. As chief executive officer of MDU Resources Group, Inc., Mr. Hildestad is the only officer of the company to sit on our board, consistent with our past practice. With over 36 years of significant, hands-on experience at our company, Mr. Hildestad has a deep knowledge and understanding of MDU Resources Group, Inc., its operating companies and its lines of business. Mr. Hildestad has demonstrated his leadership abilities and his commitment to our company since he was elected president and chief executive officer and a director in 2006 and prior to that time through his long service as chief operating officer of the company and as president and chief executive officer at Knife River Corporation, our construction materials and contracting subsidiary. The board also believes that Mr. Hildestad's leadership abilities, integrity, values, and good judgment make him well-suited to serve on our board, particularly in this challenging economic environment.

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A. Bart Holaday
Age 68

Director Since 2008
Audit Committee
Nominating and Governance Committee

Mr. Holaday headed the Private Markets Group of UBS Asset Management and its predecessor entities for 15 years prior to his retirement in 2001, during which time he managed more than \$19 billion in investments. Prior to that he was vice president and principal of the InnoVen Venture Capital Group, a venture capital investment firm. He was founder and president of Tenax Oil and Gas Corporation, an onshore Gulf Coast exploration and production company, from 1980 through 1982. He has four years of senior management experience with Gulf Oil Corporation, a global energy and petrochemical company, and eight years of senior management experience with the federal government, including the Department of Defense, Department of the Interior, and the Federal Energy Administration. He is currently the president and owner of Dakota Renewable Energy Fund, LLC, which invests in small companies in North Dakota. He is a member of the investment advisory board of Commons Capital LLC, a venture capital firm; a member of the board of directors of Adams Street Partners, LLC, a private equity investment firm; Alerus Financial, a financial services company; Jamestown College; the United States Air Force Academy Endowment (chairman); the Falcon Foundation (director and former vice president), which provides scholarships to Air Force Academy applicants; the Center for Innovation Foundation at the University of North Dakota (chairman and trustee) and the University of North Dakota Foundation; and is chairman and CEO of the Dakota Foundation. He is a past member of the board of directors of the National Venture Capital Association, Walden University, and the U.S. Securities and Exchange Commission advisory committee on the regulation of capital markets.

Mr. Holaday has a bachelor's degree in engineering sciences from the U.S. Air Force Academy. He was a Rhodes Scholar, earning a bachelor's degree and a master's degree in politics, philosophy, and economics from Oxford University. He also earned a law degree from George Washington Law School and is a Chartered Financial Analyst. In 2005, he was awarded an honorary Doctor of Letters from the University of North Dakota.

The board concluded that Mr. Holaday should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement for the following reasons. MDU Resources Group, Inc. has significant operations in the natural gas and oil industry where Mr. Holaday has knowledge and experience. He founded and served as president of Tenax Oil and Gas Corporation. He has four years experience in senior management with Gulf Oil Corporation and 15 years of experience managing private equity investments, including investments in oil and gas, as the head of the Private Markets Group of UBS Asset Management and its predecessor organizations. This business experience demonstrates his leadership skills and success in the oil and gas industry. Mr. Holaday brings to the board his extensive finance and investment experience as well as his business development skills acquired through his work at UBS Asset Management, Tenax Oil and Gas Corporation, Gulf Oil Corporation, and several private equity investment firms. This will enhance the knowledge of the board and provide useful insights to management in connection not only with our natural gas and oil business, but with all of our businesses.

Dennis W. Johnson
Age 61

Director Since 2001
Audit Committee

Mr. Johnson is chairman, chief executive officer and president of TMI Corporation, and chairman and chief executive officer of TMI Systems Design Corporation, TMI Transport Corporation, and TMI Storage Systems Corporation, all of Dickinson, North Dakota, manufacturers of casework and architectural woodwork. He has been employed at TMI since 1974 serving as president or chief executive officer since 1982 and has been the majority stockholder since 1985. Mr. Johnson is serving his tenth year as president of the Dickinson City Commission. He previously was a director of the Federal Reserve Bank of Minneapolis. He is a past member and chairman of the Theodore Roosevelt Medora Foundation.

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Mr. Johnson has a bachelor of science degree in electrical and electronics engineering, as well as a master of science degree in industrial engineering from North Dakota State University. He has served on numerous industry, state, and community boards, including the North Dakota Workforce Development Council (chairperson), the Decorative Laminate Products Association, the North Dakota Technology Corporation, St. Joseph Hospital Life Care Foundation, St. John Evangelical Lutheran Church, Dickinson State University Foundation, the executive operations committee of the University of Mary Harold Schafer Leadership Center, the Dickinson United Way, and the business advisory council of the Steffes Corporation, a metal manufacturing and engineering firm. He also served on North Dakota Governor Sinner's Education Action Commission, the North Dakota Job Service Advisory Council, the North Dakota State University President's Advisory Council, North Dakota Governor Schafer's Transition Team, and chaired North Dakota Governor Hoeven's Transition Team.

Proxy Statement

He has received numerous awards including the 1991 Regional Small Business Person of the Year Award and the Greater North Dakotan Award.

The board concluded that Mr. Johnson should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement for the following reasons. Mr. Johnson has over 28 years of experience in business management, manufacturing, and finance, and has demonstrated his success in these areas, through his positions as chairman, president, and chief executive officer of TMI, as well as through his prior service as a director of the Federal Reserve Bank of Minneapolis. His finance experience and leadership skills enable him to make valuable contributions to our audit committee, which he has chaired for seven years. As a result of his service on a number of state and local organizations in North Dakota, Mr. Johnson has significant knowledge of local, state, and regional issues involving North Dakota, a state where we have significant operations and assets.

Thomas C. Knudson
Age 64

Director Since 2008
Compensation Committee

Mr. Knudson has been president of Tom Knudson Interests, LLC, since its formation on January 14, 2004. Tom Knudson Interests, LLC, provides consulting services in energy, sustainable development, and leadership. Mr. Knudson began employment with Conoco Oil Company (Conoco) in May 1975 and retired in 2004 from Conoco's successor, ConocoPhillips, as senior vice president of human resources and government affairs and communications. Mr. Knudson served as a member of ConocoPhillips management committee. His diverse career at Conoco and ConocoPhillips included engineering, operations, business development, and commercial assignments. He was the founding chairman of the Business Council for Sustainable Development in both the United States and the United Kingdom. He has been a director of Bristow Group Inc. since June 2004 and its chairman of the board of directors since August 2006, and was a director of Natco Group Inc. from April 2005 to November 2009 and Williams Partners LP from November 2005 to September 2007. Bristow Group Inc. is a leading provider of helicopter services to the offshore oil industry. Natco Group Inc. is a leading manufacturer of oil and gas processing equipment. Williams Partners LP owns natural gas gathering, transportation, processing, and treating assets, and also has natural gas liquids fractionating and storage assets.

Mr. Knudson has a bachelor's degree in aerospace engineering from the U.S. Naval Academy and a master's degree in aerospace engineering from the U.S. Naval Postgraduate School. He served as a naval aviator, flying combat missions in Vietnam, and was a lieutenant commander in 1974 when he was honorably discharged. Mr. Knudson has served on the boards of a number of petroleum industry associations, Covenant House Texas, The Houston Museum of Natural Science, and Alpha USA/Houston. He has served as an adjunct professor at the Jones Graduate School of Management at Rice University.

The board concluded that Mr. Knudson should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement for the following reasons. A significant portion of our earnings is derived from natural gas and oil production and the transportation, storage, and gathering of natural gas. Mr. Knudson has extensive knowledge and experience in this industry as a result of his prior employment with Conoco and ConocoPhillips, as well as through his service on the boards of Natco Group Inc. and Williams Partners LP. Mr. Knudson has a broad background in engineering, operations, and business development, as well as service on the management committee at Conoco and ConocoPhillips, which bring additional experience and perspective to our board. His service as senior vice president of human resources at ConocoPhillips makes him an excellent fit for our compensation committee. Sustainable business development is also an important aspect of our business, and Mr. Knudson, as the founding chairman of the Business Council for Sustainable Development, brings to our board significant experience and knowledge in this area. Mr. Knudson also has significant knowledge of local, state, and regional issues involving Texas, a state where we have important operations and assets.

Richard H. Lewis
Age 61

Director Since 2005
Audit Committee
Nominating and Governance Committee

Mr. Lewis has been the managing general partner of Brakemaka LLLP, a private investment partnership for managing family investments, and president of the Lewis Family Foundation since August 2004. Mr. Lewis serves as chairman of the board of Entre Pure Industries, Inc., a privately held company involved in the purified water and ice business. He serves as a director of Colorado State Bank and Trust and on the senior advisory board of TPH Partners, L.P., a private equity fund with an energy-only focus. Mr. Lewis founded Prima Energy Corporation, a natural gas and oil exploration and production company in 1980, and served as chairman and chief executive officer of the company until its sale in July 2004. During his

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tenure, Prima Energy was named to Forbes Magazine's 200 Best Small Companies in America list seven times and was ranked the No. 1 Colorado public company for the decade of the 1990s in terms of market return. Mr. Lewis represented natural gas producers on a panel that studied electric restructuring in Colorado and has testified before Congressional committees on industry matters. He worked in private practice as a certified public accountant for eight years prior to founding Prima Energy.

Mr. Lewis has a bachelor's degree in finance and accounting from the University of Colorado. He served as a board member on the Colorado Oil and Gas Association from November 1999 to November 2009, including a term as its president. In 2000, Mr. Lewis was inducted into the Ernst & Young Entrepreneur of the Year Hall of Fame and in 2004 was inducted into the Rocky Mountain Oil and Gas Hall of Fame. Mr. Lewis serves as the chairman of the Development Board of Colorado Uplift, a non-profit organization whose mission is to build long-term, life-changing relationships with urban youth. He also serves on the Board of Trustees of Alliance for Choice in Education, which provides scholarships to inner city youth. He has also served on the Board of Trustees of the Metro Denver YMCA, the Advisory Council to the Leeds School of Business at the University of Colorado, and as a director for the Partnership for the West.

The board concluded that Mr. Lewis should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement for the following reasons. MDU Resources Group, Inc. derives a significant portion of its earnings from natural gas and oil production, one of our business segments. Mr. Lewis has extensive business experience, recognized excellence, and demonstrated success in this industry through almost 25 years at his company, Prima Energy Corporation, and ten years on the board of the Colorado Oil and Gas Association. In addition to his industry experience, he brings investment experience to our board through his service on the senior advisory board of TPH Partners, L.P., an energy-only private equity fund. As a certified public accountant and a director of Colorado State Bank and Trust, Mr. Lewis also contributes significant finance and accounting knowledge to our board and audit committee. Mr. Lewis also brings to the board his knowledge of local, state, and regional issues involving Colorado and the Rocky Mountain region, where we have important operations.

Patricia L. Moss
Age 57

Director Since 2003
Compensation Committee

Ms. Moss has served as the president and chief executive officer of Cascade Bancorp, a financial holding company in Bend, Oregon, since 1998, and as a director since 1993. She has served as the chief executive officer of Cascade Bancorp's principal subsidiary, Bank of the Cascades, since 1993, serving also as president from 1993 to 2003. From 1987 to 1998, Ms. Moss served as chief operating officer, chief financial officer, and corporate secretary of Cascade Bancorp. She also serves as a director of the Oregon Investment Fund Advisory Council, a state-sponsored program to encourage the growth of small businesses within Oregon.

Ms. Moss graduated magna cum laude with a bachelor of science degree in business administration from Linfield College in Oregon and did master's studies at Portland State University. She received commercial banking school certification at the ABA Commercial Banking School at the University of Oklahoma. She served as a director of the Oregon Business Council, whose mission is to mobilize business leaders to contribute to Oregon's quality of life and economic prosperity; the Cascades Campus Advisory Board of the Oregon State University; the North Pacific Group, Inc., a wholesale distributor of building materials, industrial and hardwood products, and other specialty products; the Aquila Tax Free Trust of Oregon, a mutual fund created especially for the benefit of Oregon residents; Clear Choice Health Plans Inc., a multi-state insurance company; and as a director and chair of the St. Charles Medical Center.

In August 2009, the Federal Deposit Insurance Corporation and the Oregon Division of Finance and Corporate Securities entered into a consent agreement with Bank of the Cascades that requires the bank to develop and adopt a plan to maintain the capital necessary for it to be well-capitalized, to improve its lending policies and its allowance for loan losses, to increase its liquidity, to retain qualified management,

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and to increase the participation of its board of directors in the affairs of the bank. In October 2009, the bank's parent, Cascade Bancorp, entered into a written agreement with the Federal Reserve Bank of San Francisco and the Oregon Division relating largely to improving the financial condition of Cascade Bancorp and the Bank of the Cascades. Cascade Bancorp completed a sale of common stock in January 2011 to private investors that raised sufficient capital to meet the agreement requirements.

The board concluded that Ms. Moss should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement for the following reasons. A significant portion of MDU Resources Group, Inc.'s utility, construction services, and contracting operations are located in the Pacific Northwest. Ms. Moss has first-hand business experience and knowledge of the Pacific Northwest economy and local, state, and regional issues through her position as president, chief executive officer, and a director at Cascade Bancorp and her positions at Bank of the Cascades, where she has over 29 years of experience. Ms. Moss provides to our board her experience in finance and banking, as well as her experience in business development through her work at Cascade

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Bancorp and on the Oregon Investment Advisory Council and the Oregon Business Council. This business experience demonstrates her leadership abilities and success in the finance and banking industry. Ms. Moss is also certified as a Senior Professional in Human Resources, which makes her well-suited for our compensation committee. In deciding that Ms. Moss should be renominated as a director, the board was mindful of the consent agreement with Bank of the Cascades, but concluded that Ms. Moss brought the many skills and experiences discussed above to our board and had proved herself to be a dedicated and hard-working director.

Harry J. Pearce
Age 68

Director Since 1997
Chairman of the Board

Mr. Pearce was elected chairman of the board of the company on August 17, 2006. Prior to that, he served as lead director effective February 15, 2001 and was vice chairman of the board from November 16, 2000 until February 15, 2001. Mr. Pearce has been a director of Marriott International, Inc., a major hotel chain, since 1995. He was a director of Nortel Networks Corporation, a global telecommunications company, from January 11, 2005 to August 10, 2009, serving as chairman of the board from June 29, 2005. He retired on December 19, 2003, as chairman of Hughes Electronics Corporation, a General Motors Corporation subsidiary and provider of digital television entertainment, broadband satellite network, and global video and data broadcasting. He had served as chairman since June 1, 2001. Mr. Pearce was vice chairman and a director of General Motors Corporation, one of the world's largest automakers, from January 1, 1996 to May 31, 2001, and was general counsel from 1987 to 1994. He served on the President's Council on Sustainable Development and co-chaired the President's Commission on the United States Postal Service. Prior to joining General Motors, he was a senior partner in the Pearce & Durick law firm in Bismarck, North Dakota. Mr. Pearce is a director of the United States Air Force Academy Endowment, and a member of the Advisory Board of the University of Michigan Cancer Center. He is a Fellow of the American College of Trial Lawyers and a member of the International Society of Barristers. He also serves on the Board of Trustees of Northwestern University. He has served as a chairman or director on the boards of numerous nonprofit organizations, including as chairman of the board of Visitors of the U.S. Air Force Academy, chairman of the National Defense University Foundation, and chairman of the Marrow Foundation. He currently serves as a director of the National Bone Marrow Transplant Link and New York Marrow Foundation. Mr. Pearce received a bachelor's degree in engineering sciences from the U.S. Air Force Academy and his law degree from Northwestern University's School of Law.

The board concluded that Mr. Pearce should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement for the following reasons. MDU Resources Group, Inc. values public company leadership and the experience directors gain through such leadership. Mr. Pearce is recognized nationally, as well as in the State of North Dakota, as a business leader and for his business acumen. He has multinational business management experience and proven leadership skills through his position as vice chairman at General Motors Corporation, as well as through his extensive service on the boards of large public companies, including Marriott International Inc.; Hughes Electronics Corporation, where he was chairman; and Nortel Networks Corporation, where he also was chairman. He also brings to our board his long experience as a practicing attorney. In addition, Mr. Pearce is focused on corporate governance issues and is the founding chair of the Chairmen's Forum, an organization comprised of non-executive chairmen of publicly-traded companies. Participants in the Chairmen's Forum discuss ways to enhance the accountability of corporations to owners and promote a deeper understanding of independent board leadership and effective practices of board chairmanship. The board also believes that Mr. Pearce's values and commitment to excellence make him well-suited to serve as chairman of our board.

John K. Wilson
Age 56

Director Since 2003
Audit Committee

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Mr. Wilson was president of Durham Resources, LLC, a privately held financial management company, in Omaha, Nebraska, from 1994 to December 31, 2008. He previously was president of Great Plains Energy Corp., a public utility holding company and an affiliate of Durham Resources, LLC, from 1994 to July 1, 2000. He was vice president of Great Plains Natural Gas Co., an affiliate company of Durham Resources, LLC, until July 1, 2000. The company bought Great Plains Energy Corp. and Great Plains Natural Gas Co. on July 1, 2000. Mr. Wilson also served as president of the Durham Foundation and was a director of Bridges Investment Fund, a mutual fund, and the Greater Omaha Chamber of Commerce. He is presently a director of HDR, Inc., an international architecture and engineering firm, Tetrad Corporation, a privately held investment company, both based in Omaha, and serves on the advisory board of Duncan Aviation, an aircraft service provider, headquartered in Lincoln, Nebraska. He currently serves as deputy executive director of the Robert B. Daugherty Charitable Foundation, Omaha, Nebraska, and formerly served on the advisory board of US Bank NA Omaha.

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Mr. Wilson is a certified public accountant. He received his bachelor's degree in business administration, cum laude, from the University of Nebraska - Omaha. During his career, he was an audit manager at Peat, Marwick, Mitchell (now known as KPMG), controller for Great Plains Natural Gas Co., and chief financial officer and treasurer for all Durham Resources entities.

The board concluded that Mr. Wilson should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement for the following reasons. Mr. Wilson has an extensive background in finance and accounting, as well as extensive experience with mergers and acquisitions, through his education and work experience at a major accounting firm and his later positions as controller and vice president of Great Plains Natural Gas Co.; president of Great Plains Energy Corp.; and president, chief financial officer, and treasurer for Durham Resources, LLC and all Durham Resources entities. The electric and natural gas utility business was our core business when our company was founded in 1924. That business now operates through four utilities: Montana-Dakota Utilities Co., Great Plains Natural Gas Co., Cascade Natural Gas Corporation, and Intermountain Gas Company. Mr. Wilson is our only non-employee director with direct experience in this area through his prior positions at Great Plains Natural Gas Co. and Great Plains Energy Corp. In addition, Mr. Wilson's extensive finance and accounting experience make him well-suited for our audit committee.

The board of directors recommends a vote for each nominee.

A majority of votes cast is required to elect a director in an uncontested election. A majority of votes cast means the number of votes cast for a director's election must exceed the number of votes cast against the director's election. Abstentions and broker non-votes do not count as votes cast for or against the director's election. In a contested election, which is an election in which the number of nominees for director exceeds the number of directors to be elected and which we do not anticipate, directors will be elected by a plurality of the votes cast.

Unless you specify otherwise when you submit your proxy, the proxies will vote your shares of common stock for all directors nominated by the board of directors. If a nominee becomes unavailable for any reason or if a vacancy should occur before the election, which we do not anticipate, the proxies will vote your shares in their discretion for another person nominated by the board.

Our policy on majority voting for directors and our corporate governance guidelines require any nominee for re-election as a director to tender to the board, prior to nomination, his or her irrevocable resignation from the board that will be effective, in an uncontested election of directors only, upon:

receipt of a greater number of votes against than votes for election at our annual meeting of stockholders and

acceptance of such resignation by the board of directors.

Following certification of the stockholder vote, the nominating and governance committee will promptly recommend to the board whether or not to accept the tendered resignation. The board will act on the nominating and governance committee's recommendation no later than 90 days following the date of the annual meeting.

Brokers may not vote your shares on the election of directors if you have not given your broker specific instructions as to how to vote. Please be sure to give specific voting instructions to your broker so that your vote can be counted.

ITEM 2. APPROVAL OF THE MATERIAL TERMS OF THE PERFORMANCE GOALS UNDER THE MDU RESOURCES GROUP, INC. LONG-TERM PERFORMANCE-BASED INCENTIVE PLAN FOR PURPOSES OF INTERNAL REVENUE CODE SECTION 162(m)

The board of directors recommends that stockholders approve the material terms of the performance goals under the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan to preserve our ability to deduct compensation associated with future performance-based incentive awards to be made under the plan.

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Section 162(m) of the Internal Revenue Code of 1986, as amended, places a limit of \$1,000,000 on the amount we may deduct in any one year for compensation paid to our covered employees. A covered employee means a person specified in Section 162(m), which generally includes our chief executive officer and each of our other three most highly-compensated executive officers other than our chief financial officer.

There is, however, an exception to this limit for certain performance-based compensation, and awards made pursuant to the plan may constitute performance-based compensation not subject to the deductibility limitation of Internal Revenue Code Section 162(m). In order to continue to qualify for this exception, the stockholders must re-approve, every five years, the material terms of the performance goals of

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the plan under which compensation will be paid. Stockholders last approved these goals in 2006, and, therefore, the board is submitting the plan's performance goals for re-approval at the 2011 annual meeting of stockholders. The board of directors has also amended the plan on November 11, 2010 and February 17, 2011, subject to approval of this item by stockholders at the annual meeting, to include the following new performance goals: safety, sustainability, capital efficiency, enterprise value, company value, asset value growth, net asset value, shareholders' equity, dividends, oil and/or gas production (growth, value and costs) and oil and/or gas reserves (including proved, probable and possible reserves and growth, value and costs) and finding or development costs. Your vote for this item will constitute approval of the new performance goals and approval of the material terms of the performance goals for purposes of Internal Revenue Code Section 162(m).

The material terms of the performance goals are (i) eligibility and participation, (ii) the business criteria on which the performance goals are based, and (iii) maximum awards under the plan, which we describe further below.

Eligibility and Participation

All officers and key employees of the company and our subsidiaries, including employees who are members of the board, as determined by the compensation committee, are eligible to participate in the plan. The approximate number of employees who are currently eligible to participate in the plan is 49.

Performance Goals

The compensation committee establishes the performance goals, which will be based on one or more of the following measures: sales or revenues, earnings per share, shareholder return and/or value, funds from operations, operating income, gross income, net income, cash flow, return on equity, return on capital, capital efficiency, earnings before interest, operating ratios, stock price, enterprise value, company value, asset value growth, net asset value, shareholders' equity, dividends, customer satisfaction, accomplishment of mergers, acquisitions, dispositions or similar extraordinary business transactions, safety, sustainability, profit returns and margins, financial return ratios, market performance, oil and/or gas production (growth, value and costs) and oil and/or gas reserves (including proved, probable and possible reserves and growth, value and costs) and finding or development costs. Performance goals may be measured solely on a corporate, subsidiary, or business unit basis, or a combination of the foregoing. Performance goals may reflect absolute entity performance or a relative comparison of entity performance to the performance of a peer group of entities or other external measure.

Maximum Awards under the Plan

Awards under the plan may be made in the form of stock, stock options, stock appreciation rights, performance units, performance shares, dividend equivalents, restricted stock, and other awards permitted under article 10 of the plan. Except as provided in the plan's anti-dilution adjustment provisions, the per share exercise price of stock options and the grant price of stock appreciation rights granted under the plan will not be less than the fair market value of our common stock on the date of grant.

Subject to adjustment pursuant to the anti-dilution provisions in the plan, (i) the total number of shares with respect to which stock options or stock appreciation rights may be granted in any calendar year to any covered employee under Section 162(m) shall not exceed 2,250,000 shares, (ii) the total number of shares of restricted stock intended to qualify as performance-based compensation that may be granted in any calendar year to any covered employee shall not exceed 2,250,000 shares, (iii) the total number of performance shares or performance units that may be granted in any calendar year to any covered employee shall not exceed 2,250,000 performance shares or performance units, as the case may be, (iv) the total number of shares that are intended to qualify as performance-based compensation granted pursuant to article 10 of the plan in any calendar year to any covered employee shall not exceed 2,250,000 shares, (v) the total cash award that is intended to qualify as performance-based compensation that may be paid pursuant to article 10 of the plan in any calendar year to any covered employee shall not exceed \$6,000,000, and (vi) the aggregate number of dividend equivalents that are intended to qualify as performance-based compensation that a covered employee may receive in any calendar year shall not exceed \$6,000,000.

The other material features of the plan are described below, and the complete text of the plan is attached to this proxy statement as Exhibit A.

Purpose of the Plan

The purpose of the plan is to promote the success and enhance the value of the company by linking the personal interests of officers and key employees to those of our stockholders and customers. The plan is further intended to provide flexibility in our ability to motivate, attract, and retain the services of participants upon whose judgment, interest, and special effort the successful conduct of our operations largely depends.

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Effective Date and Duration

The plan was approved by the board of directors on February 7, 1997, and became effective upon approval by stockholders at the annual meeting on April 22, 1997. The plan will remain in effect, subject to the right of the board of directors to terminate the plan at any time, until all shares subject to the plan have been issued.

Amendment and Termination

The board may, at any time and from time to time, alter, amend, suspend, or terminate the plan in whole or in part, provided that no amendment will be made without stockholder approval if the amendment would (i) increase the total number of shares that may be issued under the plan, (ii) materially modify the requirements for participation in the plan, or (iii) materially increase the benefits accruing to participants under the plan. The board also is authorized to amend the plan and stock options granted under the plan to maintain qualification as incentive stock options within the meaning of Internal Revenue Code Section 422, if applicable.

Administration of the Plan

The plan is administered by the compensation committee or by any other committee appointed by the board of directors. Subject to the terms of the plan, the committee has full power under the plan to determine persons to receive awards, the type of awards, and their terms. The committee may amend outstanding awards subject to restrictions stated in the plan. The committee may not amend an outstanding stock option for the sole purpose of reducing the stock option's exercise price.

Shares Subject to the Plan

When it originally became effective in 1997, the plan authorized the issuance of up to 1,200,000 shares of MDU Resources Group, Inc. common stock. In 2001, the stockholders approved an amendment to increase the number of shares that could be issued under the plan by 4,000,000 shares. On February 17, 2005, the Board of Directors amended the plan to reduce the number of shares that could be issued by 2,000,000 shares. As of February 17, 2011, after giving effect to stock splits and awards pursuant to the plan, 5,686,140 shares remain available for issuance under the plan, excluding 764,835 outstanding target level performance share awards granted in 2009, 2010, and 2011.

Shares underlying lapsed or forfeited restricted stock awards are not treated as having been issued under the plan. Shares withheld from a restricted stock award to satisfy tax withholding obligations are counted as shares issued under the plan. Shares that are potentially deliverable under an award that expires or is canceled, forfeited, settled in cash, or otherwise settled without the delivery of shares are not treated as having been issued under the plan. Shares that are withheld to satisfy the exercise price of a stock option or tax withholding obligations related to a stock option, stock appreciation right, or other award under which the shares withheld have not yet been issued are not treated as having been issued under the plan.

Shares issued under the plan may be authorized but unissued shares of common stock, treasury stock, or shares purchased on the open market. The last reported sale price of a share of our common stock on the New York Stock Exchange on February 17, 2011 was \$21.42.

In the event of any equity restructuring such as a stock dividend, stock split, spinoff, rights offering, or recapitalization through a large, nonrecurring cash dividend, the committee will cause an equitable adjustment to be made (i) in the number and kind of shares that may be delivered under the plan, (ii) in the individual limitations set forth in the plan, and (iii) with respect to outstanding awards, in the number and kind of shares subject to outstanding awards, the stock option exercise price, base value, or other price of shares subject to outstanding awards, any performance goals relating to shares, the market price of shares, or per-share results, and other terms and conditions of outstanding awards, in the case of (i), (ii), and (iii) to prevent dilution or enlargement of rights. In the event of any other change in corporate capitalization, such as a merger, consolidation, or liquidation, the committee may, in its sole discretion, cause an equitable adjustment as described in the foregoing sentence to be made, to prevent dilution or enlargement of rights. The number of shares subject to any award will always be rounded down to a whole number when adjustments are made pursuant to these provisions of the plan. Adjustments made by the committee pursuant to these provisions are final, binding, and conclusive.

Types of Awards under the Plan

Following is a general description of the types of awards that the compensation committee may make under the plan. The compensation committee will determine the terms and conditions of awards on a grant-by-grant basis, subject to limitations

contained in the plan.

Stock Options. The committee may grant incentive stock options and nonqualified stock options. Except as provided in the plan's anti-dilution adjustment provisions, the exercise price for each such award shall be not less than the average of the high and low sale prices of our common stock on the date of grant. Stock options shall expire at such times and shall have such other terms and conditions as the committee may determine at the time of grant, provided, however, that no incentive stock option shall be exercisable later than the tenth anniversary of its date of grant. Dividend equivalents may also be granted.

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The stock option exercise price is payable in cash, in shares of our common stock having a fair market value equal to the exercise price, by share withholding, cashless exercise or any combination of the foregoing.

Stock Appreciation Rights. The committee may grant stock appreciation rights with such terms and conditions as the committee may determine. Stock appreciation rights may be in the form of freestanding stock appreciation rights or tandem stock appreciation rights. Except as provided in the plan's anti-dilution adjustment provisions, the base value of a freestanding stock appreciation right shall be equal to the average of the high and low sale prices of a share of our common stock on the date of grant. The base value of a tandem stock appreciation right shall be equal to the stock option exercise price of the related stock option.

Freestanding stock appreciation rights may be exercised upon such terms and conditions as are imposed by the committee and as set forth in the stock appreciation right award agreement. A tandem stock appreciation right may be exercised only with respect to the shares of our common stock for which its related stock option is exercisable.

Upon exercise of a stock appreciation right, a participant will receive the product of the excess of the fair market value of a share of our common stock on the date of exercise over the base value multiplied by the number of shares with respect to which the stock appreciation right is exercised, subject to satisfaction of applicable tax withholding. Payment due to the participant upon exercise may be made in cash, in shares of our common stock having a fair market value equal to such cash amount, or in a combination of cash and shares, as determined by the Committee.

Restricted Stock. Restricted stock may be granted in such amounts and subject to such terms and conditions as determined by the committee, including time-based or performance-based vesting restrictions. The committee may establish performance goals, as described above, for restricted stock.

Participants holding restricted stock may exercise full voting rights with respect to those shares during the restricted period and, subject to the committee's right to determine otherwise at the time of grant, will receive regular cash dividends. All other distributions paid with respect to the restricted stock will be credited subject to the same restrictions on transferability and forfeitability as the shares of restricted stock with respect to which they were paid.

Performance Units and Performance Shares. Performance units and performance shares may be granted in the amounts and subject to such terms and conditions as determined by the committee. The committee will set performance goals, which, depending on the extent to which they are met during the performance periods established by the committee, will determine the number and/or value of performance units/shares that will be paid out to participants. Dividend equivalents may also be granted.

Participants will receive payment of the value of performance units/shares earned after the end of the performance period. Payment of performance units/shares will be made in cash and/or shares of common stock which have an aggregate fair market value equal to the value of the earned performance units/shares at the end of the applicable performance period, in such combination as the committee determines. Shares may be granted subject to any restrictions deemed appropriate by the committee.

Other Awards. The committee may make other awards which may include, without limitation, the grant of shares of common stock based upon attainment of performance goals established by the committee as described above, the payment of shares in lieu of cash, the payment of cash based on attainment of performance goals, and the payment of shares in lieu of cash under our other incentive or bonus programs.

Minimum Vesting Requirements

Under the plan, the minimum vesting period for full value awards, which are awards other than stock options and stock appreciation rights, that have no performance-based vesting characteristics is three years. Vesting may occur ratably each month, quarter, or anniversary of the grant date. The minimum vesting period for full value awards with performance-based vesting characteristics is one year. The committee does not have discretion to accelerate vesting of full value awards except in the event of a change in control of the company or similar transaction, or the death, disability, or termination of employment of a participant. The committee may grant a *de minimis* number of full value awards that have a shorter vesting period. For this purpose, *de minimis* means 331,279 shares, which was five percent of the total number of shares reserved for issuance under the plan.

Termination of Employment

Each award agreement will set forth the participant's rights with respect to each award following termination of employment.

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Transferability

Except as otherwise determined by the committee and set forth in the award agreement and subject to the provisions of the plan, awards may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, and a participant's rights shall be exercisable only by the participant or the participant's legal representative during his or her lifetime.

Change in Control

Upon a change in control, as defined below,

any and all stock options and stock appreciation rights granted under the plan will become immediately exercisable

any restriction periods and restrictions imposed on restricted stock or awards granted pursuant to article 10 of the plan, if not performance-based, will be deemed to have expired, and such restricted stock or awards will become immediately vested in full and

the target payout opportunity attainable under all outstanding awards of performance units, performance shares, and other awards granted pursuant to article 10 of the plan, if performance-based, will be deemed to have been fully earned for the entire performance period(s) as of the effective date of the change in control and will be paid out promptly in shares or cash pursuant to the terms of the award agreement, or in the absence of such designation, as the committee shall determine.

The plan defines change in control as the earliest to occur of:

the acquisition by an individual, entity, or group of 20% or more of our outstanding common stock

a change in a majority of our board of directors since April 22, 1997 without the approval of a majority of the board members as of April 22, 1997, or whose election was approved by such board members

consummation of a merger or similar transaction or sale of all or substantially all of our assets, unless our stockholders immediately prior to the transaction beneficially own more than 60% of the outstanding common stock and voting power of the resulting corporation in substantially the same proportions as before the merger, no person owns 20% or more of the resulting corporation's outstanding common stock or voting power except for any such ownership that existed before the merger and at least a majority of the board of the resulting corporation is comprised of our directors or

stockholder approval of our liquidation or dissolution.

Accounting Restatements

The plan provides that if our audited financial statements are restated, the committee may, in accordance with our *Guidelines for Repayment of Incentives Due to Accounting Restatements*, take such actions as it deems appropriate in its sole discretion with respect to outstanding awards if the terms of such awards are directly impacted by the restatement. To the extent payment of vested, earned, or exercised awards was made within the three-year period prior to the restatement, the committee may, without limitation on its ability to take other action,

secure repayment of awards

grant additional awards

rescind vesting of outstanding awards and

cause the forfeiture of outstanding awards.

The committee may take different actions with respect to different awards and different participants, but is not obligated to take any action.

Section 409A

To the extent applicable, it is intended that the plan and any awards made under the plan comply with the requirements of Internal Revenue Code Section 409A. Any provision that would cause the plan or any award to fail to satisfy Section 409A will have no force or effect until amended to comply with Section 409A, which amendment may be retroactive to the extent permitted by Section 409A.

Award Information

It is not possible at this time to determine awards that will be made in the future pursuant to the plan.

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Stock Option Awards under MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan

The following table lists all stock options granted to the individuals and groups indicated below since the adoption of the plan in 1997, whether exercised, lapsed, or forfeited and sets forth the title and number of securities underlying stock option awards, the exercise prices, and expiration dates.

Name and Position	Title of Security	Number of Securities Underlying Options Granted	Exercise Price per Share (\$)	Expiration Date
Terry D. Hildestad President and CEO	Common	74,520	\$ 13.2178	2/15/11
Vernon A. Raile Executive Vice President, Treasurer and CFO	Common	46,800	\$ 13.2178	2/15/11
Doran N. Schwartz Vice President and CFO				
John G. Harp President and CEO, MDU Construction Services Group, Inc.	Common	36,000	\$ 13.2178	4/30/01
Steven L. Bietz President and CEO, WBI Holdings, Inc.	Common	16,875	\$ 13.2178	2/15/11
David L. Goodin President and CEO, Combined Utility Group	Common	75,937	\$ 13.2178	2/15/11
All current executive officers	Common	65,205	\$ 13.2178	2/15/11
as a group	Common	7,762	\$ 16.1956	2/15/11
All current directors, who are not executive officers, as a group				
Each nominee for election as a director				
Thomas Everist				
Karen B. Fagg				
Terry D. Hildestad*				
A. Bart Holaday				
Dennis W. Johnson				
Thomas C. Knudson				
Richard H. Lewis				
Patricia L. Moss				
Harry J. Pearce				
John K. Wilson				
Each associate of such persons				
Each other person who received 5% of such stock options				
All employees, including all current officers who are not executive officers, as a group	Common	369,604	\$ 13.2178	2/15/11
	Common	34,918	\$ 16.1956	2/15/11
	Common	15,030	\$ 12.2778	2/15/11
	Common	48,035	\$ 13.0889	2/15/11
	Common	19,506	\$ 11.5289	2/15/11

* Mr. Hildestad's stock options are shown above

Federal Income Tax Consequences

The following description is a summary of material U.S. federal income tax consequences relating to stock options granted under the plan, based on applicable U.S. federal income tax laws. The description may be affected by future legislation, Internal Revenue Service rulings and regulations, or court decisions. The portions of the following description relating to our reporting and withholding obligations and ability to take a federal income tax deduction are based on the assumption that the optionholder provided services to MDU Resources Group, Inc.

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The following description does not address all of the potential tax consequences of the optionholder's participation in the plan, such as potential state or local taxes that may apply. The optionholder is solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on the optionholder in connection with the optionholder's participation in the plan, including any taxes and penalties that may arise under Section 409A of the Internal Revenue Code, and neither we nor any of our affiliates have any obligation to indemnify or otherwise hold the optionholder or any beneficiary harmless from any or all of such taxes or penalties.

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Consequences to the Optionholder

Award. There are no federal income tax consequences to the optionholder solely by reason of the award of incentive stock options or nonqualified stock options under the plan.

Exercise. The exercise of an incentive stock option is not a taxable event for regular federal income tax purposes if certain requirements are satisfied, including the requirement that the optionholder generally must exercise the incentive stock option no later than three months following the termination of the optionholder's employment with the company, or one year following a termination due to disability, and that the optionholder holds the shares acquired upon exercise of the stock option for the requisite period described below. However, such exercise may give rise to alternative minimum tax liability as discussed below.

Upon the exercise of a nonqualified stock option, the optionholder will recognize ordinary income in an amount equal to the excess of the fair market value of the shares of our common stock at the time of exercise over the total stock option exercise price. The ordinary income recognized in connection with the exercise of a nonqualified stock option will be subject to income and employment tax withholding.

The optionholder's tax basis in the shares acquired upon exercise of a stock option will be the option exercise price plus, in the case of a nonqualified stock option, the amount of ordinary income, if any, the optionholder recognized upon exercise of the stock option.

Disposition of Shares Acquired upon Exercise of Incentive Stock Options. The shares of common stock received pursuant to the exercise of an incentive stock option are subject to holding period rules that affect the federal income tax consequences of selling these shares. To satisfy the holding period rules applicable to shares acquired upon the exercise of an incentive stock option, unless an exception applies, you must not dispose of such shares within two years after the stock option is granted or within one year after exercise of the stock option.

Qualifying Disposition. If an optionholder's disposition of shares of our common stock acquired upon exercise of an incentive stock option satisfies the holding period rules, at the time of disposition the optionholder will recognize long-term capital gain or loss equal to the difference between the amount realized upon such disposition and the optionholder's basis in the shares. The optionholder's basis in the shares will generally equal the stock option exercise price.

Disqualifying Disposition. If the optionholder's disposition of shares of our common stock acquired upon the exercise of an incentive stock option does not satisfy the holding period rules, at the time of disposition the optionholder will recognize ordinary income equal to the lesser of (i) the excess of the shares' fair market value on the date of exercise over the total stock option exercise price or (ii) the optionholder's actual gain, i.e., the excess, if any, of the amount realized on the disposition over the total stock option exercise. If the total amount realized in the disposition of the shares exceeds the fair market value of the shares on the date of exercise, the optionholder will recognize a capital gain in the amount of such excess. If the optionholder incurs a loss on the disposition, i.e., if the total amount realized is less than the total stock option exercise price, the loss will be a capital loss.

Other Disposition. If an optionholder disposes of shares acquired upon exercise of a nonqualified stock option in a taxable transaction, the optionholder will recognize capital gain or loss in an amount equal to the difference between the optionholder's basis, as discussed above, in the shares sold and the total amount realized upon disposition. Any such capital gain or loss, and any capital gain or loss recognized on a disqualifying disposition of shares acquired upon exercise of incentive stock options as discussed above, will be short-term or long-term depending on whether the optionholder held the shares of our common stock for more than one year from the date of exercise.

Alternative Minimum Tax. The spread between the fair market value of shares of our common stock at the time of exercise of an incentive stock option and the total option exercise price is included in alternative minimum taxable income and thus may trigger alternative minimum tax.

Consequences to the Company

There are no federal income tax consequences to the company upon award of incentive stock options or nonqualified stock options or the exercise of an incentive stock option, unless the exercise results in a disqualifying disposition.

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We will be entitled to a federal income tax deduction in the amount of the ordinary income recognized by the optionholder upon exercise of a nonqualified stock option. To the extent the optionholder recognizes ordinary income by reason of a disqualifying disposition of the stock acquired upon exercise of an incentive stock option, we will be entitled to a corresponding deduction in the year in which the disposition occurs.

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We will be required to report to the Internal Revenue Service any ordinary income recognized by any optionholder by reason of the exercise of a nonqualified stock option or by reason of a disqualifying disposition of the stock acquired upon exercise of an incentive stock option. We will be required to withhold income and employment taxes and pay our share of employment taxes with respect to ordinary income the optionholder recognized upon the exercise of nonqualified stock options.

Equity Compensation Plan Information

The following table includes information as of December 31, 2010, with respect to our equity compensation plans:

Plan Category	(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
Equity compensation plans approved by stockholders (1)	882,142(2)	\$20.09	6,365,397(3)(4)
Equity compensation plans not approved by stockholders (5)	228,527	13.22	2,375,474(6)
Total	1,110,669	\$18.68	8,740,871

- (1) Consists of the Non-Employee Director Long-Term Incentive Compensation Plan, the Long-Term Performance-Based Incentive Plan, and the Non-Employee Director Stock Compensation Plan.
- (2) Includes 669,685 performance shares.
- (3) In addition to being available for future issuance upon exercise of stock options, 357,757 shares under the Non-Employee Director Long-Term Incentive Compensation Plan may instead be issued in connection with stock appreciation rights, restricted stock, performance units, performance shares, or other equity-based awards, and 5,686,140 shares under the Long-Term Performance-Based Incentive Plan may instead be issued in connection with stock appreciation rights, restricted stock, performance units, performance shares, or other equity-based awards.
- (4) This amount also includes 321,500 shares available for issuance under the Non-Employee Director Stock Compensation Plan. Under this plan, in addition to a cash retainer, nonemployee directors are awarded 4,050 shares annually. A non-employee director may acquire additional shares under the plan in lieu of receiving the cash portion of the director's retainer or fees.
- (5) Consists of the 1998 Option Award Program and the Group Genius Innovation Plan.
- (6) In addition to being available for future issuance upon exercise of stock options, 219,050 shares under the Group Genius Innovation Plan may instead be issued in connection with stock appreciation rights, restricted stock, restricted stock units, performance units, performance stock, or other equity-based awards.

The following equity compensation plans have not been approved by our stockholders.

The 1998 Option Award Program

The 1998 Option Award Program is a broad-based plan adopted by the board of directors, effective February 12, 1998. The plan permits the grant of nonqualified stock options to employees of the company and our subsidiaries. The maximum number of shares that may be issued under the plan is 3,795,330. Shares granted may be authorized but unissued shares, treasury shares, or shares purchased on the open market. Option exercise prices are equal to the market value of our shares on the date of the option grant. Optionees receive dividend equivalents on their options, with any credited dividends paid in cash to the optionee if the stock option vests, or forfeited if the stock option is forfeited. Vested stock options remain exercisable for one year following termination of employment due to death or disability and for three months following termination of employment for any other reason. Unvested stock options are forfeited upon termination of employment. Subject to the terms and conditions of the plan, the plan's administrative committee determines the number of shares subject to options granted to each participant and the other terms and conditions pertaining to such options, including vesting provisions. All options become immediately exercisable in the event of a change in control of the company.

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In 2001, 450 options (adjusted for the three-for-two stock splits in October 2003 and July 2006) were granted to each of approximately 5,900 employees. No officers received grants. These stock options vested on February 13, 2004. As of December 31, 2010, options covering 228,527 shares of common stock were outstanding under the plan and 2,156,424 shares remained available for future grant. Options covering 1,410,379 shares had been exercised.

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The Group Genius Innovation Plan

The Group Genius Innovation Plan was adopted by the board of directors, effective May 17, 2001, to encourage employees to share ideas for new business directions for the company and to reward them when the idea becomes profitable. Employees of the company and our subsidiaries who are selected by the plan's administrative committee are eligible to participate in the plan. Officers and directors are not eligible to participate. The plan permits the granting of nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, performance stock, and other awards. The maximum number of shares that may be issued under the plan is 223,150. Shares granted under the plan may be authorized but unissued shares, treasury shares, or shares purchased on the open market. Restricted stockholders have voting rights and, unless determined otherwise by the plan's administrative committee, receive dividends paid on the restricted stock. Dividend equivalents payable in cash may be granted with respect to options and performance shares. The plan's administrative committee determines the number of shares or units subject to awards, and the other terms and conditions of the awards, including vesting provisions and the effect of employment termination. Upon a change in control of the company, all options and stock appreciation rights become immediately vested and exercisable, all restricted stock becomes immediately vested, all restricted stock units become immediately vested and are paid out in cash, and target payout opportunities under all performance units, performance stock, and other awards are deemed to be fully earned, with awards denominated in stock paid out in shares and awards denominated in units paid out in cash. As of December 31, 2010, 4,100 shares of stock had been granted to 73 employees.

The board of directors believes that it is in the best interests of the company and our stockholders to receive the full income tax deduction for performance-based compensation paid under the plan. The board is therefore asking the stockholders to approve, for purposes of Section 162(m), the material terms of the performance goals as set forth above. The plan will remain in effect if the stockholders do not approve the material terms of the performance goals, and failure to obtain stockholder approval will not affect the rights of participants under the plan or under any outstanding award agreements.

The board of directors recommends a vote for this proposal.

For purposes of Internal Revenue Code Section 162(m), approval requires a majority of the votes cast to be in favor of approval. Abstentions will not count as votes cast for purposes of Internal Revenue Code approval. Approval for purposes of Delaware law requires the affirmative vote of a majority of the outstanding shares of our common stock present in person or represented by proxy at the meeting and entitled to vote on the item. Under the Delaware voting standard, abstentions will count as votes against the item. Broker non-votes will not count as voting power present and, therefore, are not counted in the vote for purposes of Internal Revenue Code approval or under the Delaware voting standard.

ITEM 3. RATIFICATION OF INDEPENDENT AUDITORS

The audit committee at its February 2011 meeting appointed Deloitte & Touche LLP as our independent auditors for fiscal year 2011. The board of directors concurred with the audit committee's decision. Deloitte & Touche LLP has served as our independent auditors since fiscal year 2002.

Although your ratification vote will not affect the appointment or retention of Deloitte & Touche LLP for 2011, the audit committee will consider your vote in determining its appointment of our independent auditors for the next fiscal year. The audit committee, in appointing our independent auditors, reserves the right, in its sole discretion, to change an appointment at any time during a fiscal year if it determines that such a change would be in our best interests.

A representative of Deloitte & Touche LLP will be present at the annual meeting and will be available to respond to appropriate questions. We do not anticipate that the representative will make a prepared statement at the meeting; however, he or she will be free to do so if he or she chooses.

The board of directors recommends a vote for the ratification of Deloitte & Touche LLP as our independent auditors for 2011.

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Ratification of the appointment of Deloitte & Touche LLP as our independent auditors for 2011 requires the affirmative vote of a majority of our common stock present in person or represented by proxy at the meeting and entitled to vote on the proposal. Abstentions will count as votes against this proposal.

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In connection with the audit of our financial statements for 2011, the parties have drafted an agreement for audit committee approval that contains provisions for alternative dispute resolution. The agreement provides that disputes arising out of our engagement of Deloitte & Touche LLP are resolved through mediation or arbitration, commonly referred to as alternative dispute resolution procedures. The alternative dispute resolution provision does not have a waiver of rights to pursue punitive damages or other forms of relief not based on actual damages. The alternative dispute resolution provisions do not apply to claims by third parties, such as our stockholders or creditors.

ACCOUNTING AND AUDITING MATTERS

Fees

The following table summarizes the aggregate fees that our independent auditors, Deloitte & Touche LLP, billed or are expected to bill us for professional services rendered for 2010 and 2009:

	2010	2009*
Audit Fees(a)	\$2,230,200	\$2,366,154
Audit-Related Fees(b)	26,400	52,292
Tax Fees(c)	9,800	17,600
All Other Fees(d)	15,493	130,016
Total Fees(e)	\$2,281,893	\$2,566,062
Ratio of Tax and All Other Fees to Audit and Audit-Related Fees	1.12%	6.10%

* The 2009 amounts were adjusted from amounts shown in the 2010 proxy statement to reflect actual amounts.

- (a) Audit fees for 2009 and 2010 consisted of services rendered for the audit of our annual financial statements, reviews of quarterly financial statements, statutory and regulatory audits, compliance with loan covenants, reviews of financial statements for MDU Construction Services Group, Inc. and subsidiaries, agreed upon procedures associated with the annual submission of financial assurance to the North Dakota Department of Health, comfort letters to underwriters (2009 only), and work related to the filing of Form S-8 with the Securities and Exchange Commission (2009 only).
- (b) Audit-related fees for 2010 and 2009 are associated with the audit of the Intermountain Gas Company's benefit plans and accounting research assistance.
- (c) Tax fees for 2010 include services associated with Section 199 tax credits. Tax fees for 2009 include support services associated with the Cascade Natural Gas Corporation IRS audit.
- (d) All other fees for 2010 consist of training provided by Deloitte & Touche LLP on the topic of utility taxes. All other fees for 2009 are for services provided by Deloitte FAS, LLP in connection with the review of accounting practices and procedures at one of the company's operating locations.
- (e) Total fees reported above include out-of-pocket expenses related to the services provided of \$260,000 for 2010 and \$240,062 for 2009.

Pre-Approval Policy

The audit committee pre-approved all services Deloitte & Touche LLP performed in 2010 in accordance with the pre-approval policy and procedures the audit committee adopted at its August 12, 2003 meeting. This policy is designed to achieve the continued independence of Deloitte & Touche LLP and to assist in our compliance with Sections 201 and 202 of the Sarbanes-Oxley Act of 2002 and related rules of the Securities and Exchange Commission.

The policy defines the permitted services in each of the audit, audit-related, tax, and all other services categories, as well as prohibited services. The pre-approval policy requires management to submit annually for approval to the audit committee a service plan describing the scope of work and anticipated cost associated with each category of service. At each regular audit committee meeting, management reports on services performed by Deloitte & Touche LLP and the fees paid or accrued through the end of the quarter preceding the meeting. Management may submit requests for additional permitted services before the next scheduled audit committee meeting to the designated member of the audit committee, Dennis W. Johnson, for approval. The designated member updates the audit committee at the next regularly scheduled meeting regarding any services that he approved during the interim period. At each regular audit committee meeting, management may submit to the audit committee for approval a supplement to the service plan containing any request for additional permitted services.

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In addition, prior to approving any request for audit-related, tax, or all other services of more than \$50,000, Deloitte & Touche LLP will provide a statement setting forth the reasons why rendering of the proposed services does not compromise Deloitte & Touche LLP's independence. This description and statement by Deloitte & Touche LLP may be incorporated into the service plan or as an exhibit thereto or may be delivered in a separate written statement.

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ITEM 4. ADVISORY VOTE TO APPROVE THE COMPENSATION PAID TO THE COMPANY'S NAMED EXECUTIVE OFFICERS

In accordance with recently-adopted Section 14A of the Securities Exchange Act of 1934 and Rule 14a-21(a), we are asking our stockholders to approve, in a separate advisory vote, the compensation of our named executive officers as disclosed in this proxy statement pursuant to Item 402 of Regulation S-K. As discussed in the compensation discussion and analysis, our compensation committee and board of directors believe that our current executive compensation program directly links compensation of our named executive officers to our financial performance and aligns the interests of our named executive officers with those of our stockholders. Our compensation committee and board of directors also believe that our executive compensation program provides our named executive officers with a balanced compensation package that includes an appropriate base salary along with competitive annual and long-term incentive compensation targets. These incentive programs are designed to reward our named executive officers on both an annual and long-term basis if they attain specified goals.

Our overall compensation program and philosophy is built on a foundation of these guiding principles:

we pay for performance

we determine performance based on financial criteria that are important to stockholder value — earnings per share, return on invested capital, and total stockholder return relative to our peers

we review competitive compensation data for each named executive officer position and incorporate internal equity in the final determination of target compensation levels and

through our PEER4 Analysis, we compare our pay-for-performance results with the pay-for-performance results of our peers. We are asking our stockholders to indicate their approval of our named executive officer compensation as disclosed in this proxy statement, including the compensation discussion and analysis, the executive compensation tables, and narrative discussion. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers for 2010. Accordingly, the following resolution is submitted for stockholder vote at the 2011 annual meeting:

RESOLVED, that the compensation paid to the company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED.

As this is an advisory vote, the results will not be binding on the company, the board of directors, or the compensation committee and will not require us to take any action. The final decision on the compensation of our named executive officers remains with our compensation committee and our board of directors, although our board and compensation committee will consider the outcome of this vote when making future compensation decisions. We will provide our stockholders with the opportunity to vote on our named executive officer compensation at our annual meetings at least once every three calendar years.

The board of directors recommends a vote for the approval, on an advisory basis, of the compensation paid to our named executive officers, as disclosed in this proxy statement.

Approval of the compensation paid to our named executive officers requires the affirmative vote of a majority of our common stock present in person or represented by proxy at the meeting and entitled to vote on the proposal. Abstentions will count as votes against this proposal. Broker non-votes are not counted as voting power present and, therefore, are not counted in the vote.

ITEM 5. ADVISORY VOTE ON FREQUENCY OF VOTE TO APPROVE THE COMPENSATION PAID TO THE COMPANY'S NAMED EXECUTIVE OFFICERS

In accordance with recently-adopted Section 14A of the Securities Exchange Act of 1934 and Rule 14a-21(b), we are asking our stockholders to indicate whether future advisory votes to approve the compensation paid to our named executive officers should be held every year, every two years, or every three years.

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Our board of directors has determined that our stockholders should have the opportunity to vote on the compensation of our named executive officers every year. The board of directors believes that giving our stockholders the right to cast an advisory vote every year on the compensation of our named executive officers is a good corporate governance practice and is in the best interests of our stockholders. Annual advisory votes provide the highest level of accountability and direct communication with our stockholders.

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By voting on this Item 5, stockholders are not approving or disapproving the board of directors' recommendation, but rather are indicating whether they prefer an advisory vote on named executive officer compensation be held every year, every two years, or every three years. Stockholders may also abstain from voting.

As this is an advisory vote, the results will not be binding on the board of directors or the company, and the board of directors may decide that it is in the best interests of our stockholders and the company to hold an advisory vote on executive compensation more or less frequently than the option selected by our stockholders. We will provide our stockholders with the opportunity to vote on the frequency of advisory votes on our named executive officer compensation at our annual meetings at least once every six calendar years.

Under rules adopted by the Securities and Exchange Commission, if a majority of the votes cast approves a particular frequency and we adopt a policy that is consistent with that frequency, we may exclude from our proxy statements in the future any stockholder proposals providing for an advisory vote or seeking future advisory votes on the compensation paid to our named executive officers or relating to the frequency of such votes, including those drafted as requests to amend our governing documents. A majority of the votes cast means that the number of votes cast for one frequency must exceed the aggregate number of votes cast for the other two frequencies. Abstentions and broker non-votes do not count as votes cast.

**The board of directors recommends that an advisory vote
on compensation paid to our named executive officers be held every year.**

Under Delaware law, the frequency of every year, every two years, or every three years that receives the affirmative vote of a majority of our common stock present in person or represented by proxy at the meeting and entitled to vote on the proposal will be the frequency for the advisory vote on executive compensation that has been recommended by our stockholders. Abstentions will count as votes against any frequency. Broker non-votes are not counted as voting power present and, therefore, are not counted in the vote.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following compensation discussion and analysis may contain statements regarding corporate performance targets and goals. These targets and goals are disclosed in the limited context of our compensation programs and should not be understood to be statements of management's expectations or estimates of results or other guidance. We specifically caution investors not to apply these statements to other contexts.

Introduction

In this compensation discussion and analysis, we discuss our compensation objectives, our decisions, and the reasons for our decisions relating to 2010 compensation for our named executive officers.

For 2010, our named executive officers were Terry D. Hildestad, Vernon A. Raile, Doran N. Schwartz, John G. Harp, Steven L. Bietz, and David L. Goodin. Mr. Goodin, president and chief executive officer of Montana-Dakota Utilities, Co., Great Plains Natural Gas Co., Cascade Natural Gas Corporation, and Intermountain Gas Company, which we refer to as the combined utility group, is a named executive officer for the first time. Mr. Raile retired as executive vice president, treasurer and chief financial officer on February 16, 2010, and Mr. Schwartz was promoted to vice president and chief financial officer effective February 17, 2010.

Overview of 2010 Compensation

The compensation committee and the board of directors believe our 2010 compensation program for our named executive officers directly links their compensation to our financial performance and aligns their interests with those of our stockholders. Our compensation committee and the board of directors also believe that our 2010 compensation program provides our named executive officers with a balanced compensation package that includes an appropriate base salary along with competitive annual and long-term incentive compensation targets. These incentives are designed to reward our named executive officers on both an annual and long-term basis if they attain specified goals.

Our overall compensation program and philosophy is built on a foundation of these guiding principles:

we pay for performance, with 55.9% to 71.4% of our named executive officers' 2010 total target direct compensation in the form of incentives

we determine performance based on financial criteria that are important to stockholder value—earnings per share, return on invested capital, and total stockholder return relative to our peers

we review competitive compensation data for each named executive officer and incorporate internal equity in the final determination of target compensation levels and

through our PEER4 Analysis, we compare our pay-for-performance results with the pay-for-performance results of our peers over five-year periods.

The compensation committee regularly reviews our compensation policies and practices to ensure our compensation program is structured to pay for performance.

The compensation committee took the following actions with respect to 2010 compensation for our named executive officers:

froze 2010 base salaries at their 2009 levels, except for one promotion and one modest merit-based increase

did not increase the percentages of base salary used to establish target incentive awards, except for one promotion

linked more closely our corporate executives' 2010 annual incentive awards to the achievement of our business units' performance goals

capped payment with respect to the return on invested capital portion of the 2010 annual incentive awards at three out of four of our business units at 100 percent of the target incentive award, unless return on invested capital equaled or exceeded the

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business unit's weighted average cost of capital

provided for reductions in any performance shares earned pursuant to awards granted in 2010 or thereafter, if our total stockholder return for the performance period is negative, and

granted no SISP increases.

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The compensation committee also:

terminated the change of control employment agreement between the company and Terry D. Hildestad, our president and chief executive officer, effective June 15, 2010, upon Mr. Hildestad's request

notified each of our other executive officers with change of control employment agreements that their agreements would not be extended beyond their current expiration dates

imposed mandatory stock holding requirements for a portion of shares earned pursuant to long-term incentive awards granted in 2011 or thereafter and

amended our stock ownership policy to clarify that our executive officers are required, rather than expected, to acquire and hold company stock equal to or greater in value than a multiple of their base salaries.

We believe that our 2010 compensation program has been effective at motivating and rewarding our named executive officers in the achievement of positive results. Our earnings per share of \$1.27 for 2010 demonstrates the value of our diversified business strategy. Despite lower natural gas prices and a challenging economic environment, we maintained a strong balance sheet and generated significant cash flows from operations, as well as from successful property sales.

Objectives of our Compensation Program

We structure our compensation program to help retain and reward the executive officers who we believe are critical to our long-term success. We have a written executive compensation policy for our Section 16 officers, including all our named executive officers. Our policy has the following stated objectives:

recruit, motivate, reward, and retain the high performing executive talent required to create superior long-term total stockholder return in comparison to our peer group

reward executives for short-term performance, as well as the growth in enterprise value over the long-term

provide a competitive package relative to industry-specific and general industry comparisons and internal equity, as appropriate

ensure effective utilization and development of talent by working in concert with other management processes for example, performance appraisal, succession planning, and management development and

help ensure that compensation programs do not encourage or reward excessive or imprudent risk taking.

We pay/grant:

base salaries in order to provide executive officers with sufficient, regularly-paid income and attract, recruit, and retain executives with the knowledge, skills, and abilities necessary to successfully execute their job duties and responsibilities

annual incentives in order to be competitive from a total remuneration standpoint and ensure focus on annual financial and operating results and

long-term incentives in order to be competitive from a total remuneration standpoint and ensure focus on stockholder return. If earned, incentive compensation, which consists of annual cash incentive awards and three-year performance share awards under our Long-Term Performance-Based Incentive Plan, makes up the greatest portion of our named executive officers' total compensation. The compensation committee believes incentive compensation that comprised approximately 55.9% to 71.4% of total target compensation for the named executive officers for 2010 is appropriate because:

our named executive officers are in positions to drive, and therefore bear high levels of responsibility for, our corporate performance

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incentive compensation is more variable than base salary and dependent upon our performance

variable compensation helps ensure focus on the goals that are aligned with our overall strategy and

the interests of our named executive officers will be aligned with those of our stockholders by making a majority of the named executive officers' target compensation contingent upon results that are beneficial to stockholders.

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The following table shows the allocation of total target compensation for 2010 among the individual components of base salary, annual incentive, and long-term incentive:

Name	% of Total Target Compensation Allocated to Base Salary (%)	% of Total Target Compensation Allocated to Incentives		
		Annual (%)	Long-Term (%)	Annual + Long-Term (%)
Terry D. Hildestad	28.6	28.6	42.8	71.4
Vernon A. Raile(1)				
Doran N. Schwartz	44.1	21.8	34.1	55.9
John G. Harp	39.2	25.5	35.3	60.8
Steven L. Bietz	39.2	25.5	35.3	60.8
David L. Goodin	39.2	25.5	35.3	60.8

(1) Mr. Raile retired February 16, 2010 and received no incentive awards for 2010.

In order to reward long-term growth, as well as short-term results, the compensation committee establishes incentive targets that emphasize long-term compensation as much as or more than short-term compensation for our named executive officers. The annual incentive targets for 2010 range from 45% to 100% of base salary and the long-term incentive targets range from 50% to 150% of base salary, depending on the named executive officer's salary grade. Generally, our approach is to allocate a higher percentage of total target compensation to the long-term incentive than to the short-term incentive for our higher level executives, since they are in a better position to influence our long-term performance.

Additionally, the long-term incentive, if earned, is paid in company common stock. These awards, combined with our stock ownership policy, promote ownership of our stock by the named executive officers. The compensation committee believes that, as stockholders, the named executive officers will be motivated to consistently deliver financial results that build wealth for all stockholders over the long-term.

Role of Management

Our executive compensation policy provides for an assessment of the competitive pay levels for base salary and incentive compensation for each Section 16 officer position to be conducted at least every two years by an independent consulting firm. In 2008, the compensation committee retained Towers Watson (formerly Towers Perrin), a nationally recognized consulting firm, to perform this assessment and to assist the compensation committee in establishing competitive compensation targets for our Section 16 officers for 2009.

In May 2009, the compensation committee decided not to retain a compensation consultant for assistance with 2010 compensation. Instead, the compensation committee directed the vice president-human resources and the human resources department to prepare the competitive assessment on Section 16 officer positions for 2010. The assessment included identifying any material changes to the positions analyzed, updating competitive compensation information, gathering and analyzing relevant general and industry-specific survey data, and updating the base salary structure. The human resources department assessed competitive pay levels for base salary, total annual cash, which is base salary plus annual incentives, and total direct compensation, which is the sum of total annual cash and the expected value of long-term incentives. It compared our positions to like positions contained in general industry compensation surveys, industry-specific compensation surveys and, for our chief executive officer and chief financial officer, those positions in our performance graph peer group. Except for the Watson Wyatt Top Management Compensation Survey, the human resources department used the same surveys to construct the 2010 competitive assessment that were used to construct the 2009 competitive assessment. For the Watson Wyatt Top Management Compensation Survey, the human resources department used the 2008/2009 publication which contained more recent data than the 2007/2008 publication that was used to construct the 2009 competitive assessment. The human resources department also aged the data from the date of the surveys by 4% annualized to estimate 2010 competitive targets. To augment the analysis, Equilar was used to provide information on what public companies disclosed for comparable positions in their SEC filings. The compensation surveys and databases used by the human resources department were:

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Survey*	Number of Companies Participating (#)	Median Number of Employees (#)	Number of Publicly- Traded Companies (#)(1)	Median Revenue (000s) (\$)
Towers Perrin's 2008 General Industry Executive Compensation Database	973	20,000	582	5,804,000
Towers Perrin's 2008 Energy Industry Executive Compensation Database	103	3,315	67	3,284,000
Effective Compensation, Inc.'s 2008 Oil & Gas Compensation Survey	119	140	69	247,000
Mercer's 2008 Total Compensation Survey for the Energy Sector	262	Not reported	188	1,057,254
Watson Wyatt's 2008/2009 Top Management Compensation Survey	2,206	(2)	(2)	(2)

(1) For the Towers Perrin 2008 General Industry Executive Compensation Data, the number listed in the table is the number of companies reporting market capitalization. For the Towers Perrin 2008 Energy Industry Executive Compensation Database, the number listed in the table is the number of companies reporting three-year stockholder return.

(2) The 2,206 organizations participating in Watson Wyatt's 2008/2009 Top Management Compensation Survey included 297 organizations with 2,000 to 4,999 employees; 157 organizations with 5,000 to 9,999 employees; 152 organizations with 10,000 to 19,999 employees; and 173 organizations with 20,000 or more employees. Watson Wyatt did not provide a revenue breakdown or the number of publicly-traded companies participating in its survey.

* The information in the table is based solely upon information provided by the publishers of the surveys and is not deemed filed or a part of this compensation discussion and analysis for certification purposes. For a list of companies that participated in the compensation surveys and databases and companies included in the Equilar information, see Exhibit B.

Our revenues for 2008, 2009, and 2010 were approximately \$5.0 billion, \$4.2 billion, and \$3.9 billion, respectively.

In addition to the above compensation surveys, for the chief executive officer and chief financial officer comparisons, the human resources department used information for these positions at the following companies, which comprised our performance graph peer group in July of 2009:

Alliant Energy Corporation	OGE Energy Corp.
Berry Petroleum Company	ONEOK, Inc.
Black Hills Corporation	Quanta Services, Inc.
Comstock Resources, Inc.	Questar Corporation
Dycom Industries, Inc.	SCANA Corporation
EMCOR Group, Inc.	Southwest Gas Corporation
Encore Acquisition Company	St. Mary Land & Exploration Company
EQT Corporation (formerly Equitable Resources, Inc.)	Swift Energy Company
Granite Construction Inc.	U.S. Concrete, Inc.
Martin Marietta Materials, Inc.	Vectren Corporation
National Fuel Gas Co.	Vulcan Materials Company
Northwest Natural Gas Company	Whiting Petroleum Corporation
NSTAR	

The chief executive officer played an important role in recommending 2010 compensation to the committee for the other named executive officers. The chief executive officer assessed the performance of the named executive officers and reviewed the relative value of the named executive officers' positions and their salary grade classifications. He then reviewed the competitive assessment prepared by the human resources department and worked with the human resources department to prepare 2010 compensation recommendations for the compensation committee, other than for himself. The chief executive officer attended compensation committee meetings; however, he was not present during discussions regarding his compensation.

Decisions for 2010

The compensation committee, in conjunction with the board of directors, determined all compensation for each named executive officer for 2010 and set overall and individual compensation targets for the three components of compensation — base salary, annual incentive, and long-term incentive. The compensation committee made recommendations to the board of directors regarding compensation of all Section 16 officers, and the board of directors then approved the recommendations.

The compensation committee reviewed the competitive assessment and established 2010 salary grades at its August 2009 meeting. At the November 2009 meeting, it established individual base salaries, target annual incentive award levels, and target long-term incentive award levels for 2010. At the February and March 2010 meetings of the compensation committee and the board of directors, annual and long-term incentive awards were determined, along with the payouts based on performance from the recently completed performance period for prior annual and long-term awards. The compensation committee determined Mr. Schwartz's compensation in connection with his promotion at the March 2010 meeting. The February and March 2010 meetings occurred after the release of earnings for the prior year.

Proxy Statement

Salary Grades for 2010

The compensation committee determines the named executive officers' base salaries and annual and long-term incentive targets by reference to salary grades. Each salary grade has a minimum, midpoint, and maximum annual salary level with the midpoint targeted at approximately the 50th percentile of the competitive assessment data for positions in the salary grade. The compensation committee may adjust the salary grades away from the 50th percentile in order to balance the external market data with internal equity. The salary grades also have annual and long-term incentive target levels, which are expressed as a percentage of the individual's actual base salary. We generally place named executive officers into a salary grade based on historical classification of their positions; however, the compensation committee, at its August meeting, reviews each classification and may place a position into a different salary grade if it determines that the targeted competitive compensation for the position changes significantly or the executive's responsibilities and/or performance warrants a different salary grade. The committee also considers, upon recommendation from the chief executive officer, a position's relative value.

Our named executive officers' salary grade classifications are listed below along with the 2010 base salary ranges associated with each classification:

Position	Grade	Name	2010 Base Salary (000s)		
			Minimum (\$)	Midpoint (\$)	Maximum (\$)
President and CEO	K	Terry D. Hildestad	620	775	930
Executive Vice President, Treasurer and CFO	J	Vernon A. Raile	312	390	468
Vice President and CFO	I	Doran N. Schwartz	260	325	390
President and CEO, MDU Construction Services Group, Inc.	J	John G. Harp	312	390	468
President and CEO, combined utility group	J	David L. Goodin	312	390	468
President and CEO, WBI Holdings, Inc.	J	Steven L. Bietz	312	390	468

The executive vice president, treasurer and chief financial officer and the president and chief executive officers of MDU Construction Services Group, Inc., the combined utility group, and WBI Holdings, Inc. were assigned to salary grade J and were unchanged for 2010. The committee believes that from an internal equity standpoint, these positions should carry the same salary grade. When Mr. Raile, who served as our executive vice president, treasurer and chief financial officer, retired in February 2010, Mr. Schwartz was elected vice president and chief financial officer, with another officer being elected treasurer. Mr. Schwartz's position was assigned salary grade I, rather than salary grade J because of the creation of a separate treasurer position. After reviewing the competitive analysis, the compensation committee made no changes in the base salary ranges associated with each named executive officer's salary grade classification. The compensation committee did not reconsider the relative value of the named executive officers' positions, except in the case of Mr. Schwartz, because of its decision to freeze base salaries and incentive target percentages.

The compensation committee determines where, within each salary grade, an individual's base salary should be. The compensation committee believes that having a range of possible salaries within each salary grade gives the committee the flexibility to assign different salaries to individual executives within a salary grade to reflect one or more of the following:

- executive's performance on financial goals and on non-financial goals, including the results of the performance assessment program

- executive's experience, tenure, and future potential

- position's relative value compared to other positions within the company

- relationship of the salary to the competitive salary market value

- internal equity with other executives and

- economic environment of the corporation or executive's business unit.

Our performance assessment program rates performance of our executive officers, except for our chief executive officer, in the following areas, which help determine actual salaries within the range of salaries associated with the executive's salary grade:

visionary leadership
strategic thinking
leading with integrity
managing customer focus
financial responsibility
achievement focus
judgment
planning and organization

leadership
mentoring
relationship building
conflict resolution
organizational savvy
safety
Great Place to Work®

Proxy Statement

An executive's overall performance in our performance assessment program is rated on a scale of one to five, with five as the highest rating denoting distinguished performance. An overall performance above 3.75 is considered commendable performance.

The chief executive officer assessed each named executive officer's performance under the performance assessment program, and the compensation committee, as well as the full board of directors, assessed the chief executive officer's performance.

The board of directors rates our chief executive officer's performance in the following areas:

leadership	succession planning
integrity and values	human resources
strategic planning	external relations
financial results	board relations
communications	

Our chief executive officer's performance was rated on a scale of one to five, with five as the highest rating denoting performance well above expectations.

Base Salaries of the Named Executive Officers for 2010

In recognition of the challenging economic environment and our efforts to control costs, the compensation committee determined at its August 2009 meeting that there would be no base salary increases for 2010, except when an officer was promoted or where the performance of an officer, whose salary was at the low end of his or her salary grade, warranted an increase. As a result, 2010 base salaries for the named executive officers were frozen at their 2009 levels, except for Mr. Schwartz and Mr. Goodin.

Doran N. Schwartz

Mr. Schwartz was elected vice president and chief financial officer effective February 17, 2010. Mr. Schwartz's base salary was set at \$260,000, the minimum for salary grade I, effective with his election. This represented a 29.1% increase over his 2009 salary of \$201,400. The committee set his 2010 salary at this level to recognize the increased levels of responsibility he assumed in his new position.

David L. Goodin

Mr. Goodin has served as president and chief executive officer of Montana-Dakota Utilities Co., Great Plains Natural Gas Co., and Cascade Natural Gas Corporation since June 6, 2008, and as president and chief executive officer of Intermountain Gas Company since October 1, 2008. Upon recommendation of the chief executive officer, for 2010, his base salary was set at \$322,000, representing an increase of 3.2% over his 2009 base salary of \$312,100. The committee selected a 3.2% increase for Mr. Goodin to recognize the successful integration of the Cascade Natural Gas Corporation and Intermountain Gas Company acquisitions and because a 3.2% increase was consistent with salary increases across the combined utility group employees. Mr. Goodin's salary increase made his salary equal to 83% of the midpoint of the salary grade for his position.

The following table shows each named executive officer's base salary for 2009 and 2010 and the percentage change:

Name	Base Salary for 2009 (000s) (\$)	Base Salary for 2010 (000s) (\$)	% Change (%)
Terry D. Hildestad	750.0	750.0	0.0
Vernon A. Raile	450.0	450.0	0.0
Doran N. Schwartz(1)	201.4	260.0	29.1
John G. Harp	450.0	450.0	0.0
Steven L. Bietz	350.0	350.0	0.0
David L. Goodin	312.0	322.0	3.2

(1) Elected vice president and chief financial officer effective February 17, 2010. Salary shown is not prorated.

2010 Annual Incentives

What the Performance Measures Are and Why We Chose Them

The compensation committee develops and reviews financial and other corporate performance measures to help ensure that compensation to the executives reflects the success of their respective business unit and/or the corporation, as well as the value provided to our stockholders. For Messrs. Harp, Goodin, and Bietz, the performance measures for annual incentive awards are their respective business unit's annual return on invested capital results compared to target and their respective business unit's allocated earnings per share results compared to target.

Proxy Statement

For the named executive officers working at MDU Resources Group, Inc., who were Messrs. Hildestad and Schwartz, prior to 2010, the compensation committee used corporate-wide return on invested capital and earnings per share, both compared to a target, as performance measures. However, effective for 2010, the compensation committee discontinued this approach and based 2010 annual incentives for MDU Resources Group, Inc. executives on the weighted average of the incentive payments made to the four business unit president and chief executive officers. The sum of these individual products determined the payment percentage of the MDU Resources Group, Inc. officers. The compensation committee's rationale for this approach was to provide greater alignment between the MDU Resources Group, Inc. executives and the business unit executives' annual incentive payments and performance. The new methodology requires that all business unit executives receive a maximum annual incentive payment before the MDU Resources Group, Inc. executives receive a maximum annual incentive payment.

The compensation committee believes earnings per share and return on invested capital are very good measurements in assessing a business unit's performance from a financial standpoint. Earnings per share is a generally accepted accounting principle measurement and is a key driver of stockholder return over the long-term. Return on invested capital measures how efficiently and effectively management deploys its capital. Sustained returns on invested capital in excess of a business unit's cost of capital create value for our stockholders.

Allocated earnings per share for a business unit is calculated by dividing that business unit's earnings by the business unit's portion of the total company weighted average shares outstanding. Return on invested capital for a business unit is calculated by dividing the business unit's earnings, without regard to after tax interest expense and preferred stock dividends, by the business unit's average capitalization for the calendar year.

The compensation committee determines the weighting of the performance measures each year based upon recommendations from the chief executive officer. The compensation committee weighted the 2010 performance measures for return on invested capital compared to targeted results and allocated earnings per share compared to targeted results each at 50%. The compensation committee believes both measures are equally important in driving stockholder value in the short term and long term.

We establish our incentive plan performance targets in connection with our annual financial planning process, where we assess the economic environment, competitive outlook, industry trends, and company specific conditions to set projections of results. The compensation committee evaluates the projected results and uses this evaluation to establish the incentive plan performance targets based upon recommendation of the chief executive officer. The compensation committee also considers annual improvement in the return on invested capital measure in establishing targets to help ensure that return on invested capital will equal or exceed the weighted average cost of capital over time. The weighted average cost of capital is a composite cost of the individual sources of funds including equity and debt used to finance a company's assets. It is calculated by averaging the cost of debt plus the cost of equity by the proportion each represents in our capital structure. For 2010, the compensation committee chose to use the return on invested capital target approved by the board in the 2010 business plan. Furthermore, except for the combined utility group, the compensation committee imposed an additional requirement for the 2010 return on invested capital portion of the annual incentives. Results above the 2010 return on invested capital target would not generate additional annual incentive compensation for business unit executives, unless 2010 return on invested capital results met or exceeded a business unit's weighted average cost of capital. In that case, the business unit president and chief executive officer would earn 200% of the annual incentive target attributable to the return on invested capital portion of the annual incentive.

What the Named Executive Officers' Incentive Targets Are and Why We Chose Them

Targets

The compensation committee established the named executive officers' annual incentive targets as a percentage of each officer's actual 2010 base salary. Mr. Raile did not receive a 2010 annual incentive award due to his retirement. Mr. Hildestad's target annual incentive was 100% of his base salary. Messrs. Harp, Goodin, and Bietz's target annual incentives were 65% of their base salaries. These incentive targets were derived in part from the competitive assessment and in part by the compensation committee's desire, based on internal equity, to have a uniform annual incentive target for the business unit president and chief executive officer positions. Mr. Schwartz's annual incentive target was increased from 45% to 50% of base salary effective with his promotion. His new salary grade I has a target annual incentive of 50% of base salary. The target percentage for the other named executive officers remained unchanged from 2008 and 2009 levels.

Proxy Statement

Terry L. Hildestad and Doran N. Schwartz

As discussed above, Messrs. Hildestad and Schwartz were awarded 2010 incentives based on the weighted average of the payments made to the four business unit president and chief executive officers, with each payment weighted by the business unit's average invested capital for 2010. The award opportunities and results for the four business units are discussed below.

As a result of the awards earned by the presidents and chief executive officers of the four business units, weighted for each business unit's average invested capital, Messrs. Hildestad and Schwartz earned 101.7% of their target awards, resulting in a payment of \$762,750 for Mr. Hildestad and \$127,053 for Mr. Schwartz.

John G. Harp

The 2010 award opportunity available to Mr. Harp ranged from no payment if the results were below the 85% level to a 200% payout if:

the 2010 allocated earnings per share for MDU Construction Services Group, Inc. were at or above the 115% level and

the 2010 return on invested capital was at least equal to MDU Construction Services Group, Inc.'s 2010 weighted average cost of capital.

We set Mr. Harp's 2010 earnings per share and return on invested capital target levels below his 2009 target levels and below the 2009 actual levels to reflect significant continued weakness in the overall construction market. MDU Construction Services Group, Inc.'s 2010 earnings per share and return on invested capital exceeded their respective 2010 targets, but Mr. Harp's payment with respect to the return on invested capital component was limited to the target amount of \$146,250 because MDU Construction Services Group, Inc.'s return on invested capital was less than its weighted average cost of capital, resulting in an overall payment of \$438,750.

Steven L. Bietz

The 2010 award opportunity available to Mr. Bietz ranged from no payment if the results were below the 85% level to a 200% payout if:

the 2010 allocated earnings per share for WBI Holdings, Inc. were at or above the 115% level

the 2010 return on invested capital was at least equal to WBI Holdings, Inc.'s 2010 weighted average cost of capital and

the five safety goals were met.

We set Mr. Bietz's 2010 earnings per share and return on invested capital target levels above his 2009 target levels due largely to higher anticipated oil prices. The 2010 return on invested capital target was also higher than the 2009 actual results due to reduced invested capital for 2010. However, the 2010 allocated earnings per share target was lower than 2009 actual results due to higher anticipated lease operating expenses and higher depreciation, depletion, and amortization expenses. WBI Holdings, Inc.'s 2010 earnings per share and return on invested capital exceeded their respective 2010 targets. However, payment with respect to the return on invested capital component was limited to the target amount of \$113,750 because WBI Holdings, Inc.'s 2010 return on invested capital was less than its weighted average cost of capital.

Mr. Bietz also had five individual goals relating to WBI Holdings, Inc.'s safety results with each goal that was not met reducing his annual incentive award by 1%. The five individual goals were:

each established local safety committee will conduct 8 meetings per year, preferably 2 per quarter

each established local safety committee must conduct 4 site assessments per year, preferably 1 per quarter

report vehicle accidents and personal injuries by the end of the next business day

achieve the targeted vehicle accident incident rate of 2.5 or less and

achieve the targeted personal injury incident rate of 2.0 or less.

Two of the five 2010 safety goals were not met. The 2010 actual vehicle accident incident rate was 2.69 and the 2010 actual personal injury incident rate was 3.11. This reduced his annual incentive payment by \$5,005 or 2.0%. As a result, Mr. Bietz received \$245,245 as a 2010 incentive payment.

David L. Goodin

The 2010 award opportunity available to Mr. Goodin ranged from no payment if the allocated earnings per share and return on invested capital results were below the 85% level to a 200% payout if results were at or above the 115% level.

Proxy Statement

We set Mr. Goodin's 2010 targets for allocated earnings per share and return on invested capital targets higher than his 2009 targets and higher than 2009 actual results to reflect higher projected 2010 earnings. For 2010, the combined utility group's 2010 earnings per share and return on invested capital exceeded their respective 2010 targets. As a result, Mr. Goodin received \$320,438 as a 2010 incentive payment.

Knife River Corporation

For Knife River Corporation, the 2010 award opportunity for its president and chief executive officer ranged from no payment if the results were below the 85% level to a 200% payout if:

the 2010 allocated earnings per share for Knife River Corporation were at or above the 115% level and

the 2010 return on invested capital was at least equal to Knife River Corporation's 2010 weighted average cost of capital. For the president and chief executive officer of Knife River Corporation, we set the 2010 allocated earnings per share and return on invested capital target levels below the 2009 target levels and below the 2009 actual results. The 2010 target levels reflect a continued downturn in construction activity and a continued shift towards public sector projects, which generally carry lower profit margins. Knife River Corporation's 2010 results for allocated earnings per share and return on invested capital were 81.48% and 85.22% of their respective targets. These results equated to a payment of 13% of the president and chief executive officer of Knife River Corporation's 2010 incentive target.

The following table shows the changes in our performance targets and achievements for both 2009 and 2010:

Name	2009 Incentive Plan Performance Targets		2009 Incentive Plan Results		2010 Incentive Plan Performance Targets		2010 Incentive Plan Results	
	EPS (\$)	ROIC (%)	EPS (\$)	ROIC (%)	EPS (\$)	ROIC (%)	EPS (\$)	ROIC (%)
Terry D. Hildestad	1.09	5.7	1.30	6.6	See table below		See table below	
Doran N. Schwartz					See table below		See table below	
John G. Harp(1)	3.17	10.2	3.21	10.4	2.22	6.7	3.46	9.0
Steven L. Bietz(2)	1.69	5.6	2.22	7.1	2.02	8.4	2.08	8.6
David L. Goodin(3)					1.07	6.1	1.17	6.5
Knife River Corporation President & CEO(4)	0.52	4.3	0.68	5.3	0.54	4.6	0.44	3.9

(1) Based on allocated earnings per share and return on invested capital for MDU Construction Services Group, Inc.

(2) Based on allocated earnings per share and return on invested capital for WBI Holdings, Inc.

(3) Based on allocated earnings per share and return on invested capital for the combined utility group.

(4) Based on allocated earnings per share and return on invested capital for Knife River Corporation.

The table below lists each named executive officer's 2010 base salary, annual incentive target percentage, incentive plan performance targets, incentive plan results, and the annual incentive earned.

Name	2010	2010	2010 Incentive Plan Performance Targets		2010 Incentive Plan Results		2010 Annual Incentive Earned (% of Target)		2010
	Base Salary (000s) (\$)	Annual Incentive Target (%)	EPS (\$)	ROIC (%)	EPS (\$)	ROIC (%)	EPS (\$)	ROIC (%)	Annual Incentive Earned (000s) (\$)
Terry D. Hildestad	750.0	100	See table below		See table below		See table below		762.75
Doran N. Schwartz(1)	25.9	45	See table below		See table below		See table below		127.05
	226.5	50							

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John G. Harp(2)	450.0	65	2.22	6.7	3.46	9.0	200.0	100.0	438.75
Steven L. Bietz(3)	350.0	65	2.02	8.4	2.08	8.6	120.0	100.0	245.25
David L. Goodin(4)	322.0	65	1.07	6.1	1.17	6.5	162.3	143.7	320.44

- (1) Reflects the impact of Mr. Schwartz's promotion.
- (2) Based on allocated earnings per share and return on invested capital for MDU Construction Services Group, Inc.
- (3) Based on allocated earnings per share and return on invested capital for WBI Holdings, Inc. Also in 2010, WBI Holdings, Inc. met three of five safety goals; therefore, Mr. Bietz's 2010 annual incentive earned reflects a reduction of 2% or \$5,005.
- (4) Based on allocated earnings per share and return on invested capital for the combined utility group.

Proxy Statement

Messrs. Hildestad s and Schwartz s 2010 annual incentives were paid at 101.7% of target based on the following:

	Column A 2010 Payment as a Percentage of Annual Incentive Target	Column B Percentage of Average Invested Capital	Column A x Column B
President and Chief Executive Officer of: MDU Construction Services Group, Inc.	150.0%	5.6%	8.4%
Combined Utility Group	153.1%	35.0%	53.6%
WBI Holdings, Inc.	107.8%	33.8%	36.4%
Knife River Corporation	13.0%	25.6%	3.3%
Total			101.7%

Deferral of Annual Incentive Compensation

We provide executives the opportunity to defer receipt of earned annual incentives. If an executive chooses to defer his or her annual incentive, we will credit the deferral with interest at a rate determined by the compensation committee. For 2010, the committee chose to use the average of (i) the number that results from adding the daily Moody s U.S. Long-Term Corporate Bond Yield Average for A rated companies as of the last day of each month for the 12-month period ending October 31 and dividing by 12 and (ii) the number that results from adding the daily Moody s U.S. Long-Term Corporate Bond Yield Average for BBB rated companies as of the last day of each month for the 12-month period ending October 31 and dividing by 12. The compensation committee s reasons for using this approach recognized:

incentive deferrals are a low-cost source of capital for the company, and

incentive deferrals are unsecured obligations and, therefore, carry a higher risk to the executives.

2010 Long-Term Incentives

Awards Granted in 2010 under the Long-Term Performance-Based Incentive Plan

We use the Long-Term Performance-Based Incentive Plan, which is an omnibus plan and has been approved by our stockholders, for long-term incentive compensation. We discontinued the use of stock options in 2003 and now use performance shares as the only form of long-term incentive compensation.

The compensation committee used the performance graph peer group as the comparator group to determine relative stockholder return and potential payments under the Long-Term Performance-Based Incentive Plan for its 2010-2012 performance share award cycle. The companies comprising our performance graph peer group at the time of grant were the same companies listed above under the heading Role of Management.

The performance measure is our total stockholder return over a three-year measurement period as compared to the total stockholder returns of the companies in our performance graph peer group over the same three-year period. For the awards granted in 2010, the compensation committee revised the award agreement to 1) reduce payment amounts by at least 50% if our stockholder return over the three-year measurement period is negative, and 2) increase the payment amount for relative total stockholder return results above the 50th percentile, assuming our total stockholder return is positive. This is set forth in the Long-Term Incentive Payout Percentages chart below.

The compensation committee selected the relative stockholder return performance measure because it believes executive pay under a long-term, capital accumulation program such as this should mirror our long-term performance in stockholder return as compared to other public companies in our industries. Payments are made in company stock; dividend equivalents are paid in cash.

Total stockholder return is the percentage change in the value of an investment in the common stock of a company, from the closing price on the last trading day in the calendar year preceding the beginning of the performance period, through the last trading day in the final year of the performance period. It is assumed that dividends are reinvested in additional shares of common stock at the frequency paid.

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As with the annual incentive target, we determined the long-term incentive target for a given position by reference to the salary grade. We derived these incentive targets in part from the competitive assessment and in part by the compensation committee's judgment on the impact each position has on our total stockholder return. The compensation committee also believed consistency across positions in the same salary grades and keeping the chief executive officer's long-term incentive target below a level indicated by the competitive assessment were important from an internal equity standpoint. The 2010 long-term incentive targets for each named executive were unchanged from 2009 except for Mr. Schwartz, whose long-term incentive target increased from 50% of base salary to 75% of base salary upon his appointment to vice president and chief financial officer. The 75% long-term incentive target for Mr. Schwartz corresponds to the long-term incentive target for salary grade I.

Proxy Statement

On March 5, 2010, the board of directors, upon recommendation of the compensation committee, made performance share grants to the named executive officers, except for Mr. Raile. The compensation committee determined the target number of performance shares granted to each named executive officer by multiplying the named executive officer's 2010 base salary by his or her long-term incentive target and then dividing this product by the average of the closing prices of our stock from January 4, 2010 through January 22, 2010, as shown in the following table:

Name	2010 Base Salary to Determine Target (\$)	2010 Long-Term Incentive Target at Time of Grant (%)	2010 Long-Term Incentive Target at Time of Grant (\$)	Average Closing Price of Our Stock From January 4 Through January 22 (\$)	Resulting Number of Performance Shares Granted on March 5 (#)
Terry D. Hildestad	750,000	150	1,125,000	23.58	47,709
Vernon A. Raile					
Doran N. Schwartz	260,000(1)	75(1)	195,000	23.58	8,269
John G. Harp	450,000	90	405,000	23.58	17,175
Steven L. Bietz	350,000	90	315,000	23.58	13,358
David L. Goodin	322,000	90	289,800	23.58	12,290

(1) Base Salary and Long-Term Incentive Target percentage reflect February 17, 2010 promotion.

Assuming our three-year (2010-2012) total stockholder return is not negative, from 0% to 200% of the target grant will be paid out in February 2013 depending on our total stockholder return compared to the total three-year stockholder returns of companies in our performance graph peer group. The payout percentage will be a function of our rank against our performance graph peer group as follows:

Long-Term Incentive Payout Percentages

The Company's Percentile Rank	Payout Percentage of March 5, 2010 Grant
90th or higher	200%
70th	150%
50th	100%
40th	10%
Less than 40th	0%

Payouts for percentile ranks falling between the intervals will be interpolated. We also will pay dividend equivalents in cash on the number of shares actually earned for the performance period. The dividend equivalents will be paid in 2013 at the same time as the performance awards are paid.

Awards Paid on February 11, 2010 under the Long-Term Performance-Based Incentive Plan

Performance Shares

We granted performance shares to our named executive officers under the Long-Term Performance-Based Incentive Plan on February 15, 2007 for the 2007 through 2009 performance period. Our total stockholder return for the 2007 through 2009 performance period was (0.87)%, which corresponded to a percentile rank of 50% against our performance graph peer group. The percentile rank of 50% corresponded to a payout percentage of 100%, meaning 100% of the target shares originally granted plus dividend equivalents were paid to the named executive officers. The table below lists the shares granted on February 15, 2007, the shares paid on February 11, 2010, based on the payout percentage and the dividend equivalents earned.

Name	Shares Granted on February 15, 2007	Payout Percentage (%)	Shares Paid on February 11, 2010	Dividend Equivalents (\$)

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	(#)		(#)	
Terry D. Hildestad	33,091	100	33,091	58,985
Vernon A. Raile	12,564	100	12,564	22,395
Doran N. Schwartz	3,463	100	3,463	6,173
John G. Harp	10,181	100	10,181	18,148
Steven L. Bietz	10,354	100	10,354	18,456
David L. Goodin	4,279	100	4,279	7,627

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Accelerated Restricted Stock

We granted shares of restricted stock to some of our named executive officers in 2001, which would automatically vest on February 15, 2010. Vesting of some or all of the shares could accelerate if total stockholder return equaled or exceeded the 50th percentile of the performance graph peer group during three-year performance cycles: 2001-2003, 2004-2006 and 2007-2009. Some shares accelerated vesting with respect to the 2001-2003 and 2004-2006 performance cycles but not for the 2007-2009 performance cycle. The remaining shares vested automatically on February 15, 2010. The named executive officers' shares that vested on February 15, 2010 are: Mr. Hildestad 3,712 shares; Mr. Raile 1,114 shares; Mr. Bietz 558 shares; and Mr. Goodin 1,485 shares.

PEER4 Analysis: Comparison of Pay for Performance Ratios

Each year we compare our named executive officers' pay for performance ratios to the pay for performance ratios of the named executive officers in the performance graph peer group. This analysis compares the relationship between our compensation levels and our average annual total stockholder return to the peer group over a five-year period. All data used in the analysis, including the valuation of long-term incentives and calculation of stockholder return, were compiled by Equilar, Inc., an independent service provider, which is based on each company's annual filings for its data collection.

This analysis consisted of dividing what we paid our named executive officers for the years 2005 through 2009 by our average annual total stockholder return for the same five-year period to yield our pay ratio. Our pay ratio was then compared to the pay ratio of the companies in the performance graph peer group, which was calculated by dividing total direct compensation for all the proxy group executives by the sum of each company's average annual total stockholder return for the same five-year period. The results are shown in the following chart:

5 Year Total Direct Compensation to 5 Year Total Stockholder Return*

	MDU Resources Group, Inc. (\$)	Performance Graph Peer Group (\$)
Dollars of Total Direct Compensation (1) per Point of Total Stockholder Return	6,117,468	8,077,747

(1) Total direct compensation is the sum of annual base salaries, annual incentives, the value of long-term incentives at grant (as valued by Equilar, Inc.) and all other compensation as reported in the proxy statements. For 2006, 2007, 2008, and 2009, total direct compensation also includes the values reported in the change in pension values and nonqualified deferred compensation earnings column in the summary compensation table.

* The chart is not deemed filed or a part of this compensation discussion and analysis for certification purposes.

The results of the analysis showed that we paid our named executive officers less than what the performance graph peer group companies paid their named executive officers for comparable levels of stockholder return over the five-year period. Specifically, as indicated in the chart, the data shows that we paid our named executive officers approximately \$2,000,000 less per point of stockholder return than our performance graph peer group. We have been conducting our PEER4 Analysis since 2004.

Post-Termination Compensation and Benefits

Pension Plans

Effective in 2006, we no longer offer defined benefit pension plans to new non-bargaining unit employees. The defined benefit plans available to employees hired before 2006 were amended to cease benefit accruals as of December 31, 2009. The frozen benefit provided through our qualified defined benefit pension plans is determined by years of service and base salary. Effective 2010, for those employees who were participants in defined benefit pension plans and for executives and other non-bargaining unit employees hired after 2006, the company offers increased company contributions to our 401(k) plan. These retirement contributions are based on the participant's age as of December 31, 2009. The retirement contribution is 11.5% for each of the named executive officers, except Mr. Schwartz who is eligible for 10.5%. To the extent the contributions into the 401(k) plan exceed the Internal Revenue Code Section 415 limit, a cash payment was made to the named executive officers. The maximum amount distributed in the form of cash was \$5,475.

Supplemental Income Security Plan

Benefits Offered

We offer certain key managers and executives, including all of our named executive officers, benefits under our nonqualified retirement plan, which we refer to as the Supplemental Income Security Plan or SISP. The SISP has a ten-year vesting schedule and was amended to add an additional vesting requirement for benefit level increases occurring on or after January 1, 2010. The SISP provides participants with additional retirement income and death benefits.

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We believe the SISP is critical in retaining the talent necessary to drive long-term stockholder value. In addition, we believe that the ten-year vesting provision of the SISP, augmented by an additional three years of vesting for benefit level increases occurring on or after January 1, 2010, helps promote retention of key executive officers.

Benefit Levels

The chief executive officer recommends benefit level increases to the compensation committee for participants except himself. The chief executive officer considers, among other things, the participant's salary in relation to the salary ranges that correspond with the SISP benefit levels, the participant's performance, the performance of the applicable business unit or the company, and the cost associated with the benefit level increase.

The chief executive officer did not recommend a 2010 SISP benefit level increase for any of the named executive officers, and the committee chose not to grant a 2010 SISP benefit level increase to the chief executive officer. The primary reasons for no benefit level increases were cost containment and the absence of salary increases. The following table reflects our named executive officers' SISP levels as of December 31, 2010:

Name	December 31, 2010 Annual SISP Benefits	
	Survivor (\$)	Retirements (\$)
Terry D. Hildestad	1,025,040	512,520
Doran N. Schwartz	175,200	87,600
John G. Harp	548,400	274,200
Steven L. Bietz	386,640	193,320
David L. Goodin	291,480	145,740

Clawback

In November 2005, we implemented a guideline for repayment of incentives due to accounting restatements, commonly referred to as a clawback policy, whereby the compensation committee may seek repayment of annual and long-term incentives paid to executives if accounting restatements occur within three years after the payment of incentives under the annual and long-term plans. Under our clawback policy, the compensation committee may require executives to forfeit awards and may rescind vesting, or the acceleration of vesting, of an award.

Impact of Tax and Accounting Treatment

The compensation committee may consider the impact of tax and/or accounting treatment in determining compensation. Section 162(m) of the Internal Revenue Code places a limit of \$1 million on the amount of compensation paid to certain officers that we may deduct as a business expense in any tax year unless, among other things, the compensation qualifies as performance-based compensation, as that term is used in Section 162(m). Generally, long-term incentive compensation and annual incentive awards for our chief executive officer and those executive officers whose overall compensation is likely to exceed \$1 million are structured to be deductible for purposes of Section 162(m) of the Internal Revenue Code, but we may pay compensation to an executive officer that is not deductible. All annual or long-term incentive compensation paid to our named executive officers for 2010 satisfied the requirements for deductibility.

Section 409A of the Internal Revenue Code imposes additional income taxes on executive officers for certain types of deferred compensation if the deferral does not comply with Section 409A. We have amended our compensation plans and arrangements affected by Section 409A with the objective of not triggering any additional income taxes under Section 409A.

Section 4999 of the Internal Revenue Code imposes an excise tax on payments to executives and others of amounts that are considered to be related to a change of control if they exceed levels specified in Section 280G of the Internal Revenue Code. The potential impact of the Section 4999 excise tax is addressed with the modified tax payment provisions in the change of control employment agreements, which are described later in the proxy statement under the heading Potential Payments upon Termination or Change of Control. We do not consider the potential impact of Section 4999 or 280G when designing our compensation programs.

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The compensation committee also considers the accounting and cash flow implications of various forms of executive compensation. In our financial statements, we record salaries and annual incentive compensation as expenses in the amount paid, or to be paid, to the named executive officers. For our equity awards, accounting rules also require that we record an expense in our financial statements. We calculate the accounting expense of equity awards to employees in accordance with Financial Accounting Standards Board generally accepted accounting principles for stock-based compensation.

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Stock Ownership Requirements

We instituted stock ownership guidelines on May 5, 1993, which we revised in November 2010 to provide that executives who participate in our Long-Term Performance-Based Incentive Plan are required, rather than expected, to own our common stock within five years equal to a multiple of their base salaries. Stock owned through our 401(k) plan and stock owned by a spouse are considered in ownership calculations. Unvested performance shares and other unvested equity awards are not considered in ownership calculations. The level of stock ownership compared to the requirements is determined based on the closing sale price of the stock on the last trading day of the year and base salary at December 31 of each year. Each February, the compensation committee receives a report on the status of stock holdings by executives. The Committee may, in its sole discretion, grant an extension of time to meet the ownership requirements or take such other action as it deems appropriate to enable the executive to achieve compliance with the policy. The table shows the named executive officers' holdings as of December 31, 2010:

Name	Assigned Guideline Multiple of Base Salary	Actual Holdings as a Multiple of Base Salary	Number of Years at Guideline Multiple (#)
Terry D. Hildestad	4X	5.79	5.67
Doran N. Schwartz	3X	1.15	0.87(1)
John G. Harp	3X	3.83	6.25
Steven L. Bietz	3X	3.90	8.33
David L. Goodin	3X	1.98	2.83(2)

(1) Participant must meet ownership requirement by January 1, 2015.

(2) Participant must meet ownership requirement by January 1, 2014.

Policy Regarding Hedging Stock Ownership

Our executive compensation policy prohibits Section 16 officers from hedging their ownership of company common stock. Executives may not enter into transactions that allow the executive to benefit from devaluation of our stock or otherwise own stock technically but without the full benefits and risks of such ownership.

Compensation Committee Report

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis required by Reg. S-K, Item 402(b), with management. Based on the review and discussions referred to in the preceding sentence, the compensation committee recommended to the board of directors that the Compensation Discussion and Analysis be included in our proxy statement on Schedule 14A.

Thomas Everist, Chairman
Karen B. Fagg
Thomas C. Knudson
Patricia L. Moss

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Summary Compensation Table for 2010

Name and Principal Position (a)	Year (b)	Salary (\$)(c)	Bonus (\$)(d)	Stock Awards (\$)(e)(1)	Option Awards (\$)(f)	Non-Equity Incentive Plan Compensation (\$)(g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(h)(2)	All Other Compensation (\$)(i)	Total (\$)(j)
Terry D. Hildestad President and CEO	2010	750,000		830,137		762,750	480,532	37,499(3)	2,860,918
	2009	750,000		1,117,861		1,500,000	825,319	9,824	4,203,004
	2008	700,000		1,200,485		310,800	898,941	9,476	3,119,702
Vernon A. Raile(4) Executive Vice President, Treasurer and CFO	2010	57,945					86,663	14,465(3)	159,073
	2009	450,000		402,417		585,000	695,177	8,124	2,140,718
	2008	400,000		411,575		115,440	498,210	7,176	1,432,401
Doran N. Schwartz Vice President and CFO	2010	252,454		143,881		127,053	71,302	33,549(3)	628,239
	2009								
	2008								
John G. Harp President and CEO of MDU Construction Services Group, Inc.	2010	450,000		298,845		438,750	307,935 (7)	48,545(3)	1,544,075
	2009	450,000		402,417		392,500 (5)	761,670 (7)	23,272(8)	2,029,859
	2008	400,000		411,575		720,000 (6)	338,774 (7)	23,230(8)	1,893,579
Steven L. Bietz President and CEO of WBI Holdings, Inc.	2010	350,000		232,429		245,245	302,863	36,218(3)	1,166,755
	2009	350,000		312,987		450,450	475,985	8,084	1,597,506
	2008								
David L. Goodin President and CEO of Combined Utility Group	2010	322,000		213,846		320,438	240,494	39,127(3)	1,135,905
	2009								
	2008								

(1) Amounts in this column represent the aggregate grant date fair value of the performance share awards calculated in accordance with Financial Accounting Standards Board generally accepted accounting principles for stock-based compensation. This column was prepared assuming none of the awards will be forfeited. The amounts were calculated using a Monte Carlo simulation, as described in Note 13 of our audited financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010.

(2) Amounts shown represent the change in the actuarial present value for years ended December 31, 2008, 2009, and 2010 for the named executive officers accumulated benefits under the pension plan, excess SISP, and SISP and, for Mr. Harp, the additional retirement benefit, collectively referred to as the accumulated pension change, plus above market earnings on deferred annual incentives, if any. The amounts shown are based on accumulated pension change and above market earnings as of December 31, 2008, 2009, and 2010, as follows:

Name	Accumulated Pension Change			Above Market Earnings		
	12/31/2008 (\$)	12/31/2009 (\$)	12/31/2010 (\$)	12/31/2008 (\$)	12/31/2009 (\$)	12/31/2010 (\$)
Terry D. Hildestad	883,351	806,554	462,186	15,590	18,765	18,346
Vernon A. Raile	469,755	661,243	54,221	28,455	33,934	32,442
Doran N. Schwartz			71,302			
John G. Harp	331,558	743,334	294,023			
Additional Retirement (7)	7,216	18,336	13,912			

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Steven L. Bietz
David L. Goodin

475,985

302,863
240,494

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(3)

	401(k) \$(a)	Payment to Employee \$(b)	Life Insurance Premium (\$)	Matching Charitable Contribution (\$)	Office and Automobile Allowance (\$)	Additional LTD Premium (\$)	Total (\$)
Terry D. Hildestad	32,500	3,025	174	1,800			37,499
Vernon A. Raile	14,436		29				14,465
Doran N. Schwartz	32,500	575	174	300			33,549
John G. Harp	32,500	3,025	174		12,100	746	48,545
Steven L. Bietz	35,444		174	600			36,218
David L. Goodin	32,500	5,475	852	300			39,127

(a) Represents company contributions to 401(k) plan, which include matching contributions, contributions made in lieu of pension plan accruals after pension plans were frozen at December 31, 2009 and, in the case of Mr. Goodin, a profit-sharing contribution.

(b) Represents additional payment when company contributions to 401(k) plan in lieu of pension plan accruals were limited by Internal Revenue Code Section 415.

(4) Retired effective February 16, 2010.

(5) Includes one-time incentive payment of \$100,000 in addition to his annual incentive compensation.

(6) Includes one-time incentive payment of \$200,000 in addition to his annual incentive compensation.

(7) In addition to the change in the actuarial present value of Mr. Harp's accumulated benefit under the pension plan, excess SISP, and SISP, this amount also includes the following amounts attributable to Mr. Harp's additional retirement benefit:

	2008	2009	2010
Change in present value of additional years of service for pension plan	\$ 3,570	\$ 13,077	\$ 12,240
Change in present value of additional years of service for excess SISP	3,646	5,259	1,672
Change in present value of additional years of service for SISP			

Mr. Harp's additional retirement benefit is described in the narrative that follows the Pension Benefits for 2010 table. The additional retirement benefit provides Mr. Harp with additional retirement benefits equal to the additional benefit he would earn under the pension plan, excess SISP, and the SISP if he had three additional years of service. The pension and excess SISP were frozen as of December 31, 2009. The amounts in the table above reflect the change in present value of this additional benefit in 2008, 2009, and 2010. The additional retirement benefit was determined by calculating the actuarial present values of the accumulated benefits under the pension plan, excess SISP, and SISP, with and without the three additional years of service, using the same assumptions used to determine the amounts disclosed in the Pension Benefits for 2010 table. Because Mr. Harp would be fully vested in his SISP benefit if he retired at age 65, the assumed retirement age of these calculations, the additional years of service provided by the additional retirement agreement would not increase that benefit. If Mr. Harp retires before becoming 100% vested in his SISP benefit, his SISP benefit would be less than the amount shown in the Pension Benefits for 2010 table, but the payments he would receive under the additional retirement benefit arrangement would increase, as would the amounts reflected in the table above and in the Summary Compensation Table.

(8) Includes company contributions to Mr. Harp's 401(k) of a company match and retirement contribution, a matching contribution to a charity, payment of a life insurance premium, an additional premium for Mr. Harp's long-term disability insurance, and Mr. Harp's office and automobile allowance.

Grants of Plan-Based Awards in 2010

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	(#)	(#)	(\$/Sh)	(\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Terry D. Hildestad	3/5/10(1)	187,500	750,000	1,500,000							
	3/5/10(2)				4,771	47,709	95,418				830,137
Vernon A. Raile											
Doran N. Schwartz	3/5/10(3)	31,233	124,930	249,860							
	3/5/10(2)				827	8,269	16,538				143,881
John G. Harp	3/5/10(1)	73,125	292,500	585,000							
	3/5/10(2)				1,718	17,175	34,350				298,845
Steven L. Bietz	3/5/10(1)	56,875	227,500	455,000							
	3/5/10(2)				1,336	13,358	26,716				232,429
David L. Goodin	3/5/10(1)	52,325	209,300	418,600							
	3/5/10(2)				1,229	12,290	24,580				213,846

(1) Annual incentive for 2010 granted pursuant to the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan.

(2) Performance shares for the 2010-2012 performance period granted pursuant to the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan.

(3) Annual incentive for 2010 granted pursuant to the MDU Resources Group, Inc. Executive Incentive Compensation Plan.

Narrative Discussion Relating to the Summary Compensation Table and Grants of Plan-Based Awards Table

Incentive Awards

Annual Incentive

On March 5, 2010, the compensation committee recommended the 2010 annual incentive award opportunities for our named executive officers, and the board approved these opportunities at its meeting on March 5, 2010. These award opportunities are reflected in the Grants of Plan-Based Awards table at grant on March 5, 2010 in columns (c), (d), and (e) and in the Summary Compensation Table as earned with respect to 2010 in column (g).

Executive officers may receive a payment of annual cash incentive awards based upon achievement of annual performance measures with a threshold, target, and maximum level. A target incentive award is established based on a percent of the executive's base salary. Actual payment may range from zero to 200% of the target based upon achievement of goals.

In order to be eligible to receive a payment of an annual incentive award under the Long-Term Performance-Based Incentive Plan, Messrs. Hildestad, Harp, Bietz, and Goodin must have remained employed by the company through December 31, 2010, unless the compensation committee determines otherwise. The committee has full discretion to determine the extent to which goals have been achieved, the payment level, whether any final payment will be made, and whether to adjust awards downward based upon individual performance. Unless the compensation committee determines otherwise, performance measure targets shall be adjusted to take into account unusual or nonrecurring events affecting the company, subsidiary, division, or business unit, or any of their financial statements, or changes in applicable laws, regulations or accounting principles to the extent such unusual or nonrecurring events or changes in applicable laws, regulations or accounting principles otherwise would result in dilution or enlargement of the annual incentive award intended to be provided. Such adjustments are made in a manner that will not cause the award to fail to qualify as performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code.

With respect to annual incentive awards granted pursuant to the MDU Resources Group, Inc. Executive Incentive Compensation Plan, which includes Mr. Schwartz, participants who retire at age 65 during the year remain eligible to receive an award. Subject to

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the compensation committee's discretion, executives who terminate employment for other reasons are not eligible for an award. The compensation committee has full discretion to determine the extent to which goals have been achieved, the payment level, and whether any final payment will be made. Once performance goals are approved by the committee for executive incentive compensation plan awards, the committee generally does not modify the goals. However, if major unforeseen changes in economic and environmental

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conditions or other significant factors beyond the control of management substantially affected management's ability to achieve the specified performance goals, the committee, in consultation with the chief executive officer, may modify the performance goals. Such goal modifications will only be considered in years of unusually adverse or favorable external conditions.

Messrs. Harp's, Bietz's, and Goodin's performance goals for 2010 are budgeted earnings per share achieved and budgeted return on invested capital achieved, each weighted 50%. The goals are measured at the business unit level, as allocated, for Mr. Harp, Mr. Bietz, and Mr. Goodin. In addition to these performance goals, Mr. Bietz also has five individual performance goals relating to WBI Holdings, Inc.'s safety results, and each goal that is not met will reduce his annual incentive award payment by 1%.

For Messrs. Harp and Bietz, achievement of budgeted earnings per share and return on invested capital would result in payment of 100% of the target amount. Their 2010 award opportunities ranged from no payment if the allocated earnings per share and return on invested capital were below the 85% level to a 200% payout for achievement of 115% of budgeted earnings per share and a return on invested capital equal to or greater than the business unit's weighted average cost of capital would result in payment of 200% of the target amount.

The 2010 award opportunity available to Mr. Goodin ranged from no payment if the allocated earnings per share and return on invested capital results were below the 85% level to a 200% payout if results were at or above the 115% level.

Annual incentive award payments for Messrs. Hildestad and Schwartz were determined based on the annual incentive award payments made to the president and chief executive officers of the four business units—MDU Construction Services Group, Inc., combined utility group, WBI Holdings, Inc., and Knife River Corporation—and were calculated as follows: each business unit president and chief executive officer's annual incentive award payment, expressed as a percentage of his annual target award, was multiplied by that business unit's percentage share of average invested capital for 2010. These four products were added together, and the sum was multiplied by the Messrs. Hildestad's and Schwartz's 2010 target incentive. Messrs. Hildestad's and Schwartz's 2010 annual incentives were paid at 101.7% of target based on the following:

	Column A 2010 Payment as a Percentage of Annual Incentive Target	Column B Percentage of Average Invested Capital	Column A x Column B
President and Chief Executive Officer of: MDU Construction Services Group, Inc.	150.0%	5.6%	8.4%
Combined Utility Group	153.1%	35.0%	53.6%
WBI Holdings, Inc.	107.8%	33.8%	36.4%
Knife River Corporation	13.0%	25.6%	3.3%
Total			101.7%

The award opportunities available to Messrs. Harp and Bietz were:

2010 return on invested capital results as a % of 2010 target	Corresponding payment of annual incentive target based on return on invested capital	2010 earnings per share results as a % of 2010 target	Corresponding payment of annual incentive target based on earnings per share
Less than 85%	0%	Less than 85%	0%
85%	25%	85%	25%
90%	50%	90%	50%
95%	75%	95%	75%
100%	100%	100%	100%
103%	100%	103%	120%
106%	100%	106%	140%
109%	100%	109%	160%
112%	100%	112%	180%
Up to weighted average cost of capital	100%	115%	200%
Weighted average cost of capital or higher	200%		

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The award opportunity available to Mr. Goodin was:

2010 return on invested capital results as a % of 2010 target	Corresponding payment of annual incentive target based on return on invested capital	2010 earnings per share results as a % of 2010 target	Corresponding payment of annual incentive target based on earnings per share
Less than 85%	0%	Less than 85%	0%
85%	25%	85%	25%
90%	50%	90%	50%
95%	75%	95%	75%
100%	100%	100%	100%
103%	120%	103%	120%
106%	140%	106%	140%
109%	160%	109%	160%
112%	180%	112%	180%
115%	200%	115%	200%

For discussion of the specific incentive plan performance targets and results, please see the Compensation Discussion and Analysis.

Long-Term Incentive

On March 5, 2010, the compensation committee recommended long-term incentive grants to the named executive officers in the form of performance shares, and the board approved these grants at its meeting on March 5, 2010. These grants are reflected in columns (f), (g), (h), and (i) of the Grants of Plan-Based Awards table and in column (e) of the Summary Compensation Table.

If the company's 2010-2012 total shareholder return is positive, from 0% to 200% of the target grant will be paid out in February 2013, depending on our 2010-2012 total stockholder return compared to the total three-year stockholder returns of companies in our performance graph peer group. The payout percentage is determined as follows:

The Company's Percentile Rank	Payout Percentage of March 5, 2010 Grant
90th or higher	200%
70th	150%
50th	100%
40th	10%
Less than 40th	0%

Payouts for percentile ranks falling between the intervals will be interpolated. We also will pay dividend equivalents in cash on the number of shares actually earned for the performance period. The dividend equivalents will be paid in 2013 at the same time as the performance awards are paid.

If the company's 2010-2012 total shareholder return is negative, the committee will reduce the shares otherwise earned by at least 50%.

Company Contributions to 401(k) Plan and Cash Payments to Named Executive Officers

In 2010, the company made additional contributions to the 401(k) plan and cash payments to the named executive officers to make up for pension benefits that did not accrue under the plans as a result of amendments that froze the pension plans effective December 31, 2009. The cash payments were made because the Internal Revenue Code limited the amount of additional contributions that could be made under the 401(k) plan.

Salary and Bonus in Proportion to Total Compensation

The following table shows the proportion of salary to total compensation. We paid no bonuses to our named executive officers in 2010.

Name	Salary (\$)	Total Compensation	Salary as % of Total
------	-------------	--------------------	----------------------

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		(\$)	Compensation
Terry D. Hildestad	750,000	2,860,918	26.2
Vernon A. Raile	57,945	159,073	36.4
Doran N. Schwartz	252,454	628,239	40.2
John G. Harp	450,000	1,544,075	29.1
Steven L. Bietz	350,000	1,166,755	30.0
David L. Goodin	322,000	1,135,905	28.3

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Outstanding Equity Awards at Fiscal Year-End 2010

Name	Option Awards					Stock Awards		Equity	
	Number of Securities Underlying Unexercised Options Exercisable (#) (a)	Number of Securities Underlying Unexercised Options Unexercisable (#) (b)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) (d)	Option Exercise Price (\$) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (h)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#) (i)(1)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) (j)(2)
Terry D. Hildestad								14,162	287,064
Vernon A. Raile								2,108	42,729
Doran N. Schwartz								1,672	33,891
John G. Harp								5,032	101,999
Steven L. Bietz								3,920	79,458
David L. Goodin								3,215	65,168

(1) Below is a breakdown by year of the plan awards:

Named Executive Officer	Award	Shares	End of Performance Period
Terry D. Hildestad	2008	3,909	12/31/10
	2009	5,482	12/31/11
	2010	4,771	12/31/12
Vernon A. Raile	2008	1,340	12/31/10
	2009	768	12/31/11
	2010		
Doran N. Schwartz	2008	354	12/31/10
	2009	491	12/31/11
	2010	827	12/31/12
John G. Harp	2008	1,340	12/31/10
	2009	1,974	12/31/11
	2010	1,718	12/31/12
Steven L. Bietz	2008	1,049	12/31/10
	2009	1,535	12/31/11
	2010	1,336	12/31/12
David L. Goodin	2008	618	12/31/10
	2009	1,368	12/31/11
	2010	1,229	12/31/12

Shares for the 2008 award are shown at the threshold level (10%) based on results for the 2008-2010 performance cycle below threshold. Shares for the 2009 award are shown at the threshold level (10%) based on results for the first two years of the 2009-2011 performance cycle below threshold. Shares for the 2010 award are shown at the threshold level (10%) based on results for the first year of the 2010-2012 performance cycle below threshold.

(2) Value based on the number of performance shares reflected in column (i) multiplied by \$20.27, the year-end closing price for 2010.

Option Exercises and Stock Vested during 2010

Option Awards

Stock Awards

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Name	Number of Shares Acquired on Exercise (#) (a) (b)(1)	Value Realized on Exercise (\$) (c)	Number of Shares Acquired on Vesting (#) (d)(1,2)	Value Realized on Vesting (\$) (e)(3)
Terry D. Hildestad			36,803	793,972
Vernon A. Raile			13,678	295,606
Doran N. Schwartz			3,463	75,398
John G. Harp			10,181	221,666
Steven L. Bietz			10,912	236,480
David L. Goodin	10,000	74,901	5,764	122,567

(1) Adjusted for the 3-for-2 stock split effective July 26, 2006.

(2) Reflects performance shares for the 2007-2009 performance period that vested on February 11, 2010 and restricted stock granted in 2001 that vested automatically on February 15, 2010.

(3) Reflects the value of performance shares based on our closing stock price of \$19.99 on February 11, 2010, and the dividend equivalents that were paid on the vested shares; as well as the value of restricted shares based on our closing stock price of \$19.80 on February 12, 2010 as February 15, 2010 was a holiday.

Pension Benefits for 2010

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During Last Fiscal Year
(a)	(b)	(#)	(\$)	(\$)
		(c)	(d)	(e)
Terry D. Hildestad	MDU Pension Plan	35	1,471,844	
	SISP I(1)(3)	10	1,674,919	
	SISP II(2)(3)	10	2,765,541	
	SISP Excess(4)	35	706,848	
Vernon A. Raile	MDU Pension Plan	30	1,088,131	74,301
	SISP I(1)(3)	10	891,431	73,000
	SISP II(2)(3)	10	1,898,870	157,016
Doran N. Schwartz	MDU Pension Plan	4	54,721	
	SISP II(2)(3)	3	279,585	
John G. Harp	MDU Pension Plan	5	202,141	
	SISP II(2)(3)	5	2,045,166	
	SISP Excess(4)	5	36,989	
	Harp Additional Retirement Benefit	3	134,049	
Steven L. Bietz	WBI Pension Plan	28	799,534	
	SISP I(1)(3)	10	544,926	
	SISP II(2)(3)	10	523,700	
	SISP Excess(4)	28	81,672	
David L. Goodin	MDU Pension Plan	26	624,022	
	SISP I(1)(3)	10	142,762	
	SISP II(2)(3)	10	550,778	
	SISP Excess(4)	26	24,546	

- (1) Grandfathered under Section 409A.
(2) Not grandfathered under Section 409A.
(3) Years of credited service only affects vesting under SISP I and SISP II. The number of years of credited service in the table reflects the years of vesting service completed in SISP I and SISP II as of December 31, 2010, rather than years of service with the company, which we disclosed in prior proxy statements. Ten years of vesting service is required of the named executive officers as of December 31, 2010, to obtain the full benefit under these plans. The present value of accumulated benefits was calculated by assuming the named executive officer would have ten years of vesting service on the assumed benefit commencement date; therefore, no reduction was made to reflect actual vesting levels.
(4) The number of years of credited service under the SISP excess reflects the years of credited benefit service in the appropriate pension plan as of December 31, 2009 when the pension plans were frozen, rather than reflecting the years of participation in the SISP excess which we disclosed in prior proxy statements. This is due to the fact that the SISP excess provides a benefit in excess of benefits payable under the pension plans.

The amounts shown for the pension plan and SISP excess represent the actuarial present values of the executives' accumulated benefits accrued as of December 31, 2010, calculated using a 5.12%, 5.20%, and 5.34% discount rate for the SISP excess, MDU pension plan, and WBI pension plan, respectively, the RP-2000 Combined Healthy Mortality Table Projected to 2010 for post-retirement mortality, and no recognition of future salary increases or pre-retirement mortality. The assumed retirement ages for these benefits was age 60 for Messrs. Schwartz, Harp, Bietz, and Goodin. This is the earliest age at which the executives could begin receiving unreduced benefits. Retirement on December 31, 2010, was assumed for Mr. Hildestad, who was age 61 on that date. Mr. Raile's benefits reflect his actual retirement commencement date of February 16, 2010. The amounts shown for the SISP I and SISP II were determined using a 5.12% discount rate and assume benefits commenced at age 65. The assumptions used to calculate Mr. Harp's additional retirement benefit are described below.

Pension Plans

Messrs. Hildestad, Raile, Schwartz, Harp, and Goodin participate in the MDU Resources Group, Inc. Pension Plan for Non-Bargaining Unit Employees, which we refer to as the MDU pension plan. Mr. Bietz participates in the Williston Basin Interstate Pipeline Company Pension Plan, which we refer to as the WBI pension plan. Pension benefits under the pension plans are based

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on the participant's average annual salary over the 60 consecutive month period in which the participant received the highest annual salary during the participant's final 10 years of service. For this purpose, only a participant's salary is considered; incentives and other forms of compensation are not included. Benefits are determined by multiplying (1) the participant's years of credited service by (2) the sum of (a) the average annual salary up to the social security integration level times 1.1% and (b) the average annual salary over the social security integration level times 1.45%. The maximum years of service recognized when determining benefits under the pension plans is 35. Pension plan benefits are not reduced for social security benefits.

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Each of the pension plans was amended to cease benefit accruals as of December 31, 2009, meaning the normal retirement benefit will not change. The years of credited service reflect the years as of December 31, 2009 and have not changed.

To receive unreduced retirement benefits under the pension plans, participants must either remain employed until age 60 or elect to defer commencement of benefits until age 60. Mr. Hildestad was eligible for unreduced retirement benefits under the MDU pension plan on December 31, 2010. Participants whose employment terminates between the ages of 55 and 60, with 5 years of service under the pension plans are eligible for early retirement benefits. Early retirement benefits are determined by reducing the normal retirement benefit by 0.25% per month for each month before age 60 in the pension plans. If a participant's employment terminates before age 55, the same reduction applies for each month the termination occurs before age 62, with the reduction capped at 21%. Mr. Harp is currently eligible for early retirement benefits.

Benefits for single participants under the pension plans are paid as straight life annuities and benefits for married participants are paid as actuarially reduced annuities with a survivor benefit for spouses, unless participants choose otherwise. Participants hired before January 1, 2004, who terminate employment before age 55 may elect to receive their benefits in a lump sum. Messrs. Bietz and Goodin would have been eligible for a lump sum if they had retired on December 31, 2010.

The Internal Revenue Code limits the amounts that may be paid under the pension plans and the amount of compensation that may be recognized when determining benefits. In 2009 when the pension plans were frozen, the maximum annual benefit payable under the pension plans was \$195,000 and the maximum amount of compensation that could be recognized when determining benefits was \$245,000.

Supplemental Income Security Plan

We also offer key managers and executives, including all of our named executive officers, benefits under our nonqualified retirement plan, which we refer to as the Supplemental Income Security Plan or SISP. Benefits under the SISP consist of:

- a supplemental retirement benefit intended to augment the retirement income provided under the pension plans we refer to this benefit as the regular SISP benefit

- an excess retirement benefit relating to Internal Revenue Code limitations on retirement benefits provided under the pension plans we refer to this benefit as the SISP excess benefit, and

- death benefits we refer to these benefits as the SISP death benefit.

Effective January 1, 2010, we amended the SISP to:

- reduce by 20% the regular SISP and death benefit levels in the benefit schedule used to determine regular SISP and death benefits for new participants and participants whose benefit levels increase on or after January 1, 2010

- impose an additional vesting period applicable to any increased regular SISP benefit and SISP death benefit occurring on or after January 1, 2010

- eliminate the SISP excess benefit for new participants and current participants who were not already eligible for the SISP excess benefit, and

- freeze SISP excess benefit accruals.

SISP benefits are forfeited if the participant's employment is terminated for cause.

Regular SISP Benefits and Death Benefits

Regular SISP benefits and death benefits are determined by reference to one of two schedules attached to the SISP - the original schedule or the amended schedule. Our compensation committee, after receiving recommendations from our chief executive officer, determines the level at which participants are placed in the schedules. A participant's placement is generally, but not always, determined by reference to the participant's annual base salary. Benefit levels in the amended schedule, which became effective on

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January 1, 2010, are 20% lower than the benefit levels in the original schedule. The amended schedule applies to new participants and participants who receive a benefit level increase on or after January 1, 2010.

Participants can elect to receive (1) the regular SISP benefit only, (2) the SISP death benefit only, or (3) a combination of both. Regardless of the participant's election, if the participant dies before the regular SISP benefit would commence, only the SISP death benefit is provided. If the participant elects to receive both a regular SISP benefit and a SISP death benefit, each of the benefits is reduced proportionately.

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The regular SISP benefits reflected in the table above are based on the assumption that the participant elects to receive only the regular SISP benefit. The present values of the SISP death benefits that would be provided if the named executive officers had died on December 31, 2010, prior to the commencement of regular SISP benefits, are reflected in the table that appears in the section entitled Potential Payments upon Termination or Change of Control.

Regular SISP benefits that were vested as of December 31, 2004 and were thereby grandfathered under Section 409A of the Internal Revenue Code remain subject to SISP provisions then in effect, which we refer to as SISP I benefits. Regular SISP benefits that are subject to Section 409A of the Internal Revenue Code, which we refer to as SISP II benefits, are governed by amended provisions intended to comply with Section 409A. Participants generally have more discretion with respect to the distributions of their SISP I benefits.

The time and manner in which the regular SISP benefits are paid depend on a variety of factors, including the time and form of benefit elected by the participant and whether the benefits are SISP I or SISP II benefits. Unless the participant elects otherwise, the SISP I benefits are paid over 180 months, with benefits commencing when the participant attains age 65 or, if later, when the participant retires. The SISP II benefits commence when the participant attains age 65 or, if later, when the participant retires, subject to a six-month delay if the participant is subject to the provisions of Section 409A of the Internal Revenue Code that require delayed commencement of these types of retirement benefits. The SISP II benefits are paid over 180 months or, if commencement of payments is delayed for six months, 173 months. If the commencement of benefits is delayed for six months, the first payment includes the payments that would have been paid during the six-month period plus interest equal to one-half of the annual prime interest rate on the participant's last date of employment. If the participant dies after the regular SISP benefits have begun but before receipt of all of the regular SISP benefits, the remaining payments are made to the participant's designated beneficiary.

Rather than receiving their regular SISP I benefits in equal monthly installments over 15 years commencing at age 65, participants can elect a different form and time of commencement of their SISP I benefits. Participants can elect to defer commencement of the regular SISP I benefits. If this is elected, the participant retains the right to receive a monthly SISP death benefit if death occurs prior to the commencement of the regular SISP I benefit.

Participants also can elect to receive their SISP I benefits in one of three actuarially equivalent forms—a life annuity, 100% joint and survivor annuity, or a joint and two-thirds joint and survivor annuity, provided that the cost of providing these actuarial equivalent forms of benefits does not exceed the cost of providing the normal form of benefit. Neither the election to receive an actuarial equivalent benefit nor the administrator's right to pay the regular SISP benefit in the form of an actuarially equivalent lump sum are available with respect to SISP II benefits.

To promote retention, the regular SISP benefits are subject to the following ten-year vesting schedule:

0% vesting for less than 3 years of participation

20% vesting for 3 years of participation

40% vesting for 4 years of participation, and

an additional 10% vesting for each additional year of participation up to 100% vesting for 10 years of participation.

There is an additional vesting requirement on benefit level increases for the regular SISP benefit granted on or after January 1, 2010. The requirement applies only to the increased benefit level. The increased benefit vests after the later of three additional years of participation in the SISP or the end of the regular vesting schedule described above. The additional three-year vesting requirement for benefit level increases is pro-rated for participants who are officers, attain age 65, and, pursuant to the company's bylaws, are required to retire prior to the end of the additional vesting period as follows:

33% of the increase vests for participants required to retire at least one year but less than two years after the increase is granted, and

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66% of the increase vests for participants required to retire at least two years but less than three years after the increase is granted.

The benefit level increases of participants who attain age 65 and are required to retire pursuant to the company's bylaws will be further reduced to the extent the participants are not fully vested in their regular SISP benefit under the 10-year vesting schedule described above. The additional vesting period associated with a benefit level increase may be waived by the compensation committee.

SISP death benefits become fully vested if the participant dies while actively employed. Otherwise, the SISP death benefits are subject to the same vesting schedules as the regular SISP benefits.

The SISP also provides that if a participant becomes totally disabled, the participant will continue to receive credit for up to two additional years under the SISP as long as the participant is totally disabled during such time. Since the named executive officers other than

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Messrs. Harp and Schwartz are fully vested in their SISP benefits, this would not result in any incremental benefit for the named executive officers other than Messrs. Harp and Schwartz. The present value of these two additional years of service for Messrs. Harp and Schwartz are reflected in the table in Potential Payments upon Termination or Change of Control below.

SISP Excess Benefits

SISP excess benefits are equal to the difference between (1) the monthly retirement benefits that would have been payable to the participant under the pension plans absent the limitations under the Internal Revenue Code and (2) the actual benefits payable to the participant under the pension plans. Participants are only eligible for the SISP excess benefits if (1) the participant is fully vested under the pension plan, (2) the participant's employment terminates prior to age 65, and (3) benefits under the pension plan are reduced due to limitations under the Internal Revenue Code on plan compensation. Effective January 1, 2005, participants who were not then vested in the SISP excess benefits were also required to remain actively employed by the company until age 60. In 2009, the plan was amended to limit eligibility for the SISP excess benefit to current SISP participants (1) who are already vested in the SISP excess benefit or (2) who will become vested in the SISP excess benefits if they remain employed with the company until age 60. The plan was further amended to freeze the SISP excess benefits to a maximum of the benefit level payable based on the participant's years of service and compensation level as of December 31, 2009. Messrs. Hildestad and Bietz would be entitled to the SISP excess benefit if they were to terminate employment prior to age 65. Messrs. Goodin and Harp must remain employed until age 60 to become entitled to their SISP excess benefit. Mr. Raile was not eligible for this benefit due to his retirement upon attainment of age 65. Mr. Schwartz is not eligible for this benefit.

Benefits generally commence six months after the participant's employment terminates and continue to age 65 or until the death of the participant, if prior to age 65. If a participant who dies prior to age 65 elected a joint and survivor benefit, the survivor's SISP excess benefit is paid until the date the participant would have attained age 65.

Mr. Harp's Additional Retirement Benefit

To encourage Mr. Harp to remain with the company, on November 16, 2006, upon recommendation of our chief executive officer and the compensation committee, our board of directors approved an additional retirement benefit for Mr. Harp. The benefit provides for Mr. Harp to receive payments that represent the equivalent of an additional three years of service under the pension plan, SISP excess, and SISP II. The additional three years of service recognize Mr. Harp's previous employment with a subsidiary of the company. To calculate payments Mr. Harp could receive due to his additional retirement benefit, we applied the additional years of service to each of the retirement arrangements and assumed he remained employed until age 60, for purposes of calculating the additional benefit under the pension plan and SISP excess, and age 65, for purposes of calculating the additional benefit under the SISP II. Since the pension plan and SISP excess were frozen as of December 31, 2009, no additional accruals will be recognized. Because we calculate the amounts shown in the table based on an assumption that the named executive officers are 100% vested in their SISP benefits, the additional years of service provided by the agreement would not increase his SISP II benefit reflected in the table. Consequently, the additional retirement benefit amount shown in the table does not include any additional benefit attributable to the SISP II. If Mr. Harp were to retire before achieving 10 years of service and becoming fully vested in his SISP II benefit, the additional years of service provided by the additional retirement benefit would increase his vesting percentage under the SISP II and, therefore, would increase his benefits under the SISP II. For a description of the payments that could be provided under the additional retirement benefit if Mr. Harp's employment were to be terminated on December 31, 2010, refer to the table and related notes in Potential Payment upon Termination or Change of Control below.

Nonqualified Deferred Compensation for 2010

Name	Executive Contributions in Last FY (\$)	Registrant Contributions in Last FY (\$)	Earnings in Aggregate Last FY (\$)	Aggregate Withdrawals/Distributions (\$)	Aggregate Balance at Last FYE (\$)
(a)	(b)	(c)	(d)	(e)	(f)
Terry D. Hildestad			59,628		895,559
Vernon A. Raile			107,777		1,618,568
Doran N. Schwartz					
John G. Harp					
Steven L. Bietz					
David L. Goodin					

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Participants in the executive incentive compensation plans may elect to defer up to 100% of their annual incentive awards. Deferred amounts accrue interest at a rate determined annually by the compensation committee. The interest rate in effect for 2010 was 6.91% or the Moody's Rate, which was defined by reference to the U.S. Long-Term Corporate Bond Yield Average for A rated companies. Effective January 1, 2010, Moody's Rate is the average of (i) the number that results from adding the daily Moody's U.S. Long-Term Corporate Bond Yield Average for A rated companies as of the last day of each month for the 12-month period ending October 31 and

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dividing by 12 and (ii) the number that results from adding the daily Moody's U.S. Long-Term Corporate Bond Yield Average for BBB rated companies as of the last day of each month for the 12-month period ending October 31 and dividing by 12. The deferred amount will be paid in accordance with the participant's election, following termination of employment or beginning in the fifth year following the year the award was granted. The amounts will be paid in accordance with the participant's election in a lump sum or in monthly installments not to exceed 120 months. In the event of a change of control, all amounts become immediately payable.

A change of control is defined as

an acquisition during a 12-month period of 30% or more of the total voting power of our stock

an acquisition of our stock that, together with stock already held by the acquirer, constitutes more than 50% of the total fair market value or total voting power of our stock

replacement of a majority of the members of our board of directors during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of our board of directors or

acquisition of our assets having a gross fair market value at least equal to 40% of the total gross fair market value of all of our assets.

Potential Payments upon Termination or Change of Control

The following tables show the payments and benefits our named executive officers would receive in connection with a variety of employment termination scenarios and upon a change of control. For the named executive officers other than Mr. Raile, the information assumes the terminations and the change of control occurred on December 31, 2010. For Mr. Raile, the information relates to his actual retirement on February 16, 2010 and assumes that a change of control occurred on December 31, 2010. All of the payments and benefits described below would be provided by the company or its subsidiaries.

The tables exclude compensation and benefits provided under plans or arrangements that do not discriminate in favor of the named executive officers and that are generally available to all salaried employees, such as benefits under our qualified defined benefit pension plan, accrued vacation pay, continuation of health care benefits, and life insurance benefits. The tables also do not include the named executive officers' benefits under our nonqualified deferred compensation plans, which are reported in the Nonqualified Deferred Compensation for 2010 table. See the Pension Benefits for 2010 table and the Nonqualified Deferred Compensation for 2010 table, and accompanying narratives, for a description of the named executive officers' accumulated benefits under our qualified defined benefit pension plans and our nonqualified deferred compensation plans.

We provide disability benefits to some of our salaried employees equal to 60% of their base salary, subject to a cap on the amount of base salary taken into account when calculating benefits. For officers, the limit on base salary is \$200,000. For other salaried employees, the limit is \$100,000. For all salaried employees, disability payments continue until age 65 if disability occurs at or before age 60 and for 5 years if disability occurs between the ages of 60 and 65. Disability benefits are reduced for amounts paid as retirement benefits. The amounts in the tables reflect the present value of the disability benefits attributable to the additional \$100,000 of base salary recognized for executives under our disability program, subject to the 60% limitation, after reduction for amounts that would be paid as retirement benefits. As the tables reflect, with the exception of Messrs. Schwartz, Harp, and Goodin, the reduction for amounts paid as retirement benefits would eliminate disability benefits assuming a termination of employment on December 31, 2010.

Upon a change of control, share-based awards granted under our Long-Term Performance-Based Incentive Plan vest and non-share-based awards are paid in cash. All performance share awards and the annual incentives for Messrs. Hildestad, Harp, Bietz, and Goodin, which were awarded under the Long-Term Performance-Based Incentive Plan, would vest at their target levels. For this purpose, the term "change of control" is defined as:

the acquisition by an individual, entity, or group of 20% or more of our outstanding common stock

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a change in a majority of our board of directors since April 22, 1997 without the approval of a majority of the board members as of April 22, 1997 or whose election was approved by such board members

consummation of a merger or similar transaction or sale of all or substantially all of our assets, unless our stockholders immediately prior to the transaction beneficially own more than 60% of the outstanding common stock and voting power of the resulting corporation in substantially the same proportions as before the merger, no person owns 20% or more of the resulting corporation's outstanding common stock or voting power except for any such ownership that existed before the merger and at least a majority of the board of the resulting corporation is comprised of our directors or

stockholder approval of our liquidation or dissolution.

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Performance shares are forfeited if termination of employment occurs during the first year of the performance period. If a termination of employment occurs for a reason other than cause, performance share awards granted prior to 2009 are prorated as follows:

if the termination of employment occurs during the second year of the performance period, the executive receives a prorated portion of any performance shares earned based on the number of months employed during the performance period and

if the termination of employment occurs during the third year of the performance period, the executive receives the full amount of any performance shares earned.

Beginning with performance share awards granted in 2009, these awards will be forfeited if the participant's employment terminates for any reason before the participant has reached age 55 and completed 10 years of service. Performance shares and related dividend equivalents for those participants whose employment is terminated other than for cause after the participant has reached age 55 and completed 10 years of service will be prorated as described above.

Accordingly, if a December 31, 2010 termination other than for cause without a change of control is assumed, the named executive officers' 2010-2012 performance share awards would be forfeited, any amounts earned under the 2009-2011 performance share awards for Mr. Hildestad would be reduced by one-third and such awards for Messrs. Schwartz, Harp, Bietz, and Goodin would be forfeited, and any amounts earned under the 2008-2010 performance share awards would not be reduced. The number of performance shares earned following a termination depends on actual performance through the full performance period. As actual performance for the 2008-2010 performance share awards has been determined, the amounts for these awards in the event of a termination without a change of control were based on actual performance, which resulted in vesting of 0% of the target award. For the 2009-2011 performance share awards, because we do not know what actual performance through the entire performance period will be, we have assumed target performance will be achieved and, therefore, show two-thirds of the target award. No amounts are shown for the 2010-2012 performance share awards because such awards would be forfeited. Although vesting would only occur after completion of the performance period, the amounts shown in the tables were not reduced to reflect the present value of the performance shares that could vest. Dividend equivalents attributable to earned performance shares would also be paid. Dividend equivalents accrued through December 31, 2010 are included in the amounts shown.

The value of the vesting of performance shares shown in the tables was determined by multiplying the number of performance shares that would vest due to termination or a change of control by the closing price of our stock on December 31, 2010.

Except for Mr. Hildestad, we also have change of control employment agreements with our named executive officers and other executives, which provide certain protections to the executives in the event there is a change of control of the company. Mr. Hildestad requested that his change of control employment agreement be terminated in June 2010. The compensation committee notified other executives with change of control employment agreements that their agreements would not be extended beyond their current expiration dates.

For these purposes, we define "change of control" as:

the acquisition by an individual, entity, or group of 20% or more of our outstanding common stock

a change in a majority of our board of directors since the date of the agreement without the approval of a majority of the board members as of the date of the agreement or whose election was approved by such board members

consummation of a merger of similar transaction or sale of all or substantially all of our assets, unless our stockholders immediately prior to the transaction beneficially own more than 60% of the outstanding common stock and voting power of the resulting corporation in substantially the same proportions as before the merger, no person owns 20% or more of the resulting corporation's outstanding common stock or voting power except for any such ownership that existed before the merger and at least a majority of the board of the resulting corporation is comprised of our directors or

stockholder approval of our liquidation or dissolution.

If a change of control occurs, the agreements provide for a three-year employment period from the date of the change of control, during which the named executive officer is entitled to receive:

a base salary of not less than twelve times the highest monthly salary paid within the preceding twelve months

annual incentive opportunity of not less than the highest annual incentive paid in any of the three years before the change of control

participation in our incentive, savings, retirement, and welfare benefit plans

reasonable vehicle allowance, home office allowance, and subsidized annual physical examinations and

office and support staff, vacation, and expense reimbursement consistent with such benefits as they were provided before the change of control.

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Assuming a change of control occurred on December 31, 2010, the guaranteed minimum level of base salary provided over the three-year employment period would not result in an increase in any of the named executive officers' base salaries. The minimum annual incentive opportunities Messrs. Schwartz, Harp, Bietz, and Goodin would be eligible to earn over the three-year employment period would be \$780,000, \$1,350,000, \$1,050,000, and \$966,000, respectively. The agreements also provide that severance payments and benefits will be provided:

if we terminate the named executive officer's employment during the employment period, other than for cause or disability, or the named executive officer resigns for good reason.

Cause means the named executive officer's willful and continued failure to substantially perform his duties or willfully engaging in illegal conduct or gross misconduct materially injurious to the company. Good reason includes:

a material diminution of the named executive officer's authority, duties, or responsibilities

a material change in the named executive officer's work location and

our material breach of the agreement.

In such event, the named executive officer would receive:

accrued but unpaid base salary and accrued but unused vacation

a lump sum payment equal to three times his (a) annual salary using the higher of the then current annual salary or twelve times the highest monthly salary paid within the twelve months before the change of control and (b) annual incentive using the highest annual incentive paid in any of the three years before the change of control or, if higher, the annual incentive for the most recently completed fiscal year

a pro-rated annual incentive for the year of termination

an amount equal to the actuarial equivalent of the additional benefit the named executive officer would receive under the SISF and any other supplemental or excess retirement plan if employment continued for an additional three years

outplacement benefits and

a payment equal to any federal excise tax on excess parachute payments if the total parachute payments exceed 110% of the safe harbor amount for that tax. If this 110% threshold is not exceeded, the named executive officer's payments and benefits would be reduced to avoid the tax. The named executive officers are not reimbursed for any taxes imposed on this tax reimbursement payment.

This description of severance payments and benefits reflects the terms of the agreements as in effect on December 31, 2010.

The compensation committee may also consider providing severance benefits on a case-by-case basis for employment terminations not related to a change of control. The compensation committee adopted a checklist of factors in February 2005 to consider when determining whether any such severance benefits should be paid. The tables do not reflect any such severance benefits, as these benefits are made in the discretion of the committee on a case-by-case basis and it is not possible to estimate the severance benefits, if any, that would be paid.

Proxy Statement

Terry D. Hildestad

Executive Benefits and Payments Upon Termination or Change of Control	Voluntary Termination (\$)	Not for Cause Termination (\$)	For Cause Termination (\$)	Death (\$)	Disability (\$)	Not for Cause or Good Reason Termination Following Change of Control (\$)	Change of Control (Without Termination) (\$)
Compensation:							
Short-term Incentive(1)						750,000	750,000
2008-2010 Performance Shares						864,986	864,986
2009-2011 Performance Shares	786,809	786,809		786,809	786,809	1,180,224	1,180,224
2010-2012 Performance Shares						997,357	997,357
Benefits and Perquisites:							
Regular SISP(2)	4,440,460	4,440,460			4,440,460	4,440,460	
Excess SISP(3)	706,848	706,848			706,848	706,848	
SISP Death Benefits(4)				10,762,627			
Total	5,934,117	5,934,117		11,549,436	5,934,117	8,939,875	3,792,567

- (1) Represents the target 2010 annual incentive, which would be deemed earned upon change of control under the Long-Term Performance-Based Incentive Plan.
- (2) Represents the present value of Mr. Hildestad's vested regular SISP benefit as of December 31, 2010, which was \$42,710 per month for 15 years, commencing at age 65. Present value was determined using a 5.12% discount rate. The terms of the regular SISP benefit are described following the Pension Benefits for 2010 table.
- (3) Represents the present value of all excess SISP benefits Mr. Hildestad would be entitled to upon termination of employment under the SISP. Present value was determined using a 5.12% discount rate. The terms of the excess SISP benefit are described following the Pension Benefits for 2010 table.
- (4) Represents the present value of 180 monthly payments of \$85,420 per month, which would be paid as a SISP death benefit under the SISP. Present value was determined using a 5.12% discount rate. The terms of the SISP death benefit are described following the Pension Benefits for 2010 table.

Proxy Statement

Vernon A. Raile

Executive Benefits and Payments Upon Termination or Change of Control(1)	Voluntary Termination (\$)	Not for Cause Termination (\$)	For Cause Termination (\$)	Death (\$)	Disability (\$)	Not for Cause or Good Reason Termination Following Change of Control (\$)	Change of Control (Without Termination) (\$)
Compensation:							
Base Salary							
Short-term Incentive							
2008-2010 Performance Shares							296,553
2009-2011 Performance Shares	165,224						165,224
2010-2012 Performance Shares							
Total	165,224						461,777

- (1) Mr. Raile retired on February 16, 2010. The information in this table relates to his actual retirement on February 16, 2010 and assumes that a change of control occurred on December 31, 2010. His termination qualified as normal retirement under our qualified pension plan and our SISIP. The amount shown for the 2009-2011 Performance Shares is the target award, prorated based on the number of months Mr. Raile worked during the performance period. Mr. Raile also had an accumulated benefit under our nonqualified deferred compensation plan. These plans and Mr. Raile's benefits under them are described in the Pension Benefits for 2010 table and the Nonqualified Deferred Compensation for 2010 table and accompanying narratives.

Proxy Statement

Doran N. Schwartz

Executive Benefits and Payments Upon Termination or Change of Control	Voluntary Termination (\$)	Not for Cause Termination (\$)	For Cause Termination (\$)	Death (\$)	Disability (\$)	Not for Cause or Good Reason Termination Following Change of Control (\$)	Change of Control (Without Termination) (\$)
Compensation:							
Base Salary						780,000	
Short-term Incentive(1)						725,040	
2008-2010 Performance Shares						78,243	78,243
2009-2011 Performance Shares						105,635	105,635
2010-2012 Performance Shares						172,863	172,863
Benefits and Perquisites:							
Regular SISP					110,271(2)	137,839(3)	
SISP Death Benefits(4)				1,839,550			
Disability Benefits(5)					781,632		
Outplacement Services						50,000	
280G Tax(6)						362,763	
Total				1,839,550	891,903	2,412,383	356,741

- (1) Includes the prorated annual incentive for the year of termination, which is the full annual incentive since we assume termination occurred on December 31, 2010, and the additional severance payment of three times the annual incentive. For each of these, we used the higher of (1) the annual incentive earned in 2010 or (2) the highest annual incentive paid in 2008, 2009, and 2010.
- (2) Represents the present value of the additional SISP retirement benefit due to an additional two years vesting under our SISP. The terms of the regular SISP benefit are described following the Pension Benefits for 2010 table. Present value was determined using a 5.12% discount rate.
- (3) Represents the payment that would be made under Mr. Schwartz's change of control agreement based on the increase in actuarial present value of his regular SISP benefit that would result if he continued employment for an additional three years.
- (4) Represents the present value of 180 monthly payments of \$14,600 per month, which would be paid as a SISP death benefit under the SISP. Present value was determined using a 5.12% discount rate. The terms of the SISP death benefit are described following the Pension Benefits for 2010 table.
- (5) Represents the present value of the disability benefit after reduction for amounts that would be paid as retirement benefits. Present value was determined using a 5.20% discount rate.
- (6) Determined applying the Internal Revenue Code Section 4999 excise tax of 20% only if 110% threshold is exceeded.

Proxy Statement

John G. Harp

Executive Benefits and Payments Upon Termination or Change of Control	Voluntary Termination (\$)	Not for Cause Termination (\$)	For Cause Termination (\$)	Death (\$)	Disability (\$)	Not for Cause or Good Reason Termination Following Change of Control (\$)	Change of Control (Without Termination) (\$)
Compensation:							
Base Salary						1,350,000	
Short-term Incentive						2,880,000(1)	292,500(2)
2008-2010 Performance Shares						296,553	296,553
2009-2011 Performance Shares						424,867	424,867
2010-2012 Performance Shares						359,043	359,043
Benefits and Perquisites:							
Incremental Pension(3)	119,420	119,420			119,420	119,420	
Regular SISP	1,636,132(4)	1,636,132(4)			2,045,166(5)	2,045,166(6)	
SISP Death Benefits(7)				5,758,043			
Disability Benefits(8)					202,911		
Outplacement Services						50,000	
280G Tax(9)						968,473	
Total	1,755,552	1,755,552		5,758,043	2,367,497	8,493,522	1,372,963

- (1) Includes the prorated annual incentive for the year of termination, which is the full annual incentive since we assume termination occurred on December 31, 2010, and the additional severance payment of three times the annual incentive. For each of these, we used the higher of (1) the annual incentive earned in 2010 or (2) the highest annual incentive paid in 2008, 2009, and 2010.
- (2) Represents the target 2010 annual incentive, which would be deemed earned upon change of control under the Long-Term Performance-Based Incentive Plan.
- (3) Represents the equivalent of three additional years of service that would be provided under the Harp additional retirement benefit described following the Pension Benefits for 2010 table. Present value was determined using a 5.20% discount rate.
- (4) Represents the present value of Mr. Harp's vested regular SISP benefit as of December 31, 2010, which was \$18,280 per month for 15 years, commencing at age 65. Present value was determined using a 5.12% discount rate. The terms of the regular SISP benefit are described following the Pension Benefits for 2010 table. Also includes the additional benefit attributable to three additional years of service that would be provided under the retirement benefit agreement described following the Pension Benefits for 2010 table.
- (5) Represents the present value of Mr. Harp's vested SISP benefit described in footnote 4, adjusted to reflect the increase in the present value of his regular SISP benefit that would result from an additional two years of vesting under the SISP. Present value was determined using a 5.12% discount rate.
- (6) Represents the present value of Mr. Harp's vested SISP benefit described in footnote 4, adjusted to reflect the increase in the present value of his regular SISP benefit that would result if he continued employment for an additional three years. Present value was determined using a 5.12% discount rate.
- (7) Represents the present value of 180 monthly payments of \$45,700 per month, which would be paid as a SISP death benefit under the SISP. Present value was determined using a 5.12% discount rate. The terms of the SISP death benefit are described following the Pension Benefits for 2010 table.
- (8) Represents the present value of the disability benefit after reduction for amounts that would be paid as retirement benefits. Present value was determined using a 5.20% discount rate.
- (9) Determined applying the Internal Revenue Code Section 4999 excise tax of 20% only if 110% threshold is exceeded.

Proxy Statement

Steven L. Bietz

Executive Benefits and Payments Upon Termination or Change of Control	Voluntary Termination (\$)	Not for Cause Termination (\$)	For Cause Termination (\$)	Death (\$)	Disability (\$)	Not for Cause or Good Reason Termination Following Change of Control (\$)	Change of Control (Without Termination) (\$)
Compensation:							
Base Salary						1,050,000	
Short-term Incentive 2008-2010 Performance Shares						1,801,800(1)	227,500(2)
2009-2011 Performance Shares						232,140	232,140
2010-2012 Performance Shares						330,447	330,447
						279,249	279,249
Benefits and Perquisites:							
Regular SISP(3)	1,068,626	1,068,626			1,068,626	1,068,626	
Excess SISP	158,394(4)	158,394(4)			158,394(4)	274,347(5)	
SISP Death Benefits(6)				4,059,609			
Outplacement Services						50,000	
280G Tax(7)						646,371	
Total	1,227,020	1,227,020		4,059,609	1,227,020	5,732,980	1,069,336

- (1) Includes the prorated annual incentive for the year of termination, which is the full annual incentive since we assume termination occurred on December 31, 2010, and the additional severance payment of three times the annual incentive. For each of these, we used the higher of (1) the annual incentive earned in 2010 or (2) the highest annual incentive paid in 2008, 2009, and 2010.
- (2) Represents the target 2010 annual incentive, which would be deemed earned upon change of control under the Long-Term Performance-Based Incentive Plan.
- (3) Represents the present value of Mr. Bietz's vested regular SISP benefit as of December 31, 2010, which was \$16,110 per month for 15 years, commencing at age 65. Present value was determined using a 5.12% discount rate. The terms of the regular SISP benefit are described following the Pension Benefits for 2010 table. The three additional years of vesting credit assumed for purposes of calculating the additional SISP benefit under Mr. Bietz's change of control agreement would not increase the actuarial present value of his SISP amount.
- (4) Represents the present value of all excess SISP benefits Mr. Bietz would be entitled to upon termination of employment under the SISP. Present value was determined using a 5.12% discount rate. The terms of the excess SISP benefit are described following the Pension Benefits for 2010 table.
- (5) Represents the present value of all excess SISP benefits Mr. Bietz would be entitled to, calculated with the assumption of three additional years of employment, as provided under Mr. Bietz's change of control agreement. Present value was determined using a 5.12% discount rate. The terms of the excess SISP benefit are described following the Pension Benefits for 2010 table.
- (6) Represents the present value of 180 monthly payments of \$32,220 per month, which would be paid as a SISP death benefit under the SISP. Present value was determined using a 5.12% discount rate. The terms of the SISP death benefit are described following the Pension Benefits for 2010 table.
- (7) Determined applying the Internal Revenue Code Section 4999 excise tax of 20% only if 110% threshold is exceeded.

Proxy Statement

David L. Goodin

Executive Benefits and Payments Upon Termination or Change of Control	Voluntary Termination (\$)	Not for Cause Termination (\$)	For Cause Termination (\$)	Death (\$)	Disability (\$)	Not for Cause or Good Reason Termination Following Change of Control (\$)	Change of Control (Without Termination) (\$)
Compensation:							
Base Salary						966,000	
Short-term Incentive						1,281,752(1)	209,300(2)
2008-2010 Performance Shares						136,748	136,748
2009-2011 Performance Shares						294,582	294,582
2010-2012 Performance Shares						256,922	256,922
Benefits and Perquisites:							
Regular SISIP(3)	693,540	693,540			693,540	693,540	
SISIP Death Benefits(4)				3,060,457			
Disability Benefits(5)					239,891		
Outplacement Services						50,000	
280G Tax(6)						502,299	
Total	693,540	693,540		3,060,457	933,431	4,181,843	897,552

- (1) Includes the prorated annual incentive for the year of termination, which is the full annual incentive since we assume termination occurred on December 31, 2010, and the additional severance payment of three times the annual incentive. For each of these, we used the higher of (1) the annual incentive earned in 2010 or (2) the highest annual incentive paid in 2008, 2009, and 2010.
- (2) Represents the target 2010 annual incentive, which would be deemed earned upon change of control under the Long-Term Performance-Based Incentive Plan.
- (3) Represents the present value of Mr. Goodin's vested regular SISIP benefit as of December 31, 2010, which was \$12,145 per month for 15 years, commencing at age 65. Present value was determined using a 5.12% discount rate. The terms of the regular SISIP benefit are described following the Pension Benefits for 2010 table. The three additional years of vesting credit assumed for purposes of calculating the additional SISIP benefit under Mr. Goodin's change of control agreement would not increase the actuarial present value of his SISIP amount.
- (4) Represents the present value of 180 monthly payments of \$24,290 per month, which would be paid as a SISIP death benefit under the SISIP. Present value was determined using a 5.12% discount rate. The terms of the SISIP death benefit are described following the Pension Benefits for 2010 table.
- (5) Represents the present value of the disability benefit after reduction for amounts that would be paid as retirement benefits. Present value was determined using a 5.20% discount rate.
- (6) Determined applying the Internal Revenue Code Section 4999 excise tax of 20% only if 110% threshold is exceeded.

Proxy Statement

Director Compensation for 2010

Name	Fees Earned or Paid in Cash (\$) (b)	Stock Awards (\$) (c)(1)	Option Awards (\$) (d)	Non-Equity Incentive Plan Compensation (\$) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) (f)	All Other Compensation (\$) (g)(2)	Total (\$) (h)
Thomas Everist	60,000	79,064		(3)		174	139,238
Karen B. Fagg	60,000(4)	79,064				174	139,238
A. Bart Holaday	55,000(5)	79,064				174	134,238
Dennis W. Johnson	65,000	79,064				174	144,238
Thomas C. Knudson	55,000	79,064				174	134,238
Richard H. Lewis	55,000	79,064				174	134,238
Patricia L. Moss	55,000(6)	79,064				174	134,238
Harry J. Pearce	130,000	79,064				174	209,238
Sister Thomas Welder(7)	18,333					425,187(8)	443,520
John K. Wilson	55,000(9)	79,064				174	134,238

(1) This column reflects the grant date fair value of MDU Resources Group, Inc. common stock awarded to our non-employee directors measured in accordance with Financial Accounting Standards Board generally accepted accounting principles for stock-based compensation. The grant date fair value is based on the purchase price of MDU Resources Group, Inc. common stock on the grant date on May 17, 2010, which was \$19.522.

(2) Group life insurance premium.

(3) Mr. Everist had 13,500 stock options outstanding as of December 31, 2010.

(4) Includes \$11,999 that Ms. Fagg received in our common stock in lieu of cash.

(5) Includes \$14,994 that Mr. Holaday received in our common stock in lieu of cash.

(6) Includes \$54,990 that Ms. Moss received in our common stock in lieu of cash.

(7) Retired effective April 27, 2010.

(8) Comprised of a group life insurance premium of \$58, payments of \$14,302 made during 2010 from Sister Thomas Welder's deferred compensation and the value of Sister Thomas Welder's deferred compensation at December 31, 2010, which is payable over five years in monthly installments.

(9) Includes \$54,990 that Mr. Wilson received in our common stock in lieu of cash.

The following table shows the cash and stock retainers payable to our non-employee directors.

Base Retainer	\$	55,000
Additional Retainers:		
Non-Executive Chairman		75,000
Lead Director, if any		33,000
Audit Committee Chairman		10,000
Compensation Committee Chairman		5,000
Nominating and Governance Committee Chairman		5,000
Annual Stock Grant:		4,050 shares
There are no meeting fees.		

In addition to liability insurance, we maintain group life insurance in the amount of \$100,000 on each non-employee director for the benefit of each director's beneficiaries during the time each director serves on the board. The annual cost per director is \$174.

Directors may defer all or any portion of the annual cash retainer and any other cash compensation paid for service as a director pursuant to the Deferred Compensation Plan for Directors. Deferred amounts are held as phantom stock with dividend accruals and are paid out in cash over a five-year period after the director leaves the board.

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Directors are reimbursed for all reasonable travel expenses including spousal expenses in connection with attendance at meetings of the board and its committees. All amounts together with any other perquisites were below the disclosure threshold for 2010.

Our post-retirement income plan for directors was terminated in May 2001 for current and future directors. The net present value of each director's benefit was calculated and converted into phantom stock. Payment is deferred pursuant to the Deferred Compensation Plan for Directors and will be made in cash over a five-year period after the director's retirement from the board.

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The board revised our stock ownership policy for directors in November 2010. Each director is required, rather than expected, to own our common stock equal in value to five times the director's base retainer. Shares acquired through purchases on the open market and participation in our director stock plans will be considered in ownership calculations as will ownership of our common stock by a spouse. A director is allowed five years commencing January 1 of the year following the year of that director's initial election to the board to meet the requirements. The level of common stock ownership is monitored with an annual report made to the compensation committee of the board. For stock ownership, please see Security Ownership.

In our Director Compensation Policy, we prohibit our directors from hedging their ownership of company common stock. Directors may not enter into transactions that allow the director to benefit from devaluation of our stock or otherwise own stock technically but without the full benefits and risks of such ownership.

Narrative Disclosure of our Compensation Policies and Practices as They Relate to Risk Management

Senior management has conducted an assessment of the risks arising from our compensation policies and practices for all employees and concluded that none of these risks is reasonably likely to have a material adverse effect on the company. After review and discussion with senior management, the compensation committee concurred with this assessment.

As part of its assessment of the risks arising from our compensation policies and practices for all employees, senior management identified the principal areas of risk faced by the company that may be affected by our compensation policies and practices for all employees, including any risks resulting from our operating businesses' compensation policies and practices. In assessing the risks arising from our compensation policies and practices, senior management identified the following practices as factors that serve to mitigate any risks arising from our compensation plans and programs:

Business management and governance practices

- hedging on oil and gas production to reduce commodity price volatility

- board of director oversight on capital expenditure and operating plans that promotes careful consideration of financial assumptions

- limitation on business acquisitions without board of director approval

- employee integrity training programs and anonymous reporting systems

- quarterly risk assessment reports at audit committee meetings and

- prohibition on hedging of company stock by Section 16 officers and directors.

Compensation practices

- active compensation committee review of executive compensation, including comparison of executive compensation to total shareholder return ratio to the ratio for the performance graph peer group (PEER4 Analysis)

- the initial determination of a position's salary grade to be at or near the 50th percentile of base salaries paid to similar positions at peer group companies and/or relevant industry companies

- consideration of peer group and/or relevant industry practices to establish appropriate compensation target amounts

- a balanced compensation mix of fixed salary and annual or long-term incentives tied to our financial performance

- use of interpolation for annual and long-term incentive awards to avoid payout cliffs

- negative discretion to adjust any annual or long-term incentive award downward

- use of caps on annual incentive awards and stock granted under long-term incentive awards (200% of target)

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discretionary clawbacks on incentive payments in the event of a financial restatement

use of performance shares, rather than stock options or stock appreciation rights, as equity component of incentive compensation

use of performance shares with a relative, rather than an absolute, total stockholder return performance goal and mandatory reduction in award if total stockholder return is negative

use of three-year performance periods to discourage short-term risk-taking

Proxy Statement

substantive incentive goals measured by return on invested capital and earnings per share criteria, which encourage balanced performance and are important to stockholders

use of financial performance metrics that are readily monitored and reviewed

regular review of the appropriateness of the companies in the performance graph peer group

stock ownership requirements for executives participating in the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan and for the board of directors

mandatory holding periods for 50% of any net after-tax shares earned under long-term incentive awards granted in 2011 and thereafter and

use of independent consultants in establishing pay targets at least biennially.

Proxy Statement

INFORMATION CONCERNING EXECUTIVE OFFICERS

At the first annual meeting of the board after the annual meeting of stockholders, our board of directors elects our executive officers, who serve until their successors are chosen and qualify. A majority of our board of directors may remove any executive officer at any time. Information concerning our executive officers, including their ages, present corporate positions, and business experience, is as follows:

Name	Age	Present Corporate Position and Business Experience
Terry D. Hildestad	61	President and Chief Executive Officer. For information about Mr. Hildestad, see Election of Directors.
Steven L. Bietz	52	Mr. Bietz was elected president and chief executive officer of WBI Holdings, Inc. effective March 4, 2006; president effective January 2, 2006; executive vice president and chief operating officer effective September 1, 2002; vice president-administration and chief accounting officer effective November 3, 1999; vice president-administration effective February 1997; and controller effective January 1994.
William R. Connors	49	Mr. Connors was elected vice president renewable resources of MDU Resources Group, Inc., effective September 1, 2008. Prior to that, he was vice president-business development of Cascade Natural Gas Corporation effective November 2007; vice president-origination, contracts & regulatory of Centennial Energy Resources, LLC, effective January 2007; vice president-origination, contracts & regulatory of Centennial Power, Inc., effective July 2005; and, was first employed as vice president-contracts & regulatory of Centennial Power, Inc., effective July 2004. Prior to that Mr. Connors was of counsel to Miller Nash, LLP, a law firm in Seattle, Washington.
Mark A. Del Vecchio	51	Mr. Del Vecchio was elected vice president human resources on October 1, 2007. From November 3, 2003 to October 1, 2007, Mr. Del Vecchio was director of executive programs and compensation. From April 1996 to October 31, 2003, Mr. Del Vecchio was vice president and member of The Carter Group, LLC, an executive search and management consulting company.
David L. Goodin	49	Mr. Goodin was elected president and chief executive officer of Montana-Dakota Utilities Co., Great Plains Natural Gas Co., and Cascade Natural Gas Corporation effective June 6, 2008, and president and chief executive officer of Intermountain Gas Company effective October 1, 2008. Prior to that, he was president of Montana-Dakota Utilities Co. and Great Plains Natural Gas Co. effective March 1, 2008; president of Cascade Natural Gas Corporation effective July 2, 2007; executive vice president-operations and acquisitions of Montana-Dakota Utilities Co. effective January 2007; vice president-operations effective January 2000; electric systems manager effective April 1999; electric systems supervisor effective August 1993; division electric superintendent effective February 1989; and division electrical engineer effective May 1983.
John G. Harp	58	Mr. Harp was elected president and chief executive officer of Utility Services Inc., which is now MDU Construction Services Group, Inc., effective September 29, 2004. From May 2004 to September 29, 2004, Mr. Harp was vice president of Ledcor Technical Services Inc., a provider of fiber optic cable maintenance services. From April 2001 to May 2004, he was president of JODE CORP., a broadband maintenance company. Mr. Harp sold JODE CORP. to Ledcor Construction in May 2004. Prior to that, he was president of Harp Line Constructors Co. and Harp Engineering, Inc. from July 1998, when they were bought by Utility Services Inc., to April 2001.
Nicole A. Kivisto	37	Ms. Kivisto was elected vice president, controller and chief accounting officer effective February 17, 2010. Prior to that she was controller effective December 1, 2005; a financial analyst IV in the Corporate Planning Department effective May 2003; a financial and investor relations analyst in the Investor Relations Department effective May 2000; and a financial analyst in the Corporate Accounting Department effective July 1995.
Douglass A. Mahowald	61	Mr. Mahowald was elected treasurer and assistant secretary effective February 17, 2010. Prior to that he was the assistant treasurer and assistant secretary effective August 1992; treasury services manager effective November 1982; and budget statistician effective February 1982.
Cynthia J. Norland	56	Ms. Norland was elected vice president administration effective July 16, 2007. Prior to that she was the assistant vice president administration effective January 17, 2007; associate general counsel in the Legal Department effective March 6, 2004; and senior attorney in the Legal Department effective June 1, 1995.

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Paul K. Sandness	56	Mr. Sandness was elected general counsel and secretary of the company, its divisions and major subsidiaries effective April 6, 2004. He also was elected a director of the company's principal subsidiaries and was appointed to the Managing Committees of Montana-Dakota Utilities Co. and Great Plains Natural Gas Co. Prior to that he served as a senior attorney effective 1987 and as an assistant secretary of several subsidiary companies.
William E. Schneider	62	Mr. Schneider was elected president and chief executive officer of Knife River Corporation effective May 1, 2005; and senior vice president-construction materials effective from September 15, 1999 to April 30, 2005.

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Doran N. Schwartz	41	Mr. Schwartz was elected vice president and chief financial officer effective February 17, 2010. Prior to that, he was vice president and chief accounting officer effective March 1, 2006; and assistant vice president-special projects effective September 6, 2005. He was director of membership rewards for American Express, a financial services company, from November 2004 to August 1, 2005; audit manager for Deloitte & Touche, an audit and professional services company, from June 2002 to November 2004; and audit manager/senior for Arthur Andersen, an audit and professional services company, from December 1997 to June 2002.
John P. Stumpf	51	Mr. Stumpf was elected vice president strategic planning effective December 1, 2006. Mr. Stumpf was vice president corporate development for Knife River Corporation from July 1, 2002 to November 30, 2006, and director of corporate development of Knife River Corporation from January 14, 2002 to June 30, 2002. Prior to that, he was special projects manager for Knife River Corporation from May 1, 2000 to January 13, 2002.

SECURITY OWNERSHIP

The table below sets forth the number of shares of our capital stock that each director and each nominee for director, each named executive officer, and all directors and executive officers as a group owned beneficially as of December 31, 2010.

Name	Common Shares Beneficially Owned Include:				Deferred Director Fees Held as Phantom Stock(4)
	Common Shares Beneficially Owned(1)	Shares Individuals Have Rights to Acquire Within 60 Days(2)	Shares Held By Family Members(3)	Percent of Class	
Steven L. Bietz	67,347(5)			*	
Thomas Everist	1,874,673(6)	13,500		1.0	27,502
Karen B. Fagg	24,736			*	
David L. Goodin	31,531(5)		8,603	*	
John G. Harp	85,025(5)			*	
Terry D. Hildestad	214,073			*	
A. Bart Holaday	28,831			*	
Dennis W. Johnson	73,574(7)		4,560	*	
Thomas C. Knudson	13,550			*	
Richard H. Lewis	20,250			*	13,273
Patricia L. Moss	49,007			*	
Harry J. Pearce	207,100			*	45,218
Vernon A. Raile	89,582(5)		2,000	*	
Doran N. Schwartz	14,736(5)			*	
John K. Wilson	74,309			*	
All directors and executive officers as a group (23 in number)	3,127,161	13,950	19,932	1.7	85,993

* Less than one percent of the class.

- (1) Beneficial ownership means the sole or shared power to vote, or to direct the voting of, a security, or investment power with respect to a security.
- (2) Indicates shares of our stock that executive officers and directors have the right to acquire within 60 days pursuant to stock options. These shares are included in the Common Shares Beneficially Owned column.
- (3) These shares are included in the Common Shares Beneficially Owned column.
- (4) These shares are not included in the Common Shares Beneficially Owned column. Directors may defer all or a portion of their cash compensation pursuant to the Deferred Compensation Plan for Directors. Deferred amounts are held as phantom stock with dividend accruals and are paid out in cash over a five-year period after the director leaves the board.
- (5) Includes full shares allocated to the officer's account in our 401(k) retirement plan.
- (6) Includes 1,820,000 shares of common stock acquired through the sale of Connolly-Pacific to us.
- (7) Mr. Johnson disclaims all beneficial ownership of the 4,560 shares owned by his wife.

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Proxy Statement

The table below sets forth information with respect to any person we know to be the beneficial owner of more than five percent of any class of our voting securities.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock	New York Life Trust Company 51 Madison Avenue New York, NY 10010	10,092,631(1)	5.36%
Common Stock	BlackRock, Inc. 40 East 52nd Street New York, NY 10022	10,729,371(2)	5.70%

- (1) In a Schedule 13G/A, Amendment No. 11, filed on February 11, 2011, New York Life Trust Company indicates that it holds these shares as directed trustee of our 401(k) plan and has sole voting and dispositive power with respect to all shares.
- (2) In a Schedule 13G/A, Amendment No. 1, filed on February 2, 2011, BlackRock, Inc. reports sole voting and dispositive power with respect to all shares as the parent holding company or control person of BlackRock Japan Co. Ltd., BlackRock Advisors (UK) Limited, BlackRock Institutional Trust Company, N.A., BlackRock Fund Advisors, BlackRock Asset Management Canada Limited, BlackRock Asset Management Australia Limited, BlackRock Advisors, LLC, BlackRock Financial Management, Inc., BlackRock Investment Management, LLC, BlackRock Investment Management (Australia) Limited, BlackRock (Netherlands) B.V., BlackRock Fund Managers Limited, BlackRock Asset Management Ireland Limited, BlackRock International Limited, and BlackRock Investment Management (UK) Limited.

RELATED PERSON TRANSACTION DISCLOSURE

The board of directors has adopted a policy for the review of related person transactions. This policy is contained in our corporate governance guidelines, which are posted on our website at www.mdu.com.

The audit committee reviews related person transactions in which we are or will be a participant to determine if they are in the best interests of our stockholders and the company. Financial transactions, arrangements, relationships, or any series of similar transactions, arrangements, or relationships in which a related person had or will have a material interest and that exceed \$120,000 are subject to the committee's review.

Related persons are directors, director nominees, executive officers, holders of 5% or more of our voting stock, and their immediate family members. Immediate family members are spouses, parents, stepparents, mothers-in-law, fathers-in-law, siblings, brothers-in-law, sisters-in-law, children, stepchildren, daughters-in-law, sons-in-law, and any person, other than a tenant or domestic employee, who shares the household of a director, director nominee, executive officer, or holder of 5% or more of our voting stock.

After its review, the committee makes a determination or a recommendation to the board and officers of the company with respect to the related person transaction. Upon receipt of the committee's recommendation, the board of directors or officers, as the case may be, take such action as they deem appropriate in light of their responsibilities under applicable laws and regulations.

The audit committee and the board of directors reviewed two leases between an indirect subsidiary of the company and a Nevada limited liability company, MOJO Montana, LLC (MOJO). John G. Harp, who is President and Chief Executive Officer of MDU Construction Services Group, Inc., and his brother, Michael D. Harp, are managing members of MOJO. The properties described in these two leases are located in Kalispell and Billings, Montana, and have been leased since 1998. In May 2010, the audit committee determined that renewing these leases was in the company's best interests after it reviewed 2010 third party appraisals for the properties and considered the consumer price index and our operating companies' knowledge of local property markets. The audit committee recommended and the board approved three-year leases for these properties that provide for our indirect subsidiary to pay a combined monthly rent of \$9,508 to MOJO.

CORPORATE GOVERNANCE

Director Independence

The board of directors has adopted guidelines on director independence that are included in our corporate governance guidelines, which are available for review on our corporate website at http://www.mdu.com/Documents/Governance/2010_11_CorpGov.pdf. The board of directors has determined that Thomas Everist, Karen B. Fagg, A. Bart Holaday, Dennis W. Johnson, Thomas C. Knudson, Richard H. Lewis, Patricia L. Moss, Harry J. Pearce, and John K. Wilson:

have no material relationship with us and

are independent in accordance with our director independence guidelines and the New York Stock Exchange listing standards.

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The board of directors determined that prior to her retirement on April 27, 2010, Sister Thomas Welder had no material relationship with us and was independent in accordance with our director independence guidelines and the New York Stock Exchange listing standards.

In determining director independence for 2010, the board of directors considered the following transactions or relationships:

Mr. Everist's ownership of approximately 1.85 million shares of our common stock

charitable contributions to St. Vincent Healthcare in the amount of \$50,000 Ms. Fagg was a director on the Foundation for St. Vincent Healthcare; charitable contributions in the amount of \$13,825 to the Montana State University Ms. Fagg serves as a member of the Montana State University's Engineering Advisory Council

charitable contributions in the amount of \$16,150 to the University of North Dakota Foundation Mr. Holaday serves as the Chairman of the Board and as a Trustee for the University of North Dakota Center for Innovation Foundation and also serves as a director for the University of North Dakota Foundation; charitable contributions in the amount of \$1,250 to Jamestown College Mr. Holaday serves as a director for Jamestown College

charitable contributions to the City of Dickinson in the amount of \$20,000 Mr. Johnson is president of the City of Dickinson board of commissioners

charitable contributions to Colorado UpLift in the amount of \$25,000 Mr. Lewis is chairman of Colorado UpLift's Development Board; charitable contributions in the amount of \$10,000 to the Alliance for Choice in Education Mr. Lewis serves as a director on the Alliance board

charitable contributions in the amount of \$15,000 to the St. Charles Foundation Ms. Moss served as chairman and as a director on the St. Charles Medical Center and

payment of our employees' tuition and education-related expenses and charitable contributions in the amount of \$86,644 to the University of Mary Sister Welder was the president of the University of Mary; charitable contributions to Missouri Slope Areawide United Way in the amount of \$20,500 Sister Welder serves as a director of the Missouri Slope Areawide United Way.

Director Resignation Upon Change of Job Responsibility

Our corporate governance guidelines require a director to tender his or her resignation after a material change in job responsibility. In 2010, no directors submitted resignations under this requirement.

Code of Conduct

We have a code of conduct and ethics, which we refer to as the Leading With Integrity Guide, which applies to all employees, directors, and officers.

We intend to satisfy our disclosure obligations regarding:

amendments to, or waivers of, any provision of the code of conduct that applies to our principal executive officer, principal financial officer, and principal accounting officer and that relates to any element of the code of ethics definition in Regulation S-K, Item 406(b) and

wavers of the code of conduct for our directors or executive officers, as required by New York Stock Exchange listing standards

by posting such information on our website at <http://www.mdu.com/Documents/Governance/IntegrityGuide.pdf>.

Board Leadership Structure and Board's Role in Risk Oversight

The board separated the positions of chairman of the board and chief executive officer in 2006 and elected Harry J. Pearce, a non-employee independent director, as our chairman, and Terry D. Hildestad as our president and chief executive officer. Separating these positions allows our chief executive officer to focus on the full-time job of running our business, while allowing the

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chairman of the board to lead the board in its fundamental role of providing advice to and independent oversight of management. The board believes this structure recognizes the time, effort, and energy that the chief executive officer is required to devote to his position in the current business environment, as well as the commitment required to serve as our chairman, particularly as the board's oversight responsibilities continue to grow and demand more time and attention. The fundamental role of the board of directors is to provide oversight of the management of the company in good faith and in the best interests of the company and its stockholders. Having an independent chairman is a means to ensure the chief executive officer is accountable for managing the company in close alignment with the interests of stockholders. An independent chairman avoids the conflicts of interest that arise when the chairman and chief executive positions are combined and more effectively manages relationships between the board and the chief executive officer. An independent chairman is in a better position to encourage frank and lively discussions and to assure that the company has adequately assessed all appropriate business risks before

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adopting its final business plans and strategies. While our bylaws and corporate governance guidelines do not require that our chairman and chief executive officer positions be separate, the board continues to believe that having separate positions and having an independent outside director serve as chairman is the appropriate leadership structure for the company and demonstrates our commitment to good corporate governance.

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including economic risks, environmental and regulatory risks, and others, such as the impact of competition and weather conditions. Management is responsible for the day-to-day management of risks the company faces, while the board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the board of directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed.

The board believes that establishing the right tone at the top and that full and open communication between management and the board of directors are essential for effective risk management and oversight. Our chairman meets regularly with our president and chief executive officer and other senior officers to discuss strategy and risks facing the company. Senior management attends the quarterly board meetings and is available to address any questions or concerns raised by the board on risk management-related and any other matters. Each quarter, the board of directors receives presentations from senior management on strategic matters involving our operations. The board holds strategic planning sessions with senior management to discuss strategies, key challenges, and risks and opportunities for the company.

While the board is ultimately responsible for risk oversight at our company, our three board committees assist the board in fulfilling its oversight responsibilities in certain areas of risk. The audit committee assists the board in fulfilling its oversight responsibilities with respect to risk assessment and management in a general manner and specifically in the areas of financial reporting, internal controls and compliance with legal and regulatory requirements, and, in accordance with New York Stock Exchange requirements, discusses policies with respect to risk assessment and risk management and their adequacy and effectiveness. Risk assessment reports are regularly provided by management to the audit committee. This opens the opportunity for discussions about areas where the company may have material risk exposure, steps taken to manage those exposures, and the company's risk tolerance in relation to company strategy. The audit committee reports regularly to the board of directors on the company's management of risks in the audit committee's areas of responsibility. The compensation committee assists the board in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs. The nominating and governance committee assists the board in fulfilling its oversight responsibilities with respect to the management of risks associated with board organization, membership and structure, succession planning for our directors and executive officers, and corporate governance.

Board Meetings and Committees

During 2010, the board of directors held six meetings. Each incumbent director attended at least 75% of the combined total meetings of the board and the committees on which the director served during 2010. Director attendance at our annual meeting of stockholders is left to the discretion of each director. Two directors attended our 2010 annual meeting of stockholders.

Harry J. Pearce was elected non-employee chairman of the board on August 17, 2006. Mr. Pearce served as lead director from February 15, 2001 to August 17, 2006. He presides at the executive session of the non-employee directors held in connection with each regularly scheduled quarterly board of directors meeting. The non-employee directors also meet in executive session with the chief executive officer at each regularly scheduled quarterly board of directors meeting. All of our non-employee directors are independent directors.

The board has a standing audit committee, compensation committee, and nominating and governance committee. These committees are composed entirely of independent directors.

The audit, compensation, and nominating and governance committees have charters, which are available for review on our website at <http://www.mdu.com/Governance/Pages/BoardChartersandCommittees.aspx>. Our corporate governance guidelines are available at http://www.mdu.com/Documents/Governance/2010_11_CorpGov.pdf, and our Leading With Integrity Guide is also on our website at <http://www.mdu.com/Documents/Governance/IntegrityGuide.pdf>.

Nominating and Governance Committee

The nominating and governance committee met four times during 2010. The committee members were Karen B. Fagg, chairman, Richard H. Lewis, A. Bart Holaday, who joined the committee effective February 11, 2010, and Sister Thomas Welder, until she retired from the board on April 27, 2010.

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The nominating and governance committee provides recommendations to the board with respect to:

board organization, membership, and function

committee structure and membership

succession planning for our executive management and directors and

corporate governance guidelines applicable to us.

The nominating and governance committee assists the board in overseeing the management of risks in the committee's areas of responsibility.

The committee identifies individuals qualified to become directors and recommends to the board the nominees for director for the next annual meeting of stockholders. The committee also identifies and recommends to the board individuals qualified to become our principal officers and the nominees for membership on each board committee. The committee oversees the evaluation of the board and management.

In identifying nominees for director, the committee consults with board members, our management, consultants, and other individuals likely to possess an understanding of our business and knowledge concerning suitable director candidates.

Our corporate governance guidelines include our policy on consideration of director candidates recommended to us. We will consider candidates that our stockholders recommend. Stockholders may submit director candidate recommendations to the nominating and governance committee chairman in care of the secretary at MDU Resources Group, Inc., P.O. Box 5650, Bismarck, ND 58506-5650. Please include the following information:

the candidate's name, age, business address, residence address, and telephone number

the candidate's principal occupation

the class and number of shares of our stock owned by the candidate

a description of the candidate's qualifications to be a director

whether the candidate would be an independent director and

any other information you believe is relevant with respect to the recommendation.

These guidelines provide information to stockholders who wish to recommend candidates for director for consideration by the nominating and governance committee. Stockholders who wish to actually nominate persons for election to our board at an annual meeting of stockholders must follow the procedures set forth in section 2.08 of our bylaws. You may obtain a copy of the bylaws by writing to the secretary of MDU Resources Group, Inc. at the address above. Our bylaws are also available on our website at http://www.mdu.com/Documents/Governance/2010_11_Bylaws.pdf. See also the section entitled "2012 Annual Meeting of Stockholders" later in the proxy statement.

There are no differences in the manner by which the committee evaluates director candidates recommended by stockholders and those recommended by other sources.

In evaluating director candidates, the committee considers an individual's:

background, character, and experience

skills and experience which complement the skills and experience of current board members

success in the individual's chosen field of endeavor

skill in the areas of accounting and financial management, banking, general management, human resources, marketing, operations, public affairs, law, and operations abroad

background in publicly traded companies

geographic area of residence

diversity of business and professional experience, skills, gender and ethnic background, as appropriate in light of the current composition and needs of the board

independence, including affiliations or relationships with other groups, organizations, or entities and

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prior and future compliance with applicable law and all applicable corporate governance, code of conduct and ethics, conflict of interest, corporate opportunities, confidentiality, stock ownership and trading policies, and our other policies and guidelines. As indicated above, when identifying nominees to serve as director, the nominating and governance committee will consider candidates with diverse business and professional experience, skills, gender, and ethnic background, as appropriate, in light of the current composition and needs of the board. The nominating and governance committee assesses the effectiveness of this policy annually in connection with the nomination of directors for election at the annual meeting of stockholders. The composition of the current board reflects diversity in business and professional experience, skills, and gender.

The committee generally will hire an outside firm to perform a background check on potential nominees.

Audit Committee

The audit committee is a separately-designated standing committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934.

The audit committee met eight times during 2010. The audit committee members are Dennis W. Johnson, chairman, A. Bart Holaday, Richard H. Lewis, and John K. Wilson. The board of directors has determined that Messrs. Johnson, Holaday, Lewis, and Wilson are audit committee financial experts as defined by Securities and Exchange Commission regulations and Messrs. Johnson, Holaday, Lewis, and Wilson meet the independence standard for audit committee members under our director independence guidelines and the New York Stock Exchange listing standards, including the Securities and Exchange Commission's audit committee member independence requirements.

The audit committee assists the board of directors in fulfilling its oversight responsibilities to the stockholders and serves as a communication link among the board, management, the independent auditors, and the internal auditors. The audit committee:

assists the board's oversight of

- o the integrity of our financial statements and system of internal controls
- o our compliance with legal and regulatory requirements
- o the independent auditors' qualifications and independence
- o the performance of our internal audit function and independent auditors and
- o risk management in the audit committee's areas of responsibility and

arranges for the preparation of and approves the report that Securities and Exchange Commission rules require we include in our annual proxy statement.

Audit Committee Report

In connection with our financial statements for the year ended December 31, 2010, the audit committee has (1) reviewed and discussed the audited financial statements with management; (2) discussed with the independent auditors the matters required to be discussed by the statement on Auditing Standards No. 61, as amended, (AICPA, *Professional Standards*, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T; (3) received the written disclosures and the letter from the independent accountant required by applicable requirements of the Public Company Accounting Oversight Board regarding

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the independent accountant's communications with the audit committee concerning independence, and has discussed with the independent accountant the independent accountant's independence.

Based on the review and discussions referred to in items (1) through (3) of the above paragraph, the audit committee recommended to the board of directors that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2010 for filing with the Securities and Exchange Commission.

Dennis W. Johnson, Chairman
A. Bart Holaday
Richard H. Lewis
John K. Wilson

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Compensation Committee

The compensation committee met six times during 2010. The compensation committee members are Thomas Everist, chairman, Karen B. Fagg, Thomas C. Knudson, and Patricia L. Moss.

The compensation committee's responsibilities, as set forth in its charter, include:

review and recommend changes to the board regarding our executive compensation policies for directors and executives

evaluate the chief executive officer's performance and, either as a committee or together with other independent directors as directed by the board, determine his or her compensation

recommend to the board the compensation of our other Section 16 officers and directors

establish goals, make awards, review performance and determine, or recommend to the board, awards earned under our annual and long-term incentive compensation plans

review and discuss with management the compensation discussion and analysis and based upon such review and discussion, determine whether to recommend to the board that the Compensation Discussion and Analysis be included in our proxy statement and/or our Annual Report on Form 10-K

arrange for the preparation of and approve the compensation committee report to be included in our proxy statement and/or Annual Report on Form 10-K and

assist the board in overseeing the management of risk in the committee's areas of responsibility.

The compensation committee and the board of directors have sole and direct responsibility for determining compensation for our Section 16 officers and directors. The compensation committee makes recommendations to the board regarding compensation of all Section 16 officers, and the board then approves the recommendations. The compensation committee and the board may not delegate their authority. They may, however, use recommendations from outside consultants, the chief executive officer, and the human resources department. The chief executive officer, the vice president-human resources, and general counsel regularly attend compensation committee meetings. The committee meets in executive session as needed.

We discuss our processes and procedures for consideration and determination of compensation of our Section 16 officers in the Compensation Discussion and Analysis. We also discuss in the Compensation Discussion and Analysis the role of our executive officers in determining or recommending compensation for our Section 16 officers.

As discussed in the Compensation Discussion and Analysis, the vice president-human resources and the human resources department prepared the 2010 competitive assessment of compensation for our Section 16 officer positions. The vice president-human resources and the human resources department also worked with the chief executive officer to:

recommend salary grades, base salaries and annual and long-term incentive targets for our executive officers

review recommended base salary grades, salary increases, and annual and long-term incentive targets submitted by executive officers for officers reporting to them for reasonableness and alignment with company or business unit objectives and

design and update annual and long-term incentive programs.

During 2010, the compensation committee directed Towers Watson to work with the vice president-human resources on the executive officer and chief executive officer compensation reviews with respect to 2011 compensation.

The compensation committee has sole authority to retain, discharge, and approve fees and other terms and conditions for retention of compensation consultants to assist in consideration of the compensation of the chief executive officer, the other Section 16 officers, and the board of directors. The compensation committee charter requires the committee's pre-approval of the engagement of the committee's compensation consultants by the company for any other purpose.

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In an engagement letter dated April 8, 2010, and signed by the chairman of the compensation committee, the compensation committee retained Towers Watson for assistance with 2011 compensation for the Section 16 officers and the chief executive officer. The compensation committee asked Towers Watson to prepare executive compensation reviews for the Section 16 officers and for the chief executive officer similar to those prepared in prior years.

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In its review for the Section 16 officers, excluding the chief executive officer, Towers Watson was asked to

match the Section 16 officer positions to survey data to generate 2011 market estimates for base salaries and short-term and long-term incentives

address general trends in executive compensation

compare base salaries and short-term and long-term incentives, by position, to market estimates and recommend salary grade changes as appropriate

construct a recommended 2011 salary grade structure

verify the competitiveness of short-term and long-term incentive targets associated with salary grades and recommend modifications as appropriate and

address pay equity as it relates to our chief executive compensation compared to our other executives.

In the chief executive officer review, Towers Watson was asked to use survey data and data from the company's performance graph peer group to

develop competitive estimates for base salary and target short-term and long-term incentives

recommend changes in base salary and incentive targets based on the competitive data and

address general trends in chief executive officer compensation.

The compensation committee authorized the company to participate in compensation and employee benefits surveys sponsored by Towers Watson.

The board of directors determines compensation for our non-employee directors based upon recommendations from the compensation committee. The compensation committee did not retain an outside consultant for the 2010 compensation review for the board of directors. At its May 2010 meeting, the committee reviewed the analysis of competitive data and recent trends in director compensation prepared by the human resources department and the vice president-human resources. The company's analysis was based on proxy data from our performance graph peer group companies compiled by Equilar and on data from the National Association of Corporate Directors 2009/2010 Director Compensation Report. The committee compared these data to our directors' compensation and each of its components. After review and discussion of the market data, which indicated that aggregate director compensation was below the median of the National Association of Corporate Directors 2009/2010 Director Compensation Report companies and above the median 52nd percentile of the peer group companies, the compensation committee recommended, and the board approved, that no changes be made to director compensation for 2010.

Stockholder Communications

Stockholders and other interested parties who wish to contact the board of directors or an individual director, including our non-employee chairman or non-employee directors as a group, should address a communication in care of the secretary at MDU Resources Group, Inc., P.O. Box 5650, Bismarck, ND 58506-5650. The secretary will forward all communications.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16 of the Securities Exchange Act of 1934, as amended, requires that officers, directors, and holders of more than 10% of our common stock file reports of their trading in our equity securities with the Securities and Exchange Commission. Based solely on a review of Forms 3, 4, and 5 and any amendments to these forms furnished to us during and with respect to 2010 or written representations that no Forms 5 were required, we believe that all such reports were timely filed.

OTHER BUSINESS

Neither the board of directors nor management intends to bring before the meeting any business other than the matters referred to in the notice of annual meeting and this proxy statement. In addition, other than as described in the following sentences, we have

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not been informed that any other matter will be presented to the meeting by others. One stockholder proposal was submitted for inclusion in the proxy statement, which we have omitted because it was withdrawn. If this stockholder complies with our advance notice bylaw provisions and properly presents the proposal at the annual meeting, it is the intention of the persons named in the proxy to vote against this proposal. If any other matter requiring a vote of the stockholders should arise, the persons named in the enclosed proxy will vote in accordance with their best judgment.

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SHARED ADDRESS STOCKHOLDERS

In accordance with a notice sent to eligible stockholders who share a single address, we are sending only one annual report to stockholders and one proxy statement to that address unless we received instructions to the contrary from any stockholder at that address. This practice, known as householding, is designed to reduce our printing and postage costs. However, if a stockholder of record wishes to receive a separate annual report to stockholders and proxy statement in the future, he or she may contact the office of the treasurer at MDU Resources Group, Inc., P.O. Box 5650, Bismarck, ND 58506-5650, Telephone Number: (701) 530-1000. Eligible stockholders of record who receive multiple copies of our annual report to stockholders and proxy statement can request householding by contacting us in the same manner. Stockholders who own shares through a bank, broker, or other nominee can request householding by contacting the nominee.

We hereby undertake to deliver promptly, upon written or oral request, a separate copy of the annual report to stockholders and proxy statement to a stockholder at a shared address to which a single copy of the document was delivered.

2012 ANNUAL MEETING OF STOCKHOLDERS

Director Nominations: Our bylaws provide that director nominations may be made only by (i) the board at any meeting of stockholders or (ii) at an annual meeting by a stockholder entitled to vote for the election of directors and who has complied with the procedures established by the bylaws. For a nomination to be properly brought before an annual meeting by a stockholder, the stockholder intending to make the nomination must have given timely and proper notice of the nomination in writing to the corporate secretary in accordance with and containing all information and the completed questionnaire provided for in the bylaws. To be timely, such notice must be delivered to or mailed to the corporate secretary and received at our principal executive offices not later than 90 days prior to the first anniversary of the preceding year's annual meeting of stockholders. For purposes of our annual meeting of stockholders expected to be held April 24, 2012, any stockholder who wishes to submit a nomination must submit the required notice to the corporate secretary on or before January 27, 2012.

Other Meeting Business: Our bylaws also provide that no business may be brought before an annual meeting except (i) as specified in the meeting notice given by or at the direction of the board, (ii) as otherwise properly brought before the meeting by or at the direction of the board or (iii) properly brought before the meeting by a stockholder entitled to vote who has complied with the procedures established by the bylaws. For business to be properly brought before an annual meeting by a stockholder (other than nomination of a person for election as a director which is described above) the stockholder must have given timely and proper notice of such business in writing to the corporate secretary, in accordance with, and containing all information provided for in the bylaws and such business must be a proper matter for stockholder action under the General Corporation Law of Delaware. To be timely, such notice must be delivered or mailed to the corporate secretary and received at our principal offices not later than the close of business 90 days prior to the first anniversary of the preceding year's annual meeting of stockholders. For purposes of our annual meeting expected to be held April 24, 2012, any stockholder who wishes to bring business before the meeting (other than nomination of a person for election as a director which is described above) must submit the required notice to the corporate secretary on or before January 27, 2012.

Discretionary Voting: Rule 14a-4 of the Securities and Exchange Commission's proxy rules allows us to use discretionary voting authority to vote on matters coming before an annual stockholders' meeting if we do not have notice of the matter at least 45 days before the anniversary date on which we first mailed our proxy materials for the prior year's annual stockholders' meeting or the date specified by an advance notice provision in our bylaws. Our bylaws contain an advance notice provision that we have described above. For our annual meeting of stockholders expected to be held on April 24, 2012, stockholders must submit such written notice to the corporate secretary on or before January 27, 2012.

Stockholder Proposals: The requirements we describe above are separate from and in addition to the Securities and Exchange Commission's requirements that a stockholder must meet to have a stockholder proposal included in our proxy statement under Rule 14a-8 of the Exchange Act. For purposes of our annual meeting of stockholders expected to be held on April 24, 2012, any stockholder who wishes to submit a proposal for inclusion in our proxy materials must submit such proposal to the corporate secretary on or before November 12, 2011.

Bylaw Copies: You may obtain a copy of the full text of the bylaw provisions discussed above by writing to the corporate secretary. Our bylaws are also available on our website at: http://www.mdu.com/Documents/Governance/2010_11_Bylaws.pdf.

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We will make available to our stockholders to whom we furnish this proxy statement a copy of our Annual Report on Form 10-K, excluding exhibits, for the year ended December 31, 2010, which is required to be filed with the Securities and Exchange Commission. You may obtain a copy, without charge, upon written or oral request to the Office of the Treasurer of MDU Resources Group, Inc., 1200 West Century Avenue, Mailing Address: P.O. Box 5650, Bismarck, ND 58506-5650, Telephone Number: (701) 530-1000. You may also access our Annual Report on Form 10-K through our website at www.mdu.com.

By order of the Board of Directors,

Paul K. Sandness
Secretary
March 11, 2011

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EXHIBIT A**MDU RESOURCES GROUP, INC.
LONG-TERM PERFORMANCE-BASED INCENTIVE PLAN****Article 1. Establishment, Purpose and Duration**

1.1 *Establishment of the Plan.* MDU Resources Group, Inc., a Delaware corporation (hereinafter referred to as the Company), hereby establishes an incentive compensation plan to be known as the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan (hereinafter referred to as the Plan), as set forth in this document. The Plan permits the grant of Nonqualified Stock Options (NQSO), Incentive Stock Options (ISO), Stock Appreciation Rights (SAR), Restricted Stock, Performance Units, Performance Shares and other awards.

The Plan first became effective when approved by the stockholders at the annual meeting on April 22, 1997. The Plan, as amended, will become effective on April 25, 2006 if it is approved by the stockholders at the 2006 annual meeting. The Plan shall remain in effect as provided in Section 1.3 herein.

1.2 *Purpose of the Plan.* The purpose of the Plan is to promote the success and enhance the value of the Company by linking the personal interests of Participants to those of Company stockholders and customers.

The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract and retain the services of Participants upon whose judgment, interest and special effort the successful conduct of its operations is largely dependent.

1.3 *Duration of the Plan.* The Plan shall remain in effect, subject to the right of the Board of Directors to terminate the Plan at any time pursuant to Article 15 herein, until all Shares subject to it shall have been purchased or acquired according to the Plan's provisions.

Article 2. Definitions

Whenever used in the Plan, the following terms shall have the meanings set forth below and, when such meaning is intended, the initial letter of the word is capitalized:

2.1 *Award* means, individually or collectively, a grant under the Plan of NQSOs, ISOs, SARs, Restricted Stock, Performance Units, Performance Shares or any other type of award permitted under Article 10 of the Plan.

2.2 *Award Agreement* means an agreement entered into by each Participant and the Company, setting forth the terms and provisions applicable to an Award granted to a Participant under the Plan.

2.3 *Base Value* of an SAR shall have the meaning set forth in Section 7.1 herein.

2.4 *Board* or *Board of Directors* means the Board of Directors of the Company.

2.5 A *Change in Control* shall mean:

- (a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) (a Person) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (i) the then outstanding shares of common stock of the Company (the Outstanding Company Common Stock) or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the Outstanding Company Voting Securities); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change in Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 2.5; or

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- (b) Individuals who, as of April 22, 1997, which is the effective date of the Plan, constitute the Board (the Incumbent Board) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or
- (c) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a Business Combination), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or
- (d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

For avoidance of doubt, unless otherwise determined by the Board, the sale of a subsidiary, operating entity or business unit of the Company shall not constitute a Change in Control for purposes of this Agreement.

- 2.6 *Code* means the Internal Revenue Code of 1986, as amended from time to time.
- 2.7 *Committee* means the Committee, as specified in Article 3, appointed by the Board to administer the Plan with respect to Awards.
- 2.8 *Company* means MDU Resources Group, Inc., a Delaware corporation, or any successor thereto as provided in Article 18 herein.
- 2.9 *Covered Employee* means any Participant who would be considered a Covered Employee for purposes of Section 162(m) of the Code.
- 2.10 *Director* means any individual who is a member of the Board of Directors of the Company.
- 2.11 *Disability* means permanent and total disability as defined under Section 22(e)(3) of the Code.
- 2.12 *Dividend Equivalent* means, with respect to Shares subject to an Award, a right to be paid an amount equal to dividends declared on an equal number of outstanding Shares.
- 2.13 *Eligible Employee* means an Employee who is eligible to participate in the Plan, as set forth in Section 5.1 herein.

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- 2.14 *Employee* means any full-time or regularly-scheduled part-time employee of the Company or of the Company's Subsidiaries, who is not covered by any collective bargaining agreement to which the Company or any of its Subsidiaries is a party. Directors who are not otherwise employed by the Company shall not be considered Employees for purposes of the Plan. For purposes of the Plan, transfer of employment of a Participant between the Company and any one of its Subsidiaries (or between Subsidiaries) shall not be deemed a termination of employment.

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- 2.15 *Exchange Act* means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.
- 2.16 *Exercise Period* means the period during which an SAR or Option is exercisable, as set forth in the related Award Agreement.
- 2.17 *Fair Market Value* shall mean the average of the high and low sale prices as reported in the consolidated transaction reporting system or, if there is no such sale on the relevant date, then on the last previous day on which a sale was reported.
- 2.18 *Freestanding SAR* means an SAR that is granted independently of any Option.
- 2.19 *Full Value Award* means an Award pursuant to which Shares may be issued, other than an Option or an SAR.
- 2.20 *Incentive Stock Option* or *ISO* means an option to purchase Shares, granted under Article 6 herein, which is designated as an Incentive Stock Option and satisfies the requirements of Section 422 of the Code.
- 2.21 *Nonqualified Stock Option* or *NQSO* means an option to purchase Shares, granted under Article 6 herein, which is not intended to be an Incentive Stock Option under Section 422 of the Code.
- 2.22 *Option* means an Incentive Stock Option or a Nonqualified Stock Option.
- 2.23 *Option Price* means the price at which a Share may be purchased by a Participant pursuant to an Option, as determined by the Committee and set forth in the Option Award Agreement.
- 2.24 *Participant* means an Employee of the Company who has outstanding an Award granted under the Plan.
- 2.25 *Performance Goals* means the performance goals established by the Committee, which shall be based on one or more of the following measures: sales or revenues, earnings per share, shareholder return and/or value, funds from operations, operating income, gross income, net income, cash flow, return on equity, return on capital, capital efficiency, earnings before interest, operating ratios, stock price, enterprise value, company value, asset value growth, net asset value, shareholders equity, dividends, customer satisfaction, accomplishment of mergers, acquisitions, dispositions or similar extraordinary business transactions, safety, sustainability, profit returns and margins, financial return ratios, market performance, oil and/or gas production (growth, value and costs) and oil and/or gas reserves (including proved, probable and possible reserves and growth, value and costs) and finding or development costs. Performance goals may be measured solely on a corporate, subsidiary or business unit basis, or a combination thereof. Performance goals may reflect absolute entity performance or a relative comparison of entity performance to the performance of a peer group of entities or other external measure.
- 2.26 *Performance Unit* means an Award granted to an Employee, as described in Article 9 herein.
- 2.27 *Performance Share* means an Award granted to an Employee, as described in Article 9 herein.
- 2.28 *Period of Restriction* means the period during which the transfer of Restricted Stock is limited in some way, as provided in Article 8 herein.
- 2.29 *Person* shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act, as used in Sections 13(d) and 14(d) thereof, including usage in the definition of a group in Section 13(d) thereof.
- 2.30 *Qualified Restricted Stock* means an Award of Restricted Stock designated as Qualified Restricted Stock by the Committee at the time of grant and intended to qualify for the exemption from the limitation on deductibility imposed by Section 162(m) of the Code that is set forth in Section 162(m)(4)(C).
- 2.31 *Restricted Stock* means an Award of Shares granted to a Participant pursuant to Article 8 herein.
- 2.32 *Shares* means the shares of common stock of the Company.
- 2.33

Stock Appreciation Right or *SAR* means a right, granted alone or in connection with a related Option, designated as an SAR, to receive a payment on the day the right is exercised, pursuant to the terms of Article 7 herein. Each SAR shall be denominated in terms of one Share.

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- 2.34 *Subsidiary* means any corporation that is a subsidiary corporation of the Company as that term is defined in Section 424(f) of the Code.
- 2.35 *Tandem SAR* means an SAR that is granted in connection with a related Option, the exercise of which shall require forfeiture of the right to purchase a Share under the related Option (and when a Share is purchased under the Option, the Tandem SAR shall be similarly canceled).

Article 3. Administration

- 3.1 *The Committee.* The Plan shall be administered by the Compensation Committee of the Board, or by any other Committee appointed by the Board. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board of Directors.
- 3.2 *Authority of the Committee.* The Committee shall have full power except as limited by law, the Articles of Incorporation and the Bylaws of the Company, subject to such other restricting limitations or directions as may be imposed by the Board and subject to the provisions herein, to determine the size and types of Awards; to determine the terms and conditions of such Awards in a manner consistent with the Plan; to construe and interpret the Plan and any agreement or instrument entered into under the Plan; to establish, amend or waive rules and regulations for the Plan's administration; and (subject to the provisions of Article 15 herein) to amend the terms and conditions of any outstanding Award. Further, the Committee shall make all other determinations which may be necessary or advisable for the administration of the Plan. As permitted by law, the Committee may delegate its authorities as identified hereunder.
- 3.3 *Restrictions on Share Transferability.* The Committee may impose such restrictions on any Shares acquired pursuant to Awards under the Plan as it may deem advisable, including, without limitation, restrictions to comply with applicable Federal securities laws, with the requirements of any stock exchange or market upon which such Shares are then listed and/or traded and with any blue sky or state securities laws applicable to such Shares.
- 3.4 *Approval.* The Board or the Committee shall approve all Awards made under the Plan and all elections made by Participants, prior to their effective date, to the extent necessary to comply with Rule 16b-3 under the Exchange Act.
- 3.5 *Decisions Binding.* All determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders or resolutions of the Board shall be final, conclusive and binding on all persons, including the Company, its stockholders, Employees, Participants and their estates and beneficiaries.
- 3.6 *Costs.* The Company shall pay all costs of administration of the Plan.

Article 4. Shares Subject to the Plan

- 4.1 *Number of Shares.* Subject to Section 4.2 herein, the maximum number of Shares that may be issued pursuant to Awards under the Plan shall be 9,242,806. Shares underlying lapsed or forfeited Awards of Restricted Stock shall not be treated as having been issued pursuant to an Award under the Plan. Shares withheld from an Award of Restricted Stock to satisfy tax withholding obligations shall be counted as Shares issued pursuant to an Award under the Plan. Shares that are potentially deliverable under an Award that expires or is canceled, forfeited, settled in cash or otherwise settled without the delivery of Shares shall not be treated as having been issued under the Plan. Shares that are withheld to satisfy the Option Price or tax withholding obligations related to an Option, SAR or other Award pursuant to which the Shares withheld have not yet been issued shall not be deemed to be Shares issued under the Plan.

Shares issued pursuant to the Plan may be (i) authorized but unissued Shares of Common Stock, (ii) treasury shares, or (iii) shares purchased on the open market.

- 4.2 *Adjustments in Authorized Shares.* In the event of any equity restructuring such as a stock dividend, stock split, spinoff, rights offering or recapitalization through a large, nonrecurring cash dividend, the Committee shall cause an equitable adjustment to be made (i) in the number and kind of Shares that may be delivered under the Plan, (ii) in the individual limitations set forth in Section 4.3 and (iii) with respect to outstanding Awards, in the number and kind of Shares subject to outstanding Awards, the Option Price, Base Value or other price of Shares subject to outstanding Awards, any Performance

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Goals relating to Shares, the market price of Shares, or per-Share results, and other terms and conditions of outstanding Awards, in the case of (i), (ii) and (iii) to prevent dilution

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or enlargement of rights. In the event of any other change in corporate capitalization, such as a merger, consolidation or liquidation, the Committee may, in its sole discretion, cause an equitable adjustment as described in the foregoing sentence to be made to prevent dilution or enlargement of rights. The number of Shares subject to any Award shall always be rounded down to a whole number when adjustments are made pursuant to this Section 4.2. Adjustments made by the Committee pursuant to this Section 4.2 shall be final, binding and conclusive.

- 4.3 *Individual Limitations.* Subject to Section 4.2 herein, (i) the total number of Shares with respect to which Options or SARs may be granted in any calendar year to any Covered Employee shall not exceed 2,250,000 Shares; (ii) the total number of shares of Qualified Restricted Stock that may be granted in any calendar year to any Covered Employee shall not exceed 2,250,000 Shares; (iii) the total number of Performance Shares or Performance Units that may be granted in any calendar year to any Covered Employee shall not exceed 2,250,000 Performance Shares or Performance Units, as the case may be; (iv) the total number of Shares that are intended to qualify for deduction under Section 162(m) of the Code granted pursuant to Article 10 herein in any calendar year to any Covered Employee shall not exceed 2,250,000 Shares; (v) the total cash Award that is intended to qualify for deduction under Section 162(m) of the Code that may be paid pursuant to Article 10 herein in any calendar year to any Covered Employee shall not exceed \$6,000,000; and (vi) the aggregate number of Dividend Equivalents that are intended to qualify for deduction under Section 162(m) of the Code that a Covered Employee may receive in any calendar year shall not exceed \$6,000,000.

Article 5. Eligibility and Participation

- 5.1 *Eligibility.* Persons eligible to participate in the Plan include all officers and key employees of the Company and its Subsidiaries, as determined by the Committee, including Employees who are members of the Board, but excluding Directors who are not Employees.
- 5.2 *Actual Participation.* Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible Employees those to whom Awards shall be granted and shall determine the nature and amount of each Award.

Article 6. Stock Options

- 6.1 *Grant of Options.* Subject to the terms and conditions of the Plan, Options may be granted to an Eligible Employee at any time and from time to time, as shall be determined by the Committee.

The Committee shall have complete discretion in determining the number of Shares subject to Options granted to each Participant (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such Options. The Committee may grant ISOs, NQSOs, or a combination thereof.

- 6.2 *Option Award Agreement.* Each Option grant shall be evidenced by an Option Award Agreement that shall specify the Option Price, the term of the Option, the number of Shares to which the Option pertains, the Exercise Period and such other provisions as the Committee shall determine, including but not limited to any rights to Dividend Equivalents. The Option Award Agreement shall also specify whether the Option is intended to be an ISO or an NQSO.

The Option Price for each Share purchasable under any Incentive Stock Option granted hereunder shall be not less than one hundred percent (100%) of the Fair Market Value per Share at the date the Option is granted; and provided, further, that in the case of an Incentive Stock Option granted to a person who, at the time such Incentive Stock Option is granted, owns shares of stock of the Company or of any Subsidiary which possess more than ten percent (10%) of the total combined voting power of all classes of shares of stock of the Company or of any Subsidiary, the Option Price for each Share shall be not less than one hundred ten percent (110%) of the Fair Market Value per Share at the date the Option is granted. The Option Price will be subject to adjustment in accordance with the provisions of Section 4.2 of the Plan.

No Incentive Stock Option by its terms shall be exercisable after the expiration of ten (10) years from the date of grant of the Option; provided, however, in the case of an Incentive Stock Option granted to a person who, at the time such Option is granted, owns shares of stock of the Company or of any Subsidiary possessing more than ten percent (10%) of the total combined voting power of all classes of shares of stock of the Company or of any Subsidiary, such Option shall not be exercisable after the expiration of five (5) years from the date such Option is granted.

- 6.3 *Exercise of and Payment for Options.* Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve.

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A Participant may exercise an Option at any time during the Exercise Period. Options shall be exercised by the delivery of a written notice of exercise to the Company or its designee, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by provisions for full payment for the Shares.

The Option Price upon exercise of any Option shall be payable either: (a) in cash or its equivalent, (b) by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Option Price (provided that Shares which are tendered must have been held by the Participant for at least six (6) months prior to their tender to satisfy the Option Price), (c) by share withholding, (d) by cashless exercise or (e) by a combination of (a),(b),(c), and/or (d).

As soon as practicable after receipt of a written notification of exercise of an Option, provisions for full payment therefor and satisfaction or provision for satisfaction of any tax withholding or other obligations, the Company shall (i) deliver to the Participant, in the Participant's name or the name of the Participant's designee, a Share certificate or certificates in an appropriate aggregate amount based upon the number of Shares purchased under the Option, or (ii) cause to be issued in the Participant's name or the name of the Participant's designee, in book-entry form, an appropriate number of Shares based upon the number of Shares purchased under the Option.

- 6.4 *Termination of Employment.* Each Option Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the Option following termination of the Participant's employment with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee (subject to applicable law), shall be included in the Option Award Agreement entered into with Participants, need not be uniform among all Options granted pursuant to the Plan or among Participants and may reflect distinctions based on the reasons for termination of employment. If the employment of a Participant by the Company or by any Subsidiary is terminated for any reason other than death, any Incentive Stock Option granted to such Participant may not be exercised later than three (3) months (one (1) year in the case of termination due to Disability) after the date of such termination of employment.
- 6.5 *Transferability of Options.* Except as otherwise determined by the Committee and set forth in the Option Award Agreement, no Option granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, and all Incentive Stock Options granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant.

Article 7. Stock Appreciation Rights

- 7.1 *Grant of SARs.* Subject to the terms and conditions of the Plan, an SAR may be granted to an Eligible Employee at any time and from time to time as shall be determined by the Committee. The Committee may grant Freestanding SARs, Tandem SARs or any combination of these forms of SAR.

The Committee shall have complete discretion in determining the number of SARs granted to each Participant (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such SARs.

The Base Value of a Freestanding SAR shall equal the Fair Market Value of a Share on the date of grant of the SAR. The Base Value of Tandem SARs shall equal the Option Price of the related Option.

- 7.2 *SAR Award Agreement.* Each SAR grant shall be evidenced by an SAR Award Agreement that shall specify the number of SARs granted, the Base Value, the term of the SAR, the Exercise Period and such other provisions as the Committee shall determine.

- 7.3 *Exercise and Payment of SARs.* Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable.

Notwithstanding any other provision of the Plan to the contrary, with respect to a Tandem SAR granted in connection with an ISO: (i) the Tandem SAR will expire no later than the expiration of the underlying ISO; (ii) the value of the payout with respect to the Tandem SAR may be for no more than one hundred percent (100%) of the difference between the Option

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Price of the underlying ISO and the Fair Market Value of the Shares subject to the underlying ISO at the time the Tandem SAR is exercised; and (iii) the Tandem SAR may be exercised only when the Fair Market Value of the Shares subject to the ISO exceeds the Option Price of the ISO.

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Freestanding SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon them.

A Participant may exercise an SAR at any time during the Exercise Period. SARs shall be exercised by the delivery of a written notice of exercise to the Company, setting forth the number of SARs being exercised. Upon exercise of an SAR, a Participant shall be entitled to receive payment from the Company in an amount equal to the product of:

- (a) the excess of (i) the Fair Market Value of a Share on the date of exercise over (ii) the Base Value multiplied by
- (b) the number of Shares with respect to which the SAR is exercised.

At the sole discretion of the Committee, the payment to the Participant upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

- 7.4 *Termination of Employment.* Each SAR Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the SAR following termination of the Participant's employment with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the SAR Award Agreement entered into with Participants, need not be uniform among all SARs granted pursuant to the Plan or among Participants and may reflect distinctions based on the reasons for termination of employment.
- 7.5 *Transferability of SARs.* Except as otherwise determined by the Committee and set forth in the SAR Award Agreement, no SAR granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, and all SARs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant or his or her legal representative.

Article 8. Restricted Stock

- 8.1 *Grant of Restricted Stock.* Subject to the terms and conditions of the Plan, Restricted Stock may be granted to Eligible Employees at any time and from time to time, as shall be determined by the Committee.

The Committee shall have complete discretion in determining the number of shares of Restricted Stock granted to each Participant (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such Restricted Stock.

In addition, the Committee may, prior to or at the time of grant, designate an Award of Restricted Stock as Qualified Restricted Stock, in which event it will condition the grant or vesting, as applicable, of such Qualified Restricted Stock upon the attainment of the Performance Goals selected by the Committee.

- 8.2 *Restricted Stock Award Agreement.* Each Restricted Stock grant shall be evidenced by a Restricted Stock Award Agreement that shall specify the Period or Periods of Restriction, the number of Restricted Stock Shares granted and such other provisions as the Committee shall determine.
- 8.3 *Transferability.* Restricted Stock granted hereunder may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction established by the Committee and specified in the Restricted Stock Award Agreement. All rights with respect to the Restricted Stock granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant or his or her legal representative.
- 8.4 *Certificate Legend.* Each certificate representing Restricted Stock granted pursuant to the Plan may bear a legend substantially as follows:

The sale or other transfer of the shares of stock represented by this certificate, whether voluntary, involuntary or by operation of law, is subject to certain restrictions on transfer as set forth in MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan and in a Restricted Stock Award Agreement. A copy of such Plan and such Agreement may be obtained from MDU Resources Group, Inc.

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The Company shall have the right to retain the certificates representing Restricted Stock in the Company's possession until such time as all restrictions applicable to such Shares have been satisfied.

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- 8.5 *Removal of Restrictions.* Restricted Stock shall become freely transferable by the Participant after the last day of the Period of Restriction applicable thereto. Once Restricted Stock is released from the restrictions, the Participant shall be entitled to have the legend referred to in Section 8.4 removed from his or her stock certificate.
- 8.6 *Voting Rights.* During the Period of Restriction, Participants holding Restricted Stock may exercise full voting rights with respect to those Shares.
- 8.7 *Dividends and Other Distributions.* Subject to the Committee's right to determine otherwise at the time of grant, during the Period of Restriction, Participants holding Restricted Stock shall receive all regular cash dividends paid with respect to all Shares while they are so held. All other distributions paid with respect to such Restricted Stock shall be credited to Participants subject to the same restrictions on transferability and forfeitability as the Restricted Stock with respect to which they were paid and shall be paid to the Participant within forty-five (45) days following the full vesting of the Restricted Stock with respect to which such distributions were made.
- 8.8 *Termination of Employment.* Each Restricted Stock Award Agreement shall set forth the extent to which the Participant shall have the right to receive unvested Restricted Stock following termination of the Participant's employment with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Restricted Stock Award Agreement entered into with Participants, need not be uniform among all grants of Restricted Stock or among Participants and may reflect distinctions based on the reasons for termination of employment.

Article 9. Performance Units and Performance Shares

- 9.1 *Grant of Performance Units and Performance Shares.* Subject to the terms and conditions of the Plan, Performance Units and/or Performance Shares may be granted to an Eligible Employee at any time and from time to time, as shall be determined by the Committee.

The Committee shall have complete discretion in determining the number of Performance Units and/or Performance Shares granted to each Participant (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such Awards.

- 9.2 *Performance Unit/Performance Share Award Agreement.* Each grant of Performance Units and/or Performance Shares shall be evidenced by a Performance Unit and/or Performance Share Award Agreement that shall specify the number of Performance Units and/or Performance Shares granted, the initial value (if applicable), the Performance Period, the Performance Goals and such other provisions as the Committee shall determine, including but not limited to any rights to Dividend Equivalents.
- 9.3 *Value of Performance Units/Performance Shares.* Each Performance Unit shall have an initial value that is established by the Committee at the time of grant. The value of a Performance Share shall be equal to the Fair Market Value of a Share. The Committee shall set Performance Goals in its discretion which, depending on the extent to which they are met, will determine the number and/or value of Performance Units/Performance Shares that will be paid out to the Participants. The time period during which the Performance Goals must be met shall be called a Performance Period.
- 9.4 *Earning of Performance Units/Performance Shares.* After the applicable Performance Period has ended, the holder of Performance Units/Performance Shares shall be entitled to receive a payout with respect to the Performance Units/Performance Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding Performance Goals have been achieved.
- 9.5 *Form and Timing of Payment of Performance Units/Performance Shares.* Payment of earned Performance Units/Performance Shares shall be made following the close of the applicable Performance Period. The Committee, in its sole discretion, may pay earned Performance Units/Performance Shares in cash or in Shares (or in a combination thereof), which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Performance Shares at the close of the applicable Performance Period. Such Shares may be granted subject to any restrictions deemed appropriate by the Committee.

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Termination of Employment. Each Performance Unit/Performance Share Award Agreement shall set forth the extent to which the Participant shall have the right to receive a Performance Unit/Performance Share payment following termination of the Participant's employment with the Company and its Subsidiaries during a Performance Period. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with Participants, need not be uniform among all grants of Performance Units/Performance Shares or among Participants and may reflect distinctions based on reasons for termination of employment.

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9.7 *Transferability.* Except as otherwise determined by the Committee and set forth in the Performance Unit/Performance Share Award Agreement, Performance Units/Performance Shares may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, and a Participant's rights with respect to Performance Units/Performance Shares granted under the Plan shall be available during the Participant's lifetime only to such Participant or the Participant's legal representative.

Article 10. Other Awards

The Committee shall have the right to grant other Awards which may include, without limitation, the grant of Shares based on attainment of Performance Goals established by the Committee, the payment of Shares in lieu of cash, the payment of cash based on attainment of Performance Goals established by the Committee, and the payment of Shares in lieu of cash under other Company incentive or bonus programs. Payment under or settlement of any such Awards shall be made in such manner and at such times as the Committee may determine.

Article 11. Beneficiary Designation

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

The spouse of a married Participant domiciled in a community property jurisdiction shall join in any designation of beneficiary or beneficiaries other than the spouse.

Article 12. Deferrals

The Committee may permit a Participant to defer the Participant's receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under the Plan. If any such deferral election is permitted, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals.

Article 13. Rights of Employees

13.1 *Employment.* Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment at any time, for any reason or no reason in the Company's sole discretion, nor confer upon any Participant any right to continue in the employ of the Company.

13.2 *Participation.* No Employee shall have the right to be selected to receive an Award under the Plan, or, having been so selected, to be selected to receive a future Award.

Article 14. Change in Control

The terms of this Article 14 shall immediately become operative, without further action or consent by any person or entity, upon a Change in Control, and once operative shall supersede and take control over any other provisions of this Plan.

Upon a Change in Control

- (a) Any and all Options and SARs granted hereunder shall become immediately exercisable;
- (b) Any restriction periods and restrictions imposed on Restricted Stock, Qualified Restricted Stock or Awards granted pursuant to Article 10 (if not performance-based) shall be deemed to have expired and such Restricted Stock, Qualified

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Restricted Stock or Awards shall become immediately vested in full; and

- (c) The target payout opportunity attainable under all outstanding Awards of Performance Units, Performance Shares and Awards granted pursuant to Article 10 (if performance-based) shall be deemed to have been fully earned for the entire Performance Period(s) as of the effective date of the Change in Control, and shall be paid out promptly in Shares or cash pursuant to the terms of the Award Agreement, or in the absence of such designation, as the Committee shall determine.

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Article 15. Amendment, Modification and Termination

- 15.1 *Amendment, Modification and Termination.* The Board may, at any time and from time to time, alter, amend, suspend or terminate the Plan, in whole or in part, provided that no amendment shall be made which shall increase the total number of Shares that may be issued under the Plan, materially modify the requirements for participation in the Plan, or materially increase the benefits accruing to Participants under the Plan, in each case unless such amendment is approved by the stockholders. The Board of Directors of the Company is also authorized to amend the Plan and the Options granted hereunder to maintain qualification as incentive stock options within the meaning of Section 422 of the Code, if applicable.
- 15.2 *Awards Previously Granted.* No termination, amendment or modification of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award, unless such termination, modification or amendment is required by applicable law and except as otherwise provided herein.

Article 16. Withholding

- 16.1 *Tax Withholding.* The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to an Award made under the Plan.
- 16.2 *Share Withholding.* With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock, or upon any other taxable event arising out of or as a result of Awards granted hereunder, Participants may elect to satisfy the withholding requirement, in whole or in part, by tendering previously-owned Shares or by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the statutory total tax which could be imposed on the transaction. All elections shall be irrevocable, made in writing and signed by the Participant.

Article 17. Minimum Vesting

Notwithstanding any other provision of the Plan to the contrary, (a) the minimum vesting period for Full Value Awards with no performance-based vesting characteristics must be at least three years (vesting may occur ratably each month, quarter or anniversary of the grant date over such vesting period); (b) the minimum vesting period for Full Value Awards with performance-based vesting characteristics must be at least one year; and (c) the Committee shall not have discretion to accelerate vesting of Full Value Awards except in the event of a Change in Control or similar transaction, or the death, disability, or termination of employment of a Participant; provided, however, that the Committee may grant a de minimis number of Full Value Awards that do not comply with the foregoing minimum vesting standards. For this purpose de minimis means 331,279 Shares available for issuance as Full Value Awards under the Plan, subject to adjustment under Section 4.2 herein.

Article 18. Successors

All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company.

Article 19. Legal Construction

- 19.1 *Gender and Number.* Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular and the singular shall include the plural.
- 19.2 *Severability.* In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.
- 19.3 *Requirements of Law.* The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may

be required.

- 19.4 *Governing Law.* To the extent not preempted by Federal law, the Plan, and all agreements hereunder, shall be construed in accordance with, and governed by, the laws of the State of Delaware.

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Article 20. Accounting Restatements

This Article 20 shall apply to Awards granted to all Participants in the Plan. Notwithstanding anything in the Plan or in any Award Agreement to the contrary, if the Company's audited financial statements are restated, the Committee may, in accordance with the Company's *Guidelines for Repayment of Incentives Due to Accounting Restatements*, take such actions as it deems appropriate (in its sole discretion) with respect to

- (a) Awards then outstanding (including Awards that have vested or otherwise been earned but with respect to which payment of cash or distribution of Shares, as the case may be, has not been made or deferred and also including unvested or unpaid Dividend Equivalents attributable to such outstanding Awards) (Outstanding Awards) and
- (b) vested, earned and/or exercised Awards and any cash or Shares received with respect to Awards (including, without limitation, dividends and Dividend Equivalents), in each case to the extent payment of cash or distribution of Shares, as the case may be, was received or deferred within the 3 year period preceding the restatement (Prior Awards), provided such Prior Awards were not vested, earned, exercised or paid prior to the date the Plan was amended to add this Article 20, if the terms of any such Outstanding Awards or Prior Awards or the benefits received by a Participant with respect to any such Outstanding Awards or Prior Awards (including, without limitation, dividends or Dividend Equivalents credited or distributed to a Participant and/or consideration received upon the sale of Shares that were acquired pursuant to the vesting, settlement or exercise of a Prior Award) are, or would have been, directly impacted by the restatement, including, without limitation, (i) securing (or causing to be secured) repayment of all or a portion of any amounts paid, distributed or deferred (including, without limitation, dividends or Dividend Equivalents and/or consideration received upon the sale of Shares that were acquired pursuant to the vesting, settlement or exercise of a Prior Award), (ii) granting additional Awards or making (or causing to be made) additional payments or distributions (or crediting additional deferrals) with respect to Prior Awards, (iii) rescinding vesting (including accelerated vesting) of Outstanding Awards and/or (iv) causing the forfeiture of Outstanding Awards. The Committee may, in its sole discretion, take different actions pursuant to this Article 20 with respect to different Awards, different Participants (or beneficiaries) and/or different classes of Awards or Participants (or beneficiaries). The Committee has no obligation to take any action permitted by this Article 20. The Committee may consider any factors it chooses in taking (or determining whether to take) any action permitted by this Article 20, including, without limitation, the following:

- (A) The reason for the restatement of the financial statements;
- (B) The amount of time between the initial publication and subsequent restatement of the financial statements; and
- (C) The Participant's current employment status, and the viability of successfully obtaining repayment.

If the Committee requires repayment of all or part of a Prior Award, the amount of repayment shall be determined by the Committee based on the circumstances giving rise to the restatement. The Committee shall determine whether repayment shall be effected (i) by seeking repayment from the Participant, (ii) by reducing (subject to applicable law and the terms and conditions of the applicable plan, program or arrangement) the amount that would otherwise be provided to the Participant under any compensatory plan, program or arrangement maintained by the Company or any of its affiliates, (iii) by withholding payment of future increases in compensation (including the payment of any discretionary bonus amount) or grants of compensatory awards that would otherwise have been made in accordance with the Company's otherwise applicable compensation practices, or (iv) by any combination of the foregoing. Additionally, by accepting an Award under the Plan, Participants acknowledge and agree that the Committee may take any actions permitted by this Article 20 with respect to Outstanding Awards to the extent repayment is to be made pursuant to another plan, program or arrangement maintained by the Company or any of its affiliates.

Article 21. Code Section 409A Compliance

To the extent applicable, it is intended that this Plan and any Awards granted hereunder comply with the requirements of Section 409A of the Code and any related regulations or other guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service (Section 409A). Any provision that would cause the Plan or any Award granted hereunder to fail to satisfy Section 409A shall have no force or effect until amended to comply with Section 409A, which amendment may be retroactive to the extent permitted by Section 409A.

Proxy Statement

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A-12 MDU Resources Group, Inc. Proxy Statement

EXHIBIT B**Towers Perrin's 2008 General Industry Executive Compensation Database**

3M	Applied Materials	CA
7-Eleven	ARAMARK	Cablevision Systems
A&P	Arby's Restaurant Group	California Independent System Operator
A.H. Belo	Archer Daniels Midland	Calpine
A.T. Cross	Arclin USA	Cameron International
AAA Northern California, Utah & Nevada	Areva NP	Campbell Soup
AAA of Science	Armstrong World Industries	Capital Blue Cross
AARP	Arrow Electronics	Capital One Financial
Abbott Laboratories	Arysta LifeScience North America	Capitol Broadcasting WRAL
ABC	Ashmore Energy International	Cardinal Health
Abercrombie & Fitch	Associated Banc-Corp	Cargill
Accenture	AstraZeneca	Carlson Companies
ACH Food	AT&T	Carpenter Technology
adidas America	Austria Microsystems	CashNetUSA
Advance Publications	Auto Club Group	Catalent Pharma Solutions
Advanced Medical Optics	Automatic Data Processing	Caterpillar
Advanced Micro Devices	Avaya	Catholic Healthcare West
Aegon USA	Avis Budget Group	CB Richard Ellis Group
Aerojet	Avista	Cedar Rapids TV KCRG
Aetna	Avon	Celgene
AFLAC	AXA Equitable	CenterPoint Energy
Agilent Technologies	B&W Y-12	Centex
AGL Resources	BAE Systems	Century Aluminum
Agrum U.S.	Ball	Cephalon
AIG	Banco do Brasil	Ceridian
Air Products and Chemicals	Bank of America	CH2M Hill
Alcatel-Lucent	Bank of the West	Chanel
Alcoa	Barr Pharmaceuticals	Cheniere Energy
Alexander & Baldwin	Barrick Gold of North America	Chesapeake
Allbritton Communications KATV	Baxter International	Chevron
Allegheny Energy	Bayer	Chicago Mercantile Exchange
Allergan	Bayer CropScience	Chiquita Brands
Allete	BB&T	Choice Hotels International
Alliant Energy	bebe stores	Chrysler
Alliant Techsystems	Beckman Coulter	CHS
Allianz	BELCO Holdings	CIGNA
Allstate	Belo	Cisco Systems
ALM	BG US Services	CIT Group
Alstom Power	BIC	CITGO Petroleum
Altria Group	Big Lots	Citizens Bank
Amazon.com	Biogen Idec	City Public Service
Ameren	Bio-Rad Laboratories	Cleco
American Airlines	Black Hills	CMS Energy
American Crystal Sugar	Blockbuster	CAN
American Electric Power	Blue Cross Blue Shield of Florida	COACH
American Family Insurance	Blue Shield of California	Cobank
American Transmission	Blyth	Coca-Cola
American United Life	Bob Evans Farms	Colgate-Palmolive
American Water Works	Boehringer Ingelheim	Colorado Springs Utilities
Ameriprise Financial	Boeing	Columbia Sportswear
Ameritrade	Bombardier Transportation	Columbian Financial Group
Ameron	Booz Allen Hamilton	Comerica
AMETEK	Boston Scientific	Commerce Insurance
	Bovis Lend Lease	Compass Bancshares
	Boy Scouts of America	Connell
	BP	ConocoPhillips
	Bracco Diagnostics	Consolidated Edison
	Brady	Constellation Energy

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Amgen
Anadarko Petroleum
Anchor Danyl
Ann Taylor Stores
APL
Applera
Appleton Papers

Bremer Financial
Bristol-Myers Squibb
Building Materials Holding
Bunge
Burger King
Burlington Northern Santa Fe
Bush Brothers

Continental Automotive Systems
Convergys
Corning
Corporate Executive Board
Corporate Express US
Covidien
Cox Enterprises

MDU Resources Group, Inc. Proxy Statement B-1

Proxy Statement

Crown Castle	Fannie Mae	Harris Enterprises
CSX	FANUC Robotics America	Harry Winston
Cubic	Farmers Group	Hartford Financial Services
Cullen/Frost Bankers	Federal Home Loan Bank of	Hasbro
CUNA Mutual	San Francisco	Hawaiian Electric
Curtiss-Wright	Federal Reserve Bank of Cleveland	Hayes Lemmerz
Cushman & Wakefield	Federal Reserve Bank of Dallas	HBO
CVS Caremark	Federal Reserve Bank of Philadelphia	HCA Healthcare
Daiichi Sankyo	Federal Reserve Bank of San Francisco	Health Care Services
Daimler Trucks North America	Federal Reserve Bank of St. Louis	Health Net
Dannon	Federal-Mogul	Healthways
Day & Zimmerman	Ferrellgas	Henry Schein
DCP Midstream	Ferrero USA	Hercules
De Lage Landen Financial Services	Fidelity Investments	Herman Miller
Dean Foods	Fifth Third Bancorp	Hershey
Delphi	FINRA	Hertz
Deluxe	Fireman's Fund Insurance	Hess
DENSO	First Horizon National	Hewlett-Packard
Dentsply	FirstEnergy	Hexion Specialty Chemicals
Devon Energy	Fiserv	HNI
Diageo North American	Fleetwood Enterprises	HNTB
Direct Energy	Flint Group USA	Hoffmann-La Roche
Discovery Communications	Fluor	Hologic
Dispatch Broadcast Group	Ford	Honeywell
WBNS	Forest Laboratories	Hormel Foods
Dominion Resources	Fortune Brands	Hospira
Donaldson	Forum Communications	Hot Topic
Dow Chemical	WDAY	Houghton Mifflin
Dow Jones	Fox Networks Group	HSBC North America
Duke Energy	FPL Group	Hubbard Broadcasting
DuPont	Freddie Mac	Humana
Dynegy	Freedom Communications	Hunt Consolidated
E.ON U.S.	Freepoint-McMoRan Copper & Gold	Huntington Bancshares
E.W. Scripps	G&K Services	Hyatt Hotels
Eastman Chemical	Gannett	IAC/InterActive
Eastman Kodak	Gap	IBM
Eaton	Gates	IDACORP
eBay	GATX	Idearc Media
Ecolab	GE Healthcare	IDEX
EDS	Genentech	IKON Office Solutions
Eisai	General Atomics	IMS Health
El Paso Corporation	General Dynamics	Independence Blue Cross
Electric Power Research Institute	General Mills	IndyMac
Eli Lilly	General Motors	ING
Elsevier Science	Genworth Financial	Integrays Energy Group
Embarq	Genzyme	Intel
EMC	GEO Group	International Flavors & Fragrances
EMCOR Group	Getty Images	International Game Technology
Emerson	GlaxoSmithKline	International Paper
Enbridge Energy	Global Crossing	Interstate Bakeries
Endo Pharmaceuticals	Goodrich	Invensys Controls
Energizer	Gorton's	Invitrogen
Energy Future Holdings	Great-West Life Annuity	ION Geophysical
Energy Northwest	Greif	Iron Mountain
Entergy	GS1	Irvine Company
EPCO	GTECH	Irving Oil
Equifax	Guaranty Bank	Irwin Financial
Equity Office Properties	Guardian Life	Itochu International
Erie Insurance	Guideposts	J. Crew
Ernst & Young	GXS	J.C. Penney Company
ESRI	H.B. Fuller	

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Essilor of America
Evening Post Publishing KOAA
Evergreen Packaging
Exelon
Exterran
ExxonMobil
Fairchild Controls

Hanesbrands
Hannaford
Harland Clarke
Harley-Davidson
Harman International Industries
Harris
Harris Bank

J.M. Smucker
J.R. Simplot
Jack in the Box
Jacobs Engineering
JEA
JM Family
John Hancock

B-2 MDU Resources Group, Inc. Proxy Statement

Proxy Statement

Johns-Manville	Medco Health Solutions	OneBeacon Insurance
Johnson & Johnson	Media General	Open Text
Johnson Controls	Medtronic	Optos North America
Joint Commission	Mellon Financial	Oshkosh Truck
Jostens	Merck	Otter Tail
Kaiser Foundation Health Plan	Mercury Insurance	Owens Corning
Kaman Industrial Technologies	MessageLabs	Owens-Illinois
KCTS Television	Metavante Technologies	Pacific Gas & Electric
Kellogg	MetLife	Pacific Life
Kennametal	MetroPCS Communications	PacifiCorp
Kerzner International	MGE Energy	Panasonic of North America
KeyCorp	Micron Technology	Parker Hannifin
Kimberly-Clark	Microsoft	Parsons
Kindred Healthcare	Millennium Pharmaceuticals	Pearson Education
King Pharmaceuticals	Millipore	People's Bank
Kiplinger	Mirant Corporation	Pepco Holdings
KLA-Tencor	MOL America	PepsiAmericas
Knight	Molson Coors Brewing	PepsiCo
Koch Industries	Monaco Coach	PerkinElmer
Kohler	MoneyGram International	PetSmart
Kohl's	Monsanto	Pfizer
Kroger	Morgan Murphy Stations WISC	Phillips-Van Heusen
L.L. Bean	Motorola	Phoenix Companies
L-3 Communications	Mountain America	Pinnacle West Capital
Lafarge North America	Mueller Water Products	Pitney Bowes
Land O Lakes	Munich Re America	PJM Interconnection
Leggett and Platt	Nalco	Plexco
Lenovo	Nash-Finch	Plymouth Rock Assurance
Level 3 Communications	National CineMedia	PMC-Sierra
Levi Strauss	National Geographic Society	PMI Group
LexisNexis	National Renewable Energy Laboratory	PNC Financial Services
Lexmark International	National Semiconductor	PNM Resources
LG Electronics USA	National Starch & Chemical	PolyOne
Liberty Mutual	Nationwide	Popular
Limited	Navistar International	Portland General Electric
Lincoln Financial	NCCI Holdings	Potash
Lockheed Martin	NCR	PPG Industries
Loews	Neoris USA	PPL
Logitech	Nestle USA	Praxair
LOMA	New York Life	Principal Financial
Longs Drug Stores	New York Power Authority	Pro-Build Holdings
Lord	New York Times	Progress Energy
Lorillard Tobacco	Nicor	Progressive
Lower Colorado River Authority	NIKE	Providence Health System
Luck Stone	Nokia	Prudential Financial
M&T Bank	Noranda Aluminum	Public Service Enterprise Group
Magellan Midstream Partners	Norfolk Southern	Puget Energy
Makino	Nortel Networks	Pulte Homes
Marathon Oil	Northeast Utilities	Purdue Pharma
Marriott International	Northrop Grumman	QUALCOMM
Marsh	NorthWestern Energy	Quebecor World US
Marshall & Ilsley	Northwestern Mutual	Quintiles
Martin Marietta Materials	Novartis Consumer Health	Qwest Communications
Mary Kay	Novartis Pharmaceuticals	R.R. Donnelley
Masco	Novo Nordisk Pharmaceuticals	Ralcorp Holdings
Massachusetts Mutual	Novus Print Media Network	Raley's Superstores
MasterCard	NRG Energy	Rayonier
Mattel	NSTAR	RBC Dain Rauscher
Mazda North American Operations	NW Natural	Reader's Digest
McClatchy	NXP Semi-Conductor	Reed Business Information

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McDermott
McDonald's
McGraw-Hill
McKesson
MDS Pharma Services
MDU Resources
MeadWestvaco

Nycomed US
Nypro
Oak Ridge National Laboratory
Occidental Petroleum
OGE Energy
Omaha Public Power
Omnova Solutions

Reed Elsevier
Reed Exhibitions
Regions Financial
Reliant Resources
Revlon
Reynolds American
RF Micro Devices

MDU Resources Group, Inc. Proxy Statement B-3

Proxy Statement

RGA Reinsurance Group of America	Staples	Uni-Select USA
Rich Products	Starbucks	UniSource Energy
Rio Tinto	Starwood Hotels & Resorts	Unisys
Robert Bosch	State Farm Insurance	United Airlines
Roche Diagnostics	State Street	United Rentals
Roche Palo Alto	Steelcase	United States Cellular
Rockwell Automation	Sterling Bancshares	United Technologies
Rockwell Collins	Stewart & Stevenson	United Water Resources
Rohm and Haas	STP Nuclear Operating	UnitedHealth
Rolls-Royce North American	SUEZ Energy North America	Unitil
Ryder System	Sun Life Financial	Universal Studios Orlando
S.C. Johnson	Sunbeam Television WHDH	University of Texas M.D. Anderson
Safety-Kleen Systems	SunGard Data Systems	Cancer Center
SAIC	Sunoco	Univision Communications
Salt River Project	SunTrust Bank	Unum Group
Sanofi Pasteur	SuperValu Stores	USAA
Sanofi-Aventis	SVB Financial	USG
Sara Lee	Swift Newspapers	Valero Energy
Sarkes Tarzian KTVN	Sybron Dental Specialties	Vanguard
Sarkes Tarzian WRCB	Syngenta Crop Protection	Verizon
SAS Institute	Synovus	Viacom
SCA Americas	Takeda Pharmaceutical	Virgin Mobile USA
SCANA	Targa Resources	Visa USA
Schering-Plough	Target	Visiting Nurse Service
Schlumberger	Taubman Centers	Vistar
Schneider Electric	TD Banknorth	Visteon
Scholastic	TeleTech Holdings	Volvo Group North America
Schreiber Foods	Tellabs	Voyager Learning Company
Schurz KYTV	Temple-Inland	Vulcan
Schurz WAGT	Tenet Healthcare	Vulcan Materials
Schwan s	Tennessee Valley Authority	Wachovia
Scotts Miracle-Gro	Teradata	Wackenhut Services
Seagate Technology	Terex	Walt Disney
Sealed Air	Terra Industries	Warnaco
Securian Financial Group	Tesoro	Washington Mutual
Securitas Security Services USA	Texas Instruments	Washington Savannah River
Sempra Energy	Textron	Waste Management
SENCORP	Thomas & Betts	Webster Bank
Sensata Technologies	Thomson Reuters Markets Division	Wellcare Health Plans
SES Global	Americas	Wellpoint
Shaw Industries	Thrivent Financial for Lutherans	Wells Fargo
Shell Oil	TIAA-CREF	Wendy s International
Sherwin-Williams	Time Warner	Westar Energy
Shire Pharmaceuticals	Time Warner Cable	Western Digital
Siemens	Timex	Westinghouse Electric
Sigma-Aldrich	T-Mobile	Whirlpool
Sinclair Broadcast Group	Toro	Whole Foods Market
Sirius Satellite Radio	Trane	Williams Companies
SLM	Trans Union	Wisconsin Energy
Smith & Nephew	TransCanada	Wm. Wrigley Jr.
Smiths Detection	Travelers	Wolters Kluwer US
Smurfit-Stone Container	Travelport	Wray Edwin KTBS
Sodexo	Tribune	Wyeth
Solvay Pharmaceuticals	Tupperware	Wyndham Worldwide
Sonoco Products	Twin Cities Public Television TPT	Xcel Energy
Sony Corporation of America	Tyco Electronics	Xerox
Sony Ericsson Mobile Communications	U.S. Bancorp	Yahoo!
South Financial Group	U.S. Foodservice	Young Broadcasting KRON
Southern Company Services	UCB	Yum! Brands
Sovereign Bancorp	UIL Holdings	Zale

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Spectra Energy
Spirit AeroSystems
Springs Global US
Sprint Nextel
Stanford University
Stantec

Ulticom
Underwriters Laboratories
Unifi
Unilever United States
Union Bank of California
Union Pacific

Zimmer Holdings
Zurich North America

B-4 MDU Resources Group, Inc. Proxy Statement

Proxy Statement

**Towers Perrin's 2008 Energy
Industry Executive
Compensation Database**

AGL Resources
Allegheny Energy
Allete
Alliant Energy
Ameren
American Electric Power
American Transmission
Areva NP
Ashmore Energy International
Avista
BG US Services
Black Hills
CMS Energy
California Independent System Operator
Calpine
CenterPoint Energy
Cheniere Energy
City Public Service
Cleco
Colorado Springs Utilities
Consolidated Edison
Constellation Energy
DCP Midstream
Dominion Resources
Duke Energy
Dynergy
E.ON U.S.
EPCO
Edison International
El Paso Corporation
Electric Power Research Institute
Enbridge Energy
Energen
Energy Future Holdings
Energy Northwest
Entergy
Exelon
FPL Group
FirstEnergy
Hawaiian Electric
IDACORP
Integrays Energy Group
JEA
Knight
Lower Colorado River Authority
MDU Resources
MGE Energy
Mirant Corporation
NRG Energy
NSTAR
NW Natural
New York Power Authority
Nicor
NorthWestern Energy
Northeast Utilities

PNM Resources
PPL
PacifiCorp
Pacific Gas & Electric
Pepco Holdings
Pinnacle West Capital
Portland General Electric
Progress Energy
Public Service Enterprise Group
Puget Energy
Reliant Resources
SCANA
STP Nuclear Operating
SUEZ Energy North America
Salt River Project
Seminole Energy Services
Sempra Energy
Southern Company Services
Southern Union Company
Spectra Energy
Targa Resources
Tennessee Valley Authority
TransCanada
UIL Holdings
UniSource Energy
Unitil
Westar Energy
Williams Companies
Wisconsin Energy
Wolf Creek Nuclear
Xcel Energy

**Effective Compensation, Inc.'s
2008 Oil & Gas Compensation
Survey**

Aera Energy Services Company
Alta Mesa Holdings
Altex Energy Corporation
Approach Resources Inc.
Aramco Services Company
Ascent Operating, LP
Aspect Energy, LLC
BEPCO, L.P.
Berry Petroleum Company
Bill Barrett Corporation
BreitBurn Energy Partners LP
Brigham Exploration Company
Browning Oil Company, Inc.
BTA Oil Producers, LLC
Cabot Oil & Gas Corporation
Cano Petroleum, Inc.
CDX Gas, LLC
Ceja Corporation
Chaparral Energy, Inc.
Chesapeake Energy Corporation
Cimarex Energy Co.
Cohort Energy Company
Comstock Resources, Inc.

Denbury Resources Inc.
Devon Energy
Dominion Exploration & Production
Duncan Oil Properties, Inc./Walter
Duncan, Inc.
Ellora Energy
EnCana Oil & Gas (USA) Inc.
Encore Acquisitions Company
Energen Resources
Energy Partners, Ltd.
Eni Operating Co. Inc.
Equitable Resources, Inc- Equitable
Supply
Fasken Oil and Ranch, Ltd.
Fidelity Exploration & Production
Company
FIML Natural Resources
Forest Oil Corporation
Fortuna Energy, Inc.
GMT Exploration
GMX Resources Inc.
Goodrich Petroleum Corporation
Great Western Drilling Company
Harvest Natural Resources, Inc.
Headington Oil Company, L.P.
Henry Petroleum LP
Hilcorp Energy Company
Hunt Oil Company
Hunt Petroleum Corporation
J. M. Huber Corporation Energy Sector
Kinder Morgan CO2 Company, L.P.
Lake Roneil Oil Company
Leed Petroleum LLC (formerly Darcy
Energy)
Linn Energy, LLC
Mariner Energy, Inc.
Maritech Resources
McElvain Oil and Gas Properties, Inc.
McMoran Oil and Gas Company
Medco Energi US LLC
Mewbourne Oil Company
Mustang Fuel Corporation
Nearburg Producing Company
Newfield Exploration Company
Nexen Petroleum U.S.A. Inc.
Noble Energy, Inc.
Panhandle Oil and Gas Inc.
Penn Virginia Oil & Gas
Petro-Canada Resources (USA) Inc
Petrohawk Energy Corporation
Petro-Hunt, LLC
Petroleum Development Corporation
PetroQuest Energy LLC
Petsec Energy Inc.
Pioneer Natural Resources USA, Inc.
Plains Exploration & Production Company
Quantum Resources Management, LLC
Questar Market Resources Group
Quicksilver Resources Inc.
Range Resources Corporation

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OGE Energy
Omaha Public Power
Otter Tail
PJM Interconnection

Continental Resources, Inc.
Crimson Exploration, Inc.
Dart Oil & Gas
Delta Petroleum Corporation

Read and Stevens, Inc.
Repsol Services Company
Rex Energy Operating Corp.
Rosetta Resources Inc.

MDU Resources Group, Inc. Proxy Statement B-5

Proxy Statement

Samson	Baker Hughes, Inc. Hughes Christensen	Duke Energy US Franchised Electric and Gas
SandRidge Energy, Inc.	Baker Hughes, Inc. Production Quest	Duquesne Light Holdings, Inc.
Seneca Resources Corporation	Basic Energy Services	Dynegy, Inc.
Sheridan Production Company	Black Stone Minerals Company, LLP	DynMcDermott Petroleum Operations E.ON U.S.
Sinclair Oil and Gas Company	Boart Longyear	Edge Petroleum Corporation
Southwestern Energy Production Company	Brigham Exploration Company	Edison Mission Energy
St. Mary Land & Exploration Company	Cameron International	El Paso Corporation
Stone Energy Corporation	Cameron International Compression Systems	El Paso Corporation Exploration and Production
Summit Petroleum LLC	Cameron International Drilling and Production Systems	El Paso Corporation Pipeline Group
Swift Energy Operating, LLC	Cameron International Valves & Measurement	Enbridge Energy Partners, LP
T-C Oil Company	Carrizo Oil & Gas, Inc.	EnCana Oil & Gas (USA) Inc.
Tema Oil and Gas Company	CCS Income Trust Energy Services	Energen Corporation Energen Resources Corporation
Texas Petroleum Investment Company	CDX Gas, LLC	Energy Future Holdings Luminant
Thums Long Beach Company	CenterPoint Energy	Energy Future Holdings Luminant Energy
TOTAL E&P USA, INC.	CGGVeritas	Energy Future Holdings Corporation
Triad Energy Corporation	Chesapeake Energy Corporation	Energy Future Holdings Corporation
TXCO Resources, Inc.	Chesapeake Energy Corporation CEMI	Oncor
Ultra Petroleum Corp.	Chesapeake Energy Corporation	Energy Partners, Ltd.
Vanco Energy Company	Chesapeake Energy Corporation	EnergySouth, Inc.
Vantage Energy L.L.C.	Chesapeake Energy Corporation	EnergySouth, Inc. Bay Gas Storage
Venoco, Inc.	Chesapeake Energy Corporation	EnergySouth, Inc. EnergySouth
Vernon E. Faulconer, Inc.	Chesapeake Energy Corporation	Midstream, Inc.
Wagner & Brown, Ltd.	Chesapeake Energy Corporation	EnergySouth, Inc. Mobile Gas Service, Corporation
Ward Petroleum Corporation	Diamond Y	Enerplus Resources Fund Enerplus Resources (USA) Corporation
Western Production Company	Chesapeake Energy Corporation	EnerVest Management Partners, Ltd.
Weyerhaeuser Company	Chesapeake Energy Corporation Great Plains	Eni US Operating Company, Inc.
Whiting Petroleum Corporation	Chesapeake Energy Corporation	ENSCO International, Inc.
Williams	Chesapeake Energy Corporation	ENSCO International, Inc. North & South America Business Unit
Woodside Energy (USA) Inc	Chesapeake Energy Corporation	Ensign United States Drilling, Inc.
Wynn-Crosby	Chesapeake Energy Corporation	Ensign United States Drilling, Inc. California
XTO Energy, Inc.	Chesapeake Energy Corporation	Ensign United States Drilling, Inc.
Yuma Exploration and Production Company, Inc.	Chief Oil & Gas, LLC	Ensign Well Services, Inc.
	CHS Inc. Energy	Entegra Power Services, LLC
	Cimarex Energy Company	EOG Resources, Inc.
	Cinco Natural Resources Corporation	Explorer Pipeline Company
	Citation Oil & Gas Corp.	Exterran
	CITGO Petroleum Corporation	Fasken Oil and Ranch, Ltd.
	Cleco Corporation	Forest Oil Corporation
	COG Operating, LLC	Fortuna Energy Inc.
	Colonial Group, Inc.	FX Energy, Inc.
	Conectiv Energy	FX Energy, Inc. FX Drilling Company, Inc.
	Constellation Energy Group, Inc.	GE Oil & Gas CONMEC LLC
	Constellation Energy Resources	GE Oil & Gas Operations LLC
	Core Laboratories	Geokinetics
	CPS Energy	GeoMet, Inc.
	Crosstex Energy Services	Global Industries
	DCP Midstream, LLC	Halliburton Company
	Det Norske Veritas US	Hallwood Petroleum, LLC
	Devon Energy	Helmerich & Payne, Inc.
	Diamond Offshore Drilling, Inc.	Hess Corporation
	Dominion Resources, Inc.	
	Dominion Resources, Inc. Dominion Energy	
	Dominion Resources, Inc. Dominion Generation	
	Dominion Resources, Inc. Dominion Virginia Power	
	Dresser-Rand Company	
	Dresser-Rand Company Dresser-Rand	

Mercer's 2008 Total Compensation Survey for the Energy Sector

Abraxas Petroleum Corporation	
Aera Energy Services Company	
AGL Resources	
AGL Resources Sequent Energy Management	
Alliance Pipeline, Inc.	
Alliance Pipeline, Inc. Aux Sable Liquid Products	
Ameren Corporation	
American Transmission Company	
Anadarko Petroleum Corporation	
Apache Corporation	
Arch Coal, Inc.	
Aspect Energy, LLC	
Aspect Energy, LLC Aspect Abundant Shale LP	
Aspect Energy, LLC HHE	
Associated Electric Cooperative, Inc.	
Baker Hughes, Inc.	
Baker Hughes, Inc. Baker Atlas	

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Baker Hughes, Inc.	Baker Hughes	Product Services		HighMount E&P
Business Support Services		Dresser-Rand Company	Field Operations	Holly Corporation
Baker Hughes, Inc.	Baker Hughes	Dresser-Rand Company	NAO	Hunt Oil Company
Drilling Fluids		Dresser-Rand Company	New Equipment	Information Handling Services (IHS)
Baker Hughes, Inc.	Baker Hughes Inteq	Company		ION Geophysical Corporation
Baker Hughes, Inc.	Baker Oil Tools	Duke Energy		Jacksonville Electric Authority
Baker Hughes, Inc.	Baker Petrolite	Duke Energy	Commercial Power	KCPL
Baker Hughes, Inc.	Centrilift			

B-6 MDU Resources Group, Inc. Proxy Statement

Proxy Statement

Kinder Morgan, Inc.
 Lario Oil & Gas Company
 Legacy Reserves, LP
 Mack Energy Co.
 Maersk, Inc. Maersk Oil America
 Maersk, Inc. Moller Supply Company
 Magellan Midstream Holdings, LP
 Magellan Midstream Holdings, LP
 Pipeline Operations
 Magellan Midstream Holdings, LP
 Terminal Services
 Magellan Midstream Holdings, LP
 Transportation
 MCN Energy Enterprises
 MCX Exploration(USA), Ltd.
 MDU Resources Group, Inc.
 MDU Resources Group, Inc. Montana
 Dakota Utilities
 MDU Resources Group, Inc. WBI
 Holdings, Inc.
 Mestena Operating, Ltd.
 Mirant Corp
 MitEnergy Upstream LLC
 Murphy Oil Corporation
 NATCO Group, Inc.
 NATCO Group, Inc. BTO
 NATCO Group, Inc. S&T
 Nexen, Inc. Nexen Petroleum USA, Inc.
 Nippon Oil Exploration USA Ltd
 NiSource Inc. Bay State Gas Company
 NiSource Inc. Columbia Gas of Ohio
 NiSource Inc. Columbia Gas of
 Pennsylvania
 NiSource Inc. Columbia Gas of Virginia
 NiSource Inc. NiSource Corporate
 Services Co
 NiSource Inc. Northern Indiana Fuel &
 Light
 NiSource Inc. Northern Indiana Public
 Service Co
 NiSource Inc. Northern Utilities, Inc
 NiSource Inc. Transmission Corp
 Noble Corporation
 Noble Corporation Noble Drilling
 Services, Inc.
 Noble Energy, Inc.
 North Coast Energy, Inc.
 Nustar Energy LP
 Oceaneering International, Inc.
 Oceaneering International, Inc.
 Americas
 Oceaneering International, Inc. Multiflex
 Oceaneering International, Inc. OIE
 OGE Energy Corp
 OGE Energy Corp Enogex
 ONEOK, Inc.
 ONEOK, Inc. Kansas Gas Service
 Division
 ONEOK, Inc. Oklahoma Natural Gas
 Division
 Parallel Petroleum Corporation
 Parker Drilling Company
 Pepco Holdings, Inc.
 Petro-Canada Petro-Canada
 Resources (USA)
 Petron Resources
 PII North America, Inc.
 Pioneer Natural Resources
 PJM Interconnection
 Plains Exploration & Production Company
 PPL Corporation
 Pride International
 Questar Market Resources
 Quicksilver Resources Inc.
 R. Lacy, Inc.
 R. Lacy, Inc. Lacy Operations, Ltd
 Regency Gas Services
 Renaissance Alaska, LLC
 Resolute Natural Resources Company
 RKI Exploration & Production, LLC
 Rosewood Resources, Inc.
 Rosewood Resources, Inc. Advanced
 Drilling Technologies
 Rowan Companies, Inc.
 SAIC
 SCANA Corporation
 SCANA Corporation Carolina Gas
 Transmission
 SCANA Corporation PSNC Energy
 (Public Service Company of North
 Carolina, Inc.)
 SCANA Corporation SCE&G (South
 Carolina Electric and Gas Company)
 Schlumberger Oilfield Services
 Seneca Resources Corporation
 Seneca Resources Corporation
 Bakersfield
 Seneca Resources Corporation
 Williamsville
 Shaw Bredero Shaw LLC
 Shaw Shaw Pipe Protection LLP
 Southern Company
 Southern Company Georgia Power
 Southern Company Gulf Power
 Company
 Southern Company Mississippi Power
 Company
 Southern Company SouthernLINC
 Southern Union Company
 Southern Union Company Missouri
 Gas Energy
 Southern Union Company New
 England Gas
 Southern Union Company Panhandle
 Energy
 Southern Union Gas Services
 Southern Ute Tribe dba Red Willow
 Production Co
 Southwest Gas Corporation
 Southwestern Energy Company
 The Williams Companies, Inc. Williams
 Gas Pipeline (WGP)
 Thums Long Beach Company
 TransCanada
 TransCanada Gas Transmission
 Northwest (GTN)
 TransCanada Northern Border Pipeline
 TransCanada US Pipeline Central
 Transocean
 TXCO Resources, Inc.
 TXCO Resources, Inc. Output
 Acquisition Corp.
 TXCO Resources, Inc. Texas Tar
 Sands, Inc.
 TXCO Resources, Inc. TXCO Drilling
 Corp.
 TXU Corporation TXU Energy Retail
 Ultra Petroleum Corp.
 Unit Corporation
 Unit Corporation Superior Pipeline
 Company, LLC
 Unit Corporation Unit Drilling Company
 Unit Corporation Unit Petroleum
 Company
 Vanco Energy Company
 Venoco, Inc.
 Verado Energy, Inc.
 Washington Gas
 Weatherford
 Wells Fargo & Company Wholesale
 Banking
 Woodside Energy (USA) Inc.
 Xcel Energy, Inc.
 XTO Energy, Inc.
**Watson Wyatt's 2008/2009 Top
 Management Compensation
 Survey**
 3M Company
 A N Ansay & Associates
 A O Smith Corporation
 AAA
 AAF McQuay International
 ABB, Inc.
 Abbott Laboratories
 Abercrombie & Fitch Company
 Accor North America
 ACI Worldwide
 Acme Industries
 ACT Teleconferencing
 The Actors Fund of America
 Acuity
 ACUMED LLC
 ADC Telecommunications
 A-dec, Inc.
 Adobe Systems Incorporated
 ADTRAN Incorporated
 Advance Auto Parts, Inc.

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ONEOK, Inc. ONEOK Partners
ONEOK, Inc. Texas Gas Services
Division
Osage Resources, LLC
Osage Resources, LLC D & B
Drilling, LLC
PacifiCorp

Sprague Energy Corp
Superior Natural Gas Corporation
Tellus Operating Group, LLC
The Williams Companies, Inc.
The Williams Companies, Inc. E&P
The Williams Companies, Inc.
Midstream

Advanced Measurement Technology, Inc.
Advanced Micro Devices, Inc.
Adventist Health Systems
Aegon USA
Aeronix, Inc.
AET
Aetna, Inc.

MDU Resources Group, Inc. Proxy Statement B-7

Proxy Statement

Affiliated Computer Services, Inc.	AmTrust Bank	BB&T Corporation
Affinity Plus Federal Credit Union	Anadarko Petroleum Corporation	BDO Seidman, LLP
AFLAC Incorporated	Analog Devices, Inc.	Bechtel Systems & Infrastructure, Inc.
AGC Houston	Andersen Corporation	Beckman Coulter, Inc.
AGCO Corporation	Anheuser-Busch Companies, Inc.	Belk, Inc.
AgFirst	Anixter International Inc.	Bemis Company, Inc.
Agilent Technologies, Inc.	AnnTaylor Stores Corporation	Bemis Manufacturing Company
AGL Resources, Inc.	The Antioch Company	Benchmark Electronics, Inc.
AgriBank	Aon Corporation	Bendix
Ahlstrom Windsor Locks LLC	Apache Corporation	The Bergquist Company
AIG	Apartment Investment and Management	Berwick Offray LLC
Airlines Reporting Corporation	Apollo Group	Best Buy Co., Inc.
AK Steel Holding Corporation	Apple, Inc.	Big Lots, Inc.
Akamai Technologies, Inc.	Applied Materials, Inc.	Biogen Idec, Inc.
Albemarle Corporation	ARAMARK Corporation	Bioscrip, Inc.
Alcoa, Inc.	Arch Capital Group, Ltd.	BJ's Wholesale Club, Inc.
Aleris International, Inc.	Arch Coal, Inc.	The Black & Decker Corporation
Alfa Laval, Inc.	Archer Daniels Midland Company	Black & Veatch, Inc.
Allegheny County Sanitary Authority	Archstone-Smith	BlackRock, Inc.
Allegheny Energy, Inc.	The Arizona Republic	Blaze Recycling & Metals LLC
Allegheny Technologies Incorporated	Arkansas Foundation for Medical Care	Blockbuster Entertainment
Allergan, Inc.	Arrow Electronics, Inc.	Blue Cross & Blue Shield of Arizona
Alliance Laundry Systems	Asbury Automotive Group, Inc.	Blue Cross & Blue Shield of Louisiana
Alliant Energy	Ascension Parish School Board	Blue Cross & Blue Shield of South Carolina
Allied Building Products Corporation	ASCO Value	Blue Cross of Northeastern Pennsylvania
Allied Waste Industries, Inc.	ASRC Federal Holding Company	BlueLinx Holdings, Inc.
The Allstate Corporation	Asset Marketing Service, Inc.	Board of Governors of the Federal Reserve System
ALON USA Energy, Inc.	Associated Industries of Massachusetts	Bob Evans Farms
ALSAC St. Jude's Children Research Hospital	Assurant Health	The Boeing Company
ALTERA Corporation	Assurant, Inc.	Borders Group, Inc.
Altria Group, Inc.	Asurion Corporation	BorgWarner, Inc.
Amalgamated Bank of New York	Aurora Healthcare	Boston Market Corporation
Amazon.com, Inc.	The Auto Club Group	Boston Properties, Inc.
Ambac Financial Group, Inc.	Autodesk, Inc.	Boston Scientific Corporation
Ameren Corporation	Autoliv North America, Inc.	Boyd Gaming Corporate
American Axle & Manufacturing Holdings, Inc.	Automatic Data Processing	Brady Corporation
American Cancer Society, Inc.	Automobile Club of Southern California	The Brink's Company
American Capital Strategies	AutoNation, Inc.	Bristol Myers Squibb Company
American Casino & Entertainment Properties	Avalonbay Communities, Inc.	Broadcom Corporation
American Dehydrated Foods, Inc.	Aveda Corporation	Broadlane, Inc.
American Electric Power Company, Inc.	Avery Dennison Corporation	Brown Shoe Company, Inc.
American Enterprise	Aviall, Inc.	Brownells, Inc.
American Express Company	Avis Budget Car Rental Group	Brown-Forman Corporation
American Family Insurance	Avista Corporation	Brunswick Corporation
American Financial Group	Avon Products, Inc.	Bryant University
American Greetings Corporation	Axis Capital Holdings	BSH Home Appliances Corporation
American Home Mortgage Investment Company	B Braun Medical, Inc.	Buffets, Inc.
American Medical Association	B/E Aerospace, Inc.	Builders FirstSource, Inc.
American Standard Companies, Inc.	Babson College	Builders Insurance Group
American Superconductor	Baker Hughes Incorporated	Building Materials Holding Corporation
American Tower Corporation	Ball Corporation	Bunge, Ltd.
American University	Bank of America Corporation	Burlington Northern Santa Fe Corporation
American Water	The Bank of New York Mellon Corporation	C H Robinson Worldwide, Inc.
AMERIGROUP Corporation	BankAtlantic	C R Bard, Inc.
AmeriPride Services, Inc.	Bankers Bank	Cabela's Incorporated
Ameriprise Financial, Inc.	Banner Engineering Corporation	Cablevision
	Baptist Health	Caelum Research Corporation
	Baptist Health System	Calibre Systems
	Barilla America, Inc.	
	Barloworld Handling	

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AmerisourceBergen Corporation
Ameristar Casinos
Ames True Temper
Amgen, Inc.
Amphenol Corporation
AMR Corporation
Amtrak

Barnes & Noble, Inc.
Barr Pharmaceuticals, Inc.
Basler Electric Company
Baxter International, Inc.
Baylake Bank
Baylor College of Medicine
Baylor Health Care System

California Casualty Management Company
California Dental Association
California Water Service Company
Camcraft
Cameron International Corporation
Canyon Ranch
Capital One Financial Corporation

B-8 MDU Resources Group, Inc. Proxy Statement

Proxy Statement

Capital Southwest Corporation	CMS Energy Corporation	Cytec Industries, Inc.
CareFirst BlueCross BlueShield	The CNA Corporation	Dal-Tile, Inc.
Carleton Life Support Systems	CNA Financial Corporation	Danaher Corporation
Carlisle Companies, Inc.	CNL Financial Group	Davis Langdon
Carlson Companies, Inc.	Cobb County School District	DaVita, Inc.
Carlson Systems Corporation	Coca Cola Bottling Company Consolidated	Dawn Food Products
CarMax, Inc.	The Coca-Cola Company	Day & Zimmermann, Inc.
Carnival Corporation	Coca-Cola Enterprises, Inc.	Dean Foods Company
Carpenter Technology Corporation	Cognizant Technology Solutions	The Decurion Corporation
Casino Arizona	Colgate-Palmolive Company	Deere & Company
Caterpillar, Inc.	Colonial Bank	Deere & Company Canada
CB Richard Ellis	Colonial Williamsburg Foundation	Dekalb Regional Healthcare Systems
CBS Corporation	Colorado Springs Utilities	Del Monte Foods Company
CDM	Colsa Corporation	Delek US Holdings, Inc.
CDW Corporation	Comau, Inc.	Delphi Corporation
CEC Entertainment, Inc.	Comcast Corporation	Delta Air Lines, Inc.
Celanese Americas Corporation	Comerica Incorporated	Deluxe Corporation
Celgard, Inc.	Commerce Bancorp, Inc.	Denso Manufacturing Michigan, Inc.
Celgene Corporation	CommScope, Inc.	Deseret Book Company
Cell Therapeutics, Inc.	The Community College of Baltimore County	Developers Diversified Realty
Celtic Insurance	Community Health Network	Devon Energy Corporation
CEMEX, Inc.	Community Health Systems	DeVry University
Centene Corporation	Compressor Controls Corporation	Dick's Sporting Goods
Center for Creative Leadership	Computer Task Group	Dickstein Shapiro LLP
CenterPoint Energy, Inc.	ConnectiCare, Inc.	Diebold Incorporated
Century Tel, Inc.	ConocoPhillips	Dillard's, Inc.
Certegy, Inc.	Conseco Services LLC	The DIRECTV Group, Inc.
CGI Technologies and Solutions, Inc.	CONSOL Energy, Inc.	Discover Financial Service
Charter Communications, Inc.	Consolidated Edison, Inc.	Doherty Employer Services
Chemtreat, Inc.	Constellation Energy Group, Inc.	Dole Fresh Vegetables
Chemtura Corporation	Continental Airlines, Inc.	Dollar General Corporation
Chesapeake Energy Corporation	Convergys Corporation	Dominion Resources, Inc.
Chevron Corporation	Con-way, Inc.	Donaldson Company, Inc.
Chicago Bridge & Iron Company	Cook Communications Ministries	Dover Corporation
Chicago Transit Authority	Cooper Industries, Ltd.	The Dow Chemical Company
Children's Healthcare Atlanta	Cooper Tire & Rubber Company	DPI West
Chiquita Brands International, Inc.	CooperVision, Inc.	DST Systems, Inc.
Choice Hotels International	Copper and Brass Sales	DTE Energy
Christian City	Core Laboratories	Duke Energy Corporation
CHS, Inc.	Core-Mark Holding Company, Inc.	Duke Realty Corporation
The Chubb Corporation	Corinthian Colleges	Duke University & Health System
Chumash Casino	Cornell University	Dynamex
Church of Jesus Christ of Latter-Day Saints	Corning Incorporated	Dynegy, Inc.
Ciena Corporation	Correctional Medical Services	E.I. du Pont de Nemours & Company
CIGNA Corporation	Corrections Corporation of America	Eastman Chemical Company
Cincinnati Financial Corporation	Country Insurance & Financial	Eastman Kodak Company
CIT Group, Inc.	The Country Vintner	Eaton Corporation
The Citadel	Countrywide Financial Corporation	eBay, Inc.
Citigroup, Inc.	County of Spotsylvania	Echostar Communications Corporation
Citi-North America Operations & Technology	Coventry Health Care, Inc.	Ecolab, Inc.
Citizens Communications	Convivial, Ltd.	Edison International
Citrix Systems, Inc.	Cox Enterprises, Inc.	Education Sales Management
City and County of Denver	Cox Target Media	Edward Jones & Company
City of Charlotte	CPS Energy	Edwards Lifesciences
City of Garland	Cracker Barrel Old Country Store, Inc.	EG&G Defense Materials
City of Houston	Crane Company	EG&G Services
City of Philadelphia	Crate and Barrel	El Paso Corporation
City of Rochester	Crosstex Energy, Inc.	Electrolux Homecare of N.A.
City of Waterloo	Crown Castle International Corporation	Electronic Data Systems Corporation
		Eli Lilly & Company

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Clarian Health Partners
Clear Channel Communications, Inc.
Clear Channel Outdoor Holdings
Cleco Corporation
Clipay Corporation
ClubCorp, Inc.
CME Group, Inc.

Crown Holdings, Inc.
CSX
CTS Corporation
Culligan International Company
Cummins, Inc.
Cummins-Allison Corporation
CVS Caremark

Embarq Corporation
EMC Corporation
EMCOR Group, Inc.
Emerson Climate Technologies/Copeland
Emerson Electric
Enbridge Energy Partners, L.P.
Energy East Corporation

MDU Resources Group, Inc. Proxy Statement B-9

Proxy Statement

Energy Enterprise Solutions, Inc.	Flowserve Corporation	Graphic Packaging Holding Company
EnergySouth, Inc.	Fluor Corporation	Great American Insurance / Great
EnPro Industries, Inc.	FMC Corporation	American Financial
ENSCO International Incorporated	FMC Technologies, Inc.	Great Clips, Inc.
Entergy Corporation	Foot Locker, Inc.	Great Plains Energy Incorporated
Entertainment Publications	Ford Motor Company	Group 1 Automotive, Inc.
EOG Resources, Inc.	Fort Worth Independent School District	Growmark, Inc.
EON US LLC	Fortune Brands	Grubb & Ellis Company
Episcopal Retirement Homes	Foseco Metallurgical, Inc.	GuideStone Financial Resources
Equifax, Inc.	Fossil, Inc.	Guitar Center, Inc.
Equity Bank, SSB	Foster Poultry Farms	Gulfstream Aerospace Corporation
Equity Residential	Foster Wheeler, Ltd.	Habitat for Humanity International
Erie Insurance Group	Fox Chase Cancer Center	Halliburton Company
ESCO Corporation	Franklin International	Hamot Medical Center
ESCO Technologies	Frazer Industries	Hannaford Bros. Company
Esterline Technologies Corporation	Freedom Communications, Inc.	Hapag-Lloyd (America), Inc.
Etnyre International, Ltd.	The Freeman Companies	Harley Davidson Motor Company
Everest Re Group, Ltd.	Freeport-McMoRan Copper & Gold, Inc.	Harleysville Insurance Company
Evraz Oregon Steel Mills	Fremont Bank	Harrah s Entertainment, Inc.
Exel, Inc.	Fremont Group	Harris County Hospital District
Exelon Corporation	Friendly Ice Cream Corporation	Harris Teeter, Inc.
Exempla Health Care, Inc.	Frontier Oil Corporation	Harsco Corporation
Exide Technologies	Funeral Directors Life Insurance Company	Hartford Financial Services
Expedia, Inc.	Furniture Brands International, Inc.	Harvard Vanguard Medical Association
Express Scripts, Inc.	G&K Services	Harvey Industries
Extendicare Health Services	G. Loomis, Inc.	Hasbro, Inc.
Exxon Mobil Corporation	Galamba Companies, Inc.	Hastings Mutual Insurance Company
Fabcon, Inc.	The Gannett Company	Haynes International, Inc.
Fabri-Kal Corporation	The Gap, Inc.	HCC Insurance Holdings, Inc.
Fairfax County Public Schools	Garden Fresh Restaurant Corporation	HCP, Inc.
Farm Credit Council Services	Gas Technology Institute	HD Supply
The Farmers Bank	Gateway, Inc.	Health Management Associates, Inc.
Farmland Foods, Inc.	Gaylord Entertainment	Health Net
FCI USA, Inc.	Geisinger Health System	Health Partners
Federal Express Corporation	Genentech, Inc.	HealthNow New York
Federal National Mortgage	General Cable Corporation	Heat Transfer Research, Inc.
Federal Reserve Bank of Atlanta	General Dynamics Corporation	H-E-B
Federal Reserve Bank of Boston	General Dynamics Information Technology	Helmerich & Payne, Inc.
Federal Reserve Bank of Chicago	General Electric Company	Hendrick Medical Center
Federal Reserve Bank of Cleveland	General Growth Properties, Inc.	Hendrickson International
Federal Reserve Bank of Dallas	General Motors Corporation	Henry Schein, Inc.
Federal Reserve Bank of Kansas City	General Nutrition, Inc.	Hercules Incorporated
Federal Reserve Bank of Minneapolis	Gentiva Health Services	Herman & Kittle Properties
Federal Reserve Bank of Philadelphia	Genuine Parts Company	Herman Miller, Inc.
Federal Reserve Bank of St. Louis	Genworth Financial, Inc.	The Hershey Company
Federal-Mogul Corporation	Genzyme Corporation	Hess Corporation
Federated Department Stores	Georg Fisher Signet LLC	Hewlett-Packard Company
FedEx Kinko s	Georgia Gulf Corporation	Hexion Specialty Chemicals
Fender Musical Instruments	Georgia Institute of Technology	Highlights for Children, Inc.
Ferguson Enterprises	Georgia System Operations Corporation	Highmark, Inc.
Fermi National Accelerator Laboratory	Gerdau Ameristeel	Hill Phoenix
FerrellGas, Inc.	Gibraltar Steel Corporation	Hilti, Inc.
Ferro Corporation	Gilead Sciences, Inc.	Hilton Hotels Corporation
Fidelity National Financial, Inc.	GITI	Hines Interests
Fifth Third Bancorp	Glatfelter Company	Hirsch Pipe & Supply Co., Inc.
The Finish Line, Inc.	Global Industries Offshore LLC	Hitachi
First American Corporation	Gold Eagle Company	HNI Corporation
First Citizens Bank	Goldman Sachs Group, Inc.	Holden Industries, Inc.
First Data Corporation	Goodrich Corporation	Holly Corporation
First Horizon National Corporation	The Goodyear Tire & Rubber Company	The Home Depot, Inc.

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First Interstate BancSystem
FirstEnergy Corporation
Fiserv, Inc.
Fleetwood Group
Flexible Steel Lacing Company
Flint Group North America
Florida Power & Light Company

Google Inc.
Government Employees Health
Association, Inc.
Graco, Inc.
Grande Cheese Company
Grange Mutual Insurance Companies
Granite Construction, Inc.

Home State Bank
Honeywell International, Inc.
Horry Telephone Cooperative
Hospira, Inc.
Host Hotels & Resorts, Inc.
Hovnanian Enterprises, Inc.
Howard Hughes Medical Institute

B-10 MDU Resources Group, Inc. Proxy Statement

Proxy Statement

HSBC North America	Jarden Corporation	Lieberman Research Worldwide
Hubbell Incorporated	Jefferson Science Associates	LifeMasters Supported SelfCare, Inc.
Hudson City Bancorp, Inc.	Jefferson Wells International	LifePoint Hospitals, Inc.
Hu-Friedy Manufacturing Co., Inc.	Jensen Precast	Limbach Facility Services LLC
Humana, Inc.	Jet Blue Airways	Limited Brands
Hunter Douglas, Inc.	JM Family Enterprises	Lincoln National Corporation
Hunter Industries	John Crane, Inc.	Linens & Things
Huntington Bancshares Incorporated	John Wiley & Sons, Inc.	Lithia Motors, Inc.
Huntsman Corporation	Johnson & Johnson	Little Lady Foods
Huron Consulting Group	Johnson Financial Group	Live Nation, Inc.
Hutchinson Technology, Inc.	Jones Apparel Group, Inc.	Liz Claiborne, Inc.
Hyatt Hotels Corporation	Jones Lange LaSalle	Lockheed Martin Corporation
Hydro Automotive Structures	Jostens, Inc.	Loews Corporation
Hyundai Motor America	JPMorgan Chase & Company	The Longaberger Company
IDEARC, Inc.	JSJ Corporation	Longs Drug Stores Corporation
IDEX Corporation	Judicial Council of California	Los Angeles Unified School District
IDEXX Laboratories, Inc.	Juniper Networks, Inc.	Louisiana-Pacific Corporation
Illinois Tool Works, Inc.	J-W Operating Company	Lowe's Companies, Inc.
IMS Health, Inc.	Kansas Farm Bureau	Lower Colorado River Authority
Indiana State Personnel Department	Katun Corporation	Lozier Corporation
Indianapolis Power & Light Company	KB Home	LRAA
IndyMac Bancorp, Inc.	KBR, Inc.	LSI Corporation
Information Management Service	Kele, Inc.	Lubrizol Corporation
Information Resources	Kellogg Company	Luther Midelfort-Mayo Health System
Ingersoll Rand Co., Ltd.	Kelly Services, Inc.	Lutron Electronics
Ingram Book Group	Kenexa	Luxottica Retail
Ingram Industries, Inc.	Kettering University	Lyondell Chemical Company
Ingram Micro, Inc.	Kewaunee Scientific Corporation	M&T Bank Corporation
INOVA Health Systems	KeyCorp	Macy's, Inc.
Insight Enterprises, Inc.	Keystone Automotive Industries	Magellan Health Services
In-Sink-Erator	Keystone Foods Corporation	Malco Products, Inc.
Institute for Business and Home Safety	Keywell LLC	Manitowoc Company, Inc.
Insurance Auto Auctions	Kimberly Clark Corporation	MANN+HUMMEL USA, Inc.
Integrus Energy Group, Inc.	Kimco Realty Corporation	Mannington Mills, Inc.
Intel Corporation	Kindred Healthcare	Manpower International, Inc.
INTELSAT	Kinetico, Inc.	ManTech International
IntercontinentalExchange, Inc.	King Pharmaceuticals, Inc.	Marathon Oil Corporation
International Business Machines Corporation	Kings Super Markets, Inc.	Maricopa County Office of Management & Budget
International Dairy Queen, Inc.	Kingston Technology	Maricopa Integrated Health System
International Flavors & Fragrances, Inc.	Kohl's Corporation	Maritz, Inc.
International Game Technology	Kraft Foods, Inc.	The Mark Travel Corporation
International Paper Company	The Kroger Company	Markel Corporation
Interpublic Group of Companies, Inc.	Kruger International	Marriott International, Inc.
Interstate Bakeries	Kum & Go LC	Mars North America
Intertape Polymer Group	Kyocera America, Inc.	Marsh & McLennan Companies, Inc.
IREX Corporation	L L Bean, Inc.	Marshfield Clinic
Iron Mountain Group, Inc.	L-3 Communications Holdings, Inc.	MARTA
The Irvine Company	Lab Volt Systems	Martin Marietta Materials, Inc.
ISS Facility Services, USA	Laboratory Corporation of America	Martin's Point Health Care
Isuzu Motors America, Inc.	Holdings	Mark Kay, Inc.
Ithaca College	Lance, Inc.	Maryland Department of Transportation
Itochu International, Inc.	LandAmerica Financial Group, Inc.	Masco Corporation
ITT Corporation	Landstar System, Inc.	Massey Energy Company
ITT Educational Services, Inc.	Lansing Board of Water & Light	Mattel, Inc.
ITT Industries AES	Lantech.com	Mayo Clinic
J B Hunt Transport Services, Inc.	Lear Corporation	MBIA, Inc.
J C Penney Company, Inc.	Legal & General America	McDermott Incorporated
J J Keller & Associates, Inc.	Leggett & Platt, Inc.	McDonald's Corporation
The J M Smucker Company	Lehman Brothers Holdings, Inc.	MCG Health, Inc.
	Lennox International, Inc.	

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J R Simplot Company
Jackson County Bank
Jackson Hewitt Tax Services, Inc.
The Jackson Laboratory
Jacobs Technology, Inc.
James Hardie Building Products
Janus Capital Group, Inc.

Leo Burnett Company, Inc.
Leucadia National Corporation
Lexmark International, Inc.
LG Electronics USA, Inc.
LGE MobileComm USA
Liberty Diversified Industries
Liberty Media Corporation

The McGraw-Hill Companies, Inc.
McKesson Medical-Surgical
MDU Resources Group, Inc.
MeadWestvaco Corporation
Mecklenburg County
MedAire, Inc.
Medco Health Solutions, Inc.

MDU Resources Group, Inc. Proxy Statement B-11

Proxy Statement

Media General, Inc.	National City Corporation	Orbital Science Corporation
Medical Mutual of Ohio	National Futures Association	Oregon State Lottery
Meijer, Inc.	National Oilwell Varco	OSG Tap & Die, Inc.
MEMC Electronic Materials	National Safety Council	Oshkosh Corporation
Mercer University	National Security Technologies LLC	Owens & Minor, Inc.
Merck & Co., Inc.	Nationwide Insurance Company	Owens-Illinois, Inc.
Mercury General Corporation	Nature's Sunshine Products, Inc.	Oxford Industries
Mercury Insurance Group	Navistar International Corporation	Oxford Instruments Measurement Systems
Merit Medical Systems	Navy Exchange Service Command	PACCAR, Inc.
Meritage Homes Corporation	NCCI Holdings, Inc.	Packaging Corporation of America
MeritCare Health System	NCMIC	Active Corporation
Merrill Corporation	NCR Corporation	Pall Corporation
Metaldyne	Nebraska Public Power District	Panasonic Automotive Systems Company of America
Metavante	Nelnet, Inc.	Panduit Corporation
Methodist Hospital System	New Hanover Regional Medical Center	Pantry, Inc.
MetroPCS Communications, Inc.	The New York Times Company	Papa John's International
Metropolitan Life Insurance Company	Newell Rubbermaid, Inc.	PASCO Scientific
Metropolitan Transit Authority	Newmont Mining Corporation	Paychex
MFS Investment Management	NICOR, Inc.	Payless Shoesource, Inc.
MGIC Investment Corporation	The Nielsen Company	Peabody Energy Corporation
MGM Mirage	NII Holdings, Inc.	Pearson Education
Miami Children's Hospital	NiSource, Inc.	Pegasus Solutions, Inc.
Michael Baker Corporation	NJM Insurance Group	Penn State Hershey Medical Center
Michigan Farm Bureau Family of Companies	Noble Corporation	Penske Automotive Group, Inc.
Micro Dynamics	Noble Energy, Inc.	Pentair, Inc.
Microflex Corporation	Norcal Waste Systems, Inc.	Pentax USA, Inc.
MidAmerican Energy Company	The Nordam Group	Pepco Holdings
Midwest Airlines	Nordson Corporation	Pepsi Bottling Group, Inc.
Midwest Research Institute	Nordstrom	PepsiAmericas, Inc.
Mike Albert Leasing, Inc.	Norfolk Southern Corporation	PepsiCo, Inc.
Millipore Corporation	Northeast Utilities System	Performance Food Group
Millward Brown North America	Northern Trust Corporation	Perini Corporation
Milwaukee Electric Tool Corporation	Northrop Grumman Corporation	PerkinElmer, Inc.
Mine Safety Appliances Company	Northwest Airlines, Inc.	Perot Systems Corporation
Mirant	Northwestern Mutual Life Insurance	Perrigo Company
Mission Foods	Novell, Inc.	Peter Kiewit Sons', Inc.
Missouri Department of Conservation	Novellus Systems, Inc.	PetSmart, Inc.
Missouri Department of Transportation	NRG Energy, Inc.	Pfizer, Inc.
Mitsubishi International Corporation	NRUCFC	PG&E Corporation
Mitsui & Company USA, Inc.	NSTAR	PGT Industries
MMS Consultants, Inc.	Nucor Corporation	Pharmavite LLC
Mohawk Industries	Nutri Systems, Inc.	PHH Arval
Mohegan Sun Casino	NVIDIA Corporation	PHI, Inc.
Molex, Inc.	NVR, Inc.	Phillips Plastics Corporation
Molina Healthcare, Inc.	NYSE Euronext	Phoenix Companies, Inc.
Molson Coors	O'Reilly Automotive, Inc.	Piantadosi Baking Company
Moneris Solutions US	Oakland County Road Commission	Pilot Corporation America
Moneygram International, Inc.	Occidental Petroleum Corporation	Pinnacle West Capital Corporation
Monster Worldwide, Inc.	Office Depot, Inc.	Pitney Bowes
Moody's Corporation	OfficeMax	Plexus Corporation
Morgan Stanley	OGE Energy Corporation	Plum Creek Timber Co., Inc.
Motorola, Inc.	Ohio Energy Corporation	PM Company
MPSI Systems, Inc.	Ohio Public Employees Retirement System	PNC Financial Services Group
MSKCC	Ohio State University	PNM Resources, Inc.
MTA Long Island Bus	Ohio State University Medical Center	Polaris Industries, Inc.
MTD Products, Inc.	Oil-Dri Corporation of America	PolyOne Corporation
MTS Systems Corporation	Old Dominion Electric Cooperative	Popular, Inc.
Mueller Industries, Inc.	Old Republic International Corporation	The Port Authority of NY & NJ
Murphy Oil Corporation	Olin Corporation	Port of Portland
	OM Group, Inc.	
	Omnicare, Inc.	

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Mutual of Enumclaw Insurance Company
Mutual of Omaha
Mylan, Inc.
Nabors Industries, Ltd.
Nalco Holding Company
Nash-Finch Company
National Academies

Onmicom Group, Inc.
One America Financial Partners, Inc.
One Beacon Insurance Group
ONEOK, Inc.
Opus Corporation
Orange County Government
Orange County Public Schools

PPG Industries, Inc.
PPL Corporation
Pratt Corporation
Praxair, Inc.
Preformed Line Products Company
Premier, Inc.
Prestolite Wire Corporation

B-12 MDU Resources Group, Inc. Proxy Statement

Proxy Statement

Pride International, Inc.	Rohm and Haas Company	Southeastern Freight Lines
Prime Therapeutics	Rollins, Inc.	Southern Copper Corporation
Prince William Health System	Roper Industries	Southern Poverty Law Center
Principal Financial Group	Ross Stores, Inc.	Southwest Airlines Company
Priority Health	Rotary International	Southwest Gas Corporation
The Professional Golfers Association of America	Rowan Companies, Inc.	Space Dynamics Laboratory
Progress Energy, Inc.	Royal Bank of Canada	Space Telescope Science Institute
The Progressive Corporation	Royal Caribbean Cruise Line	Sparrow Health System
Project Management Institute	RR Donnelley & Sons Company	Spectrum Health
ProLogis	RSM McGladrey	Spheris
Providence Health Center	Rush Enterprises, Inc.	Spirit AeroSystems Holdings
Prudential Financial, Inc.	Rutgers University	Springs Global US, Inc.
PSS World Medical	Ryder System, Inc.	Springs Window Fashions Division
Public Service Enterprise Group, Inc.	Ryland Group, Inc.	St. Joseph Health System
Public Storage	S&C Electric Company	St. Louis County Government
Public Utility District #1 of Chelan County	SAC Federal Credit Union	St. Mary's at Amsterdam
Publix Super Markets, Inc.	Safilo USA	Stampin' Up!
Puget Energy, Inc.	SAGE Publications	Standard Pacific Homes
Pulte Homes, Inc.	Sakura Finetek USA, Inc.	Staples, Inc.
QBE Regional Insurance	Sally Beauty Company	Starwood Hotels & Resorts Worldwide
QTI Human Resources	Salt River Project	State Corporation Commission
QUALCOMM, Inc.	Samuel Roberts Noble Foundation	State Employee Credit Union
Qualex, Inc.	San Antonio Water System	State of Ohio Human Resources Department
Quality Ingredients Corporation	San Manuel Band of Mission Indians	State of Oregon
Quanta Services, Inc.	Sanofi Pasteur	State Personnel Administration
Quest Diagnostics Incorporated	Sargent Fletcher, Inc.	Stephan Company
Questar Corporation	Sauer-Danfoss, Inc.	Sterilite Corporation
Qwest Communications International, Inc.	SCANA Corporation	STERIS
R L I Insurance Company	ScenPro, Inc.	Sterling Bank
R L Polk & Company	SCF of Arizona	Stewart & Stevenson
Rackspace	Schaumburg Township District Library	Strategic Resources, Inc.
Radio Shack Corporation	Schlumberger, Ltd.	Strattec Security Corporation
Range Resources Corporation	Schneider Electric	Stream
Raytheon Company	Schneider National, Inc.	Stryker Corporation
RCN	Schwan Food Company	Subaru of Indiana Automotive, Inc.
REA Magnet Wire Company, Inc.	Seaboard Corporation	Sulzer Pumps US, Inc.
Recon Optical, Inc.	Sealed Air Corporation	Sundt Companies
Recycled Paper Greetings, Inc.	Sealy, Inc.	Superior Industries International, Inc.
Red Wing Shoe Company	Sears Holdings Corporation	SuperValue
Redcats USA	Seco Tools, Inc.	SureWest Communications Company
Regal Entertainment Group	Securitas Security Services USA	Syar Industries, Inc.
The Regence Group	Self Regional Healthcare	Sybron Dental Specialties
Regency Centers Corporation	SEMCO Energy	Sykes Enterprises
Regions Financial Corporation	Sensient Technologies Corporation	SYNNEX Corporation
Reinsurance Group of America	Sentara Healthcare	Synovate
Reliance Steel & Aluminum Company	Sentry Group	Synthes
Reliant Energy	Sentry Insurance	Syracuse Research Corporation
Renaissance Learning, Inc.	The ServiceMaster Company	T. Rowe Price Group, Inc.
Rent-A-Center, Inc.	Seventh Generation	Tastefully Simple
Republic Services, Inc.	Shands HealthCare	TD Banknorth
Resurgent Capital Services	Sharp Electronics Corporation	Tech Data Corporation
Rewards Network	Simmons Bedding Company	Tecolote Research, Inc.
Rexel, Inc.	Simon Property Group, Inc.	TeIAlaska, Inc.
Reynolds American, Inc.	Simpson Housing LLLP	Tele-Consultants, Inc.
Rice University	SiteI	Teleflex
RiceTec, Inc.	SJE-Rhombus	Tenet Healthcare Corporation
Rich Products Corporation	Skyline Displays, Inc.	Tesoro Corporation
Richco	SkyWest, Inc.	Texas County & District Retirement System
Ricoh Electronics, Inc.	Smead Manufacturing Corporation	Texas Industries, Inc.
	SMSC Gaming Enterprise	

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Rimage Corporation
Rite Hite Corporation
Robert Bosch Corporation
Robert Bosch Tool Corporation
Robert Half International, Inc.
Roche Diagnostics
Rockwood Holdings, Inc.

Smurfit-Stone Container Corporation
The Solae Company
Solo Cup Company
Solveire
South Jersey Gas Company
Southco, Inc.
Southeast Corporate Federal Credit Union

Texas Mutual Insurance Company
Thrifty White Stores
Time Warner, Inc.
TIMET
Title Resource Group
TJX Companies, Inc.
The Topps Company, Inc.

MDU Resources Group, Inc. Proxy Statement B-13

Proxy Statement

The Toro Company
Trane
Transocean Offshore, Inc.
Travel Guard - AIG
Travis County
Treasure Island Resort & Casino
Tribune Company
Tri-Met
Trinity Health
Trivest Healthcare Alliance
TRMI, Inc.
Tupperware Corporation
Turner Broadcasting System, Inc.
Tyco Electronics
UAL Corporation
Ulticom, Inc.
UMDNJ-University of Medicine & Dentistry
Underwriters Laboratories, Inc.
Unified Grocers
Union Pacific Corporation
Union Tank Car Company
UnionBanCal Corporation
Unisys Corporation
United Rentals
United States Steel Corporation
United Stationers, Inc.
United Technologies Corporation
UnitedHealth Group, Inc.
Unitrin, Inc.
Univar USA, Inc.
Universal Forest Products, Inc.
Universal Instruments Corporation
Universal Orlando
University Health System Consortium
University of Akron
University of Alabama at Birmingham
University of Alaska
University of California at Berkeley
University of Chicago
University of Georgia
University of Houston
University of Kansas Hospital
University of Louisville
University of Michigan
University of Minnesota
University of Missouri
University of Nebraska
University of Pennsylvania
University of Rochester
University of St. Thomas
University of Texas at Austin
University of Texas M D Anderson Cancer Center
University of Texas Southwestern Medical Center
University of Virginia
University of Wisconsin Hospital & Clinics
University of Wisconsin Medical Foundation

USAA
USG Corporation
UST, Inc.
Utah Retirement Systems
Utah Transit Authority
Utica National Insurance
V S E Corporation
Vail Resorts, Inc.
Valero Energy Corporation
The Valspar Corporation
Van Andel Institute
Vangent, Inc.
Vectren Corporation
Velcro Group Corporation
Venetian Resort-Hotel-Casino
Ventura Foods, LLC
Venturedyne, Ltd.
Verisign, Inc.
Verizon Communications, Inc.
Vernay Laboratories, Inc.
Vesuvius USA
VF Corporation
Viacom, Inc.
Viant Health Payment Solutions
Viasystems Group, Inc.
Viejas Enterprise
Virgin Media, Inc.
Virginia Farm Bureau Insurance Service
Visiting Nurse Service of New York
Visteon Corporation
Vonage Holding Corporation
Vornado Realty Trust
Vulcan Materials Company
W C Bradley Company
W R Berkley Corporation
W R Grace & Company
W W Grainger, Inc.
Wachovia Corporation
Wackenhut Services, Inc.
Wake County Government
Walgreen Company
Wal-Mart Stores, Inc.
Walt Disney Company
Walter Industries, Inc.
Washington Mutual, Inc.
The Washington Post Company
Washington Savannah River Company
Washington University in St. Louis
Waste Management, Inc.
Waters Corporation
Watlow Electric
Watson Pharmaceuticals, Inc.
Wayne Memorial Hospital
Weatherford International
Weis Markets, Inc.
Wellcare Health Plans
Wellmark BlueCross BlueShield
WellPoint, Inc.
Wells Fargo & Company
Wells Dairy, Inc.

Westfield Group
Westlake Chemical Corporation
Weston Solutions Inc
Weyerhaeuser Company
Wheaton Franciscan Healthcare
Whirlpool Corporation
White Mountains Insurance Group, Ltd.
Whole Foods Market, Inc.
Wilbur Smith Associates
The Wilder Foundation
Willamette Falls Hospital
Williams Companies
Williams-Sonoma, Inc.
WilmerHale
Windstream Communications
Winn-Dixie Stores, Inc.
Wisconsin Energy Corporation
Wisconsin Physicians Service Insurance Corporation
Wm. Wrigley Jr. Company
WMS
World Access
World Fuel Services Corporation
World Vision United States
World Wildlife Fund
Wyeth
Wyle Laboratories
Wyndham Worldwide
Xcel Energy, Inc.
Xerox Corporation
XL Capital, Ltd.
XTO Energy, Inc.
Yamaha Corporation of America
Yankee Candle Company
Yokogawa
YRC Worldwide, Inc.
YSI
Yum! Brands, Inc.
Zale Corporation
Zeon Chemicals L.P.
Zimmer, Inc.
Zions Bancorporation
Zurich North America

Companies Surveyed Using Equilar

Alleghany Corp
ALLETE Inc
Alliance One International Inc
Alliant Energy Corp
Allis Chalmers Energy Inc
Amcol International Corp
Ameren Corp
Anixter International Inc
Apache Corp
Arch Chemicals Inc
Arch Coal Inc

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University Physicians, Inc.
Unum Group
UPS
URS Corporation
US Airways Group, Inc.
US Bancorp
US Cellular Corporation

Wendy's International
Werner Enterprises, Inc.
WESCO International, Inc.
West Virginia University Hospitals
Western Refining, Inc.
Western Textile Companies
The Western Union Company

Argan Inc
Asbury Automotive Group Inc
ATC Technology Corp
ATP Oil & Gas Corp
Autoliv Inc
Avista Corporation
Basic Energy Services Inc

B-14 MDU Resources Group, Inc. Proxy Statement

Proxy Statement

Bemis Co Inc	Haynes International Inc	Pride International Inc
Berry Petroleum Co	Healthways Inc	Primus Telecommunications Group Inc
BJ Services Co	Hecla Mining Co	Progress Software Corp
Black Hills Corp	Helix Energy Solutions Group Inc	Public Service Enterprise Group Inc
Cabot Corp	Helmerich & Payne Inc	Quanta Services Inc
Cabot Oil & Gas Corp	Hercules Inc	Quest Resource Corp
Cal Dive International Inc	Hercules Offshore Inc	Questar Corporation
Caraustar Industries Inc	Hillenbrand Inc	Rackspace Hosting Inc
CB Richard Ellis Group Inc	Horizon Offshore Inc	Range Resources Corp
CH Energy Group Inc	Houston Exploration Co	Readers Digest Association Inc
Chart Industries Inc	Hovnanian Enterprises Inc	RealNetworks Inc
Chicago Bridge & Iron Co	Imation Corp	Regal Beloit Corp
Cimarex Energy Co	Integrays Energy Group Inc	Regency Energy Partners LP
Citadel Broadcasting Corp	Jarden Corp	Rex Energy Corp
Citizens Republic Bancorp Inc	Kaydon Corp	Robbins & Myers Inc
CMS Energy Corp	KB Home	Rowan Companies Inc
CNX Gas Corp	KBR Inc	Rural Cellular Corp
Columbus McKinnon Corp	Kelly Services Inc	Sanderson Farms Inc
Comfort Systems USA Inc	Key Energy Services Inc	Sandridge Energy Inc
Commercial Vehicle Group Inc	KLA Tencor Corp	SCANA Corporation
Compass Minerals International Inc	Kraton Polymers LLC	Seitel Inc
Complete Production Services Inc	Layne Christensen Co	Sempra Energy
Comstock Resources Inc	Leap Wireless International Inc	South Financial Group Inc
Comsys IT Partners Inc	Lexmark International Inc	Southwest Gas Corporation
Concho Resources Inc	Libbey Inc	Southwestern Energy Co
Consolidated Edison Inc	Linn Energy LLC	SRA International Inc
Core Laboratories	Mariner Energy Inc	St Mary Land & Exploration Company
Crosstex Energy LP	MarkWest Energy Partners LP	Standex International Corp
Crown Castle International Corp	MarkWest Hydrocarbon Inc	Stanley Works
Delta Petroleum Corp	Martin Marietta Materials Inc	Stanley Inc
Deluxe Corp	Matrix Service Co	Sterling Constructions Co Inc
Denbury Resources Inc	McMoRan Exploration Co	Strategic Hotels & Resorts Inc
Diamond Offshore Drilling Inc	Meadow Valley Corp	Suburban Propane Partners LP
Donaldson Co Inc	Nabors Industries Ltd	Superior Energy Services Inc
DPL Inc	National Fuel Gas Co	Superior Well Services Inc
Duke Energy Corp	NETGEAR Inc	Swift Energy Company
Dycom Industries Inc	New York Community Bancorp Inc	SXC Health Solutions Inc
Edge Petroleum Corp	Newfield Exploration Co	Teck Cominco Ltd
EMCOR Group Inc	Nexen Inc	Texas Industries Inc
Encore Acquisition Co	NiSource Inc	Thomas & Betts Corp
EnPro Industries Inc	Noble Corp	Toro Co
Ensco International Inc	Noble Energy Inc	Transmeridian Exploration Inc
EOG Resources Inc	Northeast Utilities	Trimble Navigation Ltd
EQT Corp	NorthWestern Corp	TW Telecom Inc
Exco Resources Inc	Northwestern Natural Gas Company	US Concrete Inc
Exelon Corp	NSTAR	UGI Corp
F5 Networks Inc	NV Energy Inc	Unit Corp
Fluor Corp	Oceaneering International Inc	Unitil Corp
Forest Oil Corp	OGE Energy Corp	USEC Inc
Foster Wheeler AG	Olin Corp	USG Corp
Freightcar America Inc	ONEOK Inc	Valmont Industries Inc
Fuller H B Co	Parallel Petroleum Corp	Vectren Corp
Furniture Brands Internationals Inc	Parker Drilling Co	Venoco Inc
GATX Corp	Patterson UTI Energy Inc	Vulcan Materials Co
Genessee & Wyoming Inc	Paychex Inc	W&T Offshore Inc
Glatfelter P H Co	Penn Virginia Corp	Wellman Inc
Global Industries Ltd	Penn West Energy Trust	Westar Energy Inc
Goodrich Petroleum Corp	Pepco Holdings Inc	Whiting Petroleum Corp
Granite Construction Inc	Petrohawk Energy Corporation	Willbros Group Inc
Great Lakes Dredge & Dock Corp	PG&E Corp	Wisconsin Energy Corp

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Green Mountain Coffee Roasters Inc
Grey Wolf Inc
Group 1 Automotive Inc
Harris Corp

Pioneer Drilling Co
Pioneer Natural Resources Co
Plains Exploration & Production Co
Polaris Industries Inc

Xcel Energy Inc
XTO Energy Inc

MDU Resources Group, Inc. Proxy Statement B-15

Proxy Statement

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B-16 MDU Resources Group, Inc. Proxy Statement

Shareowner ServicesSM
P.O. Box 64945
St. Paul, MN 55164-0945 COMPANY #
Address Change? Mark
box, sign, and indicate
changes below:

Vote by Internet,
Telephone or Mail
24 Hours a Day, 7 Days
a Week

Your telephone or
Internet vote authorizes
the named
proxies to vote your
shares in the same
manner as if you
marked, signed and
returned your proxy card.

INTERNET –
www.eproxy.com/mdu
Use the Internet to vote
your proxy until 12:00
p.m. (CDT) on
Monday, April 25,
2011.

TELEPHONE –
1-800-560-1965
Use a touch-tone
telephone to vote your
proxy until 12:00 p.m.
(CDT) on Monday,
April 25, 2011.

MAIL – Mark, sign and
date your proxy card
and return it in the
postage-paid envelope
provided, or return it to
MDU Resources
Group, Inc., c/o
Shareowner Services,
P.O. Box 64873, St.
Paul, MN 55164-0873.

If you vote by Telephone or Internet, please do not mail your Proxy Card.

The Board of Directors Recommends a Vote “FOR” all nominees and “FOR” Items 2, 3 and 4.

1. Election of directors:

	FORAGAINSTABSTAIN			FORAGAINSTABSTAIN			
01. Thomas Everist	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	06. Thomas C. Knudson	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
02. Karen B. Fagg	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	07. Richard H. Lewis	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Please fold here – Do not separate

03. Terry D. Hildestad	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	08. Patricia L. Moss	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
04. A. Bart Holaday	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	09. Harry J. Pearce	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
05. Dennis W. Johnson	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	10. John K. Wilson	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

2. MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan for purposes of Internal Revenue Code Section 162(m).	<input type="radio"/>	For	<input type="radio"/>	Against	<input type="radio"/>	Abstain
3. Ratification of Deloitte & Touche LLP as the company’s independent auditors for 2011.	<input type="radio"/>	For	<input type="radio"/>	Against	<input type="radio"/>	Abstain
4. Advisory vote to approve the compensation paid to the company’s named executive officers.	<input type="radio"/>	For	<input type="radio"/>	Against	<input type="radio"/>	Abstain

The Board of Directors Recommends a Vote “FOR 1 YEAR” in Item 5.

5. Advisory vote on frequency of vote to approve the compensation paid to the company’s named executive officers. 1 Year 2 Years 3 Years Abstain

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED FOR ALL NOMINEES, FOR ITEMS 2, 3 AND 4, AND FOR 1 YEAR IN ITEM 5.

Date

Signature(s) in Box

Please sign exactly as your name(s) appears on Proxy. If held in joint tenancy, all persons should sign. Trustees, administrators, etc., should include title and authority. Corporations should provide full name of corporation and title of authorized officer signing the Proxy.

MDU RESOURCES GROUP, INC.

ANNUAL MEETING OF STOCKHOLDERS

Tuesday, April 26, 2011

11:00 a.m. Central Daylight Saving Time

**909 Airport Road
Bismarck, ND**

1200 West Century Avenue

Mailing Address: proxy
P.O. Box 5650
Bismarck, ND 58506-5650
(701) 530-1000

This proxy is solicited on behalf of the Board of Directors for the Annual Meeting of Stockholders on April 26, 2011.

This proxy will also be used to provide voting instructions to New York Life Trust Company, as Trustee of the MDU Resources Group, Inc. 401(k) Retirement Plan, for any shares of Company common stock held in the plan.

The undersigned hereby appoints Harry J. Pearce and Paul K. Sandness and each of them, proxies, with full power of substitution, to vote all Common Stock of the undersigned at the Annual Meeting of Stockholders to be held at 11:00 a.m., Central Daylight Saving Time, April 26, 2011, at 909 Airport Road, Bismarck, ND, and at any adjournment(s) thereof, upon all subjects that may properly come before the meeting, including the matters described in the Proxy Statement furnished herewith, subject to any directions indicated on the reverse side. **Your vote is important! Ensure that your shares are represented at the meeting.** Either (1) submit your proxy by touch-tone telephone, (2) submit your proxy by Internet or (3) mark, date, sign and return this proxy card in the envelope provided (no postage is necessary if mailed in the United States). **If no directions are given, the proxies will vote in accordance with the Directors' recommendation on all matters listed on this proxy, and at their discretion on any other matters that may properly come before the meeting.**

See reverse for voting instructions.

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: 1%; text-align: left">\$721 Investment securities (284) (85) (369) (199) (66) (265) Other 189 (34) 155 (3) 157 154 Total interest-earning assets \$(864) \$(265) \$(1,129) \$1,223 \$(613) \$610 Interest expense: Interest-bearing demand deposits \$(2) \$(1) \$(3) \$3 \$(7) \$(4) Money market accounts 2 2 4 (14) (11) (25) Savings accounts (4) (22) (26) — (12) (12) Certificates of deposit 66 (67) (1) 85 16 101 Total deposits 62 (88) (26) 74 (14) 60 FHLB Advances - short-term — — — — — — FHLB Advances - long-term (45) 14 (31) 601 (38) 563 Advances by borrowers for taxes and insurance — — — — (2) (2) Total interest-bearing liabilities \$17 \$(74) \$(57) \$675 \$(54) \$621 Change in net interest income \$(881) \$(191) \$(1,072) \$548 \$(559) \$(11)

Provision for Loan Losses. For the year ended December 31, 2015 Polonia recorded a provision for loan losses of \$73,000 as compared to \$210,000 for the year ended December 31, 2014. The smaller provision for loan losses in 2015 was deemed appropriate due to the decline in the loan portfolio combined with the stability in the level of classified assets. Management also reviews and adjusts the qualitative factors used to calculate the allowance for loan losses for all loans based on historical losses in Polonia’s portfolio as well as the current levels of nonperforming loans in its portfolio. Management makes adjustments on a quarterly basis or more frequently as necessary. Management made changes to the qualitative factors during 2015 based on historical losses in Polonia’s portfolio as well as the current levels of nonperforming loans in its portfolio.

The provisions for the loan portfolio reflect management’s assessment of lending activities, decreased non-performing loans, levels of current delinquencies and current economic conditions. Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level believed by management sufficient to cover all known and inherent losses in the loan portfolio which are both probable and reasonably estimable. Management’s analysis includes consideration of Polonia’s historical experience, the volume and type of lending conducted by us, the amount of its classified and criticized assets, the status of past due principal and interest payments, general economic conditions, particularly as they relate to Polonia’s market area, and other factors related to the collectability of its loan portfolio.

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An analysis of the changes in the allowance for loan losses is presented under “—Risk Management—*Analysis and Determination of the Allowance for Loan Losses.*”

Noninterest Income. The following table shows the components of non-interest income for the year ended December 31, 2015 and 2014.

	Year Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Service fees on deposit accounts	\$ 105	\$ 116
Earnings on bank-owned life insurance	(11)	4
Investment securities gains, net	560	—
Gain on sale of loans	2,776	3,861
Rental income	270	271
Other	430	402
Total	\$ 4,130	\$ 4,654

The \$524,000 decrease in noninterest income during the year ended December 31, 2015 as compared to the year ended December 31, 2014 was primarily due to a \$1.1 million decrease in the gain on sale of loans, partially offset by a \$560,000 increase in investment securities gains.

Noninterest Expense. The following table shows the components of noninterest expense for the year ended December 31, 2015 and 2014.

	Year Ended December 31,			
	2015	2014		
	(Dollars in thousands)			
Compensation and employee benefits	\$ 5,571	\$ 7,142		
Occupancy and equipment	1,315	1,449		
Federal deposit insurance premiums	537	361		
Data processing expense	410	428		
Professional fees	800	660		
Other	2,551	2,466		
Total	\$ 11,185	\$ 12,506		
Efficiency ratio	99.96	%	97.81	%

Total noninterest expense decreased \$1.3 million, or 10.4%, to \$11.2 million for the year ended December 31, 2015 from the prior year period. The decrease in noninterest expense for the year ended December 31, 2015 as compared to the prior year period was primarily the result of a \$1.5 million decrease in compensation and employee benefits, a \$134,000 decrease in occupancy and equipment and a \$17,000 decrease in data processing expense, partially offset by a \$176,000 increase in federal deposit insurance premiums, a \$140,000 increase in professional fees and an \$85,000 increase in other expense. The decrease in compensation and employee benefits expense is primarily the result of the elimination of the Retail Mortgage Banking Group which accounted for \$1.1 million of the decrease.

Income Taxes. Polonia recorded tax expense of \$70,000 for the year ended December 31, 2015 compared to a tax expense of \$53,000 during the year ended December 31, 2014.

Risk Management

Overview. Managing risk is an essential part of successfully managing a financial institution. Polonia's most prominent risk exposures are credit risk, interest rate risk and market risk. Credit risk is the risk of not

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collecting the interest and/or the principal balance of a loan or investment when it is due. Interest rate risk is the potential reduction of interest income as a result of changes in interest rates. Market risk arises from fluctuations in interest rates that may result in changes in the values of financial instruments, such as available-for-sale securities that are accounted for on a mark-to-market basis. Other risks that Polonia encounters are operational risks, liquidity risks and reputation risk. Operational risks include risks related to fraud, regulatory compliance, processing errors, technology and disaster recovery. Liquidity risk is the possible inability to fund obligations to depositors, lenders or borrowers. Reputation risk is the risk that negative publicity or press, whether true or not, could cause a decline in Polonia's customer base or revenue.

Credit Risk Management. Polonia's strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans. Polonia's strategy also emphasizes the origination of one- to four-family mortgage loans, which typically have lower default rates than other types of loans and are secured by collateral that generally tends to appreciate in value.

When a borrower fails to make a required loan payment, Polonia takes a number of steps to attempt to have the borrower cure the delinquency and restore the loan to current status. When the loan becomes 15 days past due, a past due notice is generated and sent to the borrower and phone calls are made. If payment is not then received by the 30th day of delinquency, a further notification is sent to the borrower. If payment is not received by the 60th day of delinquency, a further notification is sent to the borrowers giving notice of possible foreclosure actions. If no successful workout can be achieved by the 90th day of delinquency, Polonia will commence foreclosure proceedings. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan generally is sold at foreclosure. Generally, when a consumer loan becomes 90 days past due, Polonia institutes collection proceedings and attempt to repossess any personal property that secures the loan. Polonia may consider loan workout arrangements with certain borrowers under certain circumstances.

Management reports to the board of directors monthly regarding the amount of loans delinquent more than 30 days, all loans in foreclosure and all foreclosed and repossessed property that Polonia owns.

Analysis of Non Performing and Classified Assets. Polonia considers repossessed assets and loans that are 90 days or more past due to be non performing assets. Loans are generally placed on nonaccrual status when they become 90 days delinquent at which time the accrual of interest ceases and the allowance for any uncollectible accrued interest is established and charged against operations. Typically, payments received on a nonaccrual loan are applied to the outstanding principal and interest as determined at the time of collection of the loan.

Real estate that Polonia acquires as a result of foreclosure or by deed-in-lieu of foreclosure is classified as foreclosed assets until it is sold. When property is acquired, it is recorded at the lower of its cost, which is the unpaid balance of the loan plus foreclosure costs, or fair market value at the date of foreclosure. Holding costs and declines in fair value

after acquisition of the property result in charges against income.

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The following table provides information with respect to Polonia's nonperforming assets at the dates indicated. There are no troubled debt restructurings that are 90 days past due and no accruing loans that are 90 days past due or more at the dates presented.

	At December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands)				
Non-accrual non-covered loans:					
Real estate loans:					
One-to four-family	\$1,915	\$1,930	\$1,344	\$370	\$314
Multi-family and commercial real estate	138	151	—	1,485	649
Home equity loans and lines of credit	53	60	—	10	55
Consumer	155	94	110	252	296
Total non-accrual non-covered loans	2,261	2,235	1,454	2,117	1,314
Restructured loans	—	—	476	578	650
Total non-performing non-covered loans	2,261	2,235	1,930	2,695	1,964
Real estate owned	182	451	240	108	83
Total non-performing non-covered assets	2,443	2,686	2,170	2,803	2,047
Non-accrual covered loans:					
Real estate loans:					
One- to four-family	70	142	822	880	501
Multi-family and commercial real estate	82	367	111	—	179
Commercial	—	—	—	—	—
Total non-performing covered loans	152	509	933	880	680
Real estate owned	—	39	28	64	—
Total non-performing covered assets	152	548	961	944	680
Total non-performing assets (including covered loans)	\$2,595	\$3,234	\$3,131	\$3,747	\$2,727
Total non-performing non-covered loans to total non-covered loans	1.40 %	1.12 %	1.02 %	2.08 %	1.52 %
Total non-performing non-covered assets to total non-covered assets	0.87 %	0.92 %	0.75 %	1.05 %	0.86 %
Total non-performing loans to total loans	1.39 %	1.28 %	1.39 %	2.58 %	1.71 %
Total non-performing assets to total assets	0.89 %	1.05 %	1.02 %	1.40 %	1.03 %

For a discussion of the specific allowance related to these assets, see “—*Analysis and Determination of the Allowance for Loan Losses.*”

Interest income that would have been recorded for the years ended December 31, 2015 and 2014 had nonaccruing loans been current according to their original terms was approximately \$92,000 and \$111,000, respectively.

Federal regulations require Polonia to review and classify its assets on a regular basis. In addition, the OCC has the authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. "Substandard assets" must have one or more defined weaknesses and are characterized by the distinct possibility that Polonia will sustain some loss if the deficiencies are not corrected. "Doubtful assets" have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified "loss" is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. The regulations also provide for a "special mention" category, described as assets which do not currently expose Polonia to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses

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deserving Polonia's close attention. When Polonia classifies an asset as special mention, substandard or doubtful it establishes a specific allowance for loan losses. If Polonia classifies an asset as loss, it allocates an amount equal to 100% of the portion of the asset classified loss.

The following table shows the aggregate amounts of Polonia's non-covered classified assets at the dates indicated.

	At December 31,		
	2015	2014	2013
	(Dollars in thousands)		
Special mention assets	\$2,147	\$1,573	\$1,710
Substandard assets	3,617	4,410	4,320
Doubtful assets	—	—	—
Loss assets	—	—	—
Total classified assets	\$5,764	\$5,983	\$6,030

Other than disclosed in the above tables, there are no other loans at December 31, 2015 that management has serious doubts about the ability of the borrowers to comply with the present loan repayment terms.

Delinquencies. The following table provides information about delinquencies in Polonia's loan portfolio at the dates indicated. Loans past due 90 days or more are placed on non-accrual status.

	At December 31,					
	2015		2014		2013	
	30-59	60-89	30-59	60-89	30-59	60-89
	Days	Days	Days	Days	Days	Days
	Past	Past	Past	Past	Past	Past
	Due	Due	Due	Due	Due	Due
	(Dollars in thousands)					
Real estate loans:						
One-to-four-family	\$75	\$99	\$32	\$1,034	\$877	\$197
Multi-family and commercial real estate	—	—	—	—	277	—
Home equity loans and lines of credit	53	—	60	—	—	—
Consumer	17	—	108	17	20	56
Covered loans	154	205	113	—	331	309
Total	\$299	\$304	\$313	\$1,051	\$1,505	\$562

Analysis and Determination of the Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable incurred credit losses in the loan portfolio. Polonia evaluates the need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Polonia's methodology for assessing the appropriateness of the allowance for loan losses consists of: (1) a specific allowance on identified problem loans; and (2) a general valuation allowance on the remainder of the loan portfolio. Although Polonia determines the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio.

Specific Allowance Required for Identified Problem Loans. Polonia establishes an allowance on certain identified problem loans where the loan balance exceeds the fair market value, when collection of the full amount outstanding becomes improbable and when an accurate estimate of the loss can be documented.

General Valuation Allowance on the Remainder of the Loan Portfolio. Polonia establishes a general allowance for loans that are not delinquent to recognize the inherent losses associated with lending activities. This

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general valuation allowance is determined by segregating the loans by loan category and assigning percentages to each category. The percentages are adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. These significant factors may include changes in existing general economic and business conditions affecting Polonia's primary lending areas and the national economy, staff lending experience, recent loss experience in particular segments of the portfolio, specific reserve and classified asset trends, delinquency trends and risk rating trends. The applied loss factors are reevaluated periodically to ensure their relevance in the current economic environment.

Polonia identifies loans that may need to be charged off as a loss by reviewing all delinquent loans, classified loans and other loans that management may have concerns about collectibility. For individually reviewed loans, the borrower's inability to make payments under the terms of the loan or a shortfall in collateral value would result in Polonia's allocating a portion of the allowance to the loan that was impaired.

The OCC, as an integral part of its examination process, periodically reviews Polonia's allowance for loan losses. The OCC may require Polonia to make additional provisions for loan losses based on judgments different from their own.

Polonia's historical loss experience and qualitative and environmental factors are reviewed on a quarterly basis to ensure they are reflective of current conditions in its loan portfolio and economy. In 2015, the loss factors were reviewed and adjusted as necessary.

The following table sets forth the breakdown of the allowance for loan losses on non-covered loans by loan category at the dates indicated.

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	At December 31, 2015		2014		2013		2012		2011	
	Amount to Total Allowance	% of Loans in Allowance Category to Total Loans	Amount to Total Allowance	% of Loans in Allowance Category to Total Loans	Amount to Total Allowance	% of Loans in Allowance Category to Total Loans	Amount to Total Allowance	% of Loans in Allowance Category to Total Loans	Amount to Total Allowance	% of Loans in Allowance Category to Total Loans
(Dollars in thousands)										
Real estate loans:										
One-to-four family	\$774	61 %	\$963	68 %	\$908	65 %	\$678	45 %	\$544	45 %
Multi-family and commercial real estate	307	24	428	30	445	32	772	51	613	51
Home equity loans and lines of credit	28	2	18	1	8	1	47	3	28	2
Consumer Unallocated	5	1	7	1	8	1	11	1	21	2
Total allowance for loan losses	\$1,272	100 %	\$1,416	100 %	\$1,378	100 %	\$1,508	100 %	\$1,206	100 %

Although Polonia believes that it uses the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and its results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while Polonia believes it has established its allowance for loan losses in conformity with generally accepted accounting principles, there can be no assurance that regulators, in reviewing its loan portfolio, will not request them to increase their allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect Polonia's financial condition and results of operations.

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Analysis of Loan Loss Experience. The following table sets forth an analysis of the allowance for loan losses at December 31, for the periods indicated.

	2015 Non- Covered Loans	2014 Non- Covered Loans	2013 Non- Covered Loans	2012 Non- Covered Loans	Covered Loans	Totals	2011 Non- Covered Loans	Covered Loans	Totals
	(Dollars in thousands)								
Allowance for loan losses at beginning of period	\$ 1,416	\$ 1,378	\$ 1,508	\$ 1,206	\$ 73	\$ 1,279	\$ 834	\$ —	\$ 834
Provision (credit) for loan losses	73	210	574	1,018	(21)	997	367	73	440
Charge-offs:									
One-to-four family	(217)	(172)	(440)	(336)	(33)	(369)	—	—	—
Multi-family and commercial	—	—	(111)	(388)	(19)	(407)	—	—	—
Home equity loans and lines of credit	—	—	(153)	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—	—
Total	(217)	(172)	(704)	(724)	(52)	(776)	—	—	—
Recoveries:									
One-to our family	—	—	—	2	—	2	5	—	5
Multi-family and commercial	—	—	—	6	—	6	—	—	—
Home equity loans and lines of credit	—	—	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—	—
Total	—	—	—	8	—	8	5	—	5
Net recoveries (charge-offs)	(217)	(172)	(704)	(716)	(52)	(768)	5	—	5
Allowance for loan losses at end of period	\$ 1,272	\$ 1,416	\$ 1,378	\$ 1,508	\$ —	\$ 1,508	\$ 1,206	\$ 73	\$ 1,279
Allowance for loan losses to non-performing Loans	56.26 %	63.36 %	71.40 %	55.96 %	— %	42.18 %	61.41 %	10.74 %	48.37 %
	0.79 %	0.71 %	0.75 %	1.28 %	— %	1.08 %	0.93 %	0.28 %	0.83 %

Allowance for loan losses to total loans outstanding at the end of the period											
Net (charge-offs) recoveries to average loans outstanding during the period	(0.11)%	(0.08)%	(0.49)%	(0.06)%	(0.02)%	(0.05)%	0.01 %	—	%	0.01 %	

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Interest Rate Risk Management. Polonia the interest rate sensitivity of its interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, increases in interest rates will adversely affect Polonia's earnings. To reduce the potential volatility of its earnings, Polonia Bancorp has sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Polonia Bancorp's strategy for managing interest rate risk emphasizes: adjusting the maturities of borrowings; adjusting the investment portfolio mix and duration; and periodically selling fixed-rate mortgage loans and available-for-sale securities. Polonia Bancorp currently does not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments.

Polonia Bancorp has an Asset/Liability Committee, which includes members of management and the board of directors, to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

Polonia Bancorp prepares an interest rate sensitivity analysis to review its level of interest rate risk. This analysis measures interest rate risk by computing changes in net portfolio value of Polonia Bancorp's cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net portfolio value represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. This analysis assesses the risk of loss in market risk sensitive instruments in the event of a sudden and sustained 100 to 400 basis point increase or a 100 basis point decrease in market interest rates with no effect given to any steps that Polonia Bancorp might take to counter the effect of that interest rate movement. Because of the low level of market interest rates, this analysis is not performed for decreases of more than 100 basis points. Polonia Bancorp measures interest rate risk by modeling the changes in net portfolio value over a variety of interest rate scenarios.

The following table, which is based on information that Polonia Bancorp provides to the OCC, presents the change in its net portfolio value at December 31, 2015, that would occur in the event of an immediate change in interest rates based on assumptions, with no effect given to any steps that Polonia might take to counteract that change.

Estimated Net Portfolio Value				Net Portfolio Value as % of	
				Portfolio Value of Assets	
Basis Point ("bp")\$ Change in Rates	\$ Change Amount (Dollars in thousands)	% Change		NPV Ratio	Change (bp)

400	\$27,276	\$(17,519)	(39.11)%	10.49	%	(462)%
300	31,932	(12,863)	(28.72)	11.91		(321)
200	36,401	(8,394)	(18.74)	13.14		(198)
100	41,001	(3,794)	(8.47)	14.31		(80)
0	44,795	—	—	15.12		—
(100)	49,326	4,531	10.12	16.14		103

The decrease in Polonia's net portfolio value shown in the preceding table that would occur reflects: (1) that a substantial portion of its interest-earning assets are fixed-rate residential loans and fixed-rate investment securities; and (2) the shorter duration of deposits, which reprice more frequently in response to changes in market interest rates.

Polonia uses various assumptions in assessing interest rate risk. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the methods of analyses presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest

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rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans and mortgage-backed securities Polonia holds, rising or falling interest rates have a significant impact on the prepayment speeds of its earning assets that in turn affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Polonia's asset sensitivity would be reduced if prepayments slow and vice versa. While Polonia believes these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future mortgage-backed security and loan repayment activity.

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

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

Polonia's most liquid assets are cash and cash equivalents. The levels of these assets depend on Polonia's operating, financing, lending and investing activities during any given period. At December 31, 2015, cash and cash equivalents totaled \$31.1 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled \$54.9 million at December 31, 2015. In addition, at December 31, 2015, Polonia had the ability to borrow a total of approximately \$119.5 million from the Federal Home Loan Bank of Pittsburgh. On December 31, 2015, Polonia had \$56.0 million of borrowings outstanding. Any growth of Polonia's loan portfolio may require them to borrow additional funds.

At December 31, 2015, Polonia had \$268,000 in mortgage loan commitments outstanding and \$4.4 million in unused lines of credit. Time deposits due within one year of December 31, 2016 totaled \$39.6 million of time deposits. If these maturing deposits do not remain with us, Polonia will be required to seek other sources of funds, including other time deposits and borrowings. Depending on market conditions, Polonia may be required to pay higher rates on such deposits or other borrowings than Polonia Bancorp currently pays on the time deposits due on or before December 31, 2015. Polonia Bancorp believes, however, based on past experience that a significant portion of its time deposits will remain with them. Polonia Bancorp has the ability to attract and retain deposits by adjusting the interest rates offered.

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

Polonia Bancorp is a separate entity from Polonia Bank and must provide for its own liquidity. In addition to its operating expenses, Polonia Bancorp may utilize its cash position for the payment of dividends or to repurchase common stock, subject to applicable restrictions. Polonia Bancorp's primary source of funds is dividends from Polonia Bank. Payment of such dividends to Polonia Bancorp by Polonia Bank is limited under federal law. The amount that can be paid in any calendar year, without prior regulatory approval, cannot exceed the retained net earnings (as defined) for the year plus the preceding two calendar years. Polonia Bancorp believes that such restriction will not have an impact on Polonia's ability to meet its ongoing cash obligations.

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Polonia Bank is subject to various regulatory capital requirements administered by the OCC, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2015, Polonia exceeded all of its regulatory capital requirements.

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

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

Effect of Inflation and Changing Prices

The financial statements and related financial data presented in this proxy statement - prospectus have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation on Polonia Bancorp's operations is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

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Prudential's common stock trades on the NASDAQ Global Market under the symbol "PBIP." The following table sets forth the high and low prices per share of Prudential common stock, and the cash dividends declared per share for the periods indicated.

	Stock Price		Cash
	High	Low	Dividends Per Share
Fiscal 2014			
Quarter ended:			
December 31, 2013(1)	\$ 10.91	\$ 10.10	\$ 0.00
March 31, 2014	10.83	10.45	0.00
June 30, 2014	11.66	10.65	0.03
September 30, 2014	12.23	11.51	0.03
Fiscal 2015			
Quarter ended:			
December 31, 2014	\$ 12.49	\$ 12.03	\$ 0.03
March 31, 2015	12.64	12.15	0.03
June 30, 2015	14.79	12.69	0.18
September 30, 2015	15.10	14.27	0.03
Fiscal 2016			
Quarter ended:			
December 31, 2015	\$ 15.60	\$ 14.29	0.03
March 31, 2016	16.20	13.83	0.03
June 30, 2016	15.42	13.80	0.03
September 30, 2016 (through September 7, 2016)	15.15	13.95	0.03

(1) Dollar values have been adjusted for the results of the second-step mutual holding company conversion completed on October 9, 2013.

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Until December 28, 2015, the common stock of Polonia was traded on the NASDAQ Capital Market under the symbol "PBCP." Since December 29, 2015, Polonia Bancorp common stock has been quoted on the OTC Pink Marketplace. The following table sets forth, prior to December 29, 2015, the quarterly high and low sales prices of Polonia's common stock and after December 28, 2015, the high and low bid prices. Polonia did not pay any cash dividends during any the periods presented.

	Stock Price	
	High	Low
2014		
Quarter ended:		
March 31, 2014	\$10.15	\$9.25
June 30, 2014	10.34	9.50
September 30, 2014	10.90	9.96
December 31, 2014	10.50	9.50
2015		
Quarter ended:		
March 31, 2014	\$13.14	\$10.28
June 30, 2014	13.75	12.25
September 30, 2015	15.43	11.49
December 31, 2015	13.48	11.50
2016		
Quarter ended:		
March 31, 2016	11.98	10.50
June 30, 2016	11.00	10.35
September 30, 2016 (through September 7, 2016)	10.95	10.66

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Polonia shareholders are advised to obtain current market quotations for Prudential common stock. The market price of Prudential common stock will fluctuate between the date of this proxy statement/prospectus and the completion of the merger. No assurance can be given concerning the market price of Prudential common stock before or after the effective date of the merger.

As of the record date for the Polonia special meeting, there were 3,348,827 shares of Polonia common stock outstanding, which were held by 178 holders of record.

On June 1, 2016, the last trading day prior to the public announcement of the merger, the closing sale price of shares of Prudential common stock as reported on NASDAQ was \$14.91. On September 7, 2016, the last practicable trading day before the distribution of this proxy statement/prospectus the closing sale price of shares of Prudential common stock as reported on NASDAQ was \$14.35.

Dividends

The payment, timing and amount of dividends by Prudential on shares of Prudential common stock in the future, either before or after the merger is completed, are subject to the determination of Prudential's board of directors and depend on cash requirements, contractual restrictions, its financial condition and earnings, legal and regulatory considerations and other factors. After the merger, Prudential currently expects to pay (when, as and if declared by the Prudential board of directors) regular quarterly cash dividends of \$0.03 per share. Although Prudential has previously paid quarterly cash dividends on its shares of common stock, it is not under any obligation to do so in the future. As a holding company without any independent operation other than owning Prudential Bank, Prudential in the future will be substantially dependent upon dividends from Prudential Bank to provide funds for the payment of dividends to shareholders and to provide for other cash requirements. Both Prudential and Prudential Bank are subject to various general regulatory policies relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums.

Polonia has not paid cash dividends since its formation. Polonia is under a Memorandum of Understanding with the Federal Reserve Bank of Philadelphia the terms of which prohibit Polonia from paying dividends, repurchasing its stock or making other capital distributions without prior written approval of the Federal Reserve Bank of Philadelphia.

Whenever a dividend or other distribution is declared by Prudential on Prudential common stock, the record date for which is at or after the effective time of the merger, the declaration will include dividends or other distributions on all shares of Prudential common stock issuable pursuant to the merger agreement, but such dividends or other distributions will not be paid to the holder thereof until such holder has duly surrendered its Polonia common stock

certificates in accordance with the merger agreement.

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DESCRIPTION OF Prudential CAPITAL STOCK

As a result of the merger, Polonia shareholders who receive shares of Prudential common stock in the merger will become shareholders of Prudential. Your rights as shareholders of Prudential will be governed by Pennsylvania law and the articles of incorporation and bylaws of Prudential. The following description of the material terms of Prudential's common stock to be issued in the merger, reflects the anticipated state of affairs upon completion of the merger. Prudential and Polonia urge you to read the applicable provisions of Pennsylvania law, Prudential's articles of incorporation and bylaws, and federal law governing bank holding companies carefully and in their entirety. Copies of Prudential's governing documents have been filed with the SEC. To find out where copies of these documents can be obtained, see "Where You Can Find More Information."

General

Prudential is authorized to issue 40,000,000 shares of common stock and 10,000,000 shares of preferred stock. Each share of common stock of Prudential has the same relative rights as, and will be identical in all respects with, each other share of common stock.

Common Stock

Dividends. Prudential can pay dividends if, as and when declared by its board of directors, subject to compliance with limitations which are imposed by law. The holders of common stock will be entitled to receive and share equally in such dividends as may be declared by Prudential's board of directors out of funds legally available therefor. If Prudential issues preferred stock, the holders thereof may have a priority over the holders of the common stock with respect to dividends.

Voting Rights. The holders of Prudential common stock possess exclusive voting rights in Prudential. They elect its board of directors and act on such other matters as are required to be presented to them under Pennsylvania law or its articles of incorporation or as are otherwise presented to them by the board of directors. Except as discussed in "Certain Anti-Takeover Provisions," each holder of common stock is entitled to one vote per share and does not have any right to cumulate votes in the election of directors. If Prudential issues preferred stock, holders of the preferred stock may also possess voting rights.

Liquidation. In the event of any liquidation, dissolution or winding up of Prudential, the holders of the then-outstanding common stock would be entitled to receive, after payment or provision for payment of all its debts and liabilities (including with respect to the liquidation account of Prudential), all of its assets available for distribution. If preferred stock is issued, the holders thereof may have a priority over the holders of the common stock in the event of liquidation or dissolution.

Preemptive Rights. Holders of the common stock are not entitled to preemptive rights with respect to any shares which may be issued in the future. The common stock is not subject to redemption.

Preferred Stock

None of the shares of Prudential's authorized preferred stock have been issued. Such stock may be issued with such preferences and designations as the board of directors may from time to time determine. The board of directors can, without shareholder approval, issue preferred stock with voting, dividend, liquidation and conversion rights which could dilute the voting strength of the holders of the common stock and may assist management in impeding an unfriendly takeover or attempted change in control.

Certain Anti-Takeover Provisions

Certain provisions of the articles of incorporation and bylaws of Prudential and Pennsylvania law which deal with matters of corporate governance and rights of shareholders might be deemed to have a potential anti-takeover effect. Provisions in the articles of incorporation and bylaws of Prudential provide, among other things:

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that Prudential's board of directors shall be divided into classes with only one-third of its directors standing for reelection each year;

that special meetings of shareholders may only be called by Prudential's board of directors;

that shareholders generally must provide Prudential advance notice of shareholder proposals and nominations for director and provide certain specified related information in the proposal;

that any merger or similar transaction be approved by a super-majority vote (75%) of shareholders entitled to vote unless it has previously been approved by at least two-thirds of Prudential's directors;

that no person may acquire or offer to acquire more than 10% of the issued and outstanding shares of any class of equity securities of Prudential; and

the board of directors has the authority to issue shares of authorized but unissued common stock and preferred stock and to establish the terms of any one or more series of preferred stock, including voting rights.

Provisions of the PBCL, applicable to Prudential, provide, among other things, that:

Prudential may not engage in a business combination with an "interested shareholder," generally defined as a holder of 20% of a corporation's voting stock, during the five-year period after the interested shareholder became such except under certain specified circumstances;

holders of common stock may object to a "control transaction" involving Prudential (a control transaction is defined as the acquisition by a person or group of persons acting in concert of at least 20% of the outstanding voting stock of a corporation), and demand that they be paid a cash payment for the "fair value" of their shares from the "controlling person or group;" and

any "profit," as defined, realized by any person or group who is or was a "controlling person or group" with respect to Prudential from the disposition of any equity securities of Prudential to any person shall belong to and be recoverable by Prudential when the profit is realized in a specified manner.

Pennsylvania-chartered corporations may exempt themselves from these anti-takeover provisions. Prudential's articles of incorporation do not provide for exemption from the applicability of these provisions. The PBCL includes additional anti-takeover provisions from which Prudential elected to exempt itself from as provided in its articles of incorporation.

The provisions noted above as well as others discussed below may have the effect of discouraging a future takeover attempt which is not approved by the board of directors of Prudential but which individual shareholders may consider to be in their best interests or in which shareholders may receive a substantial premium for their shares over the then current market price. As a result, shareholders who might wish to participate in such a transaction may not have an opportunity to do so. The provisions may also render the removal of Prudential's board of directors or management more difficult. Furthermore, such provisions could render Prudential being deemed less attractive to a potential acquiror and/or could result in Prudential's shareholders receiving a lesser amount of consideration for their shares of Prudential common stock than otherwise could have been available either in the market generally and/or in a takeover.

A more detailed discussion of these and other provisions of Prudential's articles of incorporation and bylaws and the PBCL is set forth below.

Board of Directors. The articles of incorporation and bylaws of Prudential require the board of directors to be divided into three classes as nearly equal in number as possible and that the members of each class will be

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elected for a term of three years and until their successors are elected and qualified, with one class being elected annually. Holders of the common stock of Prudential do not have cumulative voting in the election of directors.

Under Prudential's articles of incorporation, any vacancy occurring in its board of directors, including any vacancy created by reason of an increase in the number of directors, may be filled by a majority vote of the remaining directors, whether or not a quorum is present, or by a sole remaining director. Any director so chosen shall hold office for the remainder of the term to which the director has been elected and until his or her successor is elected and qualified.

The articles of incorporation of Prudential provide that any director may be removed by shareholders only for cause at a duly constituted meeting of shareholders called expressly for that purpose upon the vote of the holders of not less than a majority of the total votes eligible to be cast by shareholders. Cause for removal shall exist only if the director whose removal is proposed has been either declared incompetent by order of a court, convicted of a felony or an offense punishable by imprisonment for a term of more than one year by a court of competent jurisdiction, or deemed liable by a court of competent jurisdiction for gross negligence or misconduct in the performance of such directors' duties to Prudential.

Consideration of Interests. The PBCL provides that in discharging the duties of their respective positions, including in the context of evaluating an offer to acquire Prudential, the board of directors, committees of the board and individual directors of a business corporation may consider the following:

the effects of any action upon any and all groups affected by such action, including shareholders, employees, suppliers, customers and creditors of the corporation and upon communities in which offices or other establishments of the corporation are located;

the short-term and long-term interests of the corporation, including benefits that may accrue to the corporation from its long-term plans and the possibility that these interests may be best served by the continued independence of the corporation;

the resources, intent and conduct (past, stated and potential) or any person seeking to acquire control of the corporation; and

all other pertinent factors.

The board of directors, committees of the board and individual directors shall not be required, in considering the best interests of the corporation or the effects of any such action, to regard any corporate interest or the interests of any particular group affected by such action as a dominant or controlling interest or factor.

Limitations on Liability. The articles of incorporation of Prudential provide that the personal liability of its directors and officers for monetary damages shall be eliminated to the fullest extent permitted by the PBCL as it exists on the effective date of the articles of incorporation or as such law may be thereafter in effect. Section 1713 of the PBCL currently provides that directors, but not officers, of corporations that have adopted such a provision will not be so liable, unless:

- the director has breached or failed to perform the duties of his office in accordance with the PBCL; and
- the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

This provision absolves directors of personal liability for monetary damages for negligence in the performance of their duties, including gross negligence. It does not permit a director to be exculpated, however, for liability for actions involving conflicts of interest or breaches of the traditional “duty of loyalty” to Prudential and its shareholders, and it does not affect the availability of injunctive or other equitable relief as a remedy.

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If Pennsylvania law is amended in the future to provide for greater limitations on the personal liability of directors or to permit corporations to limit the personal liability of officers, the provision in Prudential's articles of incorporation limiting the personal liability of directors and officers will automatically incorporate such amendments to the law without further action by shareholders. Similarly, if Pennsylvania law is amended in the future to restrict the ability of a corporation to limit the personal liability of directors, Prudential's articles of incorporation will automatically incorporate such restrictions without further action by shareholders.

The provision limiting the personal liability of Prudential's directors does not eliminate or alter the duty of its directors; it merely limits personal liability for monetary damages to the extent permitted by the PBCL. Moreover, it applies only to claims against a director arising out of his role as a director; it currently does not apply to claims arising out of his role as an officer, if he is also an officer, or arising out of any other capacity in which he serves because the PBCL does not authorize such a limitation of liability. Such limitation also does not apply to the responsibility or liability of a director pursuant to any criminal statute, or the liability of a director for the payment of taxes pursuant to federal, state or local law.

Indemnification of Directors, Officers, Employees and Agents. The bylaws of Prudential provide that it shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, because such person is or was a director, officer, or agent of Prudential. Indemnification will be furnished against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement, actually and reasonably incurred in connection with such threatened, pending or completed action, suit or proceeding. In particular, indemnification will be made against judgments and settlements in derivative suits. Indemnification will be made unless a judgment or other final adjudication establishes that the act or failure to act giving rise to the claim for indemnification constituted willful misconduct or recklessness. The indemnification provisions also require Prudential to pay reasonable expenses in advance of the final disposition of any action, suit or proceeding, provided that the indemnified person undertakes to repay us if it is ultimately determined that such person was not entitled to indemnification. The rights of indemnification provided in Prudential's bylaws are not exclusive of any other rights which may be available under any insurance or other agreement, by vote of shareholders or directors or otherwise. In addition, Prudential's bylaws authorize it to maintain insurance on behalf of any person who is or was a director, officer, employee or agent of Prudential, whether or not Prudential would have the power to provide indemnification to such person. By action of the Prudential board, Prudential may create and fund a trust fund or fund of any nature, and may enter into agreements with Prudential's officers and directors, for securing or insuring in any manner Prudential's obligation to indemnify or advance expenses provided for in the provisions in Prudential's bylaws regarding indemnification.

Special Meetings of Shareholders. The articles of incorporation of Prudential contain a provision pursuant to which, except as otherwise provided by law, special meetings of its shareholders may be called only by the board of directors pursuant to a resolution approved by a majority of the directors then in office.

Shareholder Nominations and Proposals. The bylaws of Prudential provide that, subject to the rights of the holders of any class or series of stock having a preference over the common stock as to dividends or upon liquidation, all nominations for election to the board of directors, other than those made by the board or a committee thereof, shall be made by a shareholder who has complied with the notice provisions in the bylaws. Written notice of a shareholder nomination must be communicated to the attention of the secretary and either delivered to, or mailed and received at, Prudential's principal executive offices not later than (a) with respect to an annual meeting of shareholders, 120 days prior to the anniversary date of the mailing of proxy materials by Prudential in connection with the immediately preceding annual meeting of shareholders.

Prudential's bylaws also provide that only such business as shall have been properly brought before an annual meeting of shareholders shall be conducted at the annual meeting. To be properly brought before an annual meeting, business must be specified in the notice of the meeting, or any supplement thereto, given by or at the direction of the board of directors, or otherwise properly brought before the meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to Prudential's secretary. To be timely, a shareholder's notice must be delivered to or mailed and received at Prudential's principal executive offices not later than 120 days prior to the anniversary date of the mailing of proxy materials by Prudential in connection with the immediately preceding annual meeting of shareholders. Prudential's bylaws also require that the notice must contain certain information in order to be

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considered. The board of directors may reject any shareholder proposal not made in accordance with the bylaws. The presiding officer of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with Prudential's bylaws, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Shareholder Action Without a Meeting. The articles of incorporation of Prudential provide that any action permitted to be taken by the shareholders at a meeting may be taken without a meeting if a written consent setting forth the action so taken is signed by all of the shareholders entitled to vote.

Limitations on Acquisitions of Voting Stock and Voting Rights. The articles of incorporation of Prudential provide that no person shall directly or indirectly offer to acquire or acquire the beneficial ownership of (a) more than 10% of the issued and outstanding shares of any class of Prudential's equity securities or (b) any securities convertible into, or exercisable for, any equity securities of Prudential if, assuming conversion or exercise by such person of all securities of which such person is the beneficial owner which are convertible into, or exercisable for such equity securities, such person would be the beneficial owner of more than 10% of any class of Prudential's equity securities. The term "person" is broadly defined in Prudential's articles of incorporation to prevent circumvention of this restriction.

The foregoing restrictions do not apply to (a) any offer with a view toward public resale made exclusively to Prudential by underwriters or a selling group acting on its behalf, (b) any employee benefit plan established by Prudential or Prudential Bank or any trustees of such plan and (c) any other offer or acquisition approved in advance by the affirmative vote of 80% of Prudential's board of directors. In the event that shares are acquired in violation of this restriction, all shares beneficially owned by any person in excess of 10% will not be counted as shares entitled to vote and will not be voted by any person or counted as voting shares in connection with any matters submitted to shareholders for a vote, and Prudential's board of directors may cause the excess shares to be transferred to an independent trustee for sale.

Mergers, Consolidations and Sales of Assets. For a merger, consolidation, sale of assets or other similar transaction to occur, the PBCL generally requires the approval of the board of directors and the affirmative vote of the holders of a majority of the votes cast by all shareholders entitled to vote thereon. The articles of incorporation of Prudential provide that any merger, consolidation, share exchange, sale of assets, division or voluntary dissolution shall require approval of 75% of the eligible voting shares unless the transaction has been previously approved by at least two-thirds of its board of directors, in which case the majority of the votes cast standard would apply. In addition, if any class or series of shares is entitled to vote thereon as a class, the PBCL requires the affirmative vote of a majority of the votes cast in each class for any plan of merger or consolidation. The PBCL also provides that unless otherwise required by a corporation's governing instruments, a plan of merger or consolidation shall not require the approval of the shareholders if:

whether or not the “constituent” corporation, in this case, Prudential, is the surviving corporation (a) the surviving or new corporation is a Pennsylvania business corporation and the articles of the surviving or new corporation are identical to the articles of the constituent corporation, except for specified changes which may be adopted by a board of directors without shareholder action, (b) each share of the constituent corporation outstanding immediately prior to the effective date of the merger or consolidation is to continue as or to be converted into, except as may be otherwise agreed by the holder thereof, an identical share of the surviving or new corporation after the effective date of the merger or consolidation, and (c) the plan provides that the shareholders of the constituent corporation are to hold in the aggregate shares of the surviving or new corporation to be outstanding immediately after the effectiveness of the plan entitled to cast at least a majority of the votes entitled to be cast generally for the election of directors;

immediately prior to adoption of the plan and at all times prior to its effective date, another corporation that is a party to the merger or consolidation owns directly or indirectly 80% or more of the outstanding shares of each class of the constituent corporation; or

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no shares of the constituent corporation have been issued prior to the adoption of the plan of merger or consolidation by the board of directors.

As holder of all of the outstanding Prudential Bank common stock, Prudential generally will be able to authorize a merger, consolidation or other business combination involving Prudential Bank without any additional approval being required of the shareholders of Prudential.

Business Combinations with Interested Shareholders. Under the PBCL, a registered corporation may not engage in a business combination with an interested shareholder except for certain types of business combinations as enumerated under Pennsylvania law. The PBCL defines a “business combination” generally to include, with respect to a corporation, certain sales, purchases, exchanges, leases, mortgages, pledges, transfers or dispositions of assets, mergers or consolidations, certain issuances or reclassifications of securities, liquidations or dissolutions or certain loans, guarantees or financial assistance, pursuant to an agreement or understanding between such corporation or any subsidiaries, on the one hand, and an interested shareholder or an “affiliate” or “associate” thereof, on the other hand. An “interested shareholder” is defined generally to include any individual, partnership, association or corporation which is the beneficial owner, as defined, of at least 20% of the outstanding voting stock of the corporation or which is an affiliate or associate of such corporation and at any time within the five-year period prior to the date in question was the beneficial owner of at least 20% of the outstanding voting stock.

Control Transactions. The PBCL includes provisions which allow holders of voting shares of a registered corporation that becomes the subject of a “control transaction” to object to such transaction and demand that they be paid a cash payment for the “fair value” of their shares from the “controlling person or group.” A “control transaction” for purposes of these provisions means the acquisition by a person or group of persons acting in concert of at least 20% of the outstanding voting stock of the registered corporation, subject to certain limited exceptions. “Fair value” for purposes of these provisions means an amount not less than the highest price per share paid by the controlling person or group at any time during the 90-day period ending on and including the date of the control transaction, plus an increment representing any value, including without limitation any proportion of any value payable for acquisition of control of the corporation, that may not be reflected in such price.

Disgorgement by Certain Controlling Shareholders. The PBCL includes provisions which generally provide that any “profit” realized by any person or group who is or was a “controlling person or group” with respect to a registered corporation from the disposition of any equity security of the corporation to any person shall belong to and be recoverable by the corporation where the profit is realized by such person or group: (1) from the disposition of the equity security within 18 months after the person or group attained the status of a controlling person or group; and (2) the equity security had been acquired by the controlling person or group within 24 months prior to or 18 months subsequent to the attaining by the person or group of the status of a controlling person or group.

A “controlling person or group” for purposes of these provisions of the PBCL is defined to mean (1) a person or group who has acquired, offered to acquire or, directly or indirectly, publicly disclosed or caused to be disclosed the intention of acquiring voting power over voting shares of a registered corporation that would entitle the holder thereof to cast at least 20% of the votes that all shareholders would be entitled to cast in an election of directors of the corporation or (2) a person or group who has otherwise, directly or indirectly, publicly disclosed or caused to be disclosed that it may seek to acquire control of a corporation through any means. The definition of “controlling person or group” also includes terms which are designed to facilitate a corporation’s determination of the existence of a group and members of a controlling group.

The PBCL excludes certain persons and holders from the definition of a controlling person or group, absent “significant other activities” indicating that a person or group should be deemed a controlling person or group. The PBCL similarly provides that, absent a person or group’s direct or indirect disclosure or causing to be disclosed that it may seek to acquire control of the corporation through any means, a person or group will not be deemed to be a controlling person or group if such person or group holds voting power, among other ways, as a result of the solicitation of proxies or consents if such proxies or consents are (a) given without consideration in response to a solicitation pursuant to the Securities Exchange Act of 1934 and the regulations thereunder and (b) do not empower the holder thereof to vote such shares except on the specific matters described in such proxy or consent and in accordance with the instructions of the giver of such proxy or consent. The disgorgement provisions of the PBCL

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applicable to registered corporations also do not apply to certain specified transfers of equity securities, including certain acquisitions and dispositions which are approved by a majority vote of both the board of directors and shareholders of the corporation in the prescribed manner.

Actions to recover any profit due to a registered corporation under the disgorgement provisions of the PBCL may be commenced by the corporation in any court of competent jurisdiction within two years from the date any recoverable profit was realized. Such an action also may be commenced by a shareholder on behalf of the corporation if the corporation refuses to bring the action within 60 days after written request by a shareholder or the corporations fail to prosecute the action diligently. Although any recovery of profits would be due the corporation, the shareholder would be entitled to reimbursement of all costs incurred in connection with the bringing of any such action in the event that such action results in a judgment recovering profits for the corporation.

Control-Share Acquisitions. The PBCL includes provisions which generally require that shareholders of a registered corporation approve a “control-share acquisition,” as defined therein. Pursuant to authority contained in the PBCL, Prudential’s articles of incorporation contain a provision which provides that the control-share acquisition provisions of the PBCL shall not be applicable to Prudential.

Amendment of Governing Instruments. The articles of incorporation of Prudential generally provide that no amendment of the articles of incorporation may be made unless it is first approved by its board of directors and thereafter approved by the holders of a majority of the shares entitled to vote generally in an election of directors, voting together as a single class, as well as such additional vote of the preferred stock as may be required by the provisions of any series thereof, provided, however, any amendment which is inconsistent with Articles VI (directors), VII (meetings of shareholders, actions without a meeting), VIII (liability of directors and officers), IX (restrictions on offers and acquisitions), XI (shareholder approval of mergers and other actions) and XII (amendments to the articles of incorporation and bylaws) must be approved by the affirmative vote of the holders of not less than 75% of the voting power of the shares entitled to vote thereon unless approved by the affirmative vote of 80% of the directors of Prudential then in office.

Prudential’s bylaws may be amended by the majority vote of the full board of directors at a regular or special meeting of the board of directors or by a majority vote of the shares entitled to vote generally in an election of directors, voting together as a single class, as well as such additional vote of the preferred stock as may be required by the provisions of any series thereof, provided, however, that the shareholder vote requirement for any amendment to the bylaws which is inconsistent with Sections 2.10 (shareholder proposals), 3.1 (number of directors and powers), 3.2 (classifications and terms of directors), 3.3 (director vacancies), 3.4 (removal of directors) and 3.12 (director nominations) and Article VI (indemnification) is the affirmative vote of the holders of not less than 75% of the voting power of the shares entitled to vote thereon.

Issuance of Capital Stock to Directors, Officers and Controlling Persons. Prudential's articles of incorporation do not contain restrictions on the issuance of shares of capital stock to Prudential's directors, officers or controlling persons. Thus, Prudential could adopt stock-related compensation plans such as stock option plans without shareholder approval and shares of Prudential capital stock could be issued directly to directors or officers without shareholder approval. The Marketplace Rules of the NASDAQ, however, generally require corporations like Prudential with securities which will be listed on the NASDAQ to obtain shareholder approval of most stock compensation plans for directors, officers and key employees of the corporation. Moreover, although generally not required, shareholder approval of stock-related compensation plans may be sought in certain instances in order to qualify such plans for favorable federal income tax law treatment under current laws and regulations.

Regulatory Restrictions

Federal law requires the approval of the FRB prior to any person or entity, or any persons or entities acting in concert, acquiring 10% or more of the common stock of Prudential, and prior to certain other actions that are deemed pursuant to regulations of the Federal Reserve Board to constitute control. In addition, Pennsylvania law requires the approval of the Pennsylvania Department of Banking and Securities prior to acquiring control of a Pennsylvania savings bank such as Prudential Bank.

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For three years following a conversion and reorganization, Federal Reserve Board regulations prohibit any person from acquiring, either directly or indirectly, or making an offer to acquire more than 10% of the stock of any converted institution without the prior written approval of the Federal Reserve Board, except for

any offer with a view toward public resale made exclusively to the institution or to underwriters or a selling group acting on its behalf;

offers that if consummated would not result in the acquisition by such person during the preceding 12-month period of more than 1% of such stock;

offers in the aggregate for up to 24.9% by Prudential's employee stock ownership plan or other tax-qualified plans which we maintain; and

an offer to acquire or acquisition of beneficial ownership of more than 10% of the common stock of the savings institution by a corporation whose ownership is or will be substantially the same as the ownership of the savings institution, provided that the offer or acquisition is made more than one year following the date of completion of the conversion and reorganization.

Such prohibition is applicable to the acquisition of Prudential's common stock until October 9, 2016. In the event that any person, directly or indirectly, violates this regulation, the securities beneficially owned by such person in excess of 10% shall not be counted as shares entitled to vote and shall not be voted by any person or counted as voting shares in connection with any matters submitted to a vote of shareholder. The definition of beneficial ownership for this regulation extends to persons holding revocable or irrevocable proxies for an institution's stock under circumstances that give rise to a conclusive or rebuttable determination of control under Federal Reserve Board regulations.

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COMPARISON OF SHAREHOLDER RIGHTS

The rights of Prudential's shareholders are currently governed by the PBCL and Prudential's articles of incorporation and bylaws, and will continue to be governed by the PBCL and Prudential's articles of incorporation and bylaws following completion of the merger.

The rights of Polonia's shareholders are currently governed by the MGCL and Polonia's articles of incorporation and bylaws. Following completion of the merger, the rights of Polonia's shareholders who receive shares of Prudential common stock as merger consideration will be governed by the PBCL and Prudential's articles of incorporation and bylaws.

The following discussion summarizes the material differences between the rights of Polonia's shareholders and the rights of Prudential's shareholders. This summary is not intended to be a complete statement of all of such differences or a complete description of the specific provisions referred to therein, and is qualified in its entirety by reference to the PBCL, Prudential's articles of incorporation and bylaws, the MGCL, Polonia's articles of incorporation and bylaws and the applicable provisions of federal law governing bank and savings and loan holding companies. Prudential and Polonia urge you to read those documents carefully and in their entirety.

Authorized Capital Stock

Prudential. Prudential's authorized capital stock consists of 40,000,000 shares of common stock, par value \$0.01 per share, and 10,000,000 shares of preferred stock, par value \$0.01 per share. The number of Prudential's authorized shares of common stock is greater than what is currently outstanding and what it will issue in the merger. This provides Prudential's board of directors with greater flexibility to effect, among other things, financings, acquisitions, stock dividends, stock splits and employee stock options.

Polonia. The authorized capital stock of the Polonia consists of 14,000,000 shares of common stock, par value \$0.01 per share and 1,000,000 shares of preferred stock, par value \$0.01 per share.

Prudential's and Polonia's articles of incorporation both authorize the board of directors to establish one or more series of preferred stock and, for any series of preferred stock, to determine the terms and rights of the series, including voting rights, dividend rights, conversion and redemption rates and liquidation preferences. Neither the articles of incorporation and bylaws of both Prudential and Polonia provide for preemptive rights to shareholders in connection

with the issuance of capital stock.

Dividends

Prudential. The PBCL generally provides that, unless otherwise restricted in a corporation's bylaws, a corporation's board of directors may authorize and a corporation may pay dividends to shareholders. However, a distribution may not be made if, after giving effect thereto:

- the corporation would be unable to pay its debts as they become due in the usual course of its business; or

the total assets of the corporation would be less than the sum of its total liabilities plus (unless otherwise provided in its articles of incorporation) the amount that would be needed to satisfy the preferential rights upon dissolution of the corporation of shareholders whose preferential rights are superior to those receiving the distribution.

The ability of Prudential Bank to pay dividends on its capital stock is restricted by Pennsylvania banking laws and regulations and by tax considerations related to savings banks. Although Prudential is not subject to these restrictions as a Pennsylvania corporation, such restrictions indirectly affect it because dividends from Prudential Bank will be a primary source of funds for the payment of dividends to shareholders in the future.

Polonia. Maryland law generally provides that, unless otherwise restricted in a corporation's articles of incorporation, a corporation's board of directors may authorize and a corporation may pay dividends to shareholders. However, a distribution may not be made if, after giving effect thereto, the corporation would not be

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able to pay its debts as they become due in the usual course of business or the corporation's total assets would be less than its total liabilities.

The ability of Polonia Bank to pay dividends on its capital stock is restricted by Office of the Comptroller of the Currency and Federal Reserve Board regulations and by tax considerations related to savings associations. Such restrictions indirectly affect Polonia because dividends from Polonia Bank would be a primary source of funds for the payment of dividends to the shareholders of Polonia. Currently Polonia's ability to pay dividends is restricted pursuant to the terms of a Memorandum of Understanding entered into with the Federal Reserve Bank of Philadelphia.

Board of Directors

Prudential. The articles of incorporation and bylaws of Prudential require the board of directors to be divided into three classes as nearly equal in number as possible and that the members of each class will be elected for a term of three years and until their successors are elected and qualified, with one class being elected annually. Under the articles of incorporation of Prudential, any vacancy occurring in the board of directors, including any vacancy created by reason of an increase in the number of directors, may be filled by a majority vote of the remaining directors, whether or not a quorum is present, or by a sole remaining director, and any director so chosen shall hold office for the remainder of the term to which the director has been elected and until his or her successor is elected and qualified.

The articles of incorporation of Prudential provide that any director may be removed by shareholders only for cause at a duly constituted meeting of shareholders called expressly for that purpose upon the vote of the holders of not less than a majority of the total votes eligible to be cast by shareholders. Cause for removal shall exist only if the director whose removal is proposed has been either declared of unsound mind by an order of a court, convicted of a felony or an offense punishable by imprisonment for a term of more than one year by a court of competent jurisdiction, or deemed liable by a court of competent jurisdiction for gross negligence or misconduct in the performance of such directors' duties to the corporation.

Polonia. Polonia's board of directors is divided into three classes as nearly as equal in number as possible. The shareholders elect one class of directors each year for a term of three years. The bylaws of Polonia provide that to be eligible to serve on the board of directors a person must not: (1) be under indictment for, or ever have been convicted of, a criminal offense involving dishonesty or breach of trust and the penalty for such offense could be imprisonment for more than one year, (2) be a person against whom a banking agency has, within the past ten years, issued a cease and desist order for conduct involving dishonesty or breach of trust and that order is final and not subject to appeal, or (3) have been found either by a regulatory agency whose decision is final and not subject to appeal or by a court to have (i) breached a fiduciary duty involving personal profit, or (ii) committed a willful violation of any law, rule or regulation governing banking, securities, commodities or insurance, or any final cease and desist order issued by a banking, securities, commodities or insurance regulatory agency.

The bylaws of Polonia provide that directors may be removed only for cause and only by the affirmative vote of the holders of at least a majority of the shares of stock entitled to vote in the election of directors. Polonia's bylaws provide that any vacancy occurring in the board of directors, including a vacancy created by an increase in the number of directors, may be filled only by a vote of a majority of the directors then in office. A person elected to fill a vacancy on the board of directors will serve for the remainder of the full term of the class of directors in which the vacancy occurred and until his or her successor shall have been elected and qualified. The bylaws provide that a director may be removed from the board of directors before the expiration of his or her term only for cause and only upon the vote of a majority of the shares entitled to vote in the election of directors.

Powers of Directors.

Prudential. The PBCL provides that in discharging the duties of their respective positions, the board of directors, committees of the board and individual directors of a business corporation may, in considering the best interests of the corporation, consider the following:

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the effects of any action upon any and all groups affected by such action, including shareholders, employees, suppliers, customers and creditors of the corporation and upon communities in which offices or other establishments of the corporation are located;

the short-term and long-term interests of the corporation, including benefits that may accrue to the corporation from its long-term plans and the possibility that these interests may be best served by the continued independence of the corporation;

the resources, intent and conduct (past, stated and potential) or any person seeking to acquire control of the corporation; and

all other pertinent factors.

The board of directors, committees of the board and individual directors shall not be required, in considering the best interests of the corporation or the effects of any such action, to regard any corporate interest or the interests of any particular group affected by such action as a dominant or controlling interest or factor.

Polonia. The articles of incorporation of Polonia provide that its directors, in discharging their duties to Polonia and in determining what they reasonably believe to be in the best interest of Polonia, may, in addition to considering the effects of any action on shareholders, consider any of the following: (a) the economic effect, both immediate and long-term, upon Polonia's shareholders, including shareholders, if any, choosing not to participate in the transaction; (b) effects, including any social and economic effects on the employees, suppliers, creditors, depositors and customers of, and others dealing with, Polonia and its subsidiaries and on the communities in which Polonia and its subsidiaries operate or are located; (c) whether the proposal is acceptable based on the historical and current operating results or financial condition of Polonia; (d) whether a more favorable price could be obtained for Polonia's stock or other securities in the future; (e) the reputation and business practices of the offeror and its management and affiliates as they would affect the employees; (f) the future value of the stock or any other securities of Polonia; and (g) any antitrust or other legal and regulatory issues that are raised by the proposal. If on the basis of these factors the board of directors determines that any proposal or offer to acquire Polonia is not in the best interest of Polonia, it may reject such proposal or offer. If the board of directors determines to reject any such proposal or offer, the board of directors shall have no obligation to facilitate, remove any barriers to, or refrain from impeding the proposal or offer.

Cumulative Voting

Prudential. Both the articles of incorporation and bylaws of Prudential prohibit cumulative voting by shareholders in elections of directors.

Polonia. The articles of incorporation of Polonia do not permit cumulative voting in the election of directors.

Nomination of Director Candidates by Shareholders and Shareholder Proposals

Prudential. The bylaws of Prudential provide that, subject to the rights of the holders of any class or series of stock having a preference over the common stock as to dividends or upon liquidation, all nominations for election to the board of directors, other than those made by the board or a committee thereof, shall be made by a shareholder who has complied with the notice provisions in the bylaws. Written notice of a shareholder nomination must be communicated to the attention of the secretary and either delivered to, or mailed and received at, the corporation's principal executive offices not later than 120 days prior to the anniversary date of the mailing of proxy materials in connection with the immediately preceding annual meeting of shareholders.

Prudential's bylaws also provide that only such business as shall have been properly brought before an annual meeting of shareholders shall be conducted at the annual meeting. To be properly brought before an annual meeting, business must be specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the board of directors, or otherwise properly brought before the meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to Prudential's secretary. To be timely, a shareholder's notice must be delivered to or mailed and

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received at the corporation's principal executive offices not later than 120 days prior to the anniversary date of the mailing of proxy materials in connection with the immediately preceding annual meeting of shareholders.

Polonia. Polonia's bylaws establish an advance notice procedure for shareholders to nominate directors or bring other business before an annual meeting of shareholders. A person may not be nominated for election as a director unless that person is nominated by or at the direction of the Polonia board of directors or by a shareholder who has given appropriate notice to Polonia before the meeting. Similarly, a shareholder may not bring business before an annual meeting unless the shareholder has given Polonia appropriate notice of its intention to bring that business before the meeting. Polonia's secretary must receive notice of the nomination or proposal not less than 90 days before the annual meeting; provided, however, that if less than 100 days' notice of prior public disclosure of the date of the meeting is given or made to the shareholders, notice by the shareholder to be timely must be received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A shareholder who desires to raise new business must provide certain information to Polonia concerning the nature of the new business, the shareholder, the shareholder's ownership in the Polonia and the shareholder's interest in the business matter. Similarly, a shareholder wishing to nominate any person for election as a director must provide Polonia with certain information concerning the nominee and the proposing shareholder.

Limitations on Acquisitions of Voting Stock and Voting Rights

Prudential. The articles of incorporation of Prudential provide that no person shall directly or indirectly offer to acquire or acquire the beneficial ownership of (a) more than 10% of the issued and outstanding shares of any class of an equity security of Prudential or (b) any securities convertible into, or exercisable for, any equity securities of Prudential if, assuming conversion or exercise by such person of all securities of which such person is the beneficial owner which are convertible into, or exercisable for such equity securities, such person would be the beneficial owner of more than 10% of any class of an equity security of Prudential. The term "person" is broadly defined in the articles of incorporation to prevent circumvention of this restriction.

The foregoing restrictions do not apply to (a) any offer with a view toward public resale made exclusively to Prudential by underwriters or a selling group acting on its behalf, (b) any employee benefit plan established by Prudential or Prudential Bank and (c) any other offer or acquisition approved in advance by the affirmative vote of 80% of the board of directors. In the event that shares are acquired in violation of this restriction, all shares beneficially owned by any person in excess of 10% will not be counted as shares entitled to vote and will not be voted by any person or counted as voting shares in connection with any matters submitted to shareholders for a vote, and the board of directors may cause the excess shares to be transferred to an independent trustee for sale.

Polonia. The articles of incorporation of Polonia provide that in no event will any record owner of any outstanding common stock which is beneficially owned, directly or indirectly, by a person who, as of any record date for the

determination of shareholders entitled to vote on any matter, beneficially owns in excess of 10% of the then-outstanding shares of common stock, be entitled, or permitted to any vote in respect of the shares held in excess of the limit. This limitation does not apply to any director or officer acting solely in their capacities as directors and officers, or any employee benefit plans of Polonia or any subsidiary or a trustee of a plan.

Calling Special Meetings of Shareholders

Prudential. The articles of incorporation of Prudential contain a provision pursuant to which, except as otherwise provided by law, special meetings of shareholders only may be called by the board of directors pursuant to a resolution approved by a majority of the directors then in office.

Polonia. The bylaws of Polonia provide that special meetings of shareholders may be called by the Chairman, the President or by two-thirds of the total number of directors. In addition, Maryland law provides that a special meeting of shareholders may be called by the Secretary upon written request of the holders of a majority of all the shares entitled to vote at a meeting.

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Shareholder Action Without a Meeting.

Prudential. The articles of incorporation of Prudential provide that any action permitted to be taken by the shareholders at a meeting may be taken without a meeting if a written consent setting forth the action so taken is signed by all of the shareholders entitled to vote.

Polonia. Under Maryland law, action may be taken by shareholders of Polonia without a meeting if all shareholders entitled to vote on the action give written consent to taking such action without a meeting.

Indemnification of Directors and Officers

Prudential. The bylaws of Prudential provide that it shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, because such person is or was a director, officer, or agent of Prudential. Indemnification will be furnished against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement, actually and reasonably incurred in connection with such threatened, pending or completed action, suit or proceeding. In particular, indemnification will be made against judgments and settlements in derivative suits. Indemnification will be made unless a judgment or other final adjudication establishes that the act or failure to act giving rise to the claim for indemnification constituted willful misconduct or recklessness. The indemnification provisions also require Prudential to pay reasonable expenses in advance of the final disposition of any action, suit or proceeding, provided that the indemnified person undertakes to repay Prudential if it is ultimately determined that such person was not entitled to indemnification. The rights of indemnification provided in the bylaws of Prudential are not exclusive of any other rights which may be available under any insurance or other agreement, by vote of shareholders or directors or otherwise. In addition, the bylaws of Prudential authorize it to maintain insurance on behalf of any person who is or was a director, officer, employee or agent of Prudential, whether or not Prudential would have the power to provide indemnification to such person. The board of directors of Prudential may create and fund a trust fund or fund of any nature, and may enter into agreements with its officers and directors, for securing or insuring in any manner its obligation to indemnify or advance expenses provided for in the provisions in the bylaws regarding indemnification.

Polonia. The articles of incorporation of Polonia provide that it will indemnify its directors and officers, whether serving it or at its request any other entity, to the fullest extent required or permitted under Maryland law. Such indemnification includes the advancement of expenses. The articles of incorporation of Polonia also provide that Polonia will indemnify its employees and agents and any director, officer, employee or agent of any other entity to such extent as shall be authorized by the board of directors and be permitted by law.

Limitations on Liability.

Prudential. The articles of incorporation of Prudential provide that the personal liability of its directors and officers for monetary damages shall be eliminated to the fullest extent permitted by the PBCL as it exists on the effective date of the articles of incorporation or as such law may be thereafter in effect. Section 1713 of the PBCL currently provides that directors (but not officers) of corporations that have adopted such a provision will not be so liable, unless:

- the director has breached or failed to perform the duties of his office in accordance with the PBCL; and
- the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

If Pennsylvania law is amended in the future to provide for greater limitations on the personal liability of directors or to permit corporations to limit the personal liability of officers, the provision in the articles of incorporation limiting the personal liability of directors and officers will automatically incorporate such authorities without further action by shareholders. Similarly, if Pennsylvania law is amended in the future to restrict the ability of a corporation to limit the personal liability of directors, the articles of incorporation will automatically incorporate such restrictions without further action by shareholders.

The provision limiting the personal liability of directors does not eliminate or alter the duty of the directors of Prudential; it merely limits personal liability for monetary damages to the extent permitted by the PBCL.

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Moreover, it applies only to claims against a director arising out of his role as a director; it currently does not apply to claims arising out of his role as an officer (if he is also an officer) or arising out of any other capacity in which he serves because the PBCL does not authorize such a limitation of liability. Such limitation also does not apply to the responsibility or liability of a director pursuant to any criminal statute, or the liability of a director for the payment of taxes pursuant to law.

Polonia. The articles of incorporation of Polonia provide that, to the fullest extent permitted under Maryland law, the directors and officers of Polonia shall have no personal liability to Polonia or its shareholders for money damages except (1) to the extent that it is proved that the person actually received an improper benefit or profit in money, property or services, for the amount of the benefit or profit in money, property or services actually received; (2) to the extent that a judgment or other final adjudication adverse to the person is entered in a proceeding based on a finding in the proceeding that the person's action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding; or (3) to the extent otherwise provided by the MGCL.

Amendments to Articles of Incorporation and Bylaws

Prudential. The articles of incorporation of Prudential generally provide that no amendment of the articles of incorporation may be made unless it is first approved by the board of directors and thereafter approved by the holders of a majority of the shares entitled to vote generally in an election of directors, voting together as a single class, as well as such additional vote of the preferred stock as may be required by the provisions of any series thereof, provided, however, any amendment which is inconsistent with Articles VI (directors), VII (meetings of shareholders, actions without a meeting), VIII (liability of directors and officers), IX (restrictions on offers and acquisitions), XI (shareholder approval of mergers and other actions) and XII (amendments to the articles of incorporation and bylaws) must be approved by the affirmative vote of the holders of not less than 75% of the voting power of the shares entitled to vote thereon unless approved by the affirmative vote of 80% of the directors of Prudential then in office.

The bylaws of Prudential may be amended by the majority vote of the full board of directors at a regular or special meeting of the board of directors or by a majority vote of the shares entitled to vote generally in an election of directors, voting together as a single class, as well as such additional vote the preferred stock as may be required by the provisions of any series thereof, provided, however, that the shareholder vote requirement for any amendment to the bylaws which is inconsistent with Sections 2.10 (shareholder proposals), 3.1 (number of directors and powers), 3.2 (classifications and terms of directors), 3.3 (director vacancies), 3.4 (removal of directors) and 3.12 (nominations of directors) and Article VI (indemnification) is the affirmative vote of the holders of not less than 75% of the voting power of the shares entitled to vote thereon.

Polonia. The articles of incorporation of Polonia generally may be amended by the holders of a majority of the shares entitled to vote, provided that any amendment of Section C of Article Sixth (limitation on common stock voting

rights), Section B of Article Seventh (classification of board of directors), Sections F and J of Article Eighth (amendment of bylaws and elimination of director and officer liability) and Article Tenth (amendment of certain provisions of the Articles), must be approved by the affirmative vote of the holders of at least 75% of the outstanding shares entitled to vote, except that the board of directors may amend the articles of incorporation without any action by the shareholders to the fullest extent allowed under Maryland law.

The bylaws of Polonia may be amended by the affirmative vote of a majority of the directors or by the vote of the holders of not less than 75% of the votes entitled to be cast by holders of the capital stock of Polonia entitled to vote generally in the election of directors (considered for this purpose as one class) at a meeting of the shareholders called for that purpose at which a quorum is present (provided that notice of such proposed amendment is included in the notice of such meeting).

Mergers, Consolidations and Sales of Assets

Prudential. For a merger, consolidation, sale of assets or other similar transaction to occur, the PBCL generally requires the approval of the board of directors and the affirmative vote of the holders of a majority of the votes cast by all shareholders entitled to vote thereon. The articles of incorporation of Prudential provide that any merger, consolidation, share exchange, sale of assets, division or voluntary dissolution shall require approval of 75%

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of the eligible voting shares unless the transaction has been previously approved by at least two-thirds of the board of directors (in which case the majority vote standard would apply). In addition, if any class or series of shares is entitled to vote thereon as a class, the PBCL requires the affirmative vote of a majority of the votes cast in each class for any plan of merger or consolidation. The PBCL also provides that unless otherwise required by a corporation's governing instruments, a plan of merger or consolidation shall not require the approval of the shareholders if:

whether or not the constituent corporation, in this case, Prudential, is the surviving corporation (a) the surviving or new corporation is a Pennsylvania business corporation and the articles of the surviving or new corporation are identical to the articles of the constituent corporation, except for specified changes which may be adopted by a board of directors without shareholder action, (b) each share of the constituent corporation outstanding immediately prior to the effective date of the merger or consolidation is to continue as or to be converted into, except as may be otherwise agreed by the holder thereof, an identical share of the surviving or new corporation after the effective date of the merger or consolidation, and (c) the plan provides that the shareholders of the constituent corporation are to hold in the aggregate shares of the surviving or new corporation to be outstanding immediately after the effectiveness of the plan entitled to cast at least a majority of the votes entitled to be cast generally for the election of directors;

immediately prior to adoption of the plan and at all times prior to its effective date, another corporation that is a party to the merger or consolidation owns directly or indirectly 80% or more of the outstanding shares of each class of the constituent corporation; or

no shares of the constituent corporation have been issued prior to the adoption of the plan of merger or consolidation by the board of directors.

Polonia. Under Maryland law, a merger or consolidation of Polonia requires approval of two-thirds of all votes entitled to be cast by shareholders, except that no approval by shareholders is required for a merger if:

the plan of merger does not make an amendment of the articles of incorporation that would be required to be approved by the shareholders;

each shareholder of the surviving corporation whose shares were outstanding immediately before the effective date of the merger will hold the same number of shares, with identical designations, preferences, limitations, and rights, immediately after; and

the number of shares of any class or series of stock outstanding immediately after the effective time of the merger will not increase by more than 20% the total number of voting shares outstanding immediately before the merger.

The articles of incorporation of Polonia reduce the vote required for a merger or consolidation to the affirmative vote of a majority of the votes cast by holders entitled to vote on the merger or consolidation. In addition, under certain circumstances the approval of the shareholders shall not be required to authorize a merger with or into a 90% owned subsidiary of Polonia.

Under Maryland law, a sale of all or substantially all of Polonia's assets other than in the ordinary course of business, or a voluntary dissolution of Polonia, requires the approval of its board of directors and the affirmative vote of two-thirds of the votes entitled to be cast on the matter.

Anti-Takeover Provisions

Pennsylvania Law. Under the PBCL, certain anti-takeover provisions apply to Pennsylvania "registered corporations" (e.g., publicly traded companies), including those related to (i) control share acquisitions, (ii) disgorgement of profits by certain controlling persons, (iii) business combination transactions with interested shareholders and (iv) the rights of shareholders to demand fair value for their stock following a control transaction. Pennsylvania law allows registered corporations to opt-out of any of these anti-takeover provisions. Prudential is a registered corporation under the PBCL.

Please see "Description of Prudential Common Stock – Certain Anti-takeover Provisions" for a description of anti-takeover provisions applicable to Prudential.

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Maryland Law. Under Maryland law, “business combinations” between Polonia and an interested shareholder or an affiliate of an interested shareholder are prohibited for five years after the most recent date on which the interested shareholder becomes an interested shareholder. These business combinations include a merger, consolidation, statutory share exchange or, in circumstances specified in the statute, certain transfers of assets, certain stock issuances and transfers, liquidation plans and reclassifications involving interested shareholders and their affiliates or issuance or reclassification of equity securities. Maryland law defines an interested shareholder as: (1) any person who beneficially owns 10% or more of the voting power of Polonia’s voting stock after the date on which Polonia had 100 or more beneficial owners of its stock; or (2) an affiliate or associate of Polonia at any time after the date on which Polonia had 100 or more beneficial owners of its stock who, within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then-outstanding voting stock of Polonia. A person is not an interested shareholder under the statute if the board of directors approved in advance the transaction by which the person otherwise would have become an interested shareholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between Polonia and an interested shareholder generally must be recommended by the board of directors of Polonia and approved by the affirmative vote of at least: (1) 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of Polonia and (2) two-thirds of the votes entitled to be cast by holders of voting stock of Polonia other than shares held by the interested shareholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested shareholder. These super-majority vote requirements do not apply if Polonia’s common shareholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested shareholder for its shares.

LEGAL MATTERS

The validity of the shares of Prudential common stock to be issued in connection with the merger has been passed upon for Prudential by Silver, Freedman, Taff & Tiernan LLP. Certain U.S. federal income tax consequences relating to the merger will be passed upon for Prudential by Silver, Freedman, Taff & Tiernan LLP and for Polonia by Kilpatrick Townsend & Stockton LLP.

EXPERTS

The consolidated financial statements of Prudential as of September 30, 2015 and 2014, and for each of the years in the three-year period ended September 30, 2015, and management’s assessment of the effectiveness of internal control over financial reporting as of September 30, 2015, have been incorporated in this proxy statement/prospectus by reference to Prudential’s Annual Report on Form 10-K for the year ended September 30, 2015 in reliance upon the

reports of S.R. Snodgrass, P.C., independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

The consolidated balance sheets of Polonia as of December 31, 2015 and 2014, and the related consolidated statements of income (loss), comprehensive income (loss), changes in stockholders' equity and cash flows for each of the years ended December 31, 2015 and 2014, included herein have been audited by S.R. Snodgrass, P.C., an independent registered public accounting firm, as set forth in its report thereon, included herein. Such consolidated financial statements are included herein in reliance upon such report given on the authority of said firm as experts in auditing and accounting.

OTHER MATTERS

As of the date of this proxy statement/prospectus, Polonia's board of directors does not know of any matters that will be presented for consideration at its special meeting other than those described in this proxy statement/prospectus. As discussed elsewhere herein, Polonia's shareholders may, however, be asked to vote on a proposal to adjourn its special meeting to allow more time to solicit votes for the approval and adoption of the merger agreement. If any other matters properly come before the Polonia special meeting, or any adjournment or postponement of such meeting and such matters are voted upon, your returned proxy will be deemed to confer discretionary authority on the individuals named as proxies to vote the shares represented by these proxies as to any

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of these matters, in their discretion. The individuals named as proxies on the Polonia proxy card intend to vote or not to vote on any such matters in accordance with the recommendation of Polonia's board of directors.

POLONIA 2017 ANNUAL MEETING

Polonia will hold a 2017 annual meeting of shareholders only if the merger is not completed. If determined to be necessary, the Polonia board of directors will provide each Polonia shareholder information relevant to Polonia's 2017 annual meeting of shareholders.

SOLICITATION OF PROXIES

The cost of the solicitation of proxies for the Polonia special meeting will be borne by Polonia. Polonia will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by it in sending the proxy materials to the beneficial owners of Polonia's common stock. In addition to solicitations by mail, directors, officers and employees of Polonia may solicit proxies personally or by telephone without additional compensation. Polonia has engaged Laurel Hill Advisory Group, LLC as its proxy solicitor to assist in the solicitation of proxies for the Polonia special meeting. The proxy solicitor will be paid a fee of approximately \$6,000 plus reimbursement for reasonable out-of-pocket expenses for its services.

WHERE YOU CAN FIND MORE INFORMATION

Prudential has filed a registration statement with the SEC under the Securities Act that registers the issuance of the shares of Prudential common stock to be issued in the merger to Polonia shareholders. This proxy statement/prospectus is a part of that registration statement and constitutes the prospectus of Prudential. The registration statement, including the proxy statement/prospectus and attached exhibits and schedules, contains additional relevant information about Prudential and its common stock, Polonia and the combined company. The rules and regulations of the SEC allow us to omit some information included in the registration statement from this proxy statement/prospectus.

In addition, Prudential files reports, proxy statements and other information with the SEC under the Exchange Act. You may read and copy this information at the Public Reference Room of the SEC, 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also obtain copies of this information by mail from the Public Reference Room of the

SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates, or from commercial document retrieval services.

The SEC also maintains an Internet site that contains reports, proxy statements and other information about issuers, like Prudential, that file electronically with the SEC. The address of that site is <http://www.sec.gov>. Prudential's internet address is <http://www.prudentialsavingsbank.com>. The information on Prudential's internet site is not a part of this proxy statement/prospectus.

The SEC allows Prudential to incorporate by reference information in this proxy statement/prospectus. This means that Prudential can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be a part of this proxy statement/prospectus, except for any information that is superseded by information that is included directly in this proxy statement/prospectus.

This proxy statement/prospectus incorporates by reference the documents listed below that Prudential previously filed with the SEC (excluding any portions of such documents that have been "furnished" but not "filed" with the SEC in a Current Report on Form 8-K). They contain important information about Prudential and its financial condition.

Annual Report on Form 10-K for the fiscal year ended September 30, 2015 (filed with the SEC on December 14, 2015);

Quarterly Reports on Form 10-Q for the fiscal quarter ended December 31, 2015 (filed with the SEC on February 9,

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2016), the fiscal quarter ended March 31, 2016 (filed with the SEC on May 10, 2016 and the fiscal quarter ended June 30, 2016 (filed with the SEC on August 9, 2016);

Definitive Proxy Statement on Schedule 14A for Prudential's 2016 Annual Meeting filed with the SEC on January 8, 2016;

Current Reports on Form 8-K filed with the SEC on October 2, 2015, November 2, 2015, November 17, 2015, December 1, 2015, December 22, 2015, December 30, 2015, February 18, 2016, May 3, 2016, May 16, 2016, June 2, 2016 and August 5, 2016; and

The description of the Prudential's common stock contained in the Form 8-K filed with the SEC pursuant to Rule 12g-3(a) of the Securities Exchange Act of 1934 on October 9, 2013.

Except where the context otherwise indicates, Prudential has supplied all information contained in this proxy statement/prospectus relating to Prudential, and Polonia has supplied all such information relating to Polonia.

Neither Prudential nor Polonia has authorized anyone to give any information or make any representation about the merger or Prudential or Polonia that is different from, or in addition to, that contained in this proxy statement/prospectus or in any of the materials that Prudential has incorporated into this proxy statement/prospectus. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this proxy statement/prospectus or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this proxy statement/prospectus does not extend to you. The information contained in this proxy statement/prospectus speaks only as of the date of this proxy statement/prospectus unless the information specifically indicates that another date applies.

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Notwithstanding the meanings attributed to them in any other section of this proxy statement/prospectus, capitalized terms in the Polonia Consolidated Financial Statements and the Notes to Consolidated Financial Statements shall have the meanings set forth therein.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee

Polonia Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of Polonia Bancorp, Inc. and subsidiary as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Polonia Bancorp, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Polonia Bancorp, Inc. is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Polonia Bancorp, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Polonia Bancorp, Inc. and subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years then ended, in conformity with U.S. generally accepted accounting principles.

Wexford, Pennsylvania

April 6, 2016

S.R. Snodgrass, P.C. * 2100 Corporate Drive, Suite 400 * Wexford, Pennsylvania 15090-8399 * Phone: (724) 934-0344 * Facsimile: (724) 934-0345

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POLONIA BANCORP, INC.

CONSOLIDATED BALANCE SHEET

	December 31, 2015	2014 (as restated)
ASSETS		
Cash and due from banks	\$ 1,785,566	\$ 1,624,482
Interest-bearing deposits with other institutions	29,351,650	10,549,748
Cash and cash equivalents	31,137,216	12,174,230
Certificates of deposit	15,980,000	-
Investment securities available for sale	54,871,523	11,711,533
Investment securities held to maturity (fair value \$46,193,447)	-	44,741,534
Loans held for sale	-	4,221,438
Loans receivable	161,765,015	199,094,306
Covered loans	11,686,062	14,457,364
Total loans	173,451,077	213,551,670
Less: Allowance for loan losses	1,272,072	1,415,983
Net loans	172,179,005	212,135,687
Accrued interest receivable	671,994	788,684
Federal Home Loan Bank stock	3,659,700	3,843,500
Premises and equipment, net	3,998,409	4,257,726
Bank-owned life insurance	4,257,456	4,268,181
FDIC indemnification asset	473,951	1,417,355
Other assets	4,381,552	8,789,803
TOTAL ASSETS	\$ 291,610,806	\$ 308,349,671
LIABILITIES		
Deposits	\$ 188,222,282	\$ 199,553,997
FHLB advances - long-term	56,000,000	59,000,000
Advances by borrowers for taxes and insurance	988,906	1,208,824
Accrued interest payable	139,397	143,798
Other liabilities	8,759,648	11,503,396
TOTAL LIABILITIES	254,110,233	271,410,015
Commitments and contingencies (Note 11)	-	-
STOCKHOLDERS' EQUITY	-	-

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Preferred stock (\$.01 par value; 1,000,000 shares authorized; none issued or outstanding)		
Common stock (\$.01 par value; 14,000,000 shares authorized; 3,348,827 and 3,334,130 shares issued and outstanding)	33,488	33,341
Additional paid-in-capital	25,591,969	25,219,224
Retained earnings	12,849,370	12,987,593
Unallocated shares held by Employee Stock Ownership Plan (“ESOP”) (162,288 and 181,415 shares, respectively)	(1,354,858)	(1,517,302)
Accumulated other comprehensive income	380,604	216,800
TOTAL STOCKHOLDERS’ EQUITY	37,500,573	36,939,656
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	\$291,610,806	\$308,349,671

See accompanying notes to the consolidated financial statements.

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POLONIA BANCORP, INC.

CONSOLIDATED STATEMENT OF INCOME (LOSS)

	Year Ended December 31,	
	2015	2014
INTEREST AND DIVIDEND INCOME		
Loans receivable	\$ 8,605,072	\$ 9,520,329
Investment securities	1,271,441	1,640,580
Interest-bearing deposits and other dividends	336,151	181,571
Total interest and dividend income	10,212,664	11,342,480
INTEREST EXPENSE		
Deposits	1,689,064	1,714,909
FHLB advances - long-term	1,460,619	1,492,006
Advances by borrowers for taxes and insurance	3,122	3,303
Total interest expense	3,152,805	3,210,218
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	7,059,859	8,132,262
Provision for loan losses	73,150	209,713
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,986,709	7,922,549
NONINTEREST INCOME		
Service fees on deposit accounts	104,476	116,366
Earnings on bank-owned life insurance	(10,725)	3,937
Investment securities gains, net	560,367	-
Gain on sale of loans	2,775,907	3,861,049
Rental income	270,140	271,258
Other	430,070	401,861
Total noninterest income	4,130,235	4,654,471
NONINTEREST EXPENSE		
Compensation and employee benefits	5,571,435	7,142,493
Occupancy and equipment	1,315,243	1,449,082
Federal deposit insurance premiums	536,979	360,665
Data processing expense	410,514	428,192
Professional fees	799,835	659,992
Other	2,550,702	2,466,013
Total noninterest expense	11,184,708	12,506,437
Income (loss) before income tax expense	(67,764)	70,583
Income tax expense	70,459	53,547
NET INCOME (LOSS)	\$(138,223)	\$ 17,036

SCHEDULE 14A INFORMATION

EARNINGS PER SHARE - BASIC AND DILUTED	\$ (0.04) \$ 0.01
Weighted-average common shares outstanding:		
Basic	3,141,611	3,168,335
Diluted	3,141,611	3,197,496

See accompanying notes to the consolidated financial statements.

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POLONIA BANCORP, INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,	
	2015	2014
Net income (loss)	\$ (138,223)	\$ 17,036
Changes in net unrealized gain (loss) on investment securities available for sale	808,555	(72,060)
Tax effect	(274,909)	24,500
Reclassification adjustment for gains on sale of investment securities included in net income	(560,367)	-
Tax effect	190,525	-
Total other comprehensive income (loss)	163,804	(47,560)
Total comprehensive income (loss)	\$ 25,581	\$ (30,524)

See accompanying notes to the consolidated financial statements.

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POLONIA BANCORP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional	Retained	Unallocated	Accumulated	
	Shares	Amount	Paid-In Capital	Earnings	Shares Held by ESOP	Other Comprehensive Income (Loss)	Total
Balance, December 31, 2013, as previously reported	3,511,276	\$ 35,113	\$ 26,795,498	\$ 14,853,884	\$(1,648,366)	\$ 264,360	\$ 40,300,489
Restatement				(1,883,327)			(1,883,327)
Balance, December 31, 2013, as restated	3,511,276	35,113	26,795,498	12,970,557	(1,648,366)	264,360	38,417,162
Net income				17,036			17,036
Other comprehensive loss, net						(47,560)	(47,560)
Stock options compensation expense			81,628				81,628
Allocation of unearned ESOP shares			30,547		131,064		161,611
Allocation of unearned restricted stock			115,501				115,501
Repurchase of stock	(177,146)	(1,772)	(1,803,950)				(1,805,722)
Balance, December 31, 2014, as restated	3,334,130	33,341	25,219,224	12,987,593	(1,517,302)	216,800	36,939,656
Net income (loss)				(138,223)			(138,223)
Other comprehensive income, net						163,804	163,804
Stock options compensation expense			90,650				90,650
			73,582		162,444		236,026

Allocation of unearned ESOP shares								
Allocation of unearned restricted stock			84,936					84,936
Exercise of option shares	15,580	156	134,429					134,585
Repurchase of stock	(883)	(9)	(10,852)					(10,861)
Balance, December 31, 2015	3,348,827	\$33,488	\$ 25,591,969	\$12,849,370	\$(1,354,858)	\$380,604		\$37,500,573

See accompanying notes to the consolidated financial statements.

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POLONIA BANCORP, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2015	2014
OPERATING ACTIVITIES		
Net income (loss)	\$(138,223)	\$17,036
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	73,150	209,713
Depreciation, amortization, and accretion	1,122,763	1,052,214
Investment securities, gains	(560,367)	-
Proceeds from sale of loans	55,063,409	81,104,217
Net gain on sale of loans	(2,533,541)	(3,861,049)
Loans originated for sale	(48,308,430)	(75,321,638)
Net gain on sale of loans held for investment	(242,366)	-
(Gain) loss on the sale of other real estate owned	(42,160)	96,626
Earnings on bank-owned life insurance	10,725	(3,937)
Deferred federal income taxes	102,768	(466,242)
Decrease in accrued interest receivable	116,690	7,610
Decrease in accrued interest payable	(4,401)	(1,636)
Decrease in accrued payroll and commissions	(255,172)	(159,200)
Compensation expense for stock options, ESOP, and restricted stock	411,612	358,740
Other, net	(523,342)	693,420
Net cash provided by operating activities	4,293,115	3,725,874
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from principal repayments and maturities	6,808,781	3,528,225
Purchases	(15,648,402)	-
Proceeds from sales	8,616,069	-
Investment securities held to maturity:		
Proceeds from principal repayments and maturities	4,569,283	7,813,259
Purchases	-	(1,383,038)
Maturities of certificates of deposit in other institutions	11,937,000	-
Purchases of certificates of deposit in other institutions	(27,917,000)	-
Proceeds from sale of loans	26,366,649	-
Decrease (increase) in loans receivable, net	10,969,083	(16,318,842)
Decrease in covered loans	2,834,560	2,135,178
Purchase of Federal Home Loan Bank stock	(66,300)	(683,200)
Redemptions of Federal Home Loan Bank stock	250,100	515,200
Proceeds from the sale of other real estate owned	349,637	470,276
Payments received from FDIC under loss share agreement	122,270	396,156
Purchase of premises and equipment	(93,950)	(117,115)
Net cash provided by (used for) investing activities	29,097,780	(3,643,901)
FINANCING ACTIVITIES		

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Decrease in deposits, net	(11,331,715)	(1,768,342)
Repayment of Federal Home Loan Bank advances - long-term	(3,000,000)	-
Decrease in advances by borrowers for taxes and insurance, net	(219,918)	(97,999)
Exercised options	134,585	-
Repurchase of stock	(10,861)	(1,805,722)
Net cash used for financing activities	(14,427,909)	(3,672,063)
Increase (decrease) in cash and cash equivalents	18,962,986	(3,590,090)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,174,230	15,764,320
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$31,137,216	\$12,174,230
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid:		
Interest	\$3,157,206	\$3,211,854
Income taxes	455,000	775,000
Non-cash transactions:		
Loans transferred to other real estate owned	-	514,829
Transfers from premises and equipment to other real estate owned	-	213,805
Transfer of investment securities held to maturity to available for sale	40,103,961	-
Investment securities purchased not yet settled	2,012,836	-

See accompanying notes to the consolidated financial statements.

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POLONIA BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting and reporting policies applied in the presentation of the accompanying consolidated financial statements follows:

Nature of Operations and Basis of Presentation

Polonia Bancorp, Inc. (the “Company”), a Maryland corporation, was incorporated in 2011 and is a 100 percent publicly owned stock holding company of Polonia Bank (the “Bank”). The Bank was incorporated under Pennsylvania law in 1923. The Bank is a federally chartered savings bank located in Huntingdon Valley, Pennsylvania, whose principal sources of revenue emanate from its investment securities portfolio and its portfolio of residential real estate, commercial real estate, and consumer loans, as well as a variety of deposit services offered to its customers through five offices located in the Greater Philadelphia area. The Bank is subject to regulation by the Office of the Comptroller of the Currency (“OCC”) and the Federal Deposit Insurance Corporation (“FDIC”).

The consolidated financial statements include the accounts of the Bank and the Bank’s wholly owned subsidiaries, PBMHC (“PBMHC”), a Delaware investment company, and Community Abstract Agency, LLC (“CAA”). CAA provides title insurance on loans secured by real estate. All significant intercompany transactions have been eliminated in consolidation. The investment in subsidiaries on the parent company’s financial statements is carried at the parent company’s equity in the underlying net assets.

Use of Estimates in the Preparation of Financial Statements

The accounting principles followed by the Company and the methods of applying these principles conform to U.S. generally accepted accounting principles and to general practice within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the Consolidated Balance Sheet date and reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, and the fair value of financial instruments.

Investment Securities

Investment securities are classified at the time of purchase, based on management's intention and ability, as securities held to maturity or securities available for sale. Debt securities acquired with the intent and ability to hold to maturity are stated at cost, adjusted for amortization of premium and accretion of discount, which are computed using the interest method and recognized as adjustments of interest income. Certain other debt securities have been classified as available for sale to serve principally as a source of liquidity. Unrealized holding gains and losses for available-for-sale securities are reported as a separate component of stockholders' equity, net of tax, until realized. Realized security gains and losses are computed using the specific identification method for debt securities and the average cost method for marketable equity securities. Interest and dividends on investment securities are recognized as income when earned.

Securities are periodically reviewed for other-than-temporary impairment based upon a number of factors, including, but not limited to, the length of time and extent to which the market value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security's ability to recover any decline in its market value, and whether or not the Company intends to sell the security or whether it's more likely than not that the Company would be required to sell the security before its anticipated recovery in market value. A decline in value that is considered to be other than temporary is recorded as a loss within noninterest income in the Consolidated Statement of Income.

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1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (Continued)

The Bank is a member of the Federal Home Loan Bank (“FHLB”) of Pittsburgh and as such is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its \$100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment as necessary. The stock’s value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the FHLB; and (d) the liquidity position of the FHLB. With consideration given to these factors, management concluded that the stock was not impaired at December 31, 2015 or 2014.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. Net unrealized losses, if any, are recognized through a valuation allowance by a charge against income. Gains and losses on sales of loans held for sale are included in noninterest income. There were no loans held for sale at December 31, 2015, as compared to \$4,221,438 at December 31, 2014.

Loans Receivable

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are stated at the principal amount outstanding less the allowance for loan losses and net of deferred loan origination fees and costs. Interest on loans is recognized as income when earned on the accrual method.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed.

Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Loan origination fees and certain direct loan origination costs are being deferred and the net amount amortized as an adjustment of the related loan's yield. The Company is amortizing these amounts over the contractual life of the related loans using the interest method.

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1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Acquired Loans

All loans acquired by the Company, excluding acquired consumer loans, are subject to loss share agreements with the FDIC whereby the Bank is indemnified against a portion of the losses on those loans (“covered loans”). Purchased loans acquired in a business combination, are recorded at fair value on their purchase date with no carryover of the related allowance for loan losses. In determining the fair value of purchased loans, management considers a number of factors including, among other things, the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, estimated holding periods, and net present value of cash flows expected to be received. Purchased credit-impaired loans are accounted for in accordance with guidance for certain loans or debt securities acquired in a transfer when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments. For evidence of credit deterioration since origination, the Company considered loans on a loan-by-loan basis by primarily focusing on past-due status, frequency of late payments, internal loan classification, as well as interviews with current loan officers and collection employees for other evidence that may be indicative of deterioration of credit quality. Once these loans were segregated, the Company evaluated each of these loans on a loan-by-loan basis to determine the probability of collecting all contractually required payments.

The Company deemed it appropriate to analogize the accounting guidance under Accounting Standards Codification (“ASC”) 310-30 to all other loans since: (i) the discount recognized for these loans was attributable at least in part to credit quality, and (ii) the Company was unable to identify specific loans within this portfolio for which it was probable at acquisition that the Company would be unable to collect all contractually required payments receivable. The Company has aggregated all other loans into loan pools by common risk characteristics, which generally conform to loan type.

The Company evaluates expected future cash flows on all acquired loans on a quarterly basis. The difference between contractually required payments and the cash flows expected to be collected is referred to as the nonaccretable difference. Decreases to the expected cash flows will generally result in a provision for loan losses. Increases in cash flows will result in a reversal of the provision for loan losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income.

The accretable difference on purchased loans is the difference between the expected cash flows and the net present value of expected cash flows. Such difference is accreted into earnings using the effective yield method over the term of the loans.

FDIC Indemnification Asset

In connection with the Company's FDIC-assisted acquisition, the Company has recorded an FDIC indemnification asset to reflect the loss-share arrangement provided by the FDIC. Since the indemnified items are covered loans, which are measured at fair value at the date of acquisition, the FDIC indemnification asset is also measured at fair value at the date of acquisition, and is calculated by discounting the cash flows expected to be received from the FDIC.

The FDIC indemnification asset is measured separately from the related covered assets because it is not contractually embedded in the assets and is not transferable if the assets are sold. The fair value of the FDIC indemnification asset is estimated using the present value of cash flows related to the loss-share agreements based on the expected reimbursements for losses and the applicable loss-share percentages.

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Table of Contents**1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****FDIC Indemnification Asset (Continued)**

The Company reviews and updates the fair value of the asset prospectively, on a quarterly basis, as loss estimates related to covered loans change. Decreases in the amount expected to be collected result in a provision for loan losses, an increase in the allowance for loan losses, and a proportional adjustment to the FDIC indemnification asset for the estimated amount to be reimbursed. Increases in the amount expected to be collected result in the reversal of any previously recorded provision for loan losses and related allowance for loan losses and adjustments to the FDIC indemnification asset, or prospective adjustment to the accretible discount if no provision for loan losses had been recorded.

The ultimate realization of the FDIC indemnification asset depends on the performance of the underlying covered assets, the passage of time, and claims paid by the FDIC. The accretion of the FDIC receivable discount is recorded in noninterest expense using the level yield method over the estimated life of the receivable.

Pursuant to the clawback provisions of the loss-share agreement for the Company's FDIC-assisted acquisition, the Company may be required to reimburse the FDIC should actual losses be less than certain thresholds established in the loss-share agreement. The amount of the clawback provision for the acquisition is included in the FDIC indemnification asset in the accompanying Consolidated Balance Sheet and is measured at fair value. It is calculated as the difference between management's estimated losses on covered loans and the loss threshold contained in the loss-share agreement, multiplied by the applicable clawback provisions contained in the loss-share agreement. This clawback amount which is payable to the FDIC upon termination of the applicable loss-share agreement is discounted back to net present value. To the extent that actual losses on covered loans are less than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss-share agreements will increase. To the extent that actual losses on covered loans are more than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss-share agreements will decrease.

Changes in the FDIC indemnification asset during the years ended December 31, 2015 and 2014, are as follows:

	Year Ended December 31,	
	2015	2014
Balance at the beginning of year	\$ 1,417,355	\$ 2,515,287
Cash payments received or receivable due from the FDIC	(122,270)	(396,156)
Increase in FDIC share of estimated losses	-	-

Net amortization	(821,134)	(701,776)
Balance at the end of year	\$ 473,951	\$ 1,417,355

Troubled Debt Restructurings

A loan is considered to be a troubled debt restructuring (“TDR”) loan when the Company grants a concession to the borrower because of the borrower’s financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, deferment of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk.

Allowance for Loan Losses

The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses inherent in its loan portfolio. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses that is charged to operations. The provision is based on management’s evaluation of the adequacy of the allowance for loan losses which encompasses the overall risk characteristics of the various portfolio segments, past experience with losses, the impact of economic conditions on borrowers, and other relevant factors. The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to significant changes in the near term.

Table of Contents**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Allowance for Loan Losses (Continued)**

Impaired loans are typically commercial, multi-family, and commercial real estate loans for which it is probable the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. Troubled debt restructurings are also considered impaired. The Company individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of “impaired loans” is not the same as the definition of “nonaccrual loans,” although the two categories overlap. The Company may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectability while not classifying the loan as impaired, provided the loan is not a commercial or commercial real estate classification. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value or, as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Mortgage loans secured by one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances concerning the loan, the creditworthiness and payment history of the borrower, the length of the payment delay, and the amount of shortfall in relation to the principal and interest owed.

Management establishes the allowance for loan losses based upon its evaluation of the pertinent factors underlying the types and quality of loans in the portfolio. Commercial, multi-family, and commercial real estate loans are reviewed on a regular basis with a focus on larger loans along with loans which have experienced past payment or financial deficiencies. Larger commercial, multi-family, and commercial real estate loans which are 90 days or more past due are selected for impairment testing. These loans are analyzed to determine whether they are “impaired,” which means that it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. All commercial, multi-family, and commercial real estate loans that are delinquent 90 days are placed on nonaccrual status and are classified on an individual basis. The remaining loans are evaluated and classified as groups of loans with similar risk characteristics. The Company allocates allowances based on the factors described below, which conform to the Company’s asset classification policy. In reviewing risk within the Bank’s loan portfolio, management has determined there to be several different risk categories within the loan portfolio. The allowance for loan losses consists of amounts applicable to: (i) one-to-four family real estate loans; (ii) multi-family and commercial real estate loans; (iii) commercial loans, (iv) home equity loans; (v) home equity lines of credit; and (vi) education and other consumer loans. Factors considered in this process included general loan terms, collateral, and availability of historical data to support the analysis. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. Certain qualitative factors are then added to the historical allocation

percentage to get the total factor to be applied to nonclassified loans. The following qualitative factors are analyzed:

- Levels of and trends in delinquencies and classification
- Trends in volume and terms
- Changes in collateral
- Changes in management and lending staff
- Economic trends
- Concentrations of credit
- Changes in lending policies
- Changes in loan review
- External factors

The Company analyzes its loan portfolio each quarter to determine the appropriateness of its allowance for loan losses.

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1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loan Charge-Off Policies

Consumer loans are generally charged down to the fair value of collateral securing the asset when the loan is 120 days past due. Loans secured by real estate are generally charged down to the fair value of real estate securing the asset when the loan is 180 days past due. All other loans are generally charged down to the net realizable value when the loan is 90 days past due.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the useful lives of the related assets, which range from 3 to 20 years for furniture, fixtures, and equipment and 40 years for buildings. Expenditures for maintenance and repairs are charged to operations as incurred. Costs of major additions and improvements are capitalized.

Bank-Owned Life Insurance

The Company owns insurance on the lives of a certain group of key employees. The policies were purchased to help offset the increase in the costs of various fringe benefit plans including healthcare. The cash surrender value of these policies is included as an asset on the Consolidated Balance Sheet, and any increases in the cash surrender value are recorded as noninterest income on the Consolidated Statement of Income (Loss). In the event of the death of an insured individual under these policies, the Company would receive a death benefit, which would be recorded as noninterest income.

Mortgage Servicing Rights (“MSRs”)

The Company has agreements for the express purpose of selling loans in the secondary market. The Company maintains servicing rights for most of these loans. Originated MSRs are recorded by allocating total costs incurred between the loan and servicing rights based on their relative fair values. MSRs are amortized in proportion to the estimated servicing income over the estimated life of the servicing portfolio. MSRs are a component of other assets on the Consolidated Balance Sheet.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Other Real Estate Owned

Other real estate owned is carried at the lower of cost or fair value minus estimated costs to sell. Valuation allowances for estimated losses are provided when the carrying value of the real estate acquired exceeds fair value minus estimated costs to sell. Operating expenses of such properties, net of related income, are expensed in the period incurred.

Federal Income Taxes

The Company and subsidiaries file a consolidated federal income tax return. Deferred tax assets and liabilities are reflected based on the differences between the financial statement and the income tax basis of assets and liabilities using the enacted marginal tax rates. Deferred income tax expense and benefit are based on the changes in the deferred tax assets or liabilities from period to period.

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1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Company has defined cash and cash equivalents as cash and due from banks and interest-bearing deposits with other institutions that have original maturities of less than 90 days.

Comprehensive Income (Loss)

The Company is required to present comprehensive income (loss) and its components in a full set of general-purpose financial statements for all periods presented. Other comprehensive income (loss) is composed exclusively of changes in the net unrealized holding gains on its available-for-sale securities portfolio. The Company has reported the effects of other comprehensive income on the Consolidated Statement of Comprehensive Income (Loss) for the years ended December 31, 2015 and 2014.

Stock Options

The Company accounts for stock options based on the grant-date fair value of all share-based payment awards that are expected to vest, including employee share options, to be recognized as expense over the requisite service period. The fair value of each option is amortized into expense on a straight-line basis between the grant date for the option and each vesting date. For the years ended December 31, 2015 and 2014, the Bank recorded \$90,650 and \$81,628 respectively, in expense related to share-based awards.

For purposes of computing compensation expense, the Bank estimated the fair values of stock options using the Black-Scholes option-pricing model. The model requires the use of subjective assumptions that can materially affect fair value estimates. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the option and each vesting date. The fair value of each stock option granted was estimated using the following weighted-average assumptions for grants in 2015: (1) no dividends were expected; (2) risk-free interest rates of 2.310 percent; (3) expected volatility ranging from 19.3 to 20 percent; and (4) expected lives of options of ten years.

There were 68,295 stock options granted during 2015 and no stock options granted during 2014. The weighted-average fair value of stock options granted for 2015 was \$13.26. There were 15,580 options exercised during 2015 at a weighted-average exercise price of \$8.64 and no options exercised during 2014.

Recent Accounting Pronouncements

In January 2015, the FASB issued ASU 2015-01, *Income Statement – Extraordinary and Unusual Items*, as part of its initiative to reduce complexity in accounting standards. This Update eliminates from U.S. GAAP the concept of extraordinary items. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity may also apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. This Update is not expected to have a significant impact on the Company's financial statements.

Table of Contents**1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Recent Accounting Pronouncements (Continued)**

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810)*. The amendments in this Update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities; (2) eliminate the presumption that a general partner should consolidate a limited partnership; (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related-party relationships; and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. This Update is not expected to have a significant impact on the Company’s financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)*, as part of its initiative to reduce complexity in accounting standards. To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. This Update is not expected to have a significant impact on the Company’s financial statements.

In April 2015, the FASB issued ASU 2015-04, *Compensation – Retirement Benefits (Topic 715)*, as part of its initiative to reduce complexity in accounting standards. For an entity with a fiscal year-end that does not coincide with a month-end, the amendments in this Update provide a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity’s fiscal year-end and apply that practical expedient consistently from year to year. The practical expedient should be applied consistently to all plans if an entity has more than one plan. The amendments in this Update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years

beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Earlier application is permitted. This Update is not expected to have a significant impact on the Company's financial statements.

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Table of Contents**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Recent Accounting Pronouncements (Continued)**

In April 2015, the FASB issued ASU 2015-05, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)*, as part of its initiative to reduce complexity in accounting standards. This guidance will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The amendments in this Update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. For public business entities, the FASB decided that the amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. For all other entities, the amendments will be effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016. Early adoption is permitted for all entities. This Update is not expected to have a significant impact on the Company's financial statements.

In April 2015, the FASB issued ASU 2015-06, *Earnings Per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions*. Topic 260, *Earnings Per Share*, contains guidance that addresses master limited partnerships that originated from Emerging Issues Task Force ("EITF") Issue No. 07-4, *Application of the Two-Class Method Under FASB Statement No. 128 to Master Limited Partnerships*. Under Topic 260, master limited partnerships apply the two-class method of calculating earnings per unit because the general partner, limited partners, and incentive distribution rights holders each participate differently in the distribution of available cash in accordance with the contractual rights contained in the partnership agreement. The amendments in this Update specify that for purposes of calculating historical earnings per unit under the two-class method, the earnings (losses) of a transferred business before the date of a dropdown transaction should be allocated entirely to the general partner. In that circumstance, the previously reported earnings per unit of the limited partners (which is typically the earnings per unit measure presented in the financial statements) would not change as a result of the dropdown transaction. Qualitative disclosures about how the rights to the earnings (losses) differ before and after the dropdown transaction occurs for purposes of computing earnings per unit under the two-class method are also required. The amendments in this Update are effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Earlier application is permitted. This Update is not expected to have a significant impact on the Company's financial statements.

Table of Contents**1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Recent Accounting Pronouncements (Continued)**

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The Update applies to reporting entities that elect to measure the fair value of an investment using the net asset value per share (or its equivalent) practical expedient. Under the amendments in this Update, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy. Removing those investments from the fair value hierarchy not only eliminates the diversity in practice resulting from the way in which investments measured at net asset value per share (or its equivalent) with future redemption dates are classified, but also ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied will continue to be included in the fair value hierarchy. A reporting entity should continue to disclose information on investments for which fair value is measured at net asset value (or its equivalent) as a practical expedient to help users understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted. This Update is not expected to have a significant impact on the Company's financial statements.

In May 2015, the FASB issued ASU 2015-08, *Business Combinations – Pushdown Accounting – Amendment to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115*. This Update was issued to amend various SEC paragraphs pursuant to the issuance of Staff Accounting Bulletin No. 115. This Update is not expected to have a significant impact on the Company's financial statements.

In May 2015, the FASB issued ASU 2015-09, *Financial Services – Insurance (Topic 944): Disclosure About Short-Duration Contracts*. The amendments apply to all insurance entities that issue short-duration contracts as defined in Topic 944, *Financial Services – Insurance*. The amendments require insurance entities to disclose for annual reporting periods certain information about the liability for unpaid claims and claim adjustment expenses. The amendments also require insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. Additionally, the amendments require insurance entities to disclose for annual and interim reporting periods a rollforward of the liability for unpaid claims and claim adjustment expenses, described in Topic 944. For health insurance claims, the amendments require the disclosure of the total of incurred-but-not-reported liabilities plus expected development on reported claims included in the liability for unpaid

claims and claim adjustment expenses. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. For all other entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017. This Update is not expected to have a significant impact on the Company's financial statements.

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1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In June 2015, the FASB issued ASU 2015-10, *Technical Corrections and Improvements*. The amendments in this Update represent changes to clarify the FASB Accounting Standards Codification (“Codification”), correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Transition guidance varies based on the amendments in this Update. The amendments in this Update that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon the issuance of this Update. This Update is not expected to have a significant impact on the Company’s financial statements.

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contract with Customers (Topic 606)*. The amendments in this Update defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is evaluating the effect of adopting this new accounting Update.

In August 2015, the FASB issued ASU 2015-15, *Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting*. This Update adds SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. This Update is not expected to have a significant impact on the Company’s financial statements.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805)*. The amendments in this Update require that an acquirer recognizes adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this Update require that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this Update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the

amendments in this Update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. This Update is not expected to have a significant impact on the Company's financial statements.

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Table of Contents**1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Recent Accounting Pronouncements (Continued)**

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. The amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update apply to all entities that present a classified statement of financial position. For public business entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The amendments in this Update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. This Update is not expected to have a significant impact on the Company's financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (g) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (h) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of

operations.

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Table of Contents**1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Recent Accounting Pronouncements (Continued)**

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which: (a) the lease term is 12 months or less, and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period.

Reclassification of Comparative Amounts

Certain items previously reported have been reclassified to conform to the current year's reporting format. Such reclassifications did not affect net income or stockholders' equity.

2.RESTATEMENT

The Company determined there was an unrecorded liability related to the post retirement deferred compensation and split dollar arrangement with the previous president of the Bank which was entered into in 1997. The obligation is funded by an insurance policy described in Footnote 12. As a result the Company recorded a combined liability of \$2,476,087, a related deferred tax asset of \$592,760, and a reduction to retained earnings of \$1,883,327.

	As of December 31, 2014		
	As Previously Reported	Adjustment	As Restated
Other Assets	\$8,197,043	\$592,760	\$8,789,803

Total Assets	307,756,911	592,760	308,349,671
Other Liabilities	9,027,309	2,476,087	11,503,396
Total Liabilities	268,933,928	2,476,087	271,410,015
Retained Earnings	14,870,920	(1,883,327)	12,987,593
Total Stockholders' Equity	38,822,983	(1,883,327)	36,939,656
Total Liabilities and Stockholders' Equity	307,756,911	592,760	308,349,671

3.EARNINGS PER SHARE

There are no convertible securities which would affect the numerator in calculating basic and diluted earnings per share; therefore, net income as presented on the Consolidated Statement of Income will be used as the numerator.

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation.

Table of Contents**3. EARNINGS PER SHARE (Continued)**

	Year Ended December 31,	
	2015	2014
Weighted-average common shares outstanding	3,337,038	3,407,752
Average unearned nonvested shares	(24,364)	(49,226)
Average unallocated shares held by ESOP	(171,063)	(190,191)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	3,141,611	3,168,335
Dilutive effect of stock options	-	29,161
Weighted-average shares outstanding diluted	3,141,611	3,197,496

At December 31, 2015, there were 13,719 shares of restricted stock outstanding at a price of \$10.25 per share and options to purchase 136,587 shares of common stock ranging from a price of \$10.25 per share to a price of \$13.31 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive. At December 31, 2014, there were 34,494 shares of restricted stock outstanding at a price of \$10.25 per share and options to purchase 110,976 shares of common stock at a price of \$9.15 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive.

4. INVESTMENT SECURITIES

The amortized cost, gross unrealized gains, gross unrealized losses, and fair value of investment securities available for sale and held to maturity are summarized as follows:

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities:				
Fannie Mae	\$25,168,077	\$ 615,222	\$ (93,362)	\$25,689,937
Freddie Mac	10,161,730	82,167	(120,472)	10,123,425
Government National Mortgage Association	399,799	48,639	(2)	448,436

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Collateralized mortgage obligations - government-sponsored entities	984,609	23,730	(16,865)	991,474
Total mortgage-backed securities	36,714,215	769,758	(230,701)	37,253,272
Corporate securities	16,921,170	88,731	(51,995)	16,957,906
Municipal securities	499,649	106	-	499,755
Total debt securities	54,135,034	858,595	(282,696)	54,710,933
Common stock	159,816	774	-	160,590
Total investment securities	\$54,294,850	\$ 859,369	\$ (282,696)	\$54,871,523

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Table of Contents**4. INVESTMENT SECURITIES (Continued)**

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities:				
Fannie Mae	\$ 1,445,913	\$ 94,904	\$ -	\$ 1,540,817
Freddie Mac	39,424	1,991	-	41,415
Government National Mortgage Association	469,373	58,936	-	528,309
Collateralized mortgage obligations - government-sponsored entities	1,135,489	29,125	(13,241)	1,151,373
Total mortgage-backed securities	3,090,199	184,956	(13,241)	3,261,914
Corporate securities	8,292,849	159,204	(2,434)	8,449,619
Total debt securities	\$ 11,383,048	\$ 344,160	\$ (15,675)	\$ 11,711,533
Held to maturity Mortgage-backed securities:				
Fannie Mae	\$ 33,121,331	\$ 1,378,136	\$ (61,305)	\$ 34,438,162
Freddie Mac	11,620,203	247,896	(112,814)	11,755,285
Total mortgage-backed securities	\$ 44,741,534	\$ 1,626,032	\$ (174,119)	\$ 46,193,447

The following table shows the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position.

	December 31, 2015		Twelve Months or		Total	
	Less than Twelve		Greater			
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unrealized	Value	Unrealized	Value	Unrealized
		Losses		Losses		Losses
Mortgage-backed securities:						
Fannie Mae	\$ 8,990,826	\$ (93,362)	\$ -	\$ -	\$ 8,990,826	\$ (93,362)
Freddie Mac	3,619,913	(13,501)	4,501,893	(106,971)	8,121,806	(120,472)
Government National Mortgage Association	1,332	(2)	-	-	1,332	(2)
Collateralized mortgage obligations - government-sponsored entities	515,046	(16,472)	5,257	(393)	520,303	(16,865)
	13,127,117	(123,337)	4,507,150	(107,364)	17,634,267	(230,701)

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Total mortgage-backed securities

Corporate securities	11,156,390	(51,995)	-	-	11,156,390	(51,995)
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Total	\$24,283,507	\$(175,332)	\$ 4,507,150	\$(107,364)	\$28,790,657	\$(282,696)
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Table of Contents**4. INVESTMENT SECURITIES (Continued)**

	December 31, 2014					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage-backed securities:						
Fannie Mae	\$-	\$ -	\$ 7,153,455	\$(61,305)	\$ 7,153,455	\$(61,305)
Freddie Mac	1,946,251	(3,284)	5,210,889	(109,530)	7,157,140	(112,814)
Collateralized mortgage obligations - government-sponsored entities	220,486	(4,339)	239,587	(8,902)	460,073	(13,241)
Total mortgage-backed securities	2,166,737	(7,623)	12,603,931	(179,737)	14,770,668	(187,360)
Corporate securities	1,752,260	(519)	498,085	(1,915)	2,250,345	(2,434)
Total	\$3,918,997	\$(8,142)	\$ 13,102,016	\$(181,652)	\$ 17,021,013	\$(189,794)

The Company reviews its position quarterly and has asserted that at December 31, 2015 and 2014, the declines outlined in the above table represent temporary declines and the Company does not intend to sell and does not believe it will be required to sell these securities before recovery of their cost basis, which may be at maturity. There were 38 positions that were temporarily impaired at December 31, 2015. The Company has concluded that the unrealized losses disclosed above are not other than temporary but are the result of interest rate changes that are not expected to result in the non-collection of principal and interest during the period.

The amortized cost and fair value of debt securities at December 31, 2015, by contractual maturity, are shown below. Mortgage-backed securities provide for periodic, generally monthly, payments of principal and interest and have contractual maturities ranging from 3 to 30 years. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

2015	Available for Sale	
	Amortized Cost	Fair Value
Due within one year	\$6,955,499	\$6,959,758
Due after one year through five years	11,414,699	11,464,889
Due after five years through ten years	6,755,928	6,944,735
Due after ten years	29,008,908	29,341,551
Total	\$54,135,034	\$54,710,933

On August 1, 2015, the Company transferred all of its held-to-maturity investment securities, which consisted of \$40.1 million in mortgage-backed securities, to available for sale. The purpose of this transfer was to provide additional liquidity and to provide the ability to reduce exposure to interest rate risk through the sale of longer-term securities. Subsequently, the Company sold three securities that were longer term in maturity to provide additional liquidity and to reduce exposure to interest rate risk.

For the year ended December 31, 2015, the Company realized gross gains of \$560,367 and proceeds from the sale of investment securities of \$8,616,069. There were no sales of securities during the year ended December 31, 2014.

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Table of Contents**5. LOANS RECEIVABLE**

Loans receivable consist of the following:

	December 31,	
	2015	2014
Mortgage loans:		
One-to-four family	\$ 144,242,214	\$ 182,272,189
Multi-family and commercial	10,414,249	10,782,954
	154,656,463	193,055,143
Commercial loans	7,181	-
Home equity loans	2,827,816	2,040,458
Home equity lines of credit (“HELOCs”)	2,459,848	1,521,341
Education loans	1,233,539	1,557,801
Other consumer loans	693	1,373
Noncovered loans purchased	466,805	639,092
Covered loans	11,686,062	14,457,364
	173,338,407	213,272,572
Less:		
Net deferred loan fees	(112,670)	(279,098)
Allowance for loan losses	1,272,072	1,415,983
Total	\$ 172,179,005	\$ 212,135,687

The components of covered loans by portfolio class as of December 31, were as follows:

	2015	2014
Mortgage loans:		
One-to-four family	\$ 5,457,518	\$ 7,846,156
Multi-family and commercial	6,200,152	6,438,651
	11,657,670	14,284,807
Commercial	28,392	172,557
Total loans	\$ 11,686,062	\$ 14,457,364

The outstanding balance, including interest, and carrying values of loans acquired were as follows at December 31:

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	2015		2014	
	Acquired Loans Without Specific Evidence of Deterioration in Credit Quality (ASC 310-30)	Acquired Loans With Specific Evidence of Deterioration in Credit Quality (ASC 310-30) Analogized)	Acquired Loans Without Specific Evidence of Deterioration in Credit Quality (ASC 310-30)	Acquired Loans With Specific Evidence of Deterioration in Credit Quality (ASC 310-30) Analogized)
Outstanding balance	\$739,499	\$ 17,776,069	\$807,613	\$ 22,933,822
Carrying amount, net of allowance	473,500	11,679,367	481,271	14,615,185

There was no allowance for loan losses recorded for acquired loans with or without specific evidence of deterioration in credit quality as of December 31, 2015 and 2014.

Table of Contents**5. LOANS RECEIVABLE (Continued)**

Changes in the accretable yield for acquired loans were as follows for the years ended December 31:

	2015	2014
	Acquired Loans Without Specific Evidence of Deterioration in Credit Quality (ASC 310-30 Analogized)	Acquired Loans Without Specific Evidence of Deterioration in Credit Quality (ASC 310-30 Analogized)
Balance at beginning of period	\$ 6,381,792	\$ 7,791,222
Reclassifications and other	163,831	(331,946)
Accretion	(946,605)	(1,077,484)
Balance at end of period	\$ 5,599,018	\$ 6,381,792

The \$946,605 and \$1,077,484 recognized as accretion represents the interest income earned on these loans for the years ended December 31, 2015 and 2014, respectively. Included in reclassification and other for loans acquired without specific evidence of deterioration in credit quality was \$1,311,425 and \$530,696 of reclassifications from nonaccretable discounts to accretable discounts in 2015 and 2014, respectively. The remaining \$(1,147,594) and \$(862,642) change in the accretable yield represents reductions in contractual interest due to contractual principal prepayments during the periods ended December 31, 2015 and 2014, respectively.

The Company's loan portfolio consists predominantly of one-to-four family unit first mortgage loans in the northwest suburban area of metropolitan Philadelphia, primarily in Montgomery and Bucks Counties. These loans are typically secured by first lien positions on the respective real estate properties and are subject to the Bank's loan underwriting policies. In general, the Company's loan portfolio performance at December 31, 2015 and 2014, is dependent upon the local economic conditions.

Mortgage loans serviced by the Company for others amounted to \$23,893,154 and \$28,441,343 at December 31, 2015 and 2014, respectively.

In the normal course of business, loans are extended to officers, directors, and corporations in which they are beneficially interested as stockholders, officers, or directors. A summary of loan activity for those officers and

directors for the years ended December 31, 2015 and 2014, was as follows:

	2015	2014
Beginning Balance	\$6,271,034	\$6,232,634
Additions	25,993	1,083,650
Amounts Collected	(305,067)	(1,045,250)
Other	(136,007)	-
Ending Balance	\$5,855,953	\$6,271,034

A senior officer of the Company retired July 31, 2015. At that time, he had a mortgage loan and a HELOC totaling \$136,007. Those loan balances are shown as deductions in the “other” column of the table above.

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Table of Contents**6. ALLOWANCE FOR LOAN LOSSES**

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses the Company has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: one-to-four family real estate, multi-family and commercial real estate, commercial loans, home equity loans, home equity lines of credit, and education and other consumer loans. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. These historical loss percentages are calculated over a three-year period for all portfolio segments. Certain qualitative factors are then added to the historical allocation percentage to get the adjusted factor to be applied to nonclassified loans. The following qualitative factors are analyzed for each portfolio segment:

.	Levels of and trends in delinquencies and classifications
.	Trends in volume and terms
.	Changes in collateral
.	Changes in management and lending staff
.	Economic trends
.	Concentrations of credit
.	Changes in lending policies
.	Changes in loan review
.	External factors

These qualitative factors are reviewed each quarter and adjusted based upon relevant changes within the portfolio.

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the Consolidated Balance Sheet date. The Company considers the allowance for loan losses adequate to cover loan losses inherent in the loan portfolio, at December 31, 2015 and 2014. At December 31, 2015 and 2014, there is no allowance for loan losses related to loans covered by loss-share agreements with the FDIC.

Table of Contents**6. ALLOWANCE FOR LOAN LOSSES (Continued)**

The following table presents the activity in the allowance for loan losses, balance in the allowance for loan losses, and recorded investment in loans by portfolio segment based on impairment method as of and for the years ended December 31:

	2015 One-to- Four Family Real Estate	Multi-Family and Commercial Real Estate	Commercial	Home Equity	HELOCs	Education and Other Consumer	Unallocated	Total
Beginning balance	\$962,753	\$427,636	\$-	\$7,590	\$10,599	\$6,771	\$634	\$1,415,983
Provision (credit) for loan losses	28,790	(121,030)	18	3,048	6,456	(1,201)	157,069	73,150
Charge-offs	(217,282)	-	-	-	-	-	-	(217,282)
Recoveries	221	-	-	-	-	-	-	221
Net (charge-offs) recoveries	(217,061)	-	-	-	-	-	-	(217,061)
Allowance at end of period	\$774,482	\$306,606	\$18	\$10,638	\$17,055	\$5,570	\$157,703	\$1,272,072
Ending balance	\$774,482	\$306,606	\$18	\$10,638	\$17,055	\$5,570	\$157,703	\$1,272,072
Ending balance: individually evaluated for impairment	\$3,104	\$-	\$-	\$-	\$-	\$-	\$-	\$3,104
Ending balance: collectively evaluated for impairment	\$771,378	\$306,606	\$18	\$10,638	\$17,055	\$5,570	\$157,703	\$1,268,968
Ending balance: loans acquired with deteriorated credit quality	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-

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Ending balance	\$149,699,732	\$16,614,401	\$35,573	\$2,827,816	\$2,459,848	\$1,701,037	\$-	\$173,338,407
Ending balance: individually evaluated for impairment	\$2,027,628	\$604,554	\$-	\$52,803	\$-	\$-	\$-	\$2,684,985
Ending balance: collectively evaluated for impairment	\$142,214,586	\$9,809,695	\$7,181	\$2,775,013	\$2,459,848	\$1,234,232	\$-	\$158,500,555
Ending balance: loans acquired with deteriorated credit quality	\$5,457,518	\$6,200,152	\$28,392	\$-	\$-	\$466,805	\$-	\$12,152,867

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Table of Contents**6. ALLOWANCE FOR LOAN LOSSES (Continued)**

	2014 One-to- Four Family Real Estate	Multi-Family and Commercial Real Estate	Commercial	Home Equity	HELOCs	Education and Other Consumer	Unallocated	Total
Beginning balance	\$908,591	\$444,909	\$-	\$4,730	\$2,922	\$7,858	\$9,003	\$1,378,013
Provision (credit) for loan losses	225,905	(17,273)	-	2,860	7,677	(1,087)	(8,369)	209,713
Charge-offs	(171,743)	-	-	-	-	-	-	(171,743)
Recoveries	-	-	-	-	-	-	-	-
Net (charge-offs) recoveries	(171,743)	-	-	-	-	-	-	(171,743)
Allowance at end of period	\$962,753	\$427,636	\$-	\$7,590	\$10,599	\$6,771	\$634	\$1,415,983
Ending balance	\$962,753	\$427,636	\$-	\$7,590	\$10,599	\$6,771	\$634	\$1,415,983
Ending balance: individually evaluated for impairment	\$10,870	\$-	\$-	\$-	\$-	\$-	\$-	\$10,870
Ending balance: collectively evaluated for impairment	\$951,883	\$427,636	\$-	\$7,590	\$10,599	\$6,771	\$634	\$1,405,113
Ending balance: loans acquired with deteriorated credit quality	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Ending balance	\$190,118,345	\$17,221,605	\$172,557	\$2,040,458	\$1,521,341	\$2,198,266	\$-	\$213,272,572
Ending balance: individually	\$2,567,633	\$632,717	\$-	\$60,475	\$-	\$-	\$-	\$3,260,825

evaluated for impairment Ending balance: collectively	\$ 179,704,556	\$ 10,150,237	\$-	\$ 1,979,983	\$ 1,521,341	\$ 1,559,174	\$-	\$ 194,915,291
evaluated for impairment Ending balance: loans acquired with deteriorated credit quality	\$ 7,846,156	\$ 6,438,651	\$ 172,557	\$-	\$-	\$ 639,092	\$-	\$ 15,096,456

Credit Quality Information

The following tables represent credit exposures by internally assigned grades at December 31, 2015 and 2014. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on experiences with similarly graded loans.

The Company's internally assigned grades are as follows:

Pass – loans which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. There are six sub-grades within the pass category to further distinguish the loan.

Special Mention – loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected. The Special Mention category includes assets that are fundamentally sound yet, exhibit unacceptable credit risk or deteriorating trends or characteristics which if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date.

Substandard – loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard.

Table of Contents**6. ALLOWANCE FOR LOAN LOSSES (Continued)**

Doubtful – loans classified as Doubtful have all the weaknesses inherent in a Substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances. Loans in the Doubtful category have all the weaknesses inherent in one classified as Substandard with the added characteristic that the weakness make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss – loans classified as a Loss are considered uncollectible, or of such value that continuance as an asset is not warranted. Loans in the Loss category are considered uncollectable and of little value that their continuance as bankable assets is not warranted.

The following table presents classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard, Doubtful, and Loss within the internal risk rating system as of December 31:

	2015		2014	
	Multi-Family and Commercial Real Estate		Multi-Family and Commercial Real Estate	
	Commercial	Commercial	Commercial	Commercial
Pass	\$ 13,335,644	\$ 35,573	\$ 14,171,027	\$ 172,557
Special Mention	1,977,627	-	1,699,786	-
Substandard	1,301,130	-	1,350,792	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	\$ 16,614,401	\$ 35,573	\$ 17,221,605	\$ 172,557

For one-to-four family real estate, home equity, HELOCs, and education and other consumer loans, the Company evaluates credit quality based on the performance of the individual credits. Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when they are on nonaccrual or become 90 days past due. The following table presents the recorded investment in the loan classes based on payment activity as of December 31:

2015

Education Noncovered

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	One-to-Four Family Real Estate	Home Equity	HELOCs	and Other Consumer	Loans Purchased
Performing	\$ 147,714,397	\$ 2,775,013	\$ 2,459,848	\$ 1,144,941	\$ 400,682
Nonperforming	1,985,335	52,803	-	89,291	66,123
Total	\$ 149,699,732	\$ 2,827,816	\$ 2,459,848	\$ 1,234,232	\$ 466,805

2014

	One-to-Four Family Real Estate	Home Equity	HELOCs	Education and Other Consumer	Noncovered Loans Purchased
Performing	\$ 188,046,379	\$ 1,979,983	\$ 1,521,341	\$ 1,465,276	\$ 639,092
Nonperforming	2,071,966	60,475	-	93,898	-
Total	\$ 190,118,345	\$ 2,040,458	\$ 1,521,341	\$ 1,559,174	\$ 639,092

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Table of Contents**6. ALLOWANCE FOR LOAN LOSSES (Continued)****Credit Quality Information (Continued)**

The following table presents an aging analysis of the recorded investment of past-due loans at December 31:

	2015					Total Loans Receivable	Recorded Investment > 90 Days and Accruing
	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current		
One-to-four family real estate	\$ 133,937	\$ 98,977	\$ 1,808,449	\$ 2,041,363	\$ 147,658,369	\$ 149,699,732	\$ -
Multi-family and commercial real estate	94,508	204,633	139,091	438,232	16,176,169	16,614,401	-
Commercial	-	-	-	-	35,573	35,573	-
Home equity	52,803	-	-	52,803	2,775,013	2,827,816	-
HELOCs	-	-	-	-	2,459,848	2,459,848	-
Education and other consumer	17,413	-	89,291	106,704	1,127,528	1,234,232	-
Noncovered loans purchased	-	-	66,123	66,123	400,682	466,805	-
Total	\$ 298,661	\$ 303,610	\$ 2,102,954	\$ 2,705,225	\$ 170,633,182	\$ 173,338,407	\$ -
	2014						
	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
One-to-four family real estate	\$ 58,481	\$ 1,034,424	\$ 1,798,213	\$ 2,891,118	\$ 187,227,227	\$ 190,118,345	\$ -
Multi-family and commercial real estate	86,027	-	431,817	517,844	16,703,761	17,221,605	-
Commercial	-	-	-	-	172,557	172,557	-
Home equity	60,475	-	-	60,475	1,979,983	2,040,458	-

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HELOCs	-	-	-	-	1,521,341	1,521,341	-
Education and other consumer	29,265	1,497	93,898	124,660	1,434,514	1,559,174	-
Noncovered loans purchased	78,650	14,676	-	93,326	545,766	639,092	-
Total	\$312,898	\$1,050,597	\$2,323,928	\$3,687,423	\$209,585,149	\$213,272,572	\$ -

Nonaccrual Loans

Loans are generally considered for nonaccrual status upon 90 days delinquency. When a loan is placed in nonaccrual status, previously accrued but unpaid interest is deducted from interest income.

Table of Contents**6. ALLOWANCE FOR LOAN LOSSES (Continued)****Nonaccrual Loans (Continued)**

On the following table are the loans on nonaccrual status as of December 31. The balances are presented by class of loans.

	2015	2014
One-to-four family real estate	\$1,985,335	\$2,071,966
Multi-family and commercial real estate	219,927	517,844
Home equity	52,803	60,475
Education and other consumer	89,291	93,898
Noncovered consumer loans purchased	66,123	-
Total	\$2,413,479	\$2,744,183

Interest income on loans would have increased by approximately \$92,359 and \$110,958 during the years ended December 31, 2015 and 2014, respectively, if these loans had performed in accordance with their original terms. Management evaluates commercial real estate loans which are 90 days or more past due for impairment.

Impaired Loans

The following table presents the recorded investment and unpaid principal balances for impaired loans and related allowance, if applicable. Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired.

	December 31, 2015			Average	Interest
	Recorded	Unpaid	Related	Recorded	Income
	Investment	Principal	Allowance	Investment	Recognized
With no related allowance recorded:					
One-to-four family real estate	\$2,149,908	\$2,832,646	\$ -	\$2,664,432	\$ 16,340
Multi-family and commercial real estate	924,634	1,079,027	-	1,035,219	36,782
Commercial	-	32,077	-	-	2,368

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Consumer	66,123	66,123	-	27,551	-
Home equity	52,803	55,309	-	55,920	-
With an allowance recorded:					
One-to-four family real estate	\$149,842	\$154,345	\$ 3,104	\$367,712	\$ 14,934
Total:					
One-to-four family real estate	\$2,299,750	\$2,986,991	\$ 3,104	\$3,032,144	\$ 31,274
Multi-family and commercial real estate	924,634	1,079,027	-	1,035,219	36,782
Commercial	-	32,077	-	-	2,368
Consumer	66,123	66,123	-	27,551	-
Home equity	52,803	55,309	-	55,920	-

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Table of Contents**6. ALLOWANCE FOR LOAN LOSSES (Continued)****Impaired Loans (Continued)**

	December 31, 2014				
	Recorded	Unpaid	Related	Average	Interest
	Investment	Principal	Allowance	Recorded	Income
		Balance		Investment	Recognized
With no related allowance recorded:					
One-to-four family real estate	\$2,226,812	\$2,823,616	\$ -	\$2,227,366	\$ 31,195
Multi-family and commercial real estate	1,239,500	1,544,656	-	1,129,324	43,842
Commercial	-	84,010	-	-	4,352
Home equity	60,475	60,925	-	5,040	-
With an allowance recorded:					
One-to-four family real estate	\$675,473	\$676,073	\$ 10,870	\$682,676	\$ 19,064
Total:					
One-to-four family real estate	\$2,902,285	\$3,499,689	\$ 10,870	\$2,910,042	\$ 50,259
Multi-family and commercial real estate	1,239,500	1,544,656	-	1,129,324	43,842
Commercial	-	84,010	-	-	4,352
Home equity	60,475	60,925	-	5,040	-

Loan Modifications and Troubled Debt Restructurings

A loan is considered to be a troubled debt restructuring loan when the Company grants a concession to the borrower because of the borrower's financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk.

There were no loan modifications that are considered troubled debt restructurings completed during the year ended December 31, 2015.

Loan modifications that are considered troubled debt restructurings completed during the year ended December 31, 2014, were as follows:

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	December 31, 2014	
	Pre-Modification	Post-Modification
	Outstanding	Outstanding
	Number	Recorded
	of	Recorded
	Contract	Investment
	Investment	Investment
One-to-four family real estate	1 \$ 28,615	\$ 28,615
Total	1 \$ 28,615	\$ 28,615

For the year ended December 31, 2014, one loan was granted a term concession. There were no troubled debt restructurings modified during 2014 and 2013 that subsequently defaulted during the years ended December 31, 2015 and 2014.

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Table of Contents**7. PREMISES AND EQUIPMENT**

Premises and equipment consist of the following as of December 31:

	2015	2014
Land	\$60,000	\$60,000
Buildings	7,028,413	7,019,371
Furniture, fixtures, and equipment	3,204,310	3,173,568
	10,292,723	10,252,939
Less accumulated depreciation	6,294,314	5,995,213
Total	\$3,998,409	\$4,257,726

Depreciation expense amounted to \$353,267 and \$433,766 for the years ended December 31, 2015 and 2014, respectively.

8. DEPOSITS

Deposit accounts are summarized as follows as of December 31:

	2015		2014	
	Amount	%	Amount	%
Noninterest-bearing demand	\$6,136,545	3.26	\$6,482,695	3.25
NOW accounts	15,712,121	8.35	13,562,430	6.80
Money market deposit	33,809,176	17.96	37,259,728	18.67
Savings	29,879,155	15.88	28,589,859	14.33
	85,536,997	45.45	85,894,712	43.05
Time deposits:				
0.01 - 0.99%	25,476,377	13.53	35,133,409	17.60
1.00 - 1.99%	47,047,853	25.00	45,935,921	23.02
2.00 - 3.99%	30,161,055	16.02	32,589,955	16.33
	102,685,285	54.55	113,659,285	56.95
Total	\$188,222,282	100.00%	\$199,553,997	100.00%

The scheduled maturities of time deposits as of December 31, 2015, are as follows:

One year or less	\$39,633,658
More than one year to two years	26,246,268
More than two years to three years	17,103,964
More than three years to four years	6,380,753
More than four years to five years	4,079,145
More than five years	9,241,497
Total	\$102,685,285

Time deposits include those in denominations of \$250,000 or more. Such deposits aggregated \$6,371,546 and \$6,951,417 at December 31, 2015 and 2014, respectively.

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Table of Contents**8. DEPOSITS (Continued)**

The scheduled maturities of time deposits in denominations of \$250,000 or more at December 31, 2015, are as follows:

Within three months	\$686,967
Three through six months	-
Six through twelve months	1,402,423
Over twelve months	4,282,156
Total	\$6,371,546

Interest expense by deposit category is as follows:

	Year Ended December 31,	
	2015	2014
NOW accounts	\$23,302	\$25,852
Money market deposit	131,577	128,366
Savings	43,188	68,534
Time deposits	1,490,997	1,492,157
Total	\$1,689,064	\$1,714,909

9. FHLB ADVANCES – LONG-TERM

The following table sets forth information concerning FHLB advances – long-term:

Description	Maturity Range		Weighted-Average Interest Rate	Stated Interest Rate Range		At December 31,	
	From	To		From	To	2015	2014
Convertible	03/19/18	08/27/18	3.08	% 2.13 %	4.15 %	\$17,000,000	\$17,000,000
Fixed rate	06/01/16	10/12/21	2.47	1.81	3.23	34,000,000	37,000,000
Mid-term repo fixed	06/20/16	06/24/16	1.13	1.06	1.17	5,000,000	5,000,000
Total						\$56,000,000	\$59,000,000

Payments of FHLB borrowings are summarized as follows:

	December 31, 2015		
December 31,	Amount	Weighted-	
		Average Rate	
2016	\$7,000,000	1.42	%
2018	28,000,000	2.62	
2019	8,000,000	2.51	
2020	9,000,000	2.83	
2021	4,000,000	3.21	
Total	\$56,000,000	2.53	%

At December 31, 2015, the Company had three convertible select borrowings, fourteen fixed-rate borrowings, and two mid-term repo fixed borrowings. These borrowings mature from June 2016 through October 2021. All borrowings require quarterly payments of interest only. The convertible select borrowings are convertible to variable-rate advances on specific dates at the discretion of the FHLB. Should the FHLB convert these advances, the Bank has the option of accepting the variable rate or repaying the advance without penalty.

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Table of Contents**9. FHLB ADVANCES – LONG-TERM (Continued)**

All borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as investment securities and mortgage loans which are owned by the Bank free and clear of any liens or encumbrances. In addition, the Company has a maximum borrowing capacity of \$119.5 million with the FHLB at December 31, 2015.

10. INCOME TAXES

The provision for income taxes consists of:

	Year Ended December 31,	
	2015	2014
Current tax expense	\$ (32,309)	\$ 519,789
Deferred taxes	102,768	(466,242)
Total	\$ 70,459	\$ 53,547

The tax effects of deductible and taxable temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities, respectively, are as follows:

	Year Ended December 31,	
	2015	2014
Deferred tax assets:		
Allowance for loan losses	\$ 431,389	\$ 480,319
Deferred compensation	1,639,399	2,008,061
Deferred health care	56,381	59,233
State net operating loss carryforward	47,569	79,623
Goodwill	212,036	230,094
Premises and equipment	36,949	3,292
Other	185,485	199,665
Total gross deferred tax assets	2,609,208	3,060,287
Valuation allowance	(47,565)	(79,623)
Total net deferred tax assets	2,561,643	2,980,664
Deferred tax liabilities:		
Prepaid insurance	44,312	74,211

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Deferred gain on FDIC-assisted acquisition	287,206	573,564
Net unrealized gain on securities	196,069	111,685
Total gross deferred tax liabilities	527,587	759,460
Net deferred tax assets	\$2,034,056	\$2,221,204

The valuation allowance as of December 31, 2015 and 2014, consisted of a 100 percent allowance against specific deferred tax assets. These deferred tax assets are subject to expiration periods ranging from one year to three years. It could not be determined that it was more than likely that the Company would be in a taxable position adequate to utilize these deferred tax assets prior to their expiration. These deferred tax assets consist of the Pennsylvania Mutual Thrift tax loss carryforward. A valuation allowance was not established at December 31, 2015 and 2014, for the remaining deferred tax assets, in view of certain tax strategies, coupled with the anticipated future taxable income.

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Table of Contents**10. INCOME TAXES (Continued)**

The reconciliation of the federal statutory rate and the Company's effective income tax rate is as follows:

	Year Ended December 31,			
	2015	2014	2015	2014
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	\$(23,040)	(34.0)%	\$23,998	34.0 %
Share-based compensation expense	69,277	102.2	41,389	58.6
Other, net	24,222	35.7	(11,840)	(16.7)
Actual tax expense and effective rate	\$70,459	103.9 %	\$53,547	75.9 %

The Bank is subject to the Pennsylvania Mutual Thrift Institutions Tax that is calculated at 11.5 percent of Pennsylvania earnings based on U.S. generally accepted accounting principles with certain adjustments.

U.S. generally accepted accounting principles prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. With few exceptions, the Company is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2012.

11. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

In the normal course of business, management makes various commitments that are not reflected in the accompanying consolidated financial statements. These commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet. The Company's exposure to credit loss in the event of nonperformance by the other parties to the financial instruments is represented by the contractual amounts as disclosed. The Company minimizes its exposure to credit loss under these commitments by subjecting them to credit approval and review procedures and collateral requirements, as deemed necessary, in compliance with lending policy guidelines. Generally, collateral, usually in the form of real estate, is required to support financial instruments with credit risk.

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Table of Contents**11. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)****Commitments (Continued)**

The off-balance sheet commitments consisted of the following:

	December 31,	
	2015	2014
Commitments to extend credit	\$268,000	\$1,394,997
Unused lines of credit	4,373,408	4,977,461

Commitments to extend credit consist of fixed-rate commitments with interest rates ranging from 3.00 percent to 4.25 percent at December 31, 2015. The commitments outstanding at December 31, 2015, contractually mature in less than one year.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement. These commitments consisted primarily of available commercial and personal lines of credit and loans approved but not yet funded. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Contingent Liabilities

The Company is involved in various legal actions from the normal course of business activities. Management believes the liability, if any, arising from such actions will not have a material adverse effect on the Company's financial position.

12. EMPLOYEE BENEFITS**Benefit Plan**

The Company has a defined contribution pension plan (the “Plan”) for all regular full-time employees meeting certain eligibility requirements. Annual contributions are discretionary but will not exceed 15 percent of eligible employees’ salaries. The Plan may be terminated at any time at the discretion of the Board of Directors. There were no contributions made to the profit-sharing portion of the Plan for the years ended December 31, 2015 and 2014.

The Plan includes provisions to include employee and employer 401(k) contributions. Under the Plan, the Company will match 100 percent of the employees’ eligible contributions, up to the maximum of 5 percent of each qualifying employee’s salary, and an additional 10 percent of each non-qualifying employee’s salary. The Company contributions for the 401(k) plan were \$105,952 and \$201,178 for the years ended December 31, 2015 and 2014, respectively.

Employee Stock Ownership Plan (“ESOP”)

The Company maintains an ESOP for the benefit of employees who meet the eligibility requirements, which include having completed one year of service with the Company or its subsidiary and attained age 18. The ESOP trust acquired 139,421 shares of the Company’s stock from proceeds from a loan with the Company. During 2012, the ESOP trust purchased 136,693 additional shares from the proceeds from an additional loan with the Company. The Company makes cash contributions to the ESOP on an annual basis sufficient to enable the ESOP to make the required loan payments. The ESOP trust’s outstanding loans bear interest at 8.25 and 3.25 percent and require annual payments of principal and interest of \$153,439 and \$95,650 through December of 2021 and 2026, respectively.

As the debt is repaid, shares are released from the collateral and allocated to qualified employees based on the proportion of payments made during the year to remaining amount of payments due on the loan through maturity. Accordingly, the shares pledged as collateral are reported as unallocated common stock held by the ESOP shares in the Consolidated Balance Sheet. As shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares, and the shares become outstanding for earnings-per-share computations. The Company recognized ESOP expense of \$236,026 and \$161,611 for the years ended December 31, 2015 and 2014, respectively.

Table of Contents**12. EMPLOYEE BENEFITS (Continued)****Employee Stock Ownership Plan (“ESOP”) (Continued)**

The following table presents the components of the ESOP shares:

	December 31,	
	2015	2014
Allocated shares	113,826	94,699
Unreleased shares	162,288	181,415
Total ESOP shares	276,114	276,114
Fair value of unreleased shares	\$ 1,872,804	\$ 1,895,787

Equity Incentive Plan

Employees and non-employee corporate directors are eligible to receive awards of restricted stock and options based upon performance related requirements. Awards granted are in the form of the Company’s common stock and options to purchase stock and are subject to certain vesting requirements including continuous employment or service with the Company. The Company has authorized 520,294 and 239,029 shares of the Company’s common stock under the 2007 Equity Incentive Plan and the 2013 Equity Incentive Plan, respectively. The plans assist the Company in attracting, retaining, and motivating employees and non-employee directors to make substantial contributions to the success of the Company and to increase the emphasis on the use of equity as a key component of compensation.

Restricted Stock

In connection with the 2013 Equity Incentive Plan, the Company awarded 61,464 shares of restricted stock to directors, officers, and other employees of the Company on November 9, 2013. These shares vest over a five-year period ending in 2018. Compensation expense related to the vesting of shares was \$84,936 and \$115,501 for the years ended December 31, 2015 and 2014. As of December 31, 2015, approximately \$178,508 in additional compensation expense will be recognized over the remaining service period of approximately 2.9 years.

	Number of Restricted Stock	Weighted- Average Grant Date Fair Value
Nonvested at December 31, 2014	38,245	\$ 10.25
Granted	-	-
Vested	6,148	10.25
Forfeited	13,658	10.25
Nonvested at December 31, 2015	18,439	\$ 10.25

Stock Options

The 2007 and 2013 Equity Incentive Plans provide for granting incentive options to key officers of the Company and nonqualified stock options to non-employee directors of the Company. A total of 180,407 and 170,735 shares, respectively, of the 2007 and 2013 plans of either authorized and unissued shares or authorized shares or authorized shares issued by and subsequently reacquired by the Bank as treasury stock shall be issuable under the plans. The plans shall terminate after the tenth anniversary of the plan. The per share exercise price of any option granted will not be less than the fair market value of a share of common stock on the date the option is granted. The options granted are vested over various time periods and are determined at the time of grant.

Table of Contents**12. EMPLOYEE BENEFITS (Continued)****Stock Option Plan (Continued)**

The following table is a summary of the Company's stock option activity and related information for its option plan:

	December 31, 2015	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding, beginning	282,362	\$ 9.15	5.09	366,681
Granted	68,295	13.26	-	-
Exercised	15,580	8.64	-	-
Forfeited	126,328	9.03	-	-
Outstanding, ending	208,749	\$ 10.61	6.25	311,799
Vested and exercisable at period-end	99,478	\$ 8.94	3.36	258,937

The following table summarizes the Company's nonvested options and changes therein during the year ended December 31, 2015:

	Number of Stock Options	Weighted- Average Grant Date Fair Value
Nonvested at December 31, 2014	88,781	\$ 3.05
Granted	68,295	4.42
Vested	13,658	3.05
Forfeited	34,147	3.05
Nonvested at December 31, 2015	109,271	\$ 3.91

Supplemental Retirement Plans

The Company has supplemental retirement plans (“SRPs”) that cover three former officers and one current senior officer of the Bank. At December 31, 2015 and 2014, \$2,033,918 and \$2,142,579, respectively, has been accrued under these SRPs, and this liability and the related deferred tax asset of \$691,532 and \$728,477, respectively, are recognized in the financial statements.

The SRPs provide an annual salary continuation benefit to the officers following their termination of employment. The SRP for a former president of the Bank provides an annual benefit, payable for the lifetime of the former president, of \$75,000 adjusted annually for the change in the consumer price index. The current annual benefit is \$123,000. If the former president predeceases his spouse, his surviving spouse will be entitled to a reduced benefit for the remainder of her lifetime. The SRP for the second former president provides a lifetime annual benefit equal to 60 percent of his final full year annual gross taxable compensation adjusted annually for the change in the consumer price index or 4 percent, whichever is higher. The current annual benefit is \$122,000. The SRPs for one current and one former senior officer provide for an annual benefit at the rate of \$50,000 per year for 20 years. If the officer terminates employment prior to age 65, the SRP benefit commences on the earlier of five years after retirement or age 65. Otherwise, the SRP benefit commences following termination of employment. The Company records periodic accruals for the cost of providing such benefits by charges to income.

Table of Contents**12. EMPLOYEE BENEFITS (Continued)****Supplemental Retirement Plan (Continued)**

The following table illustrates the components of the net periodic benefit cost for the supplemental retirement plan:

	For the Year Ended December 31,	
	2015	2014
Components of net periodic benefit cost:		
Service cost	\$83,171	\$372,562
Interest cost	95,582	106,486
Net periodic benefit cost	\$178,753	\$479,048

Additionally, the Company has an obligation to provide a post-retirement death benefit to the designated beneficiary of a former president of the Bank. There are two components to the death benefit. The first is a lump sum benefit of \$2,000,000. This benefit is not conditioned on or linked to any life insurance policy. The second component is an amount equal to 40% of the proceeds in excess of \$2,000,000 payable on the death of the former president under a life insurance policy held by the Bank, provided that the total after-tax benefit does not exceed \$4,000,000. At December 31, 2015 and 2014, \$2,628,815 and \$2,476,087, respectively, have been accrued related to this liability and the related deferred tax assets of \$651,488 and \$592,760, respectively, are recognized in the financial statements.

Under the SRPs with one former and one current officer, if the executive dies during the benefit payment period, the executive's designated beneficiary will receive a lump sum payment equal to the remaining payments. If the executive dies prior to retirement, his designated beneficiary will receive a lump sum payment of \$1,000,000 under a split-dollar life insurance agreement with the executive.

The Company funded life insurance policies with an aggregate amount of \$3,085,000 on the lives of former and current officers that currently have total death benefits of \$11,975,329. The cash surrender value of these policies totaled \$4,257,456 and \$4,268,181 at December 31, 2015 and 2014, respectively.

The Company maintains a nonqualified deferred compensation plan for one senior officer whereby the participant is able to defer compensation to be matched 100 percent by the Company. The deferral, match, and earnings thereon are

held in Rabbi Trusts. The Rabbi Trust assets are included in other assets, and the related deferred compensation payable is included in other liabilities. The Rabbi Trust asset and the related deferred compensation payable at December 31, 2015, was \$882,619. Earnings from the Rabbi Trust increase the asset and increase the deferred compensation payable. Losses from the Rabbi Trust decrease the asset and decrease the deferred compensation payable. There is no net income statement effect.

13.

REGULATORY RESTRICTIONS

Federal Reserve Cash Requirements

The Bank is required to maintain average cash reserve balance in vault cash or with the Federal Reserve Bank. There was no restricted cash reserve balance at December 31, 2015.

Regulatory Capital Requirements

Federal regulations require the Bank to maintain minimum amounts of capital. Specifically, each is required to maintain certain minimum dollar amounts and ratios of total and Tier 1 capital to risk-weighted assets and of core capital to average total assets.

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act (“FDICIA”) established five capital categories ranging from “well capitalized” to “critically undercapitalized.” Should any

Table of Contents**13. REGULATORY RESTRICTIONS (Continued)****Regulatory Capital Requirements (Continued)**

institution fail to meet the requirements to be considered “adequately capitalized,” it would become subject to a series of increasingly restrictive regulatory actions. Management believes, as of December 31, 2015 and 2014, the Bank met all capital adequacy requirements to which it is subject.

In July of 2013 the respective U.S. federal banking agencies issued final rules implementing Basel III and the Dodd-Frank Act capital requirements to be fully phased in on a global basis on January 1, 2019. The new regulations established a new tangible common equity capital requirement, increase the minimum requirement for the current Tier 1 risk-weighted asset (“RWA”) ratio, phase out certain kinds of tangibles treated as capital and certain types of instruments, and change the risk weightings of certain assets used to determine requirement capital ratios. Provisions of the Dodd-Frank Act generally require these capital rules to apply to bank holding companies and their subsidiaries. The new common equity Tier 1 capital component requires capital of the highest quality – predominantly composed of retained earnings and common stock instruments. For community banks, such as Polonia Bank, a common equity Tier 1 capital ratio of 4.5 percent became effective on January 1, 2015. The new capital rules also increased the current minimum of Tier 1 capital ratio from 4.0 percent to 6.0 percent beginning on January 1, 2015. In addition, in order to make capital distributions and pay discretionary bonuses to executive officers without restriction, an institution must also maintain greater than 2.5 percent in common equity attributable to a capital conservation buffer to be phased in from January 1, 2016 until January 1, 2019. The new rules also increase the risk weights for several categories of assets, including an increase from 100 percent to 150 percent for certain acquisition, development and construction loans and more than 90-day past-due exposures. The new capital rules maintain the general structure of the prompt corrective action rules, but incorporate the new common equity Tier 1 capital requirement and the increased Tier 1 RWA requirement into the prompt corrective action framework.

Bank holding companies are generally subject to statutory capital requirements, which were implemented by certain of the new capital regulations described above that became effective on January 1, 2015. However, the Small Banking Holding Company Policy Statement exempts certain small bank holding companies like the Company from those requirements provided that they meet certain conditions.

As of December 31, 2015 and 2014, the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well-capitalized financial institution, Total risk-based, Tier 1 risk-based, common equity, and core capital ratios must be at least 10.0 percent, 8.0 percent, 6.5 percent, and 5.0 percent, respectively. There have been no conditions or events since the notification that management believes have changed the Bank’s category.

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The following table reconciles the Bank's capital under U.S. generally accepted accounting principles to regulatory capital.

	December 31,	
	2015	2014
		(as restated)
Total stockholders' equity	\$32,621,553	\$32,475,897
Accumulated other comprehensive income	(380,093)	(216,800)
Tier 1, common equity, and core capital	32,241,460	32,259,097
Qualifying allowance for loan losses	1,272,072	1,415,983
Total risk-based capital	\$33,513,532	\$33,675,080

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Table of Contents**13. REGULATORY RESTRICTIONS (Continued)****Regulatory Capital Requirements (Continued)**

The Bank's actual capital ratios are presented in the following table:

	December 31, 2015		2014 (as restated)	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Actual	\$33,513,532	25.03 %	\$33,675,080	20.99 %
For capital adequacy purposes	10,709,920	8.00	12,834,640	8.00
To be well capitalized	13,387,400	10.00	16,043,300	10.00
Tier 1 capital (to risk-weighted assets)				
Actual	\$32,241,460	24.08 %	\$32,259,097	20.11 %
For capital adequacy purposes	5,354,960	6.00	6,417,320	4.00
To be well capitalized	8,032,440	8.00	9,625,980	6.00
Common equity tier 1 capital (to risk-weighted assets)				
Actual	\$32,241,460	24.08 %	\$ N/A	N/A %
For capital adequacy purposes	6,024,330	4.50	N/A	N/A
To be well capitalized	8,701,810	6.50	N/A	N/A
Core capital (to adjusted assets)				
Actual	\$32,241,460	10.75 %	\$32,259,079	10.66 %
For capital adequacy purposes	11,997,400	4.00	12,102,101	4.00
To be well capitalized	14,996,750	5.00	15,127,626	5.00

The Company's ratios do not differ significantly from the Bank's ratios presented above.

The Bank accumulated approximately \$1.4 million of retained earnings, which represents allocations of income to bad debt deductions for tax purposes only. Since this amount represents the accumulated bad debt reserves prior to 1987, no provision for federal income tax has been made. If any portion of this amount is used other than to absorb loan losses (which is not anticipated), the amount will be subject to federal income tax at the current corporate rate.

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Table of Contents**14. FAIR VALUE MEASUREMENTS**

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly Level observable as of the reported date. The nature of these assets and liabilities includes items for which quoted II: prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available.

The following table presents the assets reported on the Consolidated Balance Sheet at their fair value as of December 31, 2015 and 2014, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2015			
	Level I	Level II	Level III	Total
Assets:				
Investment securities available for sale:				
Mortgage-backed securities	\$-	\$37,253,272	\$ -	\$37,253,272
Corporate securities	-	16,957,906	-	16,957,906
Municipal securities	-	499,755	-	499,755
Common stock	160,590	-	-	160,590
	\$160,590	\$54,710,933	\$ -	\$54,871,523

	December 31, 2014			
	Level I	Level II	Level III	Total
Assets:				
Investment securities available for sale:				

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Mortgage-backed securities	\$-	\$3,261,914	\$	-	\$3,261,914
Corporate securities	-	8,449,619	-	-	8,449,619
	\$-	\$11,711,533	\$	-	\$11,711,533

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2015 and 2014, are as follows:

	December 31, 2015			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	\$-	\$ -	\$3,340,206	\$3,340,206
Other real estate owned	-	-	182,360	182,360

	December 31, 2014			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	\$-	\$ -	\$4,191,390	\$4,191,390
Other real estate owned	-	-	489,837	489,837

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Table of Contents**14. FAIR VALUE MEASUREMENTS (Continued)**

December 31, 2015				
Quantitative Information About Level III Fair Value Measurements				
Fair Value Estimate	Valuation Techniques	Unobservable Input	Range	Weighted Average
Impaired loans	\$1,827,370	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 20% 8%
			Liquidation expenses (2)	0% to 6% 5%
	1,512,836	Discounted cash flows	Discount rates	5% to 8% 7%
Other real estate owned	182,360	Appraisal of collateral (1)	Liquidation expenses (2)	6% 6%
December 31, 2014				
Quantitative Information About Level III Fair Value Measurements				
Fair Value Estimate	Valuation Techniques	Unobservable Input	Range	Weighted Average
Impaired loans	\$1,624,037	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 20% 9%
			Liquidation expenses (2)	0% to 6% 4%
	2,567,353	Discounted cash flows	Discount rates	5% to 8% 6%
Other real estate owned	489,837	Appraisal of collateral (1)	Liquidation expenses (2)	6% 6%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level III inputs, which are not identifiable.

Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated (2) liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

Table of Contents**14. FAIR VALUE MEASUREMENTS (Continued)**

The estimated fair values of the Company's financial instruments are as follows:

	Fair Value Measurements at December 31, 2015				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and cash equivalents	\$31,137,216	\$31,137,216	\$31,137,216	\$-	\$-
Certificates of deposit	15,980,000	16,019,950	-	-	16,019,950
Investment securities:					
Available for sale	54,871,523	54,871,523	160,590	54,710,933	-
Net loans receivable	172,179,005	172,746,996	-	-	172,746,996
Accrued interest receivable	671,994	671,994	671,994	-	-
Federal Home Loan Bank stock	3,659,700	3,659,700	3,659,700	-	-
Bank-owned life insurance	4,257,456	4,257,456	4,257,456	-	-
FDIC indemnification asset	473,951	473,951	-	-	473,951
Financial liabilities:					
Deposits	\$188,222,282	\$190,019,274	\$85,536,997	\$-	\$104,482,277
FHLB advances - long-term	56,000,000	57,596,000	-	-	57,596,000
Advances by borrowers for taxes and insurance	988,906	988,906	988,906	-	-
Accrued interest payable	139,397	139,397	137,397	-	-
	Fair Value Measurements at December 31, 2014				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and cash equivalents	\$12,174,230	\$12,174,230	\$12,174,230	\$-	\$-
Investment securities:					
Available for sale	11,711,533	11,711,533	-	11,711,533	-
Held to maturity	44,741,534	46,193,447	-	46,193,447	-
Loans held for sale	4,221,438	4,221,438	4,221,438	-	-
Net loans receivable	212,135,687	213,022,071	-	-	213,022,071
Accrued interest receivable	788,684	788,684	788,684	-	-
Federal Home Loan Bank stock	3,843,500	3,843,500	3,843,500	-	-
Bank-owned life insurance	4,268,181	4,268,181	4,268,181	-	-
FDIC indemnification asset	1,417,355	1,417,355	-	-	1,417,355

Financial liabilities:

Deposits	\$ 199,553,997	\$ 201,952,208	\$ 85,894,712	\$-	\$ 116,057,496
FHLB advances - long-term	59,000,000	60,711,000	-	-	60,711,000
Advances by borrowers for taxes and insurance	1,208,824	1,208,824	1,208,824	-	-
Accrued interest payable	143,798	143,798	143,798	-	-

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14. FAIR VALUE MEASUREMENTS (Continued)

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract that creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas or simulation modeling. As many of these assumptions result from judgments made by management based upon estimates that are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

As certain assets such as deferred tax assets and premises and equipment are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Company.

The Company employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

Cash and Cash Equivalents, Loans Held for Sale, Accrued Interest Receivable, Federal Home Loan Bank Stock, Accrued Interest Payable, and Advances by Borrowers for Taxes and Insurance

The fair value is equal to the current carrying value.

Certificates of Deposit

Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies contractual costs currently being offered in the existing portfolio to current market rates being offered for certificates of similar remaining maturities.

Investment Securities Available for Sale and Held to Maturity

The fair value of investment securities available for sale is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities.

Net Loans

The fair value is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted market prices were available, primarily for certain residential mortgage loans, such market rates were utilized as estimates for fair value.

Acquired loans are recorded at fair value on the date of acquisition. The fair values of loans with evidence of credit deterioration (impaired loans) are recorded net of a nonaccretable difference and, if appropriate, an accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is the nonaccretable difference, which is included in the carrying amount of acquired loans.

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14. FAIR VALUE MEASUREMENTS (Continued)

FDIC Indemnification Asset

The indemnification asset represents the present value of the estimated cash payments expected to be received from the FDIC for future losses on covered assets based on the credit adjustment estimated for each covered asset and the loss sharing percentages. These cash flows are discounted at a market-based rate to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.

Deposits and FHLB Advances

The fair values of certificates of deposit and FHLB advances are based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities. Demand, savings, and money market deposits are valued at the amount payable on demand as of year-end.

Bank-Owned Life Insurance

The fair value is equal to the cash surrender value of the life insurance policies.

Commitments to Extend Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments are presented in Note 11.

Table of Contents**15. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The activity in accumulated other comprehensive income for the years ended December 31, 2015 and 2014, is as follows:

	Accumulated Other Comprehensive Income ⁽¹⁾ Unrealized Gains (Losses) on Securities Available for Sale
Balance at December 31, 2013	\$ 264,360
Other comprehensive loss before reclassifications	(47,560)
Period change	(47,560)
Balance at December 31, 2014	216,800
Other comprehensive gain before reclassifications	533,646
Amounts reclassified from accumulated other comprehensive income	(369,842)
Period change	163,804
Balance at December 31, 2015	\$ 380,604

Details regarding amounts reclassified from accumulated other comprehensive income during the period ended December 31, 2015, is as follows:

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income For the Year Ended December 31, 2015	Affected Line Item in the Consolidated Statement of Income
Investment securities available for sale ⁽¹⁾ :		
Net investment securities gains reclassified into earnings	\$ 560,367	Gain on sales of investment securities, net
Related income tax expense	(190,525)) Income taxes
Total reclassifications for the period	\$ 369,842	

(1) For additional details related to unrealized gains on investment securities and related amounts reclassified from accumulated other comprehensive income see Note 3, "Investment Securities."

There were no amounts reclassified from accumulated other comprehensive income for the year ended December 31, 2014.

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Table of Contents**16. PARENT COMPANY**

Condensed financial statements of Polonia Bancorp, Inc. are as follows:

CONDENSED BALANCE SHEET

	December 31,	
	2015	2014 (as restated)
ASSETS		
Cash	\$5,154,481	\$4,994,414
Investment securities available for sale	160,590	-
Loans receivable	1,576,540	1,729,815
Investment in subsidiary	31,045,014	30,746,082
Other assets	63,557	52,690
TOTAL ASSETS	\$38,000,182	\$37,523,001
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities	\$499,609	\$583,345
Stockholders' equity	37,500,573	36,939,656
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$38,000,182	\$37,523,001

CONDENSED STATEMENT OF INCOME

	Year Ended December 31,	
	2015	2014
INCOME		
ESOP loan interest income	\$ 95,814	\$ 104,580
Investment income	20,410	22,041
Total income	116,224	126,621
EXPENSES	271,046	278,637
Loss before income tax benefit	(154,822)	(152,016)
Income tax benefit	34,235	35,867

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Loss before equity in undistributed earnings of subsidiary	(120,587)	(116,149)
Equity in undistributed earnings of subsidiary	(17,636)	133,185
NET INCOME (LOSS)	\$ (138,223)	\$ 17,036
COMPREHENSIVE INCOME (LOSS)	\$ 25,581	\$ (30,524)

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Table of Contents**16. PARENT COMPANY (Continued)**

CONDENSED STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2015	2014
OPERATING ACTIVITIES		
Net income (loss)	\$(138,223)	\$ 17,036
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiary	17,636	(133,185)
Increase in accrued interest receivable	(593)	-
Stock compensation expense	411,612	358,740
Other, net	(94,273)	(108,924)
Net cash provided by operating activities	196,159	133,667
INVESTING ACTIVITIES		
Purchase of investment securities available for sale	(159,816)	-
Net cash used for investing activities	(159,816)	-
FINANCING ACTIVITIES		
Exercise of option shares	134,585	-
Repurchase of stock	(10,861)	(1,805,722)
Net cash provided by (used for) financing activities	123,724	(1,805,722)
Increase (decrease) in cash	160,067	(1,672,055)
CASH AT BEGINNING OF PERIOD	4,994,414	6,666,469
CASH AT END OF PERIOD	\$ 5,154,481	\$ 4,994,414

17. REGULATORY AGREEMENT

Effective October 21, 2014, Polonia Bank and the OCC entered into a formal written agreement (the "Agreement"). The Agreement requires the Bank to obtain regulatory approval prior to incurring any debt, repurchasing any of its stock, or paying any dividends. In addition, the Bank is required to maintain a leverage ratio of at least 10 percent and a total capital ratio of at least 15 percent. As of December 31, 2015, management believes the Bank was in compliance with all covenants included in the Agreement. The Agreement will remain in place until terminated by the OCC.

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POLONIA BANCORP, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	\$1,780,306	\$1,785,566
Interest-bearing deposits with other institutions	13,629,181	29,351,650
Cash and cash equivalents	15,409,487	31,137,216
Certificates of deposit	24,826,000	15,980,000
Investment securities available for sale	59,306,557	54,871,523
Loans receivable	158,520,114	161,765,015
Covered loans	10,899,926	11,686,062
Total loans	169,420,040	173,451,077
Less: allowance for loan losses	1,244,700	1,272,072
Net loans	168,175,340	172,179,005
Accrued interest receivable	697,917	671,994
Federal Home Loan Bank stock	3,514,900	3,659,700
Premises and equipment, net	3,898,824	3,998,409
Bank-owned life insurance	4,246,151	4,257,456
FDIC indemnification asset	49,014	473,951
Other assets	4,134,174	4,381,552
TOTAL ASSETS	\$284,258,364	\$291,610,806
LIABILITIES		
Deposits	\$183,314,442	\$188,222,282
FHLB advances – short term	7,000,000	-
FHLB advances – long term	49,000,000	56,000,000
Advances by borrowers for taxes and insurance	1,237,500	988,906
Accrued interest payable	153,607	139,397
Other liabilities	6,119,042	8,759,648
TOTAL LIABILITIES	246,824,591	254,110,233
Commitments and contingencies	-	-
STOCKHOLDERS' EQUITY		
Preferred stock (\$.01 par value; 1,000,000 shares authorized; none issued or outstanding)	-	-
Common stock (\$.01 par value; 14,000,000 shares authorized; 3,348,827 and 3,348,827 shares issued)	33,488	33,488
Additional paid-in-capital	25,703,252	25,591,969
Retained earnings	12,557,347	12,849,370
	(1,273,857)	(1,354,858)

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Unallocated shares held by Employee Stock Ownership Plan "ESOP" (152,723 and 162,288 shares)

Accumulated other comprehensive income	413,543	380,604
TOTAL STOCKHOLDERS' EQUITY	37,433,773	37,500,573
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$284,258,364	\$291,610,806

See accompanying notes to the unaudited consolidated financial statements.

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POLONIA BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

	Six Months Ended June 30,	
	2016	2015
INTEREST AND DIVIDEND INCOME		
Loans receivable	\$3,799,408	\$4,385,874
Investment securities	592,154	701,587
Other interest and dividend income	234,892	201,142
Total interest and dividend income	4,626,454	5,288,603
INTEREST EXPENSE		
Deposits	802,255	855,209
FHLB advances – short term	99	-
FHLB advances – long term	712,326	735,471
Advances by borrowers for taxes and insurance	1,442	1,691
Total interest expense	1,516,122	1,592,371
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	3,110,332	3,696,232
Provision for loan losses	-	73,150
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,110,332	3,623,082
NONINTEREST INCOME		
Service fees on deposit accounts	47,229	53,371
Earnings on bank-owned life insurance	(11,305)	(4,235)
Investment securities gains, net	641,142	-
Gain on sale of loans, net	-	1,689,644
Rental income	135,154	130,544
Other	(18,380)	411,217
Total noninterest income	793,841	2,280,541
NONINTEREST EXPENSE		
Compensation and employee benefits	2,018,343	2,986,230
Occupancy and equipment	609,277	643,746
Federal deposit insurance premiums	256,376	279,560
Data processing expense	210,667	198,067
Professional fees	336,951	375,656
Other	894,172	1,364,725
Total noninterest expense	4,325,786	5,847,984
Income (loss) before income tax expense (benefit)	(421,613)	55,639
Income tax expense (benefit)	(129,590)	28,892

SCHEDULE 14A INFORMATION

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NET INCOME (LOSS)	\$ (292,023) \$ 26,747
EARNINGS PER SHARE – Basic and Diluted	\$ (0.09) \$ 0.01

See accompanying notes to the unaudited consolidated financial statements.

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POLONIA BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

	Six Months Ended June 30, 2016 2015	
Net income (loss)	\$(292,023)	\$26,747
Changes in net unrealized gain (loss) on investment securities available for sale	691,049	(40,842)
Tax effect	(234,957)	13,886
Reclassification adjustment for gains on sale of Investment securities included in net income (loss)	(641,142)	-
Tax effect	217,989	-
Total other comprehensive income (loss)	32,939	(26,956)
Total comprehensive loss	\$(259,084)	\$(209)

See accompanying notes to the unaudited consolidated financial statements.

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POLONIA BANCORP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

	Common Stock Shares Amount		Additional Paid-In- Capital	Retained Earnings	Unallocated Shared Held by ESOP	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2015	3,348,827	\$33,488	\$25,591,969	\$12,849,370	\$(1,354,858)	\$380,604	\$37,500,573
Net loss				(292,023)			(292,023)
Other comprehensive income, net						32,939	32,939
Stock options compensation expense			53,644				53,644
Allocation of unearned ESOP shares			22,637		81,001		103,638
Allocation of unearned RSP shares			35,002				35,002
Balance, June 30, 2016	3,348,827	\$33,488	\$25,703,252	\$12,557,347	\$(1,273,857)	\$413,543	\$37,433,773

See accompanying notes to the unaudited consolidated financial statements.

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POLONIA BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended	
	June 30,	
	2016	2015
OPERATING ACTIVITIES		
Net (loss) income	\$(292,023)	\$26,747
Adjustments to reconcile net (loss) income to net cash used for operating activities:		
Provision for loan losses	-	73,150
Depreciation, amortization, and accretion	582,729	509,465
Investment securities, gains	(641,142)	-
Proceeds from sale of loans held for sale	-	31,128,360
Net gain on sale of loans held for sale	-	(1,493,902)
Origination of loans held for sale	-	(33,377,660)
Net gain on sale of loans held for investment	-	(195,739)
Loss (gain) on the sale of other real estate owned	44,334	(61,260)
Earnings on bank-owned life insurance	11,305	4,235
Deferred federal income taxes	(779,817)	(7,266)
(Increase) decrease in accrued interest receivable	(25,923)	91,835
Increase in accrued interest payable	14,210	14,870
Decrease in accrued payroll and commissions	-	(404,033)
Compensation expense for stock options, ESOP and restricted stock	192,284	199,818
Other, net	(1,790,238)	(462,992)
Net cash used for operating activities	(2,684,281)	(3,954,372)
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from principal repayments and maturities	4,672,733	1,457,146
Purchases	(21,953,039)	-
Proceeds from sales	13,471,240	-
Investment securities held to maturity:		
Proceeds from principal repayments and maturities	-	3,817,929
Maturities of certificates of deposit	15,161,000	-
Purchases of certificates of deposit	(24,007,000)	-
Proceeds from sale of loans held for investment	-	21,091,231
Decrease in loans receivable, net	3,220,727	3,083,848
Decrease in covered loans	808,440	1,111,054
Purchases of Federal Home Loan Bank stock	(280,000)	(50,700)
Redemptions of Federal Home Loan Bank stock	424,800	183,000
Proceeds from the sale of other real estate owned	138,026	221,697
Payments received from FDIC under loss share agreement	18,826	-
Purchase of premises and equipment	(59,955)	(34,200)
Net cash provided by (used for) investing activities	(8,384,202)	30,881,005

FINANCING ACTIVITIES

Decrease in deposits, net	(4,907,840)	(8,677,948)
Increase in FHLB advances – short term	7,000,000	-
Repayments on FHLB advances – long term	(7,000,000)	(3,000,000)
Decrease in advances by borrowers for taxes and insurance, net	248,594	199,380
Net cash used for financing activities	(4,659,247)	(11,478,568)
Increase (decrease) in cash and cash equivalents	(15,727,729)	15,448,065

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	31,137,216	12,174,230
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$15,409,487	\$27,622,295

SUPPLEMENTAL CASH FLOW DISCLOSURES

Cash paid:		
Interest	\$1,501,912	\$1,577,501
Income taxes	-	455,000

See accompanying notes to the unaudited consolidated financial statements.

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POLONIA BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

Polonia Bancorp, Inc. (the “Company”), a Maryland corporation, was incorporated in August 2011 and organized by Polonia MHC, Polonia Bancorp, and Polonia Bank (the “Bank”) to facilitate the second-step conversion of the Company from the mutual holding company structure to the stock holding company structure (the “Conversion”). Upon consummation of the Conversion, which occurred on November 9, 2012, the Company became the holding company for the Bank and a 100 percent publicly owned stock holding company.

The Bank was incorporated under federal law in 1923. The Bank is a federally chartered savings bank located in Huntingdon Valley, Pennsylvania, whose principal sources of revenue emanate from its investment securities portfolio and its portfolio of residential real estate, commercial real estate, and consumer loans, as well as a variety of deposit services offered to its customers through five offices located in the Greater Philadelphia area. As of December 31, 2015, the Bank was subject to regulation by the Office of Comptroller of the Currency (“OCC”) and the Federal Deposit Insurance Corporation (“FDIC”).

The consolidated financial statements include the accounts of the Bank and the Bank’s wholly owned subsidiaries, PBHMC (“PBMHC”), a Delaware investment company, and Community Abstract Agency, LLC (“CAA”). CAA provides title insurance on loans secured by real estate. All significant intercompany transactions have been eliminated in consolidation. The investment in subsidiaries on the parent Company’s financial statements is carried at the parent Company’s equity in the underlying net assets.

The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six month period ended June 30, 2016 are not necessarily indicative of the results that may be expected for the full year. The December 31, 2015 Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. generally accepted accounting principles (“GAAP”). For additional information, refer to the financial statements and footnotes thereto included in the Company’s Form 10-K for the year ended

December 31, 2015.

Use of Estimates in the Preparation of Financial Statements. The accounting principles followed by the Company and the methods of applying these principles conform to GAAP and to general practice within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the Consolidated Balance Sheet date and reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, and the fair value of financial instruments.

Recent Accounting and Regulatory Pronouncements

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f)

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requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (g) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (h) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In March 2016, the FASB issued ASU 2016-04, *Liabilities – Extinguishments of Liabilities (Subtopic 405-20)*. The standard provides that liabilities related to the sale of prepaid stored-value products within the scope of this Update are financial liabilities. The amendments in the Update provide a narrow scope exception to the guidance in Subtopic 405-20 to require that breakage for those liabilities be accounted for consistent with the breakage guidance in Topic 606. The amendments in this Update are effective for public business entities, certain not-for-profit entities, and certain employee benefit plans for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Earlier application is permitted, including adoption in an interim period. This Update is not expected to have a significant impact on the Company's financial statements.

In March 2016, the FASB issued ASU 2016-07, *Investments – Equity Method and Joint Ventures (Topic 323)*. The Update affects all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments in this Update eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments in this Update require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the

equity method. Earlier application is permitted. This Update is not expected to have a significant impact on the Company's financial statements.

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this Update affect entities with transactions included within the scope of Topic 606, which includes entities that enter into contracts with customers to transfer goods or services (that are an output of the entity's ordinary activities) in exchange for consideration. The amendments in this update do not change the core principle of the guidance in Topic 606; they simply clarify the implementation guidance on principal versus agent considerations. The amendments in this Update are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The amendments in this Update affect the guidance in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements of Update 2014-09. ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, defers the effective date of Update 2014-09 by one year. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718)*. The amendments in this Update affect all entities that issue share-based payment awards to their employees. The standards in this Update provide simplification for several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as with equity or liabilities, and classification on the

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statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. In addition to those simplifications, the amendments eliminate the guidance in Topic 718 that was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), *Share-Based Payment*. This should not result in a change in practice because the guidance that is being superseded was never effective. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any entity in any interim or annual period. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this Update affect entities with transactions included within the scope of Topic 606, which includes entities that enter into contracts with customers to transfer goods or services in exchange for consideration. The amendments in this Update do not change the core principle for revenue recognition in Topic 606. Instead, the amendments provide (1) more detailed guidance in a few areas and (2) additional implementation guidance and examples based on feedback the FASB received from its stakeholders. The amendments are expected to reduce the degree of judgment necessary to comply with Topic 606, which the FASB expects will reduce the potential for diversity arising in practice and reduce the cost and complexity of applying the guidance. The amendments in this Update affect the guidance in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, defers the effective date of Update 2014-09 by one year. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instrument*. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. SEC filers will be required to adopt the Update in fiscal years beginning after December 15, 2019, including interim periods within those years. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

Reclassification of Comparative Amounts

Certain items previously reported have been reclassified to conform to the current year's reporting format. Such reclassifications did not affect consolidated net income or consolidated stockholders' equity.

2. Business Combinations

Proposed Merger with Prudential Bancorp, Inc.

On June 2, 2016 Prudential Bancorp, Inc. ("Prudential") and Polonia entered into a merger agreement (the Merger Agreement") that provides that the Company will merge with and into Prudential, with Prudential remaining as the surviving entity. Following the merger, Polonia Bank will merge with and into Prudential Savings Bank with Prudential Savings Bank remaining as the surviving entity.

At the effective time of the Merger, Polonia shareholders will be entitled to elect to receive, for each share of Polonia common stock, subject to the election and adjustment procedures described in the joint proxy statement/prospectus, either 0.7591 shares of Prudential common stock or \$11.28 in cash: provided, however, that 50% of the total number of outstanding shares of Polonia common stock will be converted into Prudential common stock, and the remaining outstanding shares of Polonia common stock will be converted into cash. As a result, if more Polonia shareholders elect to receive either Prudential common stock or cash than is available as merger consideration under the merger agreement, those Polonia shareholders electing the over-subscribed form of consideration may have the over-subscribed consideration proportionately reduced and substituted with consideration in the alternative form. The

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exchange ratio and per share cash consideration are subject to adjustment based on the amount of Polonia's stockholders equity prior to closing as calculated in accordance with the Merger Agreement.

Subject to the satisfaction or waiver of the closing conditions contained in the merger agreement, including the approval of the merger agreement by the Company's shareholders and the receipt of required regulatory approvals, Prudential and the Company expect that the merger will be completed during the fourth quarter of 2016. However, it is possible that factors outside the control of both companies, including whether or when the required regulatory approvals will be received, could result in the merger being completed at a different time or not at all.

3. Earnings Per Share

There are no convertible securities which would affect the numerator in calculating basic and diluted earnings per share; therefore, net income (loss) as presented on the Consolidated Statement of Income (Loss) will be used as the numerator.

The following table set forth the composition of the weighted-average shares (denominator) used in the basic and diluted earnings per share computation.

	Six Months Ended	
	June 30,	
	2016	2015
Net income (loss):	\$(292,023)	\$26,747
Weighted average number of shares issued	3,348,827	3,334,130
Less weighted average number of unearned ESOP shares	(156,761)	(175,874)
Less weighted average number of nonvested restricted stock awards	(11,944)	(30,286)
Weighted average shares outstanding basic	3,180,122	3,127,970
Dilutive effect of nonvested stock	-	-
Dilutive effect of stock options	-	52,480
Weighted average shares outstanding diluted	3,180,122	3,180,450
Earnings per share:		
Basic	\$(0.09)	\$0.01
Diluted	(0.09)	0.01

At June 30, 2016 there were 10,647 shares of restricted stock outstanding at a grant date fair value of \$10.25 per share and options to purchase 136,587 shares of common stock ranging from a price of \$10.25 per share to a price of \$13.31 per share that were not included in the computation of diluted earnings per share because to do so would have been

anti-dilutive. At June 30, 2015 there were 26,642 shares of restricted stock outstanding at a grant date fair value of \$10.25 per share and options to purchase 95,610 shares of common stock at a price of \$10.25 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive.

4. Investment Securities

The amortized cost, gross unrealized gains and losses, fair value of investment securities available for sale are summarized as follows:

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Mortgage-backed securities:				
Fannie Mae	\$ 15,901,922	\$ 304,765	\$ -	\$ 16,206,687
Freddie Mac	16,231,937	123,487	(6,454)	16,348,970
Government National Mortgage Association	366,798	48,015	(1)	414,812
Collateralized mortgage obligations-government sponsored entities	6,105,548	52,587	(11,431)	6,146,704
Total mortgage-backed securities	38,606,205	528,854	(17,886)	39,117,173
Corporate securities	17,930,125	120,521	(15,996)	18,034,650
Municipal securities	1,827,293	28,501	-	1,855,794
Total debt securities	58,363,623	677,876	(33,882)	59,007,617
Common stock	316,354	4,024	(21,438)	298,940
Total investment securities	\$ 58,679,977	\$ 681,900	\$ (55,320)	\$ 59,306,557

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	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Mortgage-backed securities:				
Fannie Mae	\$25,168,077	\$ 615,222	\$ (93,362)	\$25,689,937
Freddie Mac	10,161,730	82,167	(120,472)	10,123,425
Government National Mortgage Association	399,799	48,639	(2)	448,436
Collateralized mortgage obligations-government sponsored entities	984,609	23,730	(16,865)	991,474
Total mortgage-backed securities	36,714,215	769,758	(230,701)	37,253,272
Corporate securities	16,921,170	88,731	(51,995)	16,957,906
Municipal securities	499,649	106	-	499,755
Total debt securities	54,135,034	858,595	(282,696)	54,710,933
Common stock	159,816	774	-	160,590
Total investment securities	\$54,294,850	\$ 859,369	\$ (282,696)	\$54,871,523

The following table shows the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position.

	June 30, 2016					
	Less Than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage-backed securities:						
Freddie Mac	\$4,268,711	(6,454)	\$ -	-	\$4,268,711	(6,454)
Government National Mortgage Association	-	-	1,273	(1)	1,273	(1)
Collateralized mortgage obligations-government sponsored entities	1,339,036	(2,884)	325,710	(8,547)	1,664,746	(11,431)
Total mortgage-backed Securities	5,607,747	(9,338)	326,983	(8,548)	5,934,730	(17,886)
Corporate securities	2,991,231	(15,996)	-	-	2,991,231	(15,996)
Total debt securities	8,598,978	(25,334)	326,983	(8,548)	8,925,961	(33,882)
Common stock	278,338	(21,438)	-	-	278,338	(21,438)
Total investment securities	\$8,877,316	\$ (46,772)	\$ 326,983	\$ (8,548)	\$9,204,299	\$ (55,320)

December 31, 2015

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	Less Than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage-backed securities:						
Fannie Mae	\$8,990,826	\$(93,362)	\$-	\$-	\$8,990,826	\$(93,362)
Freddie Mac	3,619,913	(13,501)	4,501,893	(106,971)	8,121,806	(120,472)
Government National Mortgage Association	1,332	(2)	-	-	1,332	(2)
Collateralized mortgage obligations-government sponsored entities	515,046	(16,472)	5,257	(393)	520,303	(16,865)
Total mortgage-backed Securities	13,127,117	(123,337)	4,507,150	(107,364)	17,634,267	(230,701)
Corporate securities	11,156,390	(51,995)	-	-	11,156,390	(51,995)
Total	\$24,283,507	\$(175,332)	\$4,507,150	\$(107,364)	\$28,790,657	\$(282,696)

The Company reviews its position quarterly and has determined that at June 30, 2016, the declines outlined in the above table represent temporary declines and the Company does not intend to sell these securities and does not believe they will be required to sell these securities before recovery of their cost basis, which may be at maturity. There

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were 19 positions that were temporarily impaired at June 30, 2016. The Company has concluded that the unrealized losses disclosed above are not other than temporary but are the result of interest rate changes that are not expected to result in the non-collection of principal and interest during the period.

The amortized cost and fair value of debt securities at June 30, 2016, by contractual maturity, are shown below. Mortgage-backed securities provide for periodic, general monthly, payments of principal and interest and have contractual maturities ranging from 3 to 30 years. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost	Fair Value
Due within one year	\$6,956,262	\$6,963,618
Due after one year through five years	13,585,423	13,723,675
Due after five years through ten years	6,636,554	6,729,990
Due after ten years	31,185,384	31,590,334
Total	\$58,363,623	\$59,007,617

For the six month period ended June 30, 2016 the Company realized gross gains of \$641,142 and proceeds from the sale of investment securities of \$13,471,240. The Company had no sales of investment securities for the six month period ended June 30, 2015.

5. Loans Receivable

Loans receivable consist of the following:

	June 30, 2016	December 31, 2015
Mortgage Loans:		
One-to-four family	\$141,464,540	\$144,242,214
Multi-family and commercial real estate	10,149,509	10,414,249
	151,614,049	154,656,463
Commercial loans	4,701	7,181
Home equity loans	2,717,850	2,827,816
Home equity lines of credit ("HELOCs")	2,583,438	2,459,848

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Education loans	1,095,859	1,233,539
Other consumer loans	256	693
Non-covered consumer loans purchased	379,788	466,805
Covered loans	10,899,926	11,686,062
	169,295,867	173,338,407
Less:		
Net deferred loan costs	(124,173)	(112,670)
Allowance for loan losses	1,244,700	1,272,072
Total	\$168,175,340	\$172,179,005

The components of covered loans by portfolio class as of June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016	December 31, 2015
Mortgage loans:		
One-to-four family	\$5,295,402	\$5,457,518
Multi-family and commercial real estate	5,579,611	6,200,152
	10,875,013	11,657,670
Commercial	24,913	28,392
Total Loans	\$10,899,926	\$11,686,062

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The carrying value of loans acquired and accounted for in accordance with ASC 310-30 was determined by projecting discounted contractual cash flows.

The outstanding balance, including interest, and carrying values of loans acquired were as follows:

	2016		2015	
	Acquired Loans With Specific Evidence of Deterioration in Credit Quality (ASC 310-30)	Acquired Loans Without Specific Evidence of Deterioration in Credit Quality (ASC 310-30 Analogized)	Acquired Loans With Specific Evidence of Deterioration in Credit Quality (ASC 310-30)	Acquired Loans Without Specific Evidence of Deterioration in Credit Quality (ASC 310-30 Analogized)
Outstanding balance	\$694,090	\$ 16,151,204	\$739,499	\$ 17,776,069
Carrying amount, net of allowance	\$464,994	\$ 10,814,720	\$473,500	\$ 11,679,367

During the six months ended June 30, 2016 and 2015, respectively, the Company did not record a provision or charge-off for increases in the expected losses for acquired loans with specific evidence of deterioration in credit quality.

Changes in the accretable yield for acquired loans were as follows for the six months ended June 30, 2016 and 2015.

Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Acquired Loans Without Specific Evidence of Deterioration in Credit Quality	Acquired Loans Without Specific Evidence of Deterioration in Credit Quality

	(ASC 310-30 Analogized)	(ASC 310-30 Analogized)
Balance at beginning of period	\$ 5,599,018	\$ 6,381,792
Reclassifications and other	(295,802)) 793,223
Accretion	(407,534)) (487,366)
Balance at end of period	\$ 4,895,682	\$ 6,687,649

The \$407,534 and \$487,366 recognized as accretion represents the interest income earned on acquired loans for the six months ended June 30, 2016 and 2015, respectively. Included in reclassifications and other for loans acquired without specific evidence of deterioration in credit quality was \$73,617 and \$1,134,484 of reclassifications from non-accretable discounts to accretable discounts for the six months ended June 30, 2016 and 2015, respectively. The remaining \$(369,419) and \$(341,261) change in the accretable yield represents reductions in contractual interest due to contractual principal prepayments for the six months ended June 30, 2016 and 2015, respectively.

6. Allowance for Loan Losses

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Company has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: one-to-four family real estate, multi-family and commercial real estate, commercial loans, home equity loans, home equity lines of credit, and education and other consumer loans. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. These historical loss percentages are calculated over a three year period for all portfolio segments. Certain qualitative factors are then added to the historical allocation percentage to get the adjusted factor to be applied to non-classified loans. The following qualitative factors are analyzed for each portfolio segment:

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·	Levels of and trends in delinquencies and classifications
·	· Trends in volume and terms
·	· Changes in collateral
·	· Changes in management and lending staff
·	· Economic trends
·	· Concentrations of credit
·	· Changes in lending policies
·	· Changes in loan review
·	· External factors

These qualitative factors are reviewed each quarter and adjusted based upon relevant changes within the portfolio.

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the Consolidated Balance Sheet date. The Company considers the allowance for loan losses adequate to cover loan losses inherent in the loan portfolio, at June 30, 2016.

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

Allowance for Loan Losses**For the Six Months Ended June 30, 2016 and 2015**

	One-to- Four Family Real Estate	Multi-Family and Commercial Real Estate	Commercial	Home Equity	HELOCs	Education and Other Consumer	Unallocated	Total
Six Months Ended June 30, 2016								
Allowance for Loan Losses:								
Balance at beginning of period	\$ 774,482	\$ 306,606	\$ 18	\$ 10,638	\$ 17,055	\$ 5,570	\$ 157,703	\$ 1,272,072
Provision (credit) for loan losses	(61,328)	(70,106)	(4)	2,265	(698)	(1,125)	130,996	-
Charge-offs	(40,332)	-	-	-	-	-	-	(40,332)
Recoveries	12,960	-	-	-	-	-	-	12,960
Net (charge-offs) recoveries	(27,372)	-	-	-	-	-	-	(27,372)

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Balance at end of period	\$ 685,782	\$ 236,500	\$ 14	\$ 12,903	\$ 16,357	\$ 4,445	\$ 288,699	\$ 1,244,700
Six Months Ended								
June 30, 2015								
Allowance for Loan Losses:								
Balance at beginning of period	\$ 962,753	\$ 427,636	\$ -	\$ 7,590	\$ 10,599	\$ 6,771	\$ 634	\$ 1,415,983
Provision (credit) for loan losses	54,855	(44,855)	14	3,291	3,327	(941)	57,459	73,150
Charge-offs	(128,424)	-	-	-	-	-	-	(128,424)
Recoveries	221	-	-	-	-	-	-	221
Net (charge-offs) recoveries	(128,203)	-	-	-	-	-	-	(128,203)
Balance at end of period	\$ 889,405	\$ 382,781	\$ 14	\$ 10,881	\$ 13,926	\$ 5,830	\$ 58,093	\$ 1,360,930

The decrease in the allowance for loan losses related to the one-to-four family real estate loan portfolio is related to the decrease in the balance of loans and the adjustment of the qualitative factors. The decrease in the allowance for loan losses to the commercial real estate loan portfolio is related to the adjustment of qualitative factors.

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The following tables present the allowance for credit losses and recorded investments in loans by category:

	At June 30, 2016							
	One-to-Four Family Real Estate	Multi-family and Commercial Real Estate	Commercial	Home Equity	HELOCs	Education and Other Consumer	Unallocated	Total
Allowance for loan losses:								
Ending balance	\$685,782	\$236,500	\$14	\$12,903	\$16,357	\$4,445	\$288,699	\$1,244,700
Ending balance: individually evaluated for impairment	\$3,104	\$-	\$-	\$-	\$-	\$-	\$-	\$3,104
Ending balance: collectively evaluated for impairment	\$682,678	\$236,500	\$14	\$12,903	\$16,357	\$4,445	\$288,699	\$1,241,596
Ending balance: loans acquired with deteriorated credit quality	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Loans:								
Ending balance	\$146,759,942	\$15,729,120	\$29,614	\$2,717,850	\$2,583,438	\$1,475,903	\$-	\$169,295,867
Ending balance:	\$2,019,328	\$603,298	\$-	\$48,251	\$-	\$-	\$-	\$2,670,877

individually
evaluated
for
impairment

Ending
balance:
collectively
evaluated
for
impairment

\$139,445,212	\$9,546,211	\$4,701	\$2,669,599	\$2,583,438	\$1,096,115	\$-	\$155,345,276
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Ending
balance:
loans
acquired
with
deteriorated
credit
quality

\$5,295,402	\$5,579,611	\$24,913	\$-	\$-	\$379,788	\$-	\$11,279,714
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At December 31, 2015

	One-to- Four Family Real Estate	Multi-family and Commercial Real Estate	Commercial	Home Equity	HELOCs	Education and Other Consumer	Unallocated	Total
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Allowance
for loan
losses:
Ending
balance

\$774,482	\$306,606	\$18	\$10,638	\$17,055	\$5,570	\$157,703	\$1,272,072
-----------	-----------	------	----------	----------	---------	-----------	-------------

Ending
balance:
individually
evaluated
for
impairment

\$3,104	\$-	\$-	\$-	\$-	\$-	\$-	\$3,104
---------	-----	-----	-----	-----	-----	-----	---------

Ending
balance:
collectively
evaluated
for
impairment

\$771,378	\$306,606	\$18	\$10,638	\$17,055	\$5,570	\$157,703	\$1,268,968
-----------	-----------	------	----------	----------	---------	-----------	-------------

Ending
balance:
loans

\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
-----	-----	-----	-----	-----	-----	-----	-----

acquired
with
deteriorated
credit
quality

Loans:

Ending balance	\$149,699,732	\$16,614,401	\$35,573	\$2,827,816	\$2,459,848	\$1,701,037	\$-	\$173,338,407
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Ending balance:
individually
evaluated
for
impairment

	\$2,027,628	\$604,554	\$-	\$52,803	\$-	\$-	\$-	\$2,684,985
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Ending balance:
collectively
evaluated
for
impairment

	\$142,214,586	\$9,809,695	\$7,181	\$2,775,013	\$2,459,848	\$1,234,232	\$-	\$158,500,555
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Ending balance:
loans
acquired
with
deteriorated
credit
quality

	\$5,457,518	\$6,200,152	\$28,392	\$-	\$-	\$466,805	\$-	\$12,152,867
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Credit Quality Information

The following tables represent credit exposures by internally assigned grades at June 30, 2016 and December 31, 2015. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on experiences with similarly graded loans.

The Company's internally assigned grades are as follows:

Pass – loans which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. There are six sub-grades within the pass category to further distinguish the loan.

Special Mention – loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected. The Special mention category includes assets that are fundamentally sound yet, exhibit unacceptable

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credit risk or deteriorating trends or characteristics which, if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date.

Substandard – loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard.

Doubtful – loans classified as Doubtful have all the weaknesses inherent in a Substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances. Loans in the Doubtful category have all the weaknesses inherent in one classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss – loans classified as a Loss are considered uncollectible, or of such value that continuance as an asset is not warranted. Loans in the Loss category are considered uncollectable and of little value that their continuance as bankable is not warranted.

The following table presents classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard, Doubtful, and Loss within the internal risk rating system as of June 30, 2016 and December 31, 2015.

	June 30, 2016		December 31, 2015	
	Multi- Family and Commercial Real Estate	Commercial	Multi-Family and Commercial Real Estate	Commercial
Pass	\$ 11,376,422	\$ 29,614	\$ 13,335,644	\$ 35,573
Special Mention	1,780,456	-	1,977,627	-
Substandard	2,572,242	-	1,301,130	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	\$ 15,729,120	\$ 29,614	\$ 16,614,401	\$ 35,573

Multi-family and commercial real estate and commercial loans are categorized by risk classification as of June 30, 2016 and December 31, 2015. For one-to-four family real estate, home equity, HELOCs, and education and other consumer loans, the Company evaluates credit quality based on the performance of the individual credits. Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when they become 90 days past due.

The following table presents recorded investment in the loan classes based on payment activity as of June 30, 2016 and December 31, 2015:

	At June 30, 2016				
	One-to-Four Family Real Estate	Home Equity	HELOCs	Education and Other Consumer	Non-covered Consumer Loans Purchased
Performing	\$ 144,793,221	\$ 2,669,599	\$ 2,583,438	\$ 1,052,632	\$ 379,788
Nonperforming	1,966,721	48,251	-	43,483	-
Total	\$ 146,759,942	\$ 2,717,850	\$ 2,583,438	\$ 1,096,115	\$ 379,788

	At December 31, 2015				
	One-to-Four Family Real Estate	Home Equity	HELOCs	Education and Other Consumer	Non-covered Consumer Loans Purchased
Performing	\$ 147,714,397	\$ 2,775,013	\$ 2,459,848	\$ 1,144,941	\$ 400,682
Nonperforming	1,985,335	52,803	-	89,291	66,123
Total	\$ 149,699,732	\$ 2,827,816	\$ 2,459,848	\$ 1,234,232	\$ 466,805

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The following table presents an aging analysis of the recorded investment of past-due loans:

At June 30, 2016							
	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
One-to-four family real estate	\$453,111	\$ 15,252	\$ 1,963,617	\$2,431,980	\$144,327,962	\$146,759,942	\$ -
Multi-family and commercial real estate	-	-	380,965	380,965	15,348,155	15,729,120	-
Commercial	-	-	-	-	29,614	29,614	-
Home equity	-	-	48,251	48,251	2,669,599	2,717,850	-
HELOCs	-	-	-	-	2,583,438	2,583,438	-
Education and other consumer	16,894	29,652	43,483	90,029	1,006,086	1,096,115	-
Non-covered consumer loans purchased	-	-	-	-	379,788	379,788	-
Total	\$470,005	\$ 44,904	\$ 2,436,316	\$ 2,951,225	\$166,344,642	\$169,295,867	\$ -

At December 31, 2015							
	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
One-to-four family real estate	\$133,937	\$98,977	\$1,808,449	\$2,041,363	\$147,658,369	\$149,699,732	\$ -
Multi-family and commercial real estate	94,508	204,633	139,091	438,232	16,176,169	16,614,401	-
Commercial	-	-	-	-	35,573	35,573	-
Home equity	52,803	-	-	52,803	2,775,013	2,827,816	-
HELOCs	-	-	-	-	2,459,848	2,459,848	-
Education and other consumer	17,413	-	89,291	106,704	1,127,528	1,234,232	-
Non-covered consumer loans purchased	-	-	66,123	66,123	400,682	466,805	-
Total	\$298,661	\$ 303,610	\$ 2,102,954	\$ 2,705,225	\$170,633,182	\$173,338,407	\$ -

Nonaccrual Loans

Loans are generally considered for nonaccrual status upon 90 days delinquency. When a loan is placed in nonaccrual status, previously accrued but unpaid interest is deducted from interest income.

On the following table are the loans on nonaccrual status as of June 30, 2016 and December 31, 2015. The balances are presented by class of loans.

	June 30, 2016	December 31, 2015
One-to-four family mortgage	\$1,963,617	\$1,985,335
Multi-family and commercial real estate	380,965	219,927
Home Equity	48,251	52,803
Education and other consumer	43,483	89,291
Non-covered consumer loans purchased	-	66,123
Total	\$2,436,316	\$2,413,479

Interest income on loans would have been increased by approximately \$37,992 and \$55,172 during the six months ended June 30, 2016 and 2015, respectively, if these loans had performed in accordance with their original terms. Management evaluates commercial real estate loans which are 90 days or more past due for impairment.

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The following table presents the recorded investment and unpaid principal balances for impaired loans and related allowance, if applicable.

	June 30, 2016		
	Recorded	Unpaid	Related
	Investment	Principal	Allowance
		Balance	
With no related allowance recorded:			
One-to-four family real estate	\$2,122,532	\$2,826,186	\$ -
Multi-family and commercial real estate	1,163,544	1,355,494	-
Commercial	-	5,594	-
Home Equity	48,251	51,935	-
With an allowance recorded:			
One-to-four family real estate	\$146,244	\$152,668	\$ 3,104
Total:			
One-to-four family real estate	\$2,268,776	\$2,978,854	\$ 3,104
Multi-family and commercial real estate	1,163,544	1,355,494	-
Commercial	-	5,594	-
Home Equity	48,251	51,935	-
December 31, 2015			
	Recorded	Unpaid	Related
	Investment	Principal	Allowance
		Balance	
With no related allowance recorded:			
One-to-four family real estate	\$2,149,908	\$2,832,646	\$ -
Multi-family and commercial real estate	924,634	1,079,027	-
Commercial	-	32,077	-
Home Equity	52,803	55,309	-
Consumer	66,123	66,123	-
With an allowance recorded:			
One-to-four family real estate	\$149,842	\$154,345	\$ 3,104
Total:			
One-to-four family real estate	\$2,299,750	\$2,986,991	\$ 3,104
Multi-family and commercial real estate	924,634	1,079,027	-
Commercial	-	32,077	-

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Home Equity	52,803	55,309	-
Consumer	66,123	66,123	-

The following table represents the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired.

	Six Months Ended			
	June 30,			
	2016	2015	2016	2015
	Average	Average	Interest	Interest
	Recorded	Recorded	Income	Income
	Investment	Investment	Recognized	Recognized
With no related allowance recorded:				
One-to-four family real estate	\$2,167,616	\$2,876,301	\$ 8,888	\$ 7,225
Multi-family and commercial real estate	1,130,859	1,138,205	17,955	18,532
Commercial	-	-	427	1,430
Home Equity	50,094	57,952	-	-
Consumer	5,468	-	-	-
With an allowance recorded:				
One-to-four family real estate	\$147,432	\$584,383	\$ -	\$ 13,001
Total:				
One-to-four family real estate	\$2,315,048	\$3,460,684	\$ 8,888	\$ 20,226
Multi-family and commercial real estate	1,130,859	1,138,205	17,955	18,532
Commercial	-	-	427	1,430
Home Equity	50,094	57,952	-	-
Consumer	5,468	-	-	-

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Foreclosed Assets Held For Sale

Foreclosed assets acquired in settlement of loans are carried at fair value, less estimated costs to sell, and are included in other assets on the Consolidated Balance Sheet. As of June 30, 2016 the Company held no foreclosed assets and at December 31, 2015 included with other assets were \$182,000 of foreclosed assets. As of June 30, 2016, there were no consumer residential mortgages that were foreclosed on or received via a deed in lieu transaction prior to the period end. As of June 30, 2016, the Company has initiated formal foreclosure proceedings on \$1,368,000 of residential mortgages, which have not yet been transferred into foreclosed assets.

Loan Modifications and Troubled Debt Restructurings

A loan is considered to be a troubled debt restructuring loan when the Company grants a concession to the borrower because of the borrower's financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk.

There were no loan modifications that are considered troubled debt restructurings completed during the six month periods ended June 30, 2016 and 2015, respectively.

There were no loans granted a term concession for the six month periods ended June 30, 2016 and 2015, respectively.

There were no troubled debt restructurings modified within the past year that subsequently defaulted during the six month periods ended June 30, 2016 and 2015.

7. Indemnification Asset

Changes in the FDIC indemnification asset during the six months ended June 30, 2016 and 2015, respectively, were as follows:

2016	2015
------	------

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Balance at December 31	\$473,951	\$1,417,355
Cash payments received or receivable due from the FDIC	(18,826)	-
Increase in FDIC share of estimated losses	-	-
Net amortization	(406,111)	(360,069)
Balance at June 30	\$49,014	\$1,057,286

8. Deposits

Deposit accounts are summarized as follows for the periods ending June 30, 2016 and December 31, 2015.

	June 30, 2016		December 31, 2015	
	Amount	%	Amount	%
Non-interest bearing demand	\$6,098,236	3.33 %	\$6,136,545	3.26 %
NOW accounts	15,202,385	8.29	15,712,121	8.35
Money market deposit	34,095,985	18.60	33,809,176	17.96
Savings	30,466,762	16.62	29,879,155	15.87
Time deposits	97,451,074	53.16	102,685,285	54.56
Total	\$183,314,442	100.00 %	\$188,222,282	100.00 %

9. Supplemental Retirement Plans

The Company has supplemental retirement plans (“SRPs”) that cover three former officers and one current senior officer of the Bank. At June 30, 2016 and December 31, 2015, \$1,905,562 and \$2,033,918, respectively, has been accrued under these SRPs, and this liability and the related deferred tax asset of \$647,891 and \$691,532, respectively, are recognized in the financial statements.

The SRPs provide an annual salary continuation benefit to the officers following their termination of employment. The SRP for a former president of the Bank provides an annual benefit, payable for the lifetime of the

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former president, of \$75,000 adjusted annually for the change in the consumer price index. The current annual benefit is \$123,000. If the former president predeceases his spouse, his surviving spouse will be entitled to a reduced benefit for the remainder of her lifetime. The SRP for the second former president provides a lifetime annual benefit equal to 60 percent of his final full year annual gross taxable compensation adjusted annually for the change in the consumer price index or 4 percent, whichever is higher. The current annual benefit is \$126,000. The SRPs for one current and one former senior officer provide for an annual benefit at the rate of \$50,000 per year for 20 years. If the officer terminates employment prior to age 65, the SRP benefit commences on the earlier of five years after retirement or age 65. Otherwise, the SRP benefit commences following termination of employment. The Company records periodic accruals for the cost of providing such benefits by charges to income.

The following table illustrates the components of the net periodic benefit cost for the supplemental retirement plan:

	Six Months Ended June 30,	
	2016	2015
Components of net periodic benefit cost:		
Service cost	\$50,332	\$65,017
Interest cost	47,041	17,367
Net periodic benefit cost	\$97,373	\$82,384

Additionally, the Company has an obligation to provide a post-retirement death benefit to the designated beneficiary of a former president of the Bank. There are two components to the death benefit. The first is a lump sum benefit of \$2,000,000. This benefit is not conditioned on or linked to any life insurance policy. The second component is an amount equal to 40% of the proceeds in excess of \$2,000,000 payable on the death of the former president under a life insurance policy held by the Bank, provided that the total after-tax benefit does not exceed \$4,000,000. At June 30, 2016 and December 31, 2015, \$2,671,928 and \$2,628,815, respectively, have been accrued related to this liability and the related deferred tax assets of \$666,146 and \$651,488, respectively, are recognized in the financial statements.

Under the SRPs with one former and one current officer, if the executive dies during the benefit payment period, the executive's designated beneficiary will receive a lump sum payment equal to the remaining payments. If the executive dies prior to retirement, his designated beneficiary will receive a lump sum payment of \$1,000,000 under a split-dollar life insurance agreement with the executive.

The Company funded life insurance policies with an aggregate amount of \$3,085,000 on the lives of former and current officers that currently have total death benefits of \$11,975,329. The cash surrender value of these policies totaled \$4,246,151 and \$4,257,456 at June 30, 2016 and December 31, 2015, respectively.

The Company maintains a nonqualified deferred compensation plan for one senior officer whereby the participant is able to defer compensation to be matched 100 percent by the Company. The deferral, match, and earnings thereon are held in Rabbi Trusts. The Rabbi Trust assets are included in other assets, and the related deferred compensation payable is included in other liabilities. The Rabbi Trust asset and the related deferred compensation payable at June 30, 2016, was \$569,880. Earnings from the Rabbi Trust increase the asset and increase the deferred compensation payable. Losses from the Rabbi Trust decrease the asset and decrease the deferred compensation payable. There is no net income statement effect.

10. Contingencies

On August 5, 2015, Lane Brennen, a former employee of the Bank, filed a complaint in state court naming the Bank, the Bank's former chief executive officer, the Bank's chief financial officer, the Bank's former chief lending officer and an employee of the Bank as defendants (*Lane Brennen v Polonia Bank et al.*, Philadelphia Court of Common Pleas, Case ID 150800526). The complaint alleges claims for breach of his employment contract, violation of Pennsylvania's Wage Payment and Collection Law, and for unlawful retaliation and demands an accounting. Mr. Brennan seeks compensation that he alleges is owed to him under the terms of his employment agreement, as well as other compensatory and punitive damages. Under the terms of Mr. Brennen's employment agreement, he received a portion of the net income from the Bank's FHA lending operations, which he managed. The Bank intends to vigorously defend against these claims. However, the defense may not be successful and insurance may not be available or adequate to fund any judgment, settlement or costs of defense of this action. The individual defendants may be entitled

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to indemnification from the Bank, for which there may be no insurance coverage. The Bank has asserted claims against Mr. Brennen for breach of contract and breach of fiduciary duties.

From time to time, we may be party to various legal proceedings incident to our business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on our results of operations.

11. Fair Value Measurements

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available.

The following table presents the assets reported on the Consolidated Balance Sheets at their fair value as of June 30, 2016 and December 31, 2015, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2016 and December 31, 2015, are as follows:

	June 30, 2016			
	Level I	Level II	Level III	Total
Assets:				
Investment securities available for sale				
Mortgage-backed securities	\$-	\$39,117,174	\$ -	\$39,117,174
Corporate Securities	-	18,034,649	-	18,034,649
Municipal securities	-	1,855,794	-	1,855,794
Common stock	298,940	-	-	298,940
Total	\$298,940	\$59,007,617	\$ -	\$59,306,557

	December 31, 2015			
	Level I	Level II	Level III	Total
Assets:				
Investment securities available for sale				
Mortgage-backed securities	\$-	\$37,253,272	\$ -	\$37,253,272
Corporate Securities	-	16,957,906	-	16,957,906
Municipal securities	-	499,755	-	499,755
Common stock	160,590	-	-	160,590
Total	\$160,590	\$54,710,933	\$ -	\$54,871,523

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For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2016 and December 31, 2015, are as follows:

June 30, 2016

Level I	Level II	Level III	Total
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Assets:

Impaired loans	\$-	\$ -	\$3,477,467	\$3,477,467
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December 31, 2015

Level I	Level II	Level III	Total
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Assets:

Impaired loans	\$-	\$ -	\$3,340,206	\$3,340,206
Other real estate owned	-	-	182,360	182,360

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine fair value.

June 30, 2016

Quantitative Information About Level III Fair Value Measurements

Fair Value Estimate	Valuation Techniques	Unobservable Input	Range	Weighted Average	
Impaired loans	\$ 2,106,971	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 20%	6%
			Liquidation expenses (2)	0% to 6%	5%
	1,370,496	Discounted cash flows	Discount Rates	5% to 8%	7%

December 31, 2015

Quantitative Information About Level III Fair Value Measurements

Fair Value Estimate	Valuation Techniques	Unobservable Input	Range	Weighted Average
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Impaired loans	\$ 1,827,370	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 20%	8%
			Liquidation expenses (2)	0% to 6%	5%
	1,512,836	Discounted cash flows	Discount rates	5% to 8%	7%
Other real estate owned	182,360	Appraisal of collateral (1)	Liquidation Expenses (2)	6%	6%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level III inputs, which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

All of the securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quoted market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions among other things.

Impaired loans are reported at fair value utilizing Level 3 inputs. For these loans, a review of the collateral is conducted and an appropriate allowance for loan losses is allocated to the loan. At June 30, 2016, and December 31, 2015 impaired loans with a carrying value of \$3,480,571 and \$3,343,310 were reduced by specific valuation allowances totaling \$3,104 resulting in a net fair value of \$3,477,467 and \$3,340,206 based on Level 3 inputs.

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Other real estate owned is reported at fair value utilizing Level 3 inputs. For these assets, a review of the collateral and an analysis of the expenses related to selling these assets are conducted and a charge-offs recorded to the allowance for loan losses.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy, within which the fair value measurement in its entirety falls, has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset.

The measurement of fair value should be consistent with one of the following valuation techniques: market approach, income approach, and/or cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering factors specific to the measurement (qualitative and quantitative). Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. As of June 30, 2016 and December 31, 2015, all of the financial assets measured at fair value, on a recurring basis, utilized the market approach.

12. Fair Value Disclosure

The estimated fair values of the Company's financial instruments are as follows:

	Fair Value Measurements at June 30, 2016				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and cash equivalents	\$ 15,409,487	\$ 15,409,487	\$ 15,409,487	\$-	\$-
Certificates of deposit	24,826,000	24,962,543	-	-	24,962,543
Investment securities					
Available for sale	59,306,557	59,306,557	298,940	59,007,617	-
Net loans receivable	168,175,340	172,524,246	-	-	172,524,246
Accrued interest receivable	697,917	697,917	697,917	-	-

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Federal Home Loan Bank stock	3,514,900	3,514,900	3,514,900	-	-
Bank-owned life insurance	4,246,151	4,246,151	4,246,151	-	-
FDIC indemnification asset	49,014	49,014	-	-	49,014
Financial liabilities:					
Deposits	183,314,442	184,746,973	85,863,368	-	98,883,605
FHLB advance – short term	7,000,000	7,000,000	-	-	7,000,000
FHLB advance – long term	49,000,000	50,896,300	-	-	50,896,300
Advances by borrowers for taxes and insurance	1,237,500	1,237,500	1,237,500	-	-
Accrued interest payable	153,607	153,607	153,607	-	-

Fair Value Measurements at
December 31, 2015

	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and cash equivalents	\$31,137,216	\$31,137,216	\$31,137,216	\$-	\$-
Certificates of deposit	15,980,000	16,019,950	-	-	16,019,950
Investment securities					
Available for sale	54,871,523	54,871,523	160,590	54,710,933	-
Net loans receivable	172,179,005	172,746,996	-	-	172,746,996
Accrued interest receivable	671,994	671,994	671,994	-	-
Federal Home Loan Bank stock	3,659,700	3,659,700	3,659,700	-	-
Bank-owned life insurance	4,257,456	4,257,456	4,257,456	-	-
FDIC indemnification asset	473,951	473,951	-	-	473,951
Financial liabilities:					
Deposits	188,222,282	190,019,274	85,536,997	-	104,482,277
FHLB advance – long term	56,000,000	57,596,000	-	-	57,596,000
Advances by borrowers for taxes and insurance	988,906	988,906	988,906	-	-
Accrued interest payable	139,397	139,397	139,397	-	-

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Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract that creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas or stimulation modeling. As many of these assumptions result from judgments made by management based upon estimates that are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

As certain assets such as deferred tax assets and premises and equipment are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Company.

The Company employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available based upon the following assumptions.

Cash and Cash Equivalents, Accrued Interest Receivable, Federal Home Loan Bank Stock, FHLB Advances – Short Term, Accrued Interest Payable and Advances by Borrowers for Taxes and Insurance

The fair value is equal to the current carrying value.

Investment Securities Available for Sale

The fair value of investment securities available for sale is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities.

Net Loans Receivable

The fair value is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted market prices were available, primarily for certain residential mortgage loans, such market rates were utilized as estimates for fair value.

Acquired loans are recorded at fair value on the date of acquisition. The fair values of loans with evidence of credit deterioration (impaired loans) are recorded net of a nonaccretable difference and, if appropriate, an accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is the nonaccretable difference, which is included in the carrying amount of acquired loans.

FDIC Indemnification Asset

As part of the Purchase and Assumption Agreements entered into in connection with the acquisition of Earthstar, the Bank and the FDIC entered into loss sharing agreements. These agreements cover realized losses on loans, which are more fully described in *Note 7*.

Under the agreement, the FDIC agreed to reimburse the Bank for 80% of realized losses. The indemnification asset was originally recorded at fair value on the acquisition date (December 10, 2010) and at June 30, 2016 and December 31, 2015, the carrying value of the FDIC indemnification asset was \$49,000 and \$474,000, respectively.

From the date of acquisition, the agreements extend ten years for one-to-four family real estate loans and five years for the other loans. The loss sharing assets are measured separately from the loan portfolios because they are not contractually embedded in the loans and are not transferable with the loans should the Bank choose to dispose of them. Fair values on the acquisition dates were estimated using projected cash flows available for loss sharing based on the credit adjustments estimated for each loan pool and the loss sharing percentages. These cash flows were discounted to

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reflect the uncertainty of the timing and receipt of the loss sharing reimbursements from the FDIC. The Bank will collect the assets over the next several years. The amount ultimately collected will depend on the timing and amount of collections and charge-offs on the acquired assets covered by the loss sharing agreements. While the assets were recorded at their estimated fair values on the acquisition dates, it is not practicable to complete fair value analyses on a quarterly or annual basis. Estimating the fair value of the FDIC indemnification asset would involve preparing fair value analyses of the entire portfolios of loans and foreclosed assets covered by the loss sharing agreements from the acquisition on a quarterly or annual basis.

Deposits and FHLB Advances – Long Term

The fair values of certificates of deposit and FHLB advances are based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities. Demand, savings, and money market deposits are valued at the amount payable on demand as of year-end.

Bank-Owned Life Insurance

The fair value is equal to the cash surrender value of the life insurance policies.

Commitments to Extend Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments are presented in the Liquidity and Capital Management section.

13. Accumulated Other Comprehensive Income

The activity in accumulated other comprehensive income for the six months ended June 30, 2016 and 2015 are as follows:

	Accumulated Other Comprehensive Income (1) Unrealized Gains (Losses) on Securities Available-for- Sale
Balance at December 31, 2014	\$ 216,800
Other comprehensive loss before reclassifications	(26,956)
Amounts reclassified from accumulated other comprehensive income	-
Period change	(26,956)
Balance at June 30, 2015	\$ 189,844
Balance at December 31, 2015	\$ 380,604
Other comprehensive income before reclassifications	456,092
Amounts reclassified from accumulated other comprehensive income	(423,153)
Period change	32,939
Balance at June 30, 2016	\$ 413,543

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Details regarding amounts reclassified from accumulated other comprehensive income during the six month period ended June 30, 2016, are as follows:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income For the Six Months June 30, 2016	Affected Line Item in the Consolidated Statements of Income (Loss)
Investment Securities Available for Sale (1):		
Net Investment Securities Gains Reclassified into Earnings	\$ 641,142	Investment securities gains, net
Related Income Tax Expense	(217,989)) Income tax expense (benefit)
Total Reclassifications for the Period	\$ 423,153	

(1) For Additional Details Related to Unrealized Gains on Investment Securities and Related Amounts Reclassified from Accumulated Other Comprehensive Income see Note 4, "Investment Securities."

There were no amounts reclassified from accumulated other comprehensive income for the six month period ended June 30, 2015.

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ANNEX A

AGREEMENT AND PLAN OF MERGER

BY AND BETWEEN

PRUDENTIAL BANCORP, INC.

AND

POLONIA BANCORP, INC.

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AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER (this “**Agreement**”) is dated as of June 2, 2016, by and between Prudential Bancorp, Inc., a Pennsylvania corporation (“**Prudential**”), and Polonia Bancorp, Inc., a Maryland corporation (“**Polonia**”).

WHEREAS, the Board of Directors of each of Prudential and Polonia (a) has determined that this Agreement and the business combination and related transactions contemplated hereby are in the best interests of their respective companies, (b) has determined that this Agreement and the transactions contemplated hereby are consistent with and in furtherance of their respective business strategies, and (c) has adopted a resolution approving this Agreement and declaring its advisability;

WHEREAS, in accordance with the terms of this Agreement, Polonia will merge with and into Prudential (the “**Merger**”) and immediately thereafter Polonia Bank, a federally chartered stock savings bank and wholly owned subsidiary of Polonia (“**Polonia Bank**”), will merge with and into Prudential Savings Bank, a Pennsylvania-chartered stock savings bank and wholly owned subsidiary of Prudential (“**Prudential Bank**”), (the “**Bank Merger**”) pursuant to the terms of the Agreement and Plan of Merger substantially in the form attached hereto as Exhibit A;

WHEREAS, as a condition to the willingness of Prudential to enter into this Agreement, each of the directors and certain executive officers of Polonia has entered into a Voting Agreement, substantially in the form of Exhibit B hereto, dated as of the date hereof, with Prudential (the “**Polonia Voting Agreements**”), pursuant to which each such director and executive officer has agreed, among other things, to vote all shares of common stock of Polonia owned by such person in favor of the approval of this Agreement and the transactions contemplated hereby, upon the terms and subject to the conditions set forth in the Polonia Voting Agreements;

WHEREAS, the parties intend the Merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the “**Code**”), and that this Agreement be and is hereby adopted as a “plan of reorganization” within the meaning of Sections 354 and 361 of the Code; and

WHEREAS, the parties desire to make certain representations, warranties and agreements in connection with the business transactions described in this Agreement and to prescribe certain conditions thereto.

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements herein contained, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, intending to be legally bound, the parties hereto agree as follows:

ARTICLE I
CERTAIN DEFINITIONS

1.1. Certain Definitions.

As used in this Agreement, the following terms have the following meanings (unless the context otherwise requires, references to Articles and Sections refer to Articles and Sections of this Agreement).

“**ACA**” shall have the meaning set forth in Section 4.12.2.

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“**Accounting Firm**” shall mean S.R. Snodgrass, P.C. or such other independent accounting firm as may be mutually agreed to by the parties.

“**Acquisition Proposal**” shall have the meaning set forth in Section 6.10.1.

“**Acquisition Transaction**” shall have the meaning set forth in Section 6.10.1.

“**Adjusted Prudential Ratio**” shall have the meaning set forth in Section 11.1.7.

“**Adjusted Per Share Stock Consideration**” shall have the meaning set forth in Section 11.1.7.

“**Administrative Delinquencies**” shall mean loans that either (a) are current (less than 30 days delinquent), but have reached a maturity date and have not yet been extended, or (b) are more than 30 days delinquent as a result of (i) a delay in billing by Polonia Bank, (ii) a delay in posting payments by Polonia Bank, or (iii) weather, hostilities, or other events not in the borrower’s control that delay the delivery of payments generally to Polonia Bank.

“**Affiliate**” shall mean any Person who directly, or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person and, without limiting the generality of the foregoing, includes any executive officer or director of such Person and any Affiliate of such executive officer or director.

“**Agreement**” shall mean this agreement, together with any amendment hereto.

“**Applications**” shall mean the applications for regulatory approval that are required by the transactions contemplated hereby.

“**Average Closing Price**” shall have the meaning set forth in Section 11.1.7.

“**Bank Merger**” shall have the meaning set forth in the recitals to this Agreement.

“**Bank Regulator**” shall mean any federal or state banking regulator, including but not limited to the OCC, the FRB, the FDIC and the Pennsylvania Department, which regulates Prudential Bank or Polonia Bank, or any of their respective holding companies or subsidiaries, as the case may be.

“**Business Day**” shall mean any day other than (a) a Saturday or Sunday, or (b) a day on which banking and savings associations in the Commonwealth of Pennsylvania are authorized or obligated by law or executive order to be closed.

“**Cash Election**” shall have the meaning set forth in Section 3.1.4.

“**Cash Election Shares**” shall have the meaning set forth in Section 3.1.4.

“**Cash-Out Consideration**” shall have the meaning set forth in Section 3.3.9.

“**Certificates**” shall mean certificates evidencing shares of Polonia Common Stock.

“**Claim**” shall have the meaning set forth in Section 7.9.1.

“**Closing**” shall have the meaning set forth in Section 2.2.

“**Closing Balance Sheet**” shall have the meaning set forth in Section 6.13.2.

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“**Closing Date**” shall have the meaning set forth in Section 2.2.

“**COBRA**” shall mean the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

“**Code**” shall have the meaning assigned in the recitals of this Agreement.

“**Confidentiality Agreements**” shall have the meaning set forth in Section 12.1.

“**Continuing Employees**” shall have the meaning set forth in Section 7.8.1.

“**Determination Date**” shall have the meaning set forth in Section 11.1.7.

“**Dissenting Shareholder**” shall have the meaning set forth in Section 3.3.10.

“**Dissenting Shares**” shall have the meaning set forth in Section 3.3.10.

“**Effective Time**” shall mean the date and time specified pursuant to Section 2.2 hereof as the effective time of the Merger.

“**Election Deadline**” shall have the meaning set forth in Section 3.2.3.

“**Election Form**” shall have the meaning set forth in Section 3.2.2.

“**Environmental Laws**” shall mean any applicable federal, state or local law, statute, ordinance, rule, regulation, code, license, permit, authorization, approval, consent, order, judgment, decree, injunction or agreement with any

governmental entity relating to (1) the protection, preservation or restoration of the environment (including, without limitation, air, water vapor, surface water, groundwater, drinking water supply, surface soil, subsurface soil, plant and animal life or any other natural resource), and/or (2) the use, storage, recycling, treatment, generation, transportation, processing, handling, labeling, production, release or disposal of Materials of Environmental Concern. The term Environmental Laws includes without limitation (a) the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. § 9601, et seq.; the Resource Conservation and Recovery Act, as amended, 42 U.S.C. § 6901, et seq.; the Clean Air Act, as amended, 42 U.S.C. § 7401, et seq.; the Federal Water Pollution Control Act, as amended, 33 U.S.C. § 1251, et seq.; the Toxic Substances Control Act, as amended, 15 U.S.C. § 2601, et seq.; the Emergency Planning and Community Right to Know Act, 42 U.S.C. § 11001, et seq.; the Safe Drinking Water Act, 42 U.S.C. § 300f, et seq.; and all comparable state and local laws, and (b) any common law (including without limitation common law that may impose strict liability) that may impose liability or obligations for injuries or damages due to the presence of or exposure to any Materials of Environmental Concern.

“**ERISA**” shall mean the Employee Retirement Income Security Act of 1974, as amended.

“**Exchange Act**” shall mean the Securities Exchange Act of 1934, as amended.

“**Exchange Agent**” shall mean Computershare, Inc., or such other bank or trust company or other agent designated by Prudential and reasonably acceptable to Polonia.

“**Exchange Fund**” shall have the meaning set forth in Section 3.3.1.

“**Exchange Ratio**” shall have the meaning set forth in Section 3.1.3.

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“**FDIA**” shall mean the Federal Deposit Insurance Act, as amended.

“**FDIC**” shall mean the Federal Deposit Insurance Corporation or any successor thereto.

“**FHLB**” shall mean the Federal Home Loan Bank of Pittsburgh.

“**Final Statement Date**” shall have the meaning set forth in Section 6.13.3.

“**FinPro**” shall have the meaning set forth in Section 4.13.

“**FRB**” shall mean the Board of Governors of the Federal Reserve System.

“**GAAP**” shall mean accounting principles generally accepted in the United States of America, consistently applied with prior practice.

“**Governmental Entity**” shall mean any federal or state court, administrative agency or commission or other governmental authority or instrumentality.

“**health plans**” shall have the meaning set forth in Section 7.8.3.

“**HIPAA**” shall have the meaning set forth in Section 4.12.2.

“**HOLA**” shall have the meaning set forth in Section 4.1.1.

“**Indemnified Parties**” shall have the meaning set forth in Section 7.9.1.

“**Index Price**” shall have the meaning set forth in Section 11.1.7.

“**Index Ratio**” shall have the meaning set forth in Section 11.1.7.

“**IRS**” shall mean the United States Internal Revenue Service.

“**Knowledge**” as used with respect to a Person (including references to such Person being aware of a particular matter), shall mean those facts that are known or should have been known after due inquiry by the executive officers (as defined in Rule 3b-7 under the Exchange Act) of such Person, and includes any facts, matters or circumstances set forth in any written notice from any Bank Regulator or any other written notice received by that Person.

“**Mailing Date**” shall have the meaning set forth in Section 3.2.2.

“**MGCL**” shall mean the Maryland General Corporation Law.

“**Maryland Department**” shall mean the Maryland State Department of Assessments and Taxation.

“**Material Adverse Effect**” shall mean, with respect to Prudential or Polonia, respectively, any effect that (a) is material and adverse to the financial condition, results of operations or business of Prudential and the Prudential Subsidiaries taken as a whole, or Polonia and the Polonia Subsidiaries taken as a whole, respectively, or (b) does or would materially impair the ability of either Prudential, on the one hand, or Polonia, on the other hand, to perform its obligations under this Agreement on a timely basis or otherwise materially threaten or materially impede the consummation of the transactions contemplated by this Agreement; provided, however, that “Material Adverse Effect” shall not be deemed to include the

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impact of (i) changes in laws and regulations affecting banks or thrift institutions or their holding companies generally, or interpretations thereof by courts or Governmental Entities, (ii) changes in GAAP or regulatory accounting principles generally applicable to financial institutions and their holding companies, (iii) actions and omissions of a party hereto (or any of its Subsidiaries) taken with the prior written consent of the other party, (iv) the announcement of this Agreement and the transactions contemplated hereby, and compliance with this Agreement on the business, financial condition or results of operations of the parties and their respective subsidiaries, including the expenses incurred by the parties hereto in consummating the transactions contemplated by this Agreement, (v) changes in national or international political or social conditions including the engagement by the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack upon or within the United States, or any of its territories, possessions or diplomatic or consular offices or upon any military installation, equipment or personnel of the United States, (vi) economic, financial market, or geographic conditions in general, including changes in economic or financial markets or changes in interest rates; (vii) any legal action asserted or other actions initiated by any holder of shares of Polonia Common Stock or the holder of any shares of Prudential Common Stock arising out of or related to this Agreement; or (viii) any failure, in and of itself, by such party to meet any internal projections, forecasts or revenue or earnings projections (it being understood that the facts giving rise or contributing to such failure may be deemed to constitute, or be taken into account in determining whether there has been or would reasonably be expected to be, a Material Adverse Effect); except, with respect to clauses (i), (ii), (v) and (vi), to the extent that the effects of such changes or conditions disproportionately affect Polonia and its Subsidiaries taken as a whole or Prudential and its Subsidiaries taken as a whole, as the case may be, as compared to similarly situated community banks and their holding companies located in the United States.

“**Material Contracts**” shall have the meaning set forth in Section 4.8.3.

“**Materials of Environmental Concern**” shall mean pollutants, contaminants, wastes, toxic substances, petroleum and petroleum products, and any other hazardous or toxic materials regulated under Environmental Laws.

“**Maximum Amount**” shall have the meaning set forth in Section 7.9.3.

“**Merger**” shall have the meaning set forth in the recitals of this Agreement.

“**Merger Consideration**” shall mean the Per Share Cash Consideration and the Per Share Stock Consideration, as the case may be, to be paid pursuant to the provisions of Article III hereof, subject to adjustment as provided herein.

“Merger Registration Statement” shall mean the registration statement, together with all amendments, filed with the SEC under the Securities Act for the purpose of registering shares of Prudential Common Stock to be offered to holders of Polonia Common Stock in connection with the Merger.

“MOU” shall mean the Memorandum of Understanding entered into between the FRB and Polonia dated February 17, 2015.

“Nasdaq” shall mean the NASDAQ Global Market of the NASDAQ Stock Market.

“Non-Election Shares” shall have the meaning set forth in Section 3.1.6.

“Notice of Superior Proposal” shall have the meaning set forth in Section 6.10.5.

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“**OCC**” shall mean the Office of the Comptroller of the Currency.

“**OCC Agreement**” shall mean the Agreement entered into between Polonia Bank and the OCC dated October 21, 2014, and the amendment thereto dated November 10, 2015.

“**Outstanding Shares Number**” shall mean the number of shares of Polonia Common Stock issued and outstanding immediately prior to the Effective Time, which number shall not exceed 3,348,827 shares plus up to an additional 208,749 shares issued pursuant to the Polonia Stock Benefits Plans after the date of this Agreement.

“**Participation Facility**” shall have the meaning set forth in Section 4.14.1.

“**PBGC**” shall mean the Pension Benefit Guaranty Corporation, or any successor thereto.

“**PBCL**” means the Pennsylvania Business Corporation Law.

“**Pennsylvania Department**” shall mean the Pennsylvania Department of Banking and Securities.

“**Pension Plan**” shall have the meaning set forth in Section 4.12.2.

“**Per Share Cash Consideration**” shall mean \$11.28, subject to adjustment as provided in Section 3.1.5.

“**Per Share Merger Consideration**” shall mean, collectively, the Per Share Cash Consideration together with the Per Share Stock Consideration.

“**Per Share Stock Consideration**” shall mean such number of shares or fraction of a share, as the case may be, of Prudential Common Stock as is equal to the Exchange Ratio, subject to adjustment as provided in Sections 3.1.5, 3.1.8 and 11.1.7.

“**Person**” shall mean any individual, corporation, partnership, limited liability company, joint venture, association, trust or “group” (as that term is defined under the Exchange Act).

“**Phase I**” shall mean a Phase I Environmental Site Assessment performed in accordance with ASTM E1527-05 and/or the “all appropriate inquiry” standards set forth at 40 C.F.R. Part 312.

“**Phase II**” shall have the meaning set forth in Section 6.3.

“**Plan Termination Date**” shall have the meaning set forth in Section 6.12.3.

“**Policies, Practices and Procedures**” shall have the meaning set forth in Section 4.27.2.

“**Polonia**” shall mean Polonia Bancorp, Inc., a Maryland corporation, with its principal executive office located at 3993 Huntington Pike, 3rd Floor, Huntingdon Valley, Pennsylvania 19006.

“**Polonia 401(k) Plan**” shall have the meaning set forth in Section 6.12.3.

“**Polonia Audit Committee**” shall have the meaning set forth in Section 4.5.4.

“**Polonia Bank**” shall mean Polonia Bank, a federally chartered stock savings bank, with its principal offices located at 3993 Huntington Pike, 3rd Floor, Huntingdon Valley, Pennsylvania 19006.

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“**Polonia Common Stock**” shall mean the common stock, \$0.01 par value per share, of Polonia.

“**Polonia Compensation and Benefit Plans**” shall mean all existing bonus, incentive, pension, retirement, profit-sharing, employee stock ownership, restricted stock, stock option, severance, welfare benefit plans (including paid time off policies and other benefit policies and procedures), fringe benefit plans, employment, consulting, settlement and employment and change in control agreements and all other benefit practices, policies and arrangements maintained by Polonia or any Polonia Subsidiary in which any employee or former employee, consultant or former consultant or director or former director of Polonia or any Polonia Subsidiary participates or to which any such employee, consultant or director is a party or is otherwise entitled to receive benefits.

“**Polonia Consolidated Stockholders’ Equity**” shall have the meaning set forth in Section 6.13.1.

“**Polonia Delinquencies**” shall mean (a) all loans with principal and/or interest that are more than 30 days contractually past due and still accruing, (b) all loans that are on non-accrual or non-performing status, (c) REO, (d) the aggregate amount, if any, of net loan charge-offs by Polonia between December 31, 2015 and the month-end immediately preceding the Closing Date, and (e) Troubled Debt Restructurings not otherwise included in clauses (a), (b), (c) or (d) of this definition; provided, however, that Polonia Delinquencies shall not include any loans which are Administrative Delinquencies. For purposes of clauses (a), (b) and (e) of this definition, the aggregate amount of the loan balances included therein shall be net of any charge-offs.

“**Polonia Disclosure Schedule**” shall mean a written disclosure schedule delivered by Polonia to Prudential specifically referring to the appropriate section of this Agreement.

“**Polonia ERISA Affiliate**” shall have the meaning set forth in Section 4.12.3.

“**Polonia Financial Statements**” shall mean (a) the audited consolidated balance sheets of Polonia and its Subsidiaries as of December 31, 2015 and 2014 and the consolidated statements of income (loss), comprehensive income (loss), changes in stockholders’ equity and cash flows (including related notes and schedules, if any) of Polonia and the Polonia Subsidiaries for each of the two years ended December 31, 2015 and 2014 as set forth in Polonia’s Annual Report on Form 10-K for the year ended December 31, 2015, and (b) the unaudited interim consolidated financial statements of Polonia and Subsidiaries as of the end of each calendar quarter following December 31, 2015 and for the periods then ended.

“Polonia MAE Rep” shall mean each of the representations and warranties set forth in the following sections and subsections: 4.1.1 (other than the first sentence thereof), 4.1.2 (other than the first sentence thereof), 4.2.3, 4.2.4, 4.3.2 (beginning at clause (c)(ii) thereof), 4.4, 4.6, 4.7, 4.8, 4.9, 4.10, 4.11.1 (other than the first sentence thereof), 4.11.2, 4.12, 4.13, 4.14, 4.15, 4.16, 4.18, 4.19, 4.20, 4.21, 4.22, 4.23, 4.24, 4.25, 4.26.2 and 4.27.

“Polonia Net Equity Adjustments” shall have the meaning set forth in Section 6.13.1.

“Polonia Option” shall mean option to purchase shares of Polonia Common Stock granted pursuant to the Polonia Stock Benefit Plans and as set forth in Polonia Disclosure Schedule 3.3.9.

“Polonia Real Property” shall mean a parcel of real estate owned or leased by Polonia or a Polonia Subsidiary.

“Polonia Recommendation” shall have the meaning set forth in Section 8.1.

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“**Polonia Regulatory Agreement**” shall have the meaning set forth in Section 4.11.3.

“**Polonia Regulatory Reports**” shall mean the Consolidated Report of Condition and Income of Polonia and accompanying schedules, as filed with the FRB, for the six month periods then ended beginning with the six month period ended December 31, 2015 through the Closing Date.

“**Polonia Restricted Stock Award**” shall mean a restricted stock award or unit granted pursuant to the Polonia Stock Benefit Plans and set forth in Polonia Disclosure Schedule 3.3.9.

“**Polonia Securities Documents**” shall mean all reports, prospectus, proxy or information statements, registration statements and all other documents filed, or required to be filed, by Polonia with the SEC pursuant to the securities laws.

“**Polonia SERPs**” shall mean the (i) Amended and Restated Polonia Bank Supplemental Executive Retirement Plan dated as of January 1, 2005, (ii) the Polonia Bank Supplemental Executive Retirement Plan effective as of July 1, 2006, (iii) the Polonia Federal Savings & Loan Association Supplemental Retirement Plan effective June 1, 1995, (iv) the Polonia Federal Savings and Loan Supplemental Executive Retirement Plan for Anthony J. Szuszczewicz, and (v) each participation agreement or trust agreement adopted in connection with any of the foregoing plans.

“**Polonia Shareholders Meeting**” shall have the meaning set forth in Section 8.1.

“**Polonia Stock Benefit Plan**” shall mean the (i) Polonia Bancorp, Inc. 2007 Equity Incentive Plan and (ii) Polonia Bancorp, Inc. 2013 Equity Incentive Plan.

“**Polonia Subsequent Determination**” shall have the meaning set forth in Section 6.10.5.

“**Polonia Subsidiary**” shall mean a Subsidiary of Polonia.

“**Polonia Voting Agreements**” shall have the meaning set forth in the recitals of this Agreement.

“**Pre-Closing**” shall have the meaning set forth in Section 10.1.

“**Proxy Statement-Prospectus**” shall have the meaning set forth in Section 8.2.1.

“**Prudential**” shall mean Prudential Bancorp, Inc., a Pennsylvania corporation, with its principal executive offices located at 1834 West Oregon Avenue, Philadelphia, PA 19145.

“**Prudential Audit Committee**” shall have the meaning set forth in Section 5.5.3.

“**Prudential Bank**” shall mean Prudential Savings Bank, a Pennsylvania-chartered savings bank, with its principal offices located at 1834 West Oregon Avenue, Philadelphia, PA 19335, which is a wholly owned subsidiary of Prudential.

“**Prudential Common Stock**” shall mean the common stock, par value \$0.01 per share, of Prudential.

“**Prudential Compensation and Benefit Plans**” shall mean all existing bonus, incentive, pension, retirement, profit-sharing, employee stock ownership, restricted stock, stock option, severance, welfare benefit plans (including paid time off policies and other benefit policies and procedures), fringe benefit plans, employment, consulting, settlement and employment and change in control agreements and all other benefit practices, policies and arrangements maintained by Prudential or any Prudential

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Subsidiary in which any employee or former employee, consultant or former consultant or director or former director of Prudential or any Prudential Subsidiary participates or to which any such employee, consultant or director is a party or is otherwise entitled to receive benefits.

“Prudential Disclosure Schedule” shall mean a written disclosure schedule delivered by Prudential to Polonia specifically referring to the appropriate section of this Agreement.

“Prudential ERISA Affiliate” shall have the meaning set forth in Section 5.11.3.

“Prudential Financial Statements” shall mean the (a) the audited consolidated statements of condition of Prudential and its Subsidiaries as of September 30, 2015 and 2014 and the consolidated statements of income, comprehensive income, changes in stockholders’ equity and cash flows (including related notes and schedules, if any) of Prudential and the Prudential Subsidiaries for each of the three years ended September 30, 2015, 2014 and 2013, as set forth in Prudential’s Annual Report on Form 10-K for the year ended September 30, 2015, and (b) the unaudited interim consolidated financial statements of Prudential and its Subsidiaries as of the end of each calendar quarter following September 30, 2015, and for the periods then ended, as filed by Prudential in the Prudential Securities Documents.

“Prudential MAE Rep” shall mean each of the representations and warranties set forth in the following sections and subsections: 5.1.1 (other than the first sentence thereof), 5.1.2 (other than the first sentence thereof), 5.2.3, 5.2.4, 5.3.2 (beginning at clause (c)(ii) thereof), 5.4, 5.6, 5.7, 5.8, 5.9, 5.10.1 (other than the first sentence thereof), 5.10.2, 5.10.4, 5.11, 5.12, 5.13, 5.14, 5.15, 5.16, 5.17 and 5.18.

“Prudential Payment” shall have the meaning set forth in Section 11.2.2.

“Prudential Pension Plan” shall have the meaning set forth in Section 5.11.3.

“Prudential Policies, Practices and Procedures” shall have the meaning set forth in Section 5.18.2.

“Prudential Ratio” shall have the meaning set forth in Section 11.1.7.

“Prudential Regulatory Agreement” shall have the meaning set forth in Section 5.10.3.

“Prudential Securities Documents” shall mean all reports, prospectuses, proxy or information statements, registration statements and all other documents filed, or required to be filed, by Prudential with the SEC pursuant to the Securities Laws.

“Prudential Stock Benefit Plans” shall mean the (i) Prudential Bancorp, Inc. 2008 Stock Option Plan, (ii) Prudential Bancorp, Inc. 2008 Recognition and Retention Plan and Trust, and (iii) Prudential Bancorp, Inc. 2014 Stock Incentive Plan.

“Prudential Subsidiary” shall mean a Subsidiary of Prudential.

“Regulatory Approvals” shall mean the approval of any Bank Regulator that is necessary in connection with the consummation of the Merger, and the related transactions contemplated by this Agreement.

“REO” shall mean real estate acquired through foreclosure or in lieu of foreclosure, including in-substance foreclosures.

“Representative” shall have the meaning set forth in Section 3.2.2.

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“**Rights**” shall mean warrants, options, rights, convertible securities, stock appreciation rights and other arrangements or commitments (including rights to earned dividends or dividend equivalents thereon) which obligate an entity to issue or dispose of any of its capital stock or other ownership interests or which provide for compensation based on the equity appreciation of its capital stock.

“**SEC**” shall mean the United States Securities and Exchange Commission or any successor thereto.

“**Securities Act**” shall mean the Securities Act of 1933, as amended.

“**Securities Laws**” shall mean the Securities Act; the Exchange Act; the Investment Company Act of 1940, as amended; the Investment Advisers Act of 1940, as amended; the Trust Indenture Act of 1939, as amended, and the rules and regulations of the SEC promulgated thereunder.

“**Shortfall Number**” shall have the meaning set forth in Section 3.2.6.

“**Starting Date**” shall have the meaning set forth in Section 11.1.7.

“**Starting Price**” shall have the meaning set forth in Section 11.1.7.

“**Stock Conversion Number**” shall have the meaning set forth in Section 3.2.1.

“**Stock Election**” shall have the meaning set forth in Section 3.1.3.

“**Stock Election Number**” shall have the meaning set forth in Section 3.2.5.

“**Stock Election Shares**” shall have the meaning set forth in Section 3.1.3.

“**Subsidiary**” shall mean a corporation, limited liability company, partnership, trust, joint venture or other entity in which a Person owns, directly or indirectly, an equity interest representing 50% or more of any class of the capital stock thereof or other equity interests therein.

“**Superior Proposal**” shall have the meaning set forth in Section 6.10.2.

“**Surviving Corporation**” shall have the meaning set forth in Section 2.1 hereof.

“**Tax**” shall mean any tax, including any fees, levies, duties, tariffs, imposts, and governmental impositions or charges of any kind in the nature of (or similar to) taxes, payable to any federal, state, provincial, local or foreign Taxing Authority, including: (a) income, franchise, profits, gross receipts, ad valorem, net worth, value added, sales, use, service, real, personal or intangible property, special assessments, capital stock, license, payroll, withholding, employment, social security, workers’ compensation, unemployment compensation, estimated, utility, severance, production, excise, stamp, occupation, premiums, windfall profits, recording, transfer and gains taxes; (b) interest, penalties, additional taxes and additions to tax imposed; and (c) any obligations under any agreements or arrangements with any other Person with respect to such amounts and including any liability for taxes of a predecessor entity.

“**Tax Return**” shall mean any return, declaration, report, claim for refund, estimates, elections, agreements, statements, declarations of estimated tax, information returns or other documents of any nature or kind, relating to, or required to be filed in connection with, any Taxes, including any schedule or attachment thereto and amendments thereof, and including any information returns or reports with respect to backup withholding and other payments to third parties.

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“**Taxing Authority**” shall mean any Governmental Entity responsible for the imposition or collection of any Taxes, whether domestic or foreign.

“**Termination Date**” shall mean February 28, 2017.

“**Treasury Stock**” shall have the meaning set forth in Section 3.1.2.

“**Troubled Debt Restructurings**” shall mean loans that are “troubled debt restructurings” as defined in Statement of Financial Accounting Standards No. 15, “Accounting by Debtors and Creditors for Troubled Debt Restructuring” (ASC 310-40), or any successor thereto.

Other terms used herein are defined in the recitals and elsewhere in this Agreement.

ARTICLE II
THE MERGER

2.1. Merger.

Subject to the terms and conditions of this Agreement, at the Effective Time: (a) Polonia shall merge with and into Prudential under the laws of the Commonwealth of Pennsylvania and the State of Maryland, with Prudential as the resulting or surviving institution (the “**Surviving Corporation**”); and (b) the separate existence of Polonia shall cease and all of the rights, privileges, powers, franchises, properties, assets, liabilities and obligations of Polonia shall be vested in and assumed by Prudential. As part of the Merger, each share of Polonia Common Stock (other than Treasury Stock and Dissenting Shares) will be converted into the right to receive the Merger Consideration pursuant to the terms of Article III hereof.

2.2. Effective Time.

The closing (“**Closing**”) shall occur no later than the close of business on the twentieth calendar day following the satisfaction or (to the extent permitted by applicable law) waiver of the conditions set forth in Article IX (other than those conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or (to the extent

permitted by applicable law) waiver of those conditions), or within five business days of the acceptance of the Closing Balance Sheet, whichever is later, or such other date that may be agreed to in writing by the parties.

The Merger shall be effected by the filing of Articles of Merger with the Department of State of the Commonwealth of Pennsylvania and the Maryland Department on the day of the Closing (the “**Closing Date**”), in accordance with the PBCL and the MGCL. The “**Effective Time**” shall mean the date and time upon which the Articles of Merger are filed with the Department of State of the Commonwealth of Pennsylvania and the Maryland Department, or as otherwise stated in the Articles of Merger, in accordance with the PBCL and the MGCL.

2.3. Articles of Incorporation and Bylaws.

The articles of incorporation and bylaws of Prudential in effect immediately prior to the Effective Time shall be the articles of incorporation and bylaws of the Surviving Corporation, until altered, amended or repealed in accordance with their terms and applicable law.

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2.4. Directors and Officers of Prudential and the Surviving Corporation.

The directors of Prudential immediately prior to the Effective Time shall be the initial directors of the Surviving Corporation, each to hold office in accordance with the articles of incorporation and bylaws of Prudential. The officers of Prudential immediately prior to the Effective Time shall be the initial officers of the Surviving Corporation, in each case until their respective successors are duly elected or appointed and qualified.

2.5. Effects of the Merger.

At and after the Effective Time, the Merger shall have the effects as set forth in this Agreement, the PBCL and the MGCL.

2.6. Tax Consequences.

It is intended that the Merger shall constitute a reorganization within the meaning of Section 368(a) of the Code, and that this Agreement shall constitute a “plan of reorganization” as that term is used in Sections 354 and 361 of the Code. From and after the date of this Agreement and until the Closing, each party hereto shall use its reasonable best efforts to cause the Merger to qualify, and will not knowingly take any action, cause any action to be taken, fail to take any action or cause any action to fail to be taken which action or failure to act could prevent the Merger from qualifying as a reorganization under Section 368(a) of the Code. Prudential and Polonia each hereby agrees to deliver certificates substantially in compliance with IRS published advance ruling guidelines, with customary exceptions and modifications thereto, to enable counsel to deliver the legal opinion contemplated by Section 9.1.6, which certificates shall be effective as of the date of such opinion.

2.7. Possible Alternative Structures.

Notwithstanding anything to the contrary contained in this Agreement, prior to the Effective Time Prudential shall be entitled to revise the structure of the Merger, including, without limitation, by merging Polonia into a newly created wholly-owned Subsidiary of Prudential; provided that (a) any such Subsidiary shall become a party to, and shall agree to be bound by, the terms of this Agreement; (b) there are no adverse federal or state income tax or other adverse tax consequences to Polonia shareholders as a result of the modification; (c) the consideration to be paid to the holders of Polonia Common Stock under this Agreement is not thereby changed in kind or value or reduced in amount; and (d) such modification will not materially delay or jeopardize the receipt of Regulatory Approvals or other consents and approvals relating to the consummation of the Merger, otherwise materially delay or jeopardize the satisfaction of any condition to Closing set forth in Article IX or otherwise adversely affect Polonia or the holders of Polonia Common Stock. The parties hereto agree to appropriately amend this Agreement and any related documents in order to reflect any such revised structure.

2.8. Bank Merger.

Prudential and Polonia shall use their reasonable best efforts to cause the Bank Merger to occur as soon as practicable after the Effective Time. In addition, following the execution and delivery of this Agreement, Prudential will cause Prudential Bank, and Polonia will cause Polonia Bank, to execute and deliver the Agreement and Plan of Merger substantially in the form attached to this Agreement as Exhibit A.

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2.9. Absence of Control.

Subject to any specific provisions of this Agreement, it is the intent of the parties hereto that Prudential by reason of this Agreement shall not be deemed (until consummation of the transactions contemplated hereby) to control, directly or indirectly, Polonia or to exercise, directly or indirectly, a controlling influence over the management or policies of Polonia.

ARTICLE III
CONVERSION OF SHARES

3.1. Conversion of Polonia Common Stock; Merger Consideration.

At the Effective Time, by virtue of the Merger and without any action on the part of Prudential, Polonia or the holders of any of the shares of Polonia Common Stock, the Merger shall be effected in accordance with the following terms:

3.1.1. *Prudential Shares.* Each share of Prudential Common Stock that is issued and outstanding immediately prior to the Effective Time shall remain issued and outstanding following the Effective Time and shall be unchanged by the Merger.

3.1.2. *Canceled Polonia Shares.* All shares of Polonia Common Stock held in the treasury of Polonia (“**Treasury Stock**”) and each share of Polonia Common Stock owned by Prudential immediately prior to the Effective Time (other than shares held in a fiduciary capacity or in connection with debts previously contracted) shall, at the Effective Time, cease to exist, and the certificates for such shares shall be canceled as promptly as practicable thereafter, and no payment or distribution shall be made in consideration therefor.

3.1.3. Each outstanding share of Polonia Common Stock with respect to which an election to receive Prudential Common Stock has been effectively made and not revoked or lost, pursuant to Section 3.2.3 (a “**Stock Election**”), shall be converted into the right to receive (i) 0.7591 (the “**Exchange Ratio**”) of a share of Prudential Common Stock, subject to adjustment as provided in Sections 3.1.5, 3.1.8 and 11.1.7 (the “**Per Share Stock Consideration**”) (collectively, the “**Stock Election Shares**”).

3.1.4. Each outstanding share of Polonia Common Stock with respect to which an election to receive cash has been effectively made and not revoked or lost, pursuant to Section 3.2.3 (a “**Cash Election**”), shall be converted into the

right to receive a cash payment, without interest, equal to \$11.28 (the “**Per Share Cash Consideration**”), subject to adjustment as provided in Sections 3.1.5 and 11.1.7 (collectively, the “**Cash Election Shares**”).

3.1.5. *Stockholders' Equity Price Adjustment.*

(A) If, as of the Final Statement Date, the Polonia Consolidated Stockholders' Equity is less than \$37,401,000, the Per Share Cash Consideration and the Per Share Stock Consideration shall be reduced as set forth below, subject to increase in clause (B) below:

(i) The Per Share Cash Consideration will be reduced from \$11.28 by an amount equal to (i) \$37,401,000 minus (ii) the Polonia Consolidated Stockholders' Equity as of the Final Statement Date, with such difference divided by the Outstanding Shares Number, rounded to the nearest cent.

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(ii) The Per Share Stock Consideration shall be reduced by taking the following steps to reduce the Exchange Ratio: (i) subtract from \$37,401,000 the Polonia Consolidated Stockholders' Equity as of the Final Statement Date, (ii) divide the difference in clause (i) by the Outstanding Shares Number, (iii) divide the quotient in clause (ii) by the Starting Price, and (iv) subtract the quotient in clause (iii) from the Exchange Ratio, with the adjusted Exchange Ratio rounded to the nearest ten-thousandth.

(B) If the Polonia Net Equity Adjustments is a positive dollar amount, then the Per Share Cash Consideration and the Per Share Stock Consideration (in each case after reflecting any downward adjustment determined in clause (A) above) shall be increased as set forth below:

(i) The Per Share Cash Consideration (after reflecting any downward adjustment determined in clause (A) above) will be increased by an amount equal to the Polonia Net Equity Adjustments divided by the Outstanding Shares Number, rounded to the nearest cent.

(ii) The Per Share Stock Consideration (after reflecting any downward adjustment determined in clause (A) above) shall be increased by taking the following steps to increase the Exchange Ratio (after reflecting any downward adjustment determined in clause (A) above): (i) divide the Polonia Net Equity Adjustments by the Outstanding Shares Number, (ii) divide the quotient in clause (i) by the Starting Price, and (iii) add the quotient in clause (ii) to the Exchange Ratio with the adjusted Exchange Ratio rounded to the nearest ten-thousandth.

3.1.6. Except for Dissenting Shares, each outstanding share of Polonia Common Stock other than as to which a Cash Election or a Stock Election has been effectively made and not revoked or lost, pursuant to Section 3.2.3 (collectively, "**Non-Election Shares**"), shall be converted into the right to receive such Per Share Stock Consideration and/or Per Share Cash Consideration as shall be determined in accordance with Section 3.2, subject to adjustment as provided in Sections 3.1.5, 3.1.8 and 11.1.7.

3.1.7. *Rights of Polonia Shares Post-Effective Time.* After the Effective Time, shares of Polonia Common Stock shall be no longer outstanding and shall automatically be canceled and shall cease to exist and shall thereafter by operation of this section represent only the right to receive the Merger Consideration, other than Dissenting Shares, and any dividends or distributions with respect thereto or any dividends or distributions with a record date prior to the Effective Time that were declared or made by Polonia on such shares of Polonia Common Stock in accordance with the terms of this Agreement on or prior to the Effective Time and which remain unpaid at the Effective Time. Dissenting Shares shall have such rights as provided therefor under applicable law.

3.1.8. *Stock Splits, Etc.* In the event Prudential changes (or establishes a record date for changing) the number of, or provides for the exchange of, shares of Prudential Common Stock issued and outstanding prior to the Effective Time as a result of a stock split, stock dividend, recapitalization, reclassification, or similar transaction with respect to the outstanding Prudential Common Stock and the record date therefor shall be prior to the Effective Time, the Exchange Ratio shall be proportionately and appropriately adjusted; provided that no such adjustment shall be made with regard to Prudential Common Stock if Prudential issues additional shares of Prudential Common Stock and receives fair market value consideration for such shares.

3.1.9. *No Fractional Shares.* Notwithstanding anything to the contrary contained herein, no certificates or scrip representing fractional shares of Prudential Common Stock shall be issued upon the surrender of Certificates for exchange, no dividend or distribution with respect to Prudential Common Stock shall be payable on or with respect to any fractional share, and such fractional share

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interests shall not entitle the owner thereof to vote or to any other rights of a shareholder of Prudential. In lieu of the issuance of any such fractional share, Prudential shall pay to each former shareholder of Polonia who otherwise would be entitled to receive such fractional share, an amount in cash (rounded to the nearest cent), determined by multiplying (a) the fraction of a share (after taking into account all shares of Polonia Common Stock held by such holder at the Effective Time and rounded to the nearest thousandth when expressed in decimal form) of Prudential Common Stock to which such holder would otherwise have been entitled to receive pursuant to Section 3.1, and (b) the quotient obtained by dividing (y) the Per Share Cash Consideration, by (y) the Exchange Ratio (subject to adjustment as provided in Sections 3.1.5, 3.1.8 and 11.1.7). For purposes of determining any fractional share interest, all shares of Polonia Common Stock owned by a Polonia shareholder shall be combined so as to calculate the maximum number of whole shares of Prudential Common Stock issuable to such Polonia shareholder.

3.2. Election Procedures.

3.2.1. Holders of record of Polonia Common Stock may elect to receive shares of Prudential Common Stock or cash in exchange for their shares of Polonia Common Stock, provided that the number of shares of Polonia Common Stock to be converted into Per Share Stock Consideration pursuant to this Section 3.2.1 shall not exceed fifty percent (50.0%) of the Outstanding Shares Number (the “**Stock Conversion Number**”). All other shares of Polonia Common Stock other than Dissenting Shares shall be converted into Per Share Cash Consideration.

3.2.2. An election form and other appropriate customary transmittal material in such form as Prudential and Polonia shall mutually agree (“**Election Form**”) will be mailed no more than forty (40) Business Days and no less than twenty (20) Business Days prior to the Election Deadline or on such earlier date as Prudential and Polonia shall mutually agree (the “**Mailing Date**”) to each holder of record of Polonia Common Stock as of five (5) Business Days prior to the Mailing Date permitting such holder, subject to the allocation and election procedures set forth in this Section 3.2, (i) to specify the number of shares of Polonia Common Stock owned by such holder with respect to which such holder desires to make a Cash Election in accordance with the provisions of Section 3.1.4, (ii) to specify the number of shares of Polonia Common Stock owned by such holder with respect to which such holder desires to make a Stock Election, in accordance with the provisions of Section 3.1.3, or (iii) to indicate that such record holder has no preference as to the receipt of cash or Prudential Common Stock for such shares. Holders of record of shares of Polonia Common Stock who hold such shares as nominees, trustees or in other representative capacities (a “**Representative**”) may submit multiple Election Forms, provided that each such Election Form covers all the shares of Polonia Common Stock held by each Representative for a particular beneficial owner. Any shares of Polonia Common Stock with respect to which the holder thereof shall not, as of the Election Deadline (as defined in Section 3.2.3), have made an election by submission to the Exchange Agent of an effective, properly completed Election Form shall be deemed Non-Election Shares. Prudential shall make available one or more Election Forms as may reasonably be requested in writing from time to time by all Persons who become holders (or beneficial owners) of Polonia Common Stock between the record date for the initial mailing of Election Forms and the close of business on the business day prior to the Election Deadline (as defined in Section 3.2.3), and Polonia shall provide to the Exchange Agent all information reasonably necessary for it to perform as specified herein.

3.2.3. The term “**Election Deadline**”, as used below, shall mean 5:00 p.m., Eastern time, on the later of (i) the date of the Polonia Shareholders Meeting and (ii) the date that Prudential and Polonia shall agree is as near as practicable to five (5) Business Days prior to the expected Closing Date. An election shall have been properly made only if the Exchange Agent shall have actually received a properly completed Election Form by the Election Deadline accompanied by one or more Certificates (or customary affidavits and indemnification regarding the loss or destruction of such certificates or the guaranteed delivery of such certificates) representing all the shares of Polonia Common Stock covered by

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such Election Form. Any Election Form may be revoked or changed by the Person submitting such Election Form to the Exchange Agent by written notice to the Exchange Agent only if such notice of revocation or change is actually received by the Exchange Agent at or prior to the Election Deadline. The Certificate or Certificates relating to any revoked Election Form shall be promptly returned without charge to the Person submitting the Election Form to the Exchange Agent. Shares of Polonia Common Stock held by holders who acquired such shares subsequent to the Election Deadline will be designated Non-Election Shares. In addition, if a holder of Polonia Common Stock either (i) does not submit a properly completed Election Form in a timely fashion or (ii) revokes its Election Form prior to the Election Deadline and fails to file a new properly completed Election Form before the deadline, such shares shall be designated Non-Election Shares. Subject to the terms of this Agreement and of the Election Form, the Exchange Agent shall have discretion to determine whether any election, revocation or change has been properly or timely made and to disregard immaterial defects in the Election Forms, and any good faith decisions of the Exchange Agent regarding such matters shall be binding and conclusive. Neither Prudential nor the Exchange Agent shall be under any obligation to notify any Person of any defect in an Election Form.

3.2.4. No later than five (5) Business Days after the Effective Time, Prudential shall cause the Exchange Agent to effect the allocation among holders of Polonia Common Stock of rights to receive the Per Share Cash Consideration and/or the Per Share Stock Consideration as set forth in Sections 3.2.5 and 3.2.6.

3.2.5. If the aggregate number of shares of Polonia Common Stock with respect to which Stock Elections shall have been made (the “**Stock Election Number**”) exceeds the Stock Conversion Number, then all Cash Election Shares and all Non-Election Shares of each holder thereof shall be converted into the right to receive the Per Share Cash Consideration, and the Stock Election Shares of each holder thereof will be converted into the right to receive the Per Share Stock Consideration in respect of that number of Stock Election Shares equal to the product obtained by multiplying (x) the number of Stock Election Shares held by such holder by (y) the fraction, the numerator of which is the Stock Conversion Number and the denominator of which is the Stock Election Number, with the remaining number of such holder’s Stock Election Shares being converted into the right to receive the Per Share Cash Consideration.

3.2.6. If the Stock Election Number is less than the Stock Conversion Number (the amount by which the Stock Conversion Number exceeds the Stock Election Number being referred to herein as the “**Shortfall Number**”), then all Stock Election Shares shall be converted into the right to receive the Per Share Stock Consideration and the Non-Election Shares and Cash Election Shares shall be treated in the following manner:

(A) If the Shortfall Number is less than or equal to the number of Non-Election Shares, then all Cash Election Shares shall be converted into the right to receive the Per Share Cash Consideration and the Non-Election Shares of each holder thereof shall be converted into the right to receive the Per Share Stock Consideration in respect of that number of Non-Election Shares equal to the product obtained by multiplying (x) the number of Non-Election Shares held by such holder by (y) a fraction, the numerator of which is the Shortfall Number and the denominator of which is the total number of Non-Election Shares, with the remaining number of such holder’s Non-Election Shares being

converted into the right to receive the Per Share Cash Consideration; or

(B) If the Shortfall Number exceeds the number of Non-Election Shares, then all Non-Election Shares shall be converted into the right to receive the Per Share Stock Consideration and the Cash Election Shares of each holder thereof shall be converted into the right to receive the Per Share Stock Consideration in respect of that number of Cash Election Shares equal to the

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product obtained by multiplying (x) the number of Cash Election Shares held by such holder by (y) a fraction, the numerator of which is the amount by which (1) the Shortfall Number exceeds (2) the total number of Non-Election Shares and the denominator of which is the total number of Cash Election Shares, with the remaining number of such holder's Cash Election Shares being converted into the right to receive the Per Share Cash Consideration.

3.3. Procedures for Exchange of Polonia Common Stock.

3.3.1. *Deposit of Merger Consideration.* At or prior to the Effective Time, Prudential shall deposit, or shall cause to be deposited, with the Exchange Agent (a) certificates representing the number of shares of Prudential Common Stock sufficient to deliver the aggregate Per Share Stock Consideration, and (b) immediately available funds equal to the aggregate Per Share Cash Consideration and the aggregate cash necessary to satisfy cash in lieu of fractional shares (collectively, the "**Exchange Fund**") and Prudential shall instruct the Exchange Agent to timely pay the aggregate Merger Consideration (including cash in lieu of fractional shares) in accordance with this Agreement.

3.3.2. *Exchange of Certificates.* Prudential shall cause the Exchange Agent, as soon as practicable but in no event more than seven (7) Business Days after the Effective Time, to mail to each holder of a Certificate or Certificates who has not previously surrendered such Certificate or Certificates, a letter of transmittal for return to the Exchange Agent and instructions for use in effecting the surrender of the Certificates for the Merger Consideration (including cash in lieu of fractional shares), if any, into which the Polonia Common Stock represented by such Certificates shall have been converted as a result of the Merger. The letter of transmittal shall be subject to the approval of Polonia (which shall not be unreasonably withheld, conditioned or delayed) and specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent. Upon proper surrender of a Certificate for exchange and cancellation to the Exchange Agent, together with a properly completed letter of transmittal, duly executed, the holder of such Certificate shall be entitled to receive in exchange therefor, the Merger Consideration into which such holder of Polonia Common Stock shall have become entitled pursuant to the provisions of this Article III and the Certificate so surrendered shall forthwith be canceled. No interest will be paid or accrued on the cash payable in lieu of fractional shares.

3.3.3. *Rights of Certificate Holders after the Effective Time.* The holder of a Certificate that prior to the Merger represented issued and outstanding Polonia Common Stock shall have no rights, after the Effective Time, with respect to such Polonia Common Stock except to surrender the Certificate in exchange for the Merger Consideration as provided in this Agreement or to exercise his or her rights as a Dissenting Shareholder to the extent such rights are perfected. No dividends or other distributions with respect to Prudential Common Stock shall be paid to the holder of any unsurrendered Certificate with respect to the shares of Prudential Common Stock represented thereby, in each case until the surrender of such Certificate in accordance with this Article III. Subject to the effect of applicable abandoned property, escheat or similar laws, following surrender of any such Certificate in accordance with this Article III, the record holder thereof shall be entitled to receive, without interest, (a) the amount of dividends or other distributions with a record date after the Effective Time theretofore payable with respect to the whole shares of Prudential Common Stock represented by such Certificate and not paid and/or (b) at the appropriate payment date, the amount of dividends or other distributions payable with respect to shares of Prudential Common Stock represented by

such Certificate with a record date after the Effective Time (but before such surrender date) and with a payment date subsequent to the issuance of the Prudential Common Stock issuable with respect to such Certificate.

3.3.4. *Surrender by Persons Other than Record Holders.* In the event of a transfer of ownership of a Certificate representing Polonia Common Stock that is not registered in the stock transfer

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records of Polonia, the proper amount of cash and/or shares of Prudential Common Stock shall be paid or issued in exchange therefor to a person other than the person in whose name the Certificate so surrendered is registered if the Certificate formerly representing such Polonia Common Stock shall be properly endorsed or otherwise be in proper form for transfer and the person requesting such payment or issuance shall pay any transfer or other similar Taxes required by reason of the payment or issuance to a person other than the registered holder of the Certificate or establish to the satisfaction of Prudential that the Tax has been paid or is not applicable.

3.3.5. *Closing of Transfer Books.* From and after the Effective Time, there shall be no transfers on the stock transfer books of Polonia of the shares of Polonia Common Stock that were issued and outstanding immediately prior to the Effective Time other than to settle transfers of Polonia Common Stock that occurred prior to the Effective Time. If, after the Effective Time, Certificates representing such shares are presented for transfer to the Exchange Agent, they shall be canceled and exchanged for the Merger Consideration (including cash in lieu of fractional shares) to be issued or paid in consideration therefor in accordance with the procedures set forth in Section 3.3.

3.3.6. *Return of Exchange Fund.* Any portion of the Exchange Fund that remains unclaimed by the shareholders of Polonia as of the six month anniversary of the Effective Time may, to the extent permitted by applicable law, be paid to Prudential. In such event, any former shareholders of Polonia who have not theretofore complied with this Section 3.3 shall thereafter look only to Prudential with respect to the Per Share Merger Consideration (including cash in lieu of any fractional shares) and any unpaid dividends and distributions on the Prudential Common Stock deliverable in respect of each share of Polonia Common Stock such shareholder holds as determined pursuant to this Agreement, in each case, without any interest thereon. Notwithstanding the foregoing, none of Prudential, Polonia, the Exchange Agent or any other person shall be liable to any former holder of shares of Polonia Common Stock for any amount delivered in good faith to a public official pursuant to applicable abandoned property, escheat or similar laws.

3.3.7. *Lost, Stolen or Destroyed Certificates.* In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed and, if reasonably required by Prudential or the Exchange Agent, the posting by such person of a bond in such amount as Prudential may determine is reasonably necessary as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will issue in exchange for such lost, stolen or destroyed Certificate the Per Share Merger Consideration for each share of Polonia Common Stock represented by such Certificate deliverable in respect thereof pursuant to this Agreement.

3.3.8. *Withholding Rights.* Prudential or the Exchange Agent will be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement or the transactions contemplated hereby to any holder of Polonia Common Stock such amounts as Prudential (or any Affiliate thereof) or the Exchange Agent are required to deduct and withhold with respect to the making of such payment under the Code, or any applicable provision of U.S. federal, state, local or non-U.S. tax law. To the extent that such amounts are properly withheld by Prudential or the Exchange Agent, such withheld amounts will be treated for all purposes of this Agreement as having been paid to the holder of the Polonia Common Stock in respect of whom such deduction and withholding were made by Prudential or

the Exchange Agent.

3.3.9. *Treatment of Polonia Options and Restricted Stock Awards.* Polonia Disclosure Schedule 3.3.9 sets forth all of the Polonia Options and Polonia Restricted Stock Awards as of the date hereof, which schedule includes, for each such (i) Polonia Option grant, the name of the individual grantee, the number of shares subject to the Polonia Option, the date of grant, the exercise

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price, the vesting schedule, the expiration date, and any rights to earned dividends or dividend equivalents with respect to the underlying shares and (ii) Polonia Restricted Stock Award, the name of the recipient, the date of grant, the number of shares of Polonia Common Stock subject to such Polonia Restricted Stock Award, the vesting schedule, and any rights to earned dividends or dividend equivalents with respect to the underlying shares.

(A) As of and immediately prior to the Effective Time, subject to the receipt of any necessary prior approval or non-objection of any Bank Regulators, including but not limited to the OCC and the FDIC, all rights with respect to each share of Polonia Common Stock issuable pursuant to the exercise of Polonia Options which remain outstanding at the Effective Time of the Merger and which have not yet been exercised, shall become fully vested and subsequently be canceled by Polonia in exchange for a cash payment equal to the positive difference, if any, between \$11.28, subject to adjustment as provided herein, and the corresponding exercise price of such Polonia Options (the “**Cash-Out Consideration**”), less any taxes required to be withheld therefrom. The Cash-Out Consideration will be paid the later of the (i) Effective Time or (ii) receipt of any necessary prior approval or non-objection of Bank Regulators, if received. The cancellation of Polonia Options in exchange for the Cash-Out Consideration described in this section shall be deemed a release of any and all rights the holder had or may have had in respect of such Polonia Options. Prior to the Effective Time, Polonia shall use its commercially reasonable best efforts to take or cause to be taken all actions, including obtaining any Polonia employee consents, that may be necessary to effectuate the actions set forth in this Section 3.3.9.

(B) Each outstanding Polonia Restricted Stock Award granted by Polonia pursuant to the Polonia Stock Benefit Plans, which award is unvested immediately prior to the Effective Time, shall, subject to the receipt of any necessary prior approval or non-objection from any Bank Regulator, including but not limited to the OCC and the FDIC, vest and be free of any restrictions as of the Effective Time in accordance with the terms of the Polonia Stock Benefit Plans and be exchanged for the Merger Consideration as provided in Section 3.1.3 hereof.

(C) Polonia shall cause the termination, effective as of the Effective Time, of the Polonia Stock Benefit Plans.

3.3.10. *Dissenters’ Rights.*

(A) Each outstanding share of Polonia Common Stock, the holder of which has provided notice of his or her intent to dissent under and in accordance with applicable law and has not effectively withdrawn or lost such right as of the Effective Time (the “**Dissenting Shares**”), shall not be converted into or represent a right to receive the Merger Consideration hereunder, and the holder thereof shall be entitled only to such rights as are granted by applicable law. Polonia shall give Prudential prompt notice upon receipt by Polonia of any such demands for payment of the fair value of such shares of Polonia Common Stock and of withdrawals of such notice and any other related communications served pursuant to the applicable provisions of applicable law (any shareholder duly making such demand being hereinafter called a “**Dissenting Shareholder**”), and Prudential shall have the right to participate in all discussions,

negotiations and proceedings with respect to any such demands. Polonia shall not, except with the prior written consent of Prudential, voluntarily make any payment with respect to, or settle or offer to settle, any such demand for payment, or waive any failure to timely deliver a written demand for appraisal or the taking of any other action by such Dissenting Shareholder as may be necessary to perfect appraisal rights under applicable law. Any payments made in respect of Dissenting Shares shall be made by the Surviving Corporation.

(B) If any holder of Dissenting Shares shall fail to perfect or shall have effectively withdrawn or lost the right to dissent at or prior to the Effective Time and shall have delivered

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a properly completed Election Form to the Exchange Agent by the Election Deadline, the Dissenting Shares held by such holder shall be converted into a right to receive Prudential Common Stock and/or cash in accordance with the applicable provisions of this Agreement; and if any such holder of Dissenting Shares shall not have delivered a properly completed Election Form to the Exchange Agent by the Election Deadline, the Dissenting Shares held by such holder shall be designated Non-Election Shares. If such holder withdraws or loses (through failure to perfect or otherwise) his right to such payment after the Effective Time, each share of Polonia Common Stock of such holder shall be entitled to receive the Merger Consideration.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF Polonia

Subject to the disclosures set forth in the Polonia Disclosure Schedules delivered by Polonia to Prudential prior to the execution of this Agreement (which schedule sets forth, among other things, facts, circumstances and events the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more of the representations and warranties contained in this Article IV, or to one or more of Polonia's covenants contained in Article VI (and making specific reference to the Section of this Agreement to which they relate); *provided*, that (i) no such item is required to be set forth as an exception to a representation or warranty if its absence would not result in the related representation or warranty being deemed untrue or incorrect, (ii) the mere inclusion of an item in the Polonia Disclosure Schedules as an exception to a Polonia MAE Rep shall not be deemed an admission by Polonia that such item represents a material exception or that such item is reasonably likely to result in a Material Adverse Effect and (iii) disclosure in any paragraph of the Polonia Disclosure Schedules shall apply only to the indicated Section of this Agreement except to the extent that it is reasonably clear on the face of such disclosure that it is relevant to another paragraph of the Polonia Disclosure Schedules or another Section of this Agreement) Polonia represents and warrants to Prudential as follows:

4.1. Organization.

4.1.1. Polonia is a corporation duly organized, validly existing and in good standing under the laws of the State of Maryland, and is duly registered as a savings and loan holding company under the Home Owners Loan Act, as amended ("**HOLA**"). Polonia has the requisite corporate power and authority to carry on its business as now conducted and is duly licensed or qualified to do business in the states of the United States and foreign jurisdictions where its ownership or leasing of property or the conduct of its business requires such qualification, except where the failure to be so qualified or licensed and in good standing would not, individually or in the aggregate, have a Material Adverse Effect on Polonia.

4.1.2. Polonia Bank is a federal savings bank duly organized and validly existing and in good standing under the laws of the United States. Polonia has the requisite corporate power and authority to carry on its business as now conducted and is duly licensed or qualified to do business in the states of the United States and foreign jurisdictions

where its ownership or leasing of property or the conduct of its business requires such qualification, except where the failure to be so qualified or licensed and in good standing would not, individually or in the aggregate, have a Material Adverse Effect on Polonia. The deposits of Polonia Bank are insured by the FDIC to the fullest extent permitted by law, and all premiums and assessments required to be paid in connection therewith have been paid by Polonia Bank when due. Polonia Bank is a member in good standing of the FHLB and owns the requisite amount of stock therein.

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4.1.3. Polonia Disclosure Schedule 4.1.3 sets forth each Polonia Subsidiary. Each Polonia Subsidiary is a corporation, limited liability company or other entity duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization. Each Polonia Subsidiary has the requisite corporate or other entity power and authority to carry on its business as now conducted. Each Polonia Subsidiary is duly licensed or qualified to do business in the states of the United States and foreign jurisdictions where its ownership or leasing of property or the conduct of its business requires such qualification, except where the failure to be so qualified or licensed and in good standing would not, individually or in the aggregate, have a Material Adverse Effect on Polonia.

4.1.4. The respective minute books of Polonia and each Polonia Subsidiary accurately record all material corporate or other entity actions of their respective shareholders and boards of directors, or their other entity equivalents (including committees).

4.1.5. Prior to the date of this Agreement, Polonia has made available to Prudential true and correct copies of the articles of incorporation, charter and bylaws, or their other entity equivalents, of Polonia and the Polonia Subsidiaries, each as in effect as of the date hereof.

4.2. Capitalization.

4.2.1. The authorized capital stock of Polonia consists of 14,000,000 shares of common stock, \$0.01 par value per share, of which as of the date hereof, 3,348,827 shares are outstanding, validly issued, fully paid and nonassessable and free of preemptive rights, and 1,000,000 shares of preferred stock, \$0.01 par value per share, of which no shares are outstanding. There are no shares of Polonia Common Stock held by Polonia as Treasury Stock. Except as set forth in Polonia Disclosure Schedule 3.3.9 neither Polonia nor any Polonia Subsidiary has or is bound by any Rights of any character relating to the purchase, sale or issuance or voting of, or right to receive dividends or other distributions on any shares of Polonia Common Stock, or any other security of Polonia or a Polonia Subsidiary or any securities representing the right to vote, purchase or otherwise receive any shares of Polonia Common Stock or any other security of Polonia or any Polonia Subsidiary, or pursuant to which Polonia or any Polonia Subsidiary is or could be required to register shares of Polonia capital stock or other securities under the Securities Act. Polonia Disclosure Schedule 3.3.9 sets forth the name of each holder of Polonia Options to purchase Polonia Common Stock and/or Polonia Restricted Stock Awards, the number of shares each such individual may acquire pursuant to the exercise of such options or the vesting of such restricted stock awards, the grant and vesting dates, the exercise price relating to the options held, and any rights to earned dividends or dividend equivalents with respect to the underlying shares.

4.2.2. Except for the Polonia Subsidiaries, Polonia does not possess, directly or indirectly, any equity interest in any corporate entity, except for equity interests held in the investment portfolios of Polonia Subsidiaries, equity interests held by Polonia Subsidiaries in a fiduciary capacity, and equity interests held in connection with the lending activities of Polonia Subsidiaries, including stock in the FHLB. Except as disclosed in Polonia Disclosure Schedule

4.2.2, Polonia, directly or indirectly, owns all of the outstanding shares of capital stock of or all equity interests in each Polonia Subsidiary free and clear of all liens, security interests, pledges, charges, encumbrances, agreements and restrictions of any kind or nature.

4.2.3. Except as set forth on Polonia Disclosure Schedule 4.2.3, to the Knowledge of Polonia, no Person or “group” (as that term is used in Section 13(d)(3) of the Exchange Act), is the beneficial owner (as defined in Section 13(d) of the Exchange Act) of 5% or more of the outstanding shares of Polonia Common Stock.

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4.2.4. Polonia Disclosure Schedule 4.2.4 sets forth Polonia's and all Polonia Subsidiaries' capital stock, equity interest or other direct or indirect ownership interest in any Person other than a Polonia Subsidiary, where such ownership interest is equal to or greater than five percent (5%) of the total ownership interest of such Person.

4.3. Authority; No Violation.

4.3.1. Polonia has full corporate power and authority to execute and deliver this Agreement and, subject to receipt of the Regulatory Approvals and the approval of this Agreement by Polonia's shareholders, to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Polonia and the consummation by Polonia of the transactions contemplated hereby, including the Merger, have been duly and validly approved by the Board of Directors of Polonia, and no other corporate proceedings on the part of Polonia, except for the approval of the Polonia shareholders, is necessary to consummate the transactions contemplated hereby, including the Merger. This Agreement has been duly and validly executed and delivered by Polonia, and subject to due and valid execution and delivery of this Agreement by Prudential, constitutes the valid and binding obligation of Polonia, enforceable against Polonia in accordance with its terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity.

4.3.2. Subject to receipt of Regulatory Approvals and Polonia's and Prudential's compliance with any conditions contained therein, and to the receipt of the requisite approval of the shareholders of Polonia, (a) the execution and delivery of this Agreement by Polonia, (b) the consummation of the transactions contemplated hereby, and (c) compliance by Polonia with any of the terms or provisions hereof does not and will not (i) conflict with or result in a breach of any provision of the articles of incorporation, certificate of formation, limited liability company agreement, bylaws, or other similar organizational or governing document of Polonia or any Polonia Subsidiary; (ii) violate any statute, code, ordinance, rule, regulation, judgment, order, writ, decree or injunction applicable to Polonia or any Polonia Subsidiary or any of their respective properties or assets; (iii) violate, conflict with, result in a breach of any provisions of, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default), under, result in the termination of, accelerate the performance required by, or result in a right of termination or acceleration or the creation of any lien, security interest, charge or other encumbrance upon any of the properties or assets of Polonia or any Polonia Subsidiary under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, agreement, commitment or other instrument or obligation to which any of them is a party, or by which they or any of their respective properties or assets may be bound or affected; or (iv) contravene, conflict with or result in a violation or breach of any of the terms or requirements of, or give any Governmental Entity the right to revoke, withdraw, suspend, cancel, terminate or modify, any governmental authorization that is held by Polonia or any Polonia Subsidiary.

4.3.3. The Polonia Board of Directors has determined that the Merger, on the terms and conditions set forth in this Agreement, is advisable and in the best interests of Polonia and its shareholders, that it will recommend that Polonia's shareholders vote in favor of the Merger, subject to Section 6.10.5 of this Agreement, on the terms and conditions set forth in this Agreement, and has directed that the Merger, on the terms and conditions set forth in this Agreement, be submitted to Polonia's shareholders for consideration at a duly held meeting of such shareholders and,

except for the approval of this Agreement by a vote of a majority of the votes cast by all shareholders entitled to vote at a duly held meeting of such shareholders, assuming a quorum is present, no other proceedings on the part of Polonia are necessary to approve this Agreement or to consummate the transactions contemplated hereby.

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4.4. Consents.

Except for (a) filings with Bank Regulators, the receipt of the Regulatory Approvals, and compliance with any conditions contained therein, (b) the filing of the Articles of Merger with the Department of State of the Commonwealth of Pennsylvania and the Maryland Department, (c) the filing with the SEC of the Merger Registration Statement, (d) approval of the listing of Prudential Common Stock to be issued in the Merger on the Nasdaq, (e) such filings and approvals as are required to be made or obtained under the securities or “Blue Sky” laws of various states in connection with the issuance of the shares of Prudential Common Stock pursuant to this Agreement, and (f) the approval of this Agreement by the requisite vote of the shareholders of Polonia, no consents, waivers or approvals of, or filings or registrations with, any Governmental Entity are necessary, and no consents, waivers or approvals of, or filings or registrations with, any other third parties are necessary, in connection with (x) the execution and delivery of this Agreement by Polonia, and (y) the completion of the Merger by Polonia and the other transactions contemplated by this Agreement. Polonia has no Knowledge of any fact or circumstance pertaining to Polonia that would cause it to reasonably believe that any Regulatory Approvals or other required consents or approvals will not be received.

4.5. Reports, Regulatory Matters, Financial Statements.

4.5.1. The Polonia Regulatory Reports have been prepared in all material respects in accordance with applicable regulatory accounting principles and practices throughout the periods covered by such statements. Polonia has previously made available to Prudential the Polonia Regulatory Reports.

4.5.2. Polonia has previously made available to Prudential the Polonia Financial Statements. The Polonia Financial Statements have been prepared in accordance with GAAP, and (including the related notes where applicable) fairly present in each case in all material respects, the consolidated financial position, results of operations and cash flows of Polonia and the Polonia Subsidiaries on a consolidated basis as of and for the respective periods ending on the dates thereof, in accordance with GAAP during the period involved, except as indicated in the notes thereto, or in the case of unaudited statements for periods subsequent to December 31, 2015.

4.5.3. At the date of each balance sheet included in the Polonia Financial Statements or the Polonia Regulatory Reports, neither Polonia nor Polonia Bank, as applicable, had any material liabilities, obligations or loss contingencies of any nature (whether absolute, accrued, contingent or otherwise) of a type required to be reflected in such Polonia Financial Statements or Polonia Regulatory Reports or in the footnotes thereto which are not fully reflected or reserved against therein or fully disclosed in a footnote thereto and subject, in the case of any unaudited statements, to normal, recurring audit adjustments and the absence of footnotes. The Polonia Financial Statements reflect only actual transactions and all other books and records, including the Polonia Financial Statements, of Polonia and the Polonia Subsidiaries have been, and are being, maintained in all material respects in accordance with applicable legal and accounting requirements and reflect only actual transactions.

4.5.4. The records, systems, controls, data and information of Polonia and its Subsidiaries are recorded, stored, maintained and operated under means (including any electronic, mechanical or photographic process, whether computerized or not) that are under the exclusive ownership and direct control of Polonia or its Subsidiaries or accountants (including all means of access thereto and therefrom), except for any non-exclusive ownership and non-direct control that would not reasonably be expected to have a material adverse effect on the system of internal accounting controls described below in this Section 4.5.4. Polonia (a) has implemented and maintains a system of internal control over financial reporting that is designed to provide reasonable assurances regarding the reliability of financial reporting and the preparation of its financial statements for external purposes in accordance with GAAP,

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(b) has implemented and maintains disclosure controls and procedures to ensure that material information relating to Polonia, including its consolidated Subsidiaries, is made known to the chief executive officer and the chief financial officer of Polonia by others within those entities, and (c) has disclosed, based on its most recent evaluation prior to the date hereof, to Polonia's outside auditors and the audit committee of Polonia's Board of Directors (the "**Polonia Audit Committee**") and as set forth in Polonia Disclosure Schedule 4.5.4 (i) any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) which are reasonably likely to adversely affect Polonia's ability to record, process, summarize and report financial information and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in Polonia's internal control over financial reporting. These disclosures (if any) were made in writing to Polonia's auditors and the Polonia Audit Committee and a copy has previously been made available to Prudential.

4.5.5. Except as otherwise set forth in Polonia Disclosure Schedule 4.5.5, since December 31, 2015, (a) neither Polonia nor any of its Subsidiaries nor any director or executive officer of Polonia or any of its Subsidiaries has received or otherwise had or obtained Knowledge of any complaint, allegation, assertion or claim, whether written or oral, regarding the accounting or auditing practices, procedures, methodologies or methods of Polonia or any of its Subsidiaries or their respective internal accounting controls, including any complaint, allegation, assertion or claim that Polonia or any of its Subsidiaries has engaged in illegal accounting or auditing practices, and (b) no attorney representing Polonia or any of its Subsidiaries, whether or not employed by Polonia or any of its Subsidiaries, has reported evidence of a violation of Securities Laws, breach of fiduciary duty or similar violation by Polonia or any of its officers, directors, employees or agents to the Board of Directors of Polonia or any committee thereof or to any director or executive officer of Polonia.

4.6. Taxes.

4.6.1. Polonia and the Polonia Subsidiaries are members of the same affiliated group within the meaning of Code Section 1504(a). Polonia and each Polonia Subsidiary has timely and duly filed all Tax Returns required to be filed by or with respect to Polonia and every Polonia Subsidiary, either separately or as a member of a group of corporations, on or prior to the date hereof and will timely and duly file all Tax Returns required to be filed by or with respect to Polonia and every Polonia Subsidiary, either separately or as a member of a group of corporations, on or prior to the Closing Date, taking into account any extensions (all such Tax Returns being accurate and correct in all material respects and prepared in substantial compliance with all applicable laws and regulations) and has duly paid or made provisions that are adequate for the payment of all Taxes which have been incurred by or are due or claimed to be due from Polonia and any Polonia Subsidiary by any Taxing Authority or pursuant to any written Tax sharing agreement on or prior to the date hereof other than Taxes or other charges which (a) are not delinquent, (b) are being contested in good faith and as to which adequate reserves (determined in accordance with GAAP) have been provided in the Polonia Financial Statements, or (c) have not yet been fully determined. Except as set forth in Polonia Disclosure Schedule 4.6.1, neither Polonia nor any Polonia Subsidiaries currently is the beneficiary of any extension of time within which to file any Tax Return. Except as set forth in Polonia Disclosure Schedule 4.6.1, as of the date of this Agreement, there is no audit examination, deficiency assessment, Tax investigation, administrative or judicial proceedings or refund litigation with respect to any Taxes of Polonia or any Polonia Subsidiary, and no written claim has been made by any Taxing Authority in a jurisdiction where Polonia or any Polonia Subsidiary does not file Tax

Returns that Polonia or any Polonia Subsidiary is subject to Tax in that jurisdiction. Polonia and the Polonia Subsidiaries have not executed an extension or waiver of any statute of limitations on the assessment or collection of any Tax due that is currently in effect. Polonia and each Polonia Subsidiary has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, shareholder or

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other third party, and Polonia and each Polonia Subsidiary has timely complied with all applicable information reporting requirements under Part III, Subchapter A of Chapter 61 of the Code and similar applicable state and local information reporting requirements. The United States federal and state income Tax Returns of Polonia and each Polonia Subsidiary subject to such Taxes have been audited by the IRS or relevant state Tax Authorities or are closed by the applicable statute of limitations for all taxable years through December 31, 2013.

4.6.2. The unpaid Taxes of Polonia and the Polonia Subsidiaries (a) do not exceed the reserve for Tax liability (rather than any reserve for deferred Taxes established to reflect timing differences between book and Tax income) set forth on the balance sheet of the Polonia Financial Statements and (b) will not exceed the reserve as adjusted for the passage of time through the Closing Date in accordance with the past customs and practice of Polonia in filing its Tax Returns. Since December 31, 2015, neither Polonia nor any Polonia Subsidiary has incurred any liability for Taxes arising from extraordinary gains or losses, as the term is used in GAAP.

4.6.3. None of Polonia, any Polonia Subsidiary or any director or executive officer (or employee responsible for Tax matters) of Polonia or any Polonia Subsidiary expects any Taxing Authority to assess any additional Taxes for any period for which Tax Returns have been filed. Neither Polonia nor any Polonia Subsidiary has received from any federal, state, local, or non-U.S. taxing authority (including jurisdictions where Polonia or any Polonia Subsidiary have not filed Tax Returns) any (a) notice indicating an intent to open an audit or other review, (b) request for information related to Tax matters, or (c) notice of deficiency or proposed adjustment for any amount of Tax proposed, asserted, or assessed by any taxing authority against Polonia or any Polonia Subsidiary. Neither Polonia nor any Polonia Subsidiary is a party to or bound by any Tax allocation or sharing agreement (other than an agreement exclusively among Polonia and any Polonia Subsidiary). Neither Polonia nor any Polonia Subsidiary has been a member of an affiliated group filing a consolidated federal income Tax Return (other than a group the common parent of which was Polonia) and neither Polonia nor any Polonia Subsidiary has any liability for the Taxes of any Person (other than Polonia or any Polonia Subsidiary) under Section 1.1502-6 of the income tax regulations promulgated under the Code (or any similar provision of state, local, or non-U.S. law), as a transferee or successor, by contract, or otherwise. There has not been an ownership change, as defined in Section 382(g) of the Code, of Polonia or any Polonia Subsidiary that occurred during or after any taxable period in which Polonia or such Polonia Subsidiary incurred an operating loss that carries over to any taxable period ending after the fiscal year of Polonia or any Polonia Subsidiary immediately preceding the date of this Agreement.

4.6.4. Neither Polonia nor any Polonia Subsidiary has been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code. Neither Polonia nor any Polonia Subsidiary has distributed stock of another Person, or has had its stock distributed by another Person, in a transaction that was purported or intended to be governed in whole or in part by Section 355 or Section 361 of the Code. Neither Polonia nor any Polonia Subsidiary is or has been a party to any "reportable transaction," as defined in Section 6707A(c)(1) of the Code and Section 1.6011-4(b) of the income tax regulations promulgated under the Code. Neither Polonia nor any Polonia Subsidiary is a party to any joint venture, partnership, or other arrangement or contract which could be treated as a partnership for federal income tax purposes. Neither Polonia nor any Polonia Subsidiary owns an interest in any (a) single member limited liability company or other entity that is treated as a disregarded entity, (b) controlled foreign

corporation (as defined in Section 957 of the Code), (c) passive foreign investment company (as defined in Section 1297 of the Code) or (d) other entity the income of which is or could be required to be included in the income of the Polonia or any Polonia Subsidiary. Neither Polonia nor any Polonia Subsidiary is or ever has been a “personal holding Company” as defined in Section 542 of the Code.

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4.6.5. Neither Polonia nor any Polonia Subsidiary has disposed of property in a transaction presently being accounted for under the installment method under Section 453 of the Code. None of the assets of Polonia or any Polonia Subsidiary is property which Polonia or any Polonia Subsidiary is required to treat as being owned by any other Person pursuant to the so-called “safe harbor lease” provisions of former Section 168(f)(8) of the Code. None of the assets of Polonia or any Polonia Subsidiary directly or indirectly secures any debt the interest on which is tax exempt under Section 103(a) of the Code. Neither Polonia nor any Polonia Subsidiary presently hold assets for which an election under Section 108(b)(5) of the Code was made. None of the assets of Polonia or any Polonia Subsidiary is “tax-exempt use property” within the meaning of Section 168(h) of the Code. No excess loss account exists with respect to any Polonia Subsidiary. Polonia and each Polonia Subsidiary is not required to include in income any adjustment pursuant to Section 481(a) of the Code by reason of a voluntary change in accounting and Polonia has no Knowledge that the IRS has proposed such adjustment in accounting method. The acquisition of the Polonia Common Stock and the other transactions contemplated by this Agreement will not be a factor causing any payments to be made by Polonia and each Polonia Subsidiary not to be deductible (in whole or in part) pursuant to Sections 280G, 404 or 162(m) of the Code (or any corresponding provisions of state, local, or non-U.S. Tax law). Polonia Disclosure Schedule 4.6.5 sets forth the following information regarding certain officers who have employment agreements or who are participants in a Polonia SERP: (i) the amounts payable pursuant to the officer’s employment agreement upon completion of the Merger, (ii) the amount of any increase in benefits payable pursuant to a Polonia SERP as a result of the completion of the Merger, (iii) a good faith estimate of the amount of any other payment or benefit to such officer which is treated as contingent on the Merger under Section 280G of the Code, and (iv) the officer’s “base amount” as defined in Section 280G(b)(3)(A) of the Code, in each case assuming such officer’s employment is terminated as of the Effective Time and the receipt of any required approval or non-objection of Bank Regulators. There are no rulings, requests for rulings, or closing agreements with any Taxing Authority specifically requested or entered into by Polonia or a Polonia Subsidiary, which could affect their respective Taxes for any period after the Closing. All transactions that could give rise to an understatement of federal income Tax (within the meaning of Sections 6662 and 6662A of the Code) with respect to Polonia and each Polonia Subsidiary were adequately disclosed on Tax Returns to the extent required under the Code. There are no liens for Taxes upon any property or assets of Polonia and each Polonia Subsidiary except for liens for current Taxes, assessments, and other governmental charges not yet due, or which may thereafter be paid without penalty.

4.6.6. Each of Polonia and the Polonia Subsidiaries operates at least one significant historic business line, or owns at least a significant portion of its historic business assets, in each case within the meaning of Section 1.368-1(d) of the income tax regulations promulgated under the Code.

4.6.7. No portion of the Merger Consideration (or any other amount payable pursuant to the transactions contemplated by this Agreement) is payable on account of or attributable to accrued but unpaid dividends on any class of stock of Polonia.

4.6.8. Neither Polonia nor any Polonia Subsidiary has engaged (or will engage) in any transaction wherein the financial statement effects of the tax position related thereto are not recognized pursuant to Financial Accounting Standards Board Accounting Standards Codification 740 (FASB ASC 740) because, based on the technical merits, it is not more likely than not that the position will be sustained upon examination.

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4.7.No Material Adverse Effect.

Polonia has not suffered any Material Adverse Effect since December 31, 2015 and no event has occurred or circumstance arisen since that date which, in the aggregate, has had or is reasonably likely to have a Material Adverse Effect on Polonia.

4.8.Material Contracts; Leases; Defaults.

4.8.1. Except as set forth in Polonia Disclosure Schedule 4.8.1, neither Polonia nor any Polonia Subsidiary is a party to or subject to: (a) any employment, consulting or severance contract, “change in control” or termination contract or arrangement with any past or present officer, director, employee or independent contractor of Polonia or any Polonia Subsidiary, including those which would provide such individual with employment or a contractual relationship for any specified period or with a payment upon the occurrence of an event (such as termination or change in control) except for “at will” arrangements; (b) any agreement containing provisions relating to non-competition, employee non-solicitation, customer or client non-solicitation or no-piracy, confidentiality or any other such restrictive covenants applicable to Polonia or any past or present Polonia director or employee; (c) any plan, arrangement or contract providing for bonuses, pensions, options, deferred compensation, retirement payments, profit sharing or similar arrangements for or with any past or present officers, directors, employees or independent contractors of Polonia or any Polonia Subsidiary; (d) any collective bargaining agreement with any labor union relating to employees of Polonia or any Polonia Subsidiary; (e) any agreement which by its terms limits the payment of dividends by Polonia or any Polonia Subsidiary; (f) any instrument evidencing or related to indebtedness for borrowed money whether directly or indirectly, by way of purchase money obligation, conditional sale, lease purchase, guaranty or otherwise, in respect of which Polonia or any Polonia Subsidiary is an obligor to any person, which instrument evidences or relates to indebtedness other than deposits, repurchase agreements, FHLB advances, bankers’ acceptances, and “treasury tax and loan” accounts and transactions in “federal funds” in each case established in the ordinary course of business consistent with past practice, or which contains financial covenants or other restrictions (other than those relating to the payment of principal and interest when due) which would be applicable on or after the Closing Date to Prudential or any Prudential Subsidiary; (g) any other agreement, written or oral, that obligates Polonia or any Polonia Subsidiary for the payment of more than \$50,000 over its remaining term, which is not terminable without cause on 60 days’ or less notice without penalty or payment (other than agreements for commercially available “off-the-shelf” software), (h) any agreement (other than this Agreement), contract, arrangement, commitment or understanding (whether written or oral) that restricts or limits the conduct of business by Polonia or any Polonia Subsidiary; (i) any contract, plan or arrangement which provides for payments or benefits in certain circumstances which, together with other payments or benefits payable to any participant therein or party thereto, would reasonably be likely to render any portion of any such payments or benefits subject to disallowance of deduction therefor as a result of the application of Section 280G of the Code; (j) any agreement or arrangement that is subject to the provisions of 12 C.F.R. Part 359, (k) any lease for real property; (l) any contract or arrangement with any broker-dealer or investment adviser; (m) any investment advisory contract with any investment company registered under the Investment Company Act of 1940; (n) any contract or arrangement with, or membership in, any local clearing house or self-regulatory organization; or (o) any other contract which is material to the business, operations or financial condition of Polonia or a Polonia Subsidiary.

4.8.2. Each real estate lease that requires the consent of the lessor or its agent as a result of the Merger by virtue of the terms of any such lease, is listed in Polonia Disclosure Schedule 4.8.2 identifying the section of the lease that contains such prohibition or restriction. Subject to any consents that may be required as a result of the transactions contemplated by this Agreement, neither Polonia nor any Polonia Subsidiary is in default in any respect under any material contract, agreement,

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commitment, arrangement, lease, insurance policy or other instrument to which it is a party, by which its assets, business, or operations may be bound or affected, or under which it or its assets, business, or operations receive benefits, and there has not occurred any event that, with the lapse of time or the giving of notice or both, would constitute such a default, except where default would not, individually or in the aggregate, have a Material Adverse Effect on Polonia.

4.8.3. True and correct copies of the agreements, contracts, arrangements and instruments referred to in Section 4.8.1 and 4.8.2 (“**Material Contracts**”) have been made available to Prudential on or before the date hereof, and are valid, binding and in full force and effect on the date hereof and neither Polonia nor any Polonia Subsidiary (nor, to the Knowledge of Polonia, any other party to any such contract, arrangement or instrument) has breached any provision of, or is in default in any respect under any term of, any Material Contract, and no event or condition exists that constitutes or, after notice or lapse of time or both, will constitute, a breach or default on the part of Polonia or any of the Polonia Subsidiaries under any Material Contract. Except as listed on Polonia Disclosure Schedule 4.8.3, no party to any Material Contract will have the right to terminate any or all of the provisions of any such Material Contract as a result of the execution of, and the consummation of the transactions contemplated by, this Agreement.

4.8.4. Except as listed on Polonia Disclosure Schedule 4.8.4, since December 31, 2015, through and including the date of this Agreement, neither Polonia nor any Polonia Subsidiary has (a) except for (i) normal increases for employees made in the ordinary course of business consistent with past practice, or (ii) as required by applicable law, increased the wages, salaries, compensation, pension, or other fringe benefits or perquisites payable to any executive officer, employee, or director from the amount thereof in effect as of December 31, 2015 (which amounts have been previously made available to Prudential), granted any severance or termination pay, entered into any contract to make or grant any severance or termination pay (except as required under the terms of agreements or severance plans listed on Polonia Disclosure Schedule 4.12.1, as in effect as of the date hereof), or paid any bonus other than the customary year-end bonuses in amounts consistent with past practice, (b) granted any options to purchase shares of Polonia Common Stock, or any right to acquire any shares of its capital stock, including restricted stock awards or units, to any executive officer, director or employee other than grants to employees made in the ordinary course of business consistent with past practice under the Polonia Stock Benefit Plans, (c) increased or established any bonus, insurance, severance, deferred compensation, pension, retirement, profit sharing, stock option (including, without limitation, the granting of stock options, stock appreciation rights, performance awards, or restricted stock awards), stock purchase or other employee benefit plan, (d) made any election for federal or state income tax purposes, (e) made any change in the credit policies or procedures of Polonia or any of the Polonia Subsidiaries, the effect of which was or is to make any such policy or procedure less restrictive, (f) made any material acquisition or disposition of any assets or properties, or any contract for any such acquisition or disposition entered into other than loans and loan commitments, (g) entered into any lease of real or personal property requiring annual payments in excess of \$50,000, (h) except as required by GAAP or a Governmental Entity, changed any accounting methods, principles or practices of Polonia or of the Polonia Subsidiaries affecting its assets, liabilities or businesses, including any reserving, renewal or residual method, practice or policy or (i) suffered any strike, work stoppage, slow-down, or other labor disturbance.

4.9. Ownership of Property; Insurance Coverage.

4.9.1. Polonia and each Polonia Subsidiary has good and, as to real property, marketable title to all assets and properties owned by Polonia or each Polonia Subsidiary in the conduct of their businesses, whether such assets and properties are real or personal, tangible or intangible, including assets and property reflected in the balance sheets contained in the Polonia Regulatory Reports and in the Polonia Financial Statements or acquired subsequent thereto (except to the extent that such assets and

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properties have been disposed of in the ordinary course of business, since the date of such balance sheets), subject to no encumbrances, liens, mortgages, security interests or pledges, except (a) those items which secure liabilities for public or statutory obligations or any discount with, borrowing from or other obligations to FHLB, inter-bank credit facilities, or any transaction by a Polonia Subsidiary acting in a fiduciary capacity, (b) statutory liens for amounts not yet delinquent or which are being contested in good faith, (c) non-monetary liens affecting real property which do not adversely affect the value or use of such real property, and (d) those described and reflected in the Polonia Financial Statements. Polonia and the Polonia Subsidiaries, as lessee, have the right under valid and enforceable leases of real and personal properties used by Polonia and the Polonia Subsidiaries in the conduct of their businesses to occupy or use all such properties as presently occupied and used by each of them. Polonia is not a party to any agreement pursuant to which it has securitized any of its assets.

4.9.2. With respect to all agreements pursuant to which Polonia or any Polonia Subsidiary has purchased securities subject to an agreement to resell, if any, Polonia or such Polonia Subsidiary, as the case may be, has a valid, perfected, first priority lien or security interest in the securities or other collateral securing the repurchase agreement, and the value of such collateral equals or exceeds the amount of the debt secured thereby.

4.9.3. Polonia and each Polonia Subsidiary currently maintain insurance considered by each of them to be reasonable for their respective operations. Neither Polonia nor any Polonia Subsidiary, except as disclosed in Polonia Disclosure Schedule 4.9.3, has received notice from any insurance carrier during the past five years that (a) such insurance will be canceled or that coverage thereunder will be reduced or eliminated, or (b) premium costs (other than with respect to health or disability insurance) with respect to such policies of insurance will be substantially increased. Except as set forth on Polonia Disclosure Schedule 4.9.3, there are presently no claims pending under such policies of insurance and no notices have been given by Polonia or any Polonia Subsidiary under such policies (other than with respect to health or disability insurance). Polonia and all Polonia Subsidiaries maintain such fidelity bonds and errors and omissions insurance as may be customary or required under applicable laws or regulations. All such insurance is valid and enforceable and in full force and effect, and within the last three years Polonia and each Polonia Subsidiary has received each type of insurance coverage for which it has applied and during such periods has not been denied indemnification for any claims submitted under any of its insurance policies. Polonia Disclosure Schedule 4.9.3 identifies all policies of insurance maintained by Polonia and each Polonia Subsidiary.

4.9.4. All real property owned by Polonia or a Polonia Subsidiary is in material compliance with all applicable zoning laws and building codes, and the buildings and improvements located on such real property are in good operating condition and in a state of good working order, ordinary wear and tear and casualty excepted. There are no pending or, to the Knowledge of Polonia, threatened condemnation proceedings against such real property. Except as set forth in Polonia Disclosure Schedule 4.9.4, Polonia and the applicable Polonia Subsidiaries are in material compliance with all applicable health and safety related requirements for the owned real property, including those under the Americans with Disabilities Act of 1990 and the Occupational Safety and Health Act of 1970. Insurance is currently maintained on all property, including all owned real property, in amounts, scope and coverage reasonably necessary for its operations. Neither Polonia nor any Polonia Subsidiary has received any written notice of termination, nonrenewal or premium adjustment for such policies.

4.10. Legal Proceedings.

Except as set forth on Polonia Disclosure Schedule 4.10, neither Polonia nor any Polonia Subsidiary is a party to any, and there are no pending or, to Polonia's Knowledge, threatened legal, administrative, arbitration or other proceedings, claims (whether asserted or unasserted), actions or

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governmental investigations or inquiries of any nature (a) against Polonia or any Polonia Subsidiary, (b) to which Polonia or any Polonia Subsidiary's assets are or may be subject, (c) challenging the validity or propriety of any of the transactions contemplated by this Agreement, (d) which could adversely affect the ability of Polonia to perform under this Agreement, or (e) which would be reasonably likely to materially impair Polonia's or any Polonia Subsidiary's ability to operate its business as currently conducted or proposed to be conducted post-Merger.

4.11. Compliance With Applicable Law.

4.11.1. Each of Polonia and each Polonia Subsidiary is in compliance in all material respects with all applicable federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders or decrees applicable to it, its properties, assets and deposits, its business, and its conduct of business and its relationship with its employees, including, without limitation, the HOLA, the Federal Reserve Act, the FDIA, the USA PATRIOT Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Community Reinvestment Act of 1977 ("CRA"), the Home Mortgage Disclosure Act, the Bank Secrecy Act, and all other applicable fair lending laws and other laws relating to discriminatory business practices and neither Polonia nor any Polonia Subsidiary has received any written notice to the contrary. The Board of Directors of Polonia Bank has adopted and Polonia Bank has implemented an anti-money laundering program that contains adequate and appropriate customer identification verification procedures that has not been deemed ineffective by any Governmental Entity and that meets the requirements of Sections 352 and 326 of the USA PATRIOT Act and the regulations thereunder.

4.11.2. Each of Polonia and each Polonia Subsidiary has all permits, licenses, authorizations, orders and approvals of, and has made all filings, applications and registrations with, all Governmental Entities and Bank Regulators that are required in order to permit it to own or lease its properties and to conduct its business as presently conducted; all such permits, licenses, certificates of authority, orders and approvals are in full force and effect and, no suspension or cancellation of any such permit, license, certificate, order or approval is, to the Knowledge of Polonia, threatened or will result from the consummation of the transactions contemplated by this Agreement, subject to obtaining the Regulatory Approvals.

4.11.3. Other than those listed on Polonia Disclosure Schedule 4.11.3, for the period beginning January 1, 2014, neither Polonia nor any Polonia Subsidiary has received any written notification or other communication from any Bank Regulator (a) asserting that Polonia or any Polonia Subsidiary is not in compliance with any of the statutes, regulations or ordinances which such Bank Regulator enforces; (b) threatening to revoke any license, franchise, permit or governmental authorization; (c) requiring, or threatening to require, Polonia or any Polonia Subsidiary, or indicating that Polonia or any Polonia Subsidiary may be required, to enter into a cease and desist order, agreement or memorandum of understanding or any other agreement with any federal or state governmental agency or authority which is charged with the supervision or regulation of banks or engages in the insurance of bank deposits restricting or limiting, or purporting to restrict or limit the operations of Polonia or any Polonia Subsidiary, including without limitation any restriction on the payment of dividends; or (d) directing, restricting or limiting, or purporting to direct, restrict or limit, in any manner the operations of Polonia or any Polonia Subsidiary, including without limitation any restriction on the payment of dividends (any such notice, communication, memorandum, agreement or order described

in this sentence is hereinafter referred to as a “**Polonia Regulatory Agreement**”). Except as disclosed on Polonia Disclosure Schedule 4.11.3, neither Polonia nor any Polonia Subsidiary is a party to or is subject to any order, decree, agreement, memorandum of understanding or similar arrangement with, or a commitment letter or similar submission to, or extraordinary supervisory letter from, any Bank Regulator or any federal or state governmental agency or authority charged with the supervision or regulation of issuers of securities or the supervision or regulation of it. The most recent regulatory rating given to Polonia Bank as to compliance

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with the CRA is “satisfactory” or better. To the Knowledge of Polonia, there are no unresolved violations, criticisms, or exceptions by any Regulatory Authority with respect to any Polonia Regulatory Agreement. There is no injunction, order, judgment or decree imposed upon Polonia or any Polonia Subsidiary or the assets of Polonia or any Polonia Subsidiary.

4.11.4. Since the enactment of the Sarbanes Oxley Act, Polonia has been and is in compliance in all material respects with the applicable provisions of the Sarbanes-Oxley Act.

4.11.5. Polonia Disclosure Schedule 4.11.5 sets forth, as of March 31, 2016, a schedule of all executive officers and directors of Polonia who have outstanding loans from Polonia, and there has been no default on, or forgiveness or waiver of, in whole or in part, any such loan during the two years immediately preceding the date hereof.

4.11.6. To Polonia’s Knowledge, none of Polonia’s or Polonia Subsidiary’s officers, directors, managers, members, employees, or partners has at any time made or received any bribe, kickback or other illegal payment or engaged in any other illegal or improper conduct that has led to any fine, penalty, sanction or liability. Polonia has no Knowledge of any actual, possible or proposed disciplinary action by any Governmental Entity against any of Polonia’s or any Polonia Subsidiary’s officers, directors, managers, members, partners or employees.

4.12. Employee Benefit Plans.

4.12.1. Polonia Disclosure Schedule 4.12.1 includes a list of all existing bonus, incentive, deferred compensation, supplemental executive retirement plans, pension, retirement, profit-sharing, thrift, savings, employee stock ownership, stock bonus, stock purchase, restricted stock, stock option, stock appreciation, phantom stock, severance, welfare benefit plans (including paid time off policies and other benefit policies and procedures), fringe benefit plans, employment, consulting, settlement and change in control agreements and all other benefit practices, policies and arrangements maintained by Polonia or any Polonia Subsidiary in which any employee or former employee, consultant or former consultant or director or former director of Polonia or any Polonia Subsidiary participates or to which any such employee, consultant or director is a party or is otherwise entitled to receive benefits (the “**Polonia Compensation and Benefit Plans**”). Neither Polonia nor any Polonia Subsidiary has any commitment to create any additional Polonia Compensation and Benefit Plan or to modify, change or renew any existing Polonia Compensation and Benefit Plan, except as required to maintain the qualified status thereof. Polonia has made available to Prudential true and correct copies of the agreements or other documents establishing and evidencing the Polonia Compensation and Benefit Plans.

4.12.2. Except as disclosed in Polonia Disclosure Schedule 4.12.2, each Polonia Compensation and Benefit Plan has been operated and administered in all material respects in accordance with its terms and with applicable law,

including, but not limited to, ERISA, the Code, the Securities Act, the Exchange Act, the Age Discrimination in Employment Act of 1967, COBRA, the Health Insurance Portability and Accountability Act (“**HIPAA**”), the Affordable Care Act (“**ACA**”) and any regulations or rules promulgated thereunder, and all filings, disclosures and notices required by ERISA, the Code, the Securities Act, the Exchange Act, the Age Discrimination in Employment Act, COBRA, HIPAA, ACA and any other applicable law have been timely made or any interest, fines, penalties or other impositions for late filings have been paid in full. Except as disclosed in Polonia Disclosure Schedule 4.12.2, each Polonia Compensation and Benefit Plan which is an “employee pension benefit plan” within the meaning of Section 3(2) of ERISA (a “**Pension Plan**”) and which is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the IRS, or is in the form of a prototype or volume submitter plan that is the subject of a favorable opinion letter from the IRS on which Polonia is entitled to rely, and Polonia is not aware of any circumstances which are reasonably likely to result in

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revocation of any such favorable determination letter or opinion letter. There is no pending or, to the Knowledge of Polonia, threatened action, suit or claim relating to any of the Polonia Compensation and Benefit Plans (other than routine claims for benefits). Neither Polonia nor any Polonia Subsidiary has engaged in a transaction, or omitted to take any action, with respect to any Polonia Compensation and Benefit Plan that would reasonably be expected to subject Polonia or any Polonia Subsidiary to an unpaid tax or penalty imposed by either Sections 4975, 4980B or 5000 of the Code or Section 502 of ERISA.

4.12.3. Neither Polonia nor any entity with which it is or was ever considered one employer under Section 4001(b)(1) of ERISA or Section 414 of the Code (an “**Polonia ERISA Affiliate**”) since the effective date of ERISA maintains or ever maintained or participated in a plan subject to Title IV of ERISA, or contributes to, contributed to, is obligated to contribute to or was ever obligated to contribute to a “multiemployer plan,” as defined in Section 3(37) of ERISA. Neither Polonia, nor any Polonia ERISA Affiliate, nor any Polonia Compensation and Benefit Plan, nor any trust created thereunder, nor any trustee or administrator thereof has engaged in a transaction in connection with which Polonia, any Polonia ERISA Affiliate, and any Polonia Compensation and Benefit Plan, or any such trust or any trustee or administrator thereof, could reasonably be expected to be subject to either a civil liability or penalty pursuant to Section 409, 502(i) or 502(l) of ERISA or a tax imposed pursuant to Chapter 43 of the Code.

4.12.4. All contributions required to be made under the terms of any Polonia Compensation and Benefit Plan have been timely made, and all anticipated contributions and funding obligations are or will be accrued on Polonia’s consolidated financial statements to the extent required by GAAP. Polonia and each Polonia Subsidiary has expensed and accrued as a liability the present value of future benefits under each applicable Polonia Compensation and Benefit Plan for financial reporting purposes as required by GAAP.

4.12.5. Neither Polonia nor any Polonia Subsidiary has any obligations to provide retiree health, life insurance, death benefits, or disability insurance, except as set forth in Polonia Disclosure Schedule 4.12.5, under any Polonia Compensation and Benefit Plan, other than benefits mandated by Section 4980B of the Code. Except as set forth in Polonia Disclosure Schedule 4.12.5, there has been no communication to employees by Polonia or any Polonia Subsidiary that would reasonably be expected to promise or guarantee such employees retiree health, life insurance, or disability insurance, or any retiree death benefits.

4.12.6. Polonia and its Subsidiaries do not maintain any Polonia Compensation and Benefit Plans covering employees who are not United States residents.

4.12.7. With respect to each Polonia Compensation and Benefit Plan, if applicable, Polonia has provided or made available to Prudential copies of the: (a) trust instruments and insurance contracts; (b) three most recent Forms 5500 filed with the IRS, including all schedules and attachments thereto; (c) three most recent financial statements; (d) most recent summary plan description; (e) most recent determination letter issued by the IRS; (f) any Form 5310 or Form

5330 filed with the IRS within the last three years; and (g) most recent nondiscrimination tests performed under ERISA and the Code (including 401(k) and 401(m) tests).

4.12.8. Except as provided in Polonia Disclosure Schedule 4.12.8 and in Section 3.3.9, the consummation of the Merger will not, directly or indirectly (including, without limitation, as a result of any termination of employment or service at any time prior to or following the Effective Time) (a) entitle any employee, consultant or director to any payment or benefit (including severance pay, change in control benefit, or similar compensation) or any increase in compensation, (b) result in any increase in benefits payable under any Polonia Compensation and Benefit Plan, or (c) entitle any current

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or former employee, director or independent contractor of Polonia or any Polonia Subsidiary to any actual or deemed payment (or benefit) which could constitute a “parachute payment” (as such term is defined in Section 280G of the Code).

4.12.9. Neither Polonia nor any Polonia Subsidiary maintains any compensation plans, programs or arrangements under which any payment is reasonably likely to become non-deductible, in whole or in part, for tax reporting purposes as a result of the limitations under Section 162(m) of the Code and the regulations issued thereunder.

4.12.10. Except as disclosed in Polonia Disclosure Schedule 4.12.10, all deferred compensation plans, programs or arrangements are in compliance, both in form and operation, with Section 409A of the Code and all guidance issued thereunder.

4.12.11. Except as set forth in Polonia Disclosure Schedule 4.12.11, (i) each Polonia Compensation and Benefit Plan which is either a nonqualified deferred compensation plan or a supplemental retirement plan (A) was in effect at least one year prior to October 21, 2014 and (B) was not amended during the one-year period immediately preceding October 21, 2014 to increase the benefits payable thereunder, (ii) the benefits payable under each Polonia Compensation and Benefit Plan which is either a nonqualified deferred compensation plan or a supplemental retirement plan are accrued each period only for current or prior service rendered to Polonia or Polonia Bank, (iii) any payments made pursuant to a Polonia Compensation and Benefit Plan which is either a nonqualified deferred compensation plan or a supplemental retirement plan are not based on any discretionary acceleration of vesting or accrual of benefits which occurs at any time later than one year prior to October 21, 2014, (iv) Polonia or Polonia Bank has previously recognized compensation expense and accrued a liability for the benefit payments under each Polonia Compensation and Benefit Plan which is either a nonqualified deferred compensation plan or a supplemental retirement plan according to GAAP, and (v) since October 21, 2014, payments under each Polonia Compensation and Benefit Plan which is either a nonqualified deferred compensation plan or a supplemental retirement plan have not been in excess of the accrued liability computed in accordance with GAAP.

4.12.12. Polonia Disclosure Schedule 4.12.12 sets forth the following with respect to each Polonia SERP and the Polonia Bank Nonqualified Deferred Compensation Plan: (i) the name of each participant in the plan, including former directors, officers or employers who are still entitled to benefits under such plan, (ii) the account balance and/or accrued benefit of each participant as of April 30, 2016, and (iii) for each participant currently receiving benefits under such plan, the name of such participant, the dollar amount being paid, the frequency of the payment and the time period for which such payments are owed.

4.13. Brokers, Finders and Financial Advisors.

Neither Polonia nor any Polonia Subsidiary, nor any of their respective officers, directors, employees or agents, has employed any broker, finder or financial advisor in connection with the transactions contemplated by this Agreement, or incurred any liability or commitment for any fees or commissions to any such person in connection with the transactions contemplated by this Agreement except for the retention of FinPro Capital Advisors, Inc. (“**FinPro**”) by Polonia and the fee payable pursuant thereto. Polonia has provided or made available to Prudential a true and correct copy of the engagement agreement with FinPro, setting forth the fee payable to FinPro for its services rendered to Polonia in connection with the Merger and transactions contemplated by this Agreement.

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4.14. Environmental Matters.

4.14.1. Except as may be set forth in Polonia Disclosure Schedule 4.14, with respect to Polonia and each Polonia Subsidiary:

(A) To Polonia's Knowledge, neither the conduct nor operation of its business nor any condition of any property currently or previously owned or operated by it during the period of such ownership or operation by Polonia or any Polonia Subsidiary, or to Polonia's Knowledge at any other time, (including Participation Facilities, as hereinafter defined) including, without limitation, in a fiduciary or agency capacity, or, to Polonia's Knowledge, any property on which it holds a lien, results or resulted in a violation of or gives rise to any potential liability under, any Environmental Laws that is reasonably likely to impose a liability (including a remediation obligation) upon Polonia or any Polonia Subsidiary. To the Knowledge of Polonia, no condition has existed or event has occurred with respect to any of them or any such property that, with notice or the passage of time, or both, is reasonably likely to result in any liability to Polonia or any Polonia Subsidiary by reason of any Environmental Laws. Neither Polonia nor any Polonia Subsidiary during the past five years has received any written notice from any Person or Governmental Entity that Polonia or any Polonia Subsidiary or the operation or condition of any property ever owned, operated (including Participation Facilities), or held as collateral or in a fiduciary capacity by any of them, is currently in violation of or otherwise is alleged to have liability under any Environmental Laws or relating to Materials of Environmental Concern (including, but not limited to, responsibility (or potential responsibility) for the cleanup or other remediation of any Materials of Environmental Concern at, on, beneath, or originating from any such property) for which a material liability is reasonably likely to be imposed upon Polonia or any Polonia Subsidiary;

(B) There is no suit, claim, action, demand, executive or administrative order, directive, investigation or proceeding pending or, to Polonia's Knowledge, threatened, before any court, governmental agency or other forum against Polonia or any Polonia Subsidiary (a) for alleged noncompliance (including by any predecessor) with, or liability under, any Environmental Law or (b) relating to the presence of or release (defined herein) into the environment of any Materials of Environmental Concern (as defined herein), whether or not occurring at or on a site owned, leased or operated by Polonia or any Polonia Subsidiary;

(C) To Polonia's Knowledge, there are no underground storage tanks on, in or under any properties owned or operated by Polonia or any of the Polonia Subsidiaries, and to Polonia's Knowledge no underground storage tanks have been closed or removed from any properties owned or operated by Polonia or any of the Polonia Subsidiaries or any Participation Facility except in compliance with Environmental Laws; and

(D) "**Participation Facility**" shall mean any facility in which Polonia or any of the Polonia Subsidiaries participates in the management, whether as a fiduciary, lender in control of the facility, owner or operator.

4.15. Loan Portfolio.

4.15.1. The allowance for loan losses reflected in Polonia's audited consolidated balance sheet at December 31, 2015 was, and the allowance for loan losses shown on the balance sheets in Polonia's Financial Statements for periods ending after December 31, 2015 will be, adequate, as of the dates thereof, under GAAP.

4.15.2. Polonia Disclosure Schedule 4.15.2 sets forth a listing, as of March 31, 2016, by name and account, of:
(a) all loans (including loan participations) of Polonia or any other Polonia

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Subsidiary that have had their respective terms to maturity accelerated during the past twelve months; (b) all loan commitments or lines of credit of Polonia or any other Polonia Subsidiary which have been terminated by Polonia or any other Polonia Subsidiary during the past twelve months by reason of a default or adverse developments in the condition of the borrower or other events or circumstances affecting the credit of the borrower; (c) each borrower, customer or other party which has notified Polonia or any other Polonia Subsidiary during the past twelve months of, or has asserted against Polonia or any other Polonia Subsidiary, in each case in writing, any “lender liability” or similar claim, and each borrower, customer or other party which has given Polonia or any other Polonia Subsidiary any oral notification of, or orally asserted to or against Polonia or any other Polonia Subsidiary, any such claim; (d) all loans, (i) that are contractually past due 60 days or more in the payment of principal and/or interest, (ii) that are on non-accrual status, (iii) that as of the date of this Agreement are classified as “Other Loans Specially Mentioned”, “Special Mention”, “Substandard”, “Doubtful”, “Loss”, “Classified”, “Criticized”, “Watch List” or words of similar import, together with the principal amount of and accrued and unpaid interest on each such loan and the identity of the obligor thereunder, (iv) where, during the past three years, the interest rate terms have been reduced and/or the maturity dates have been extended subsequent to the agreement under which the loan was originally created due to concerns regarding the borrower’s ability to pay in accordance with such initial terms, (v) that qualify as Troubled Debt Restructurings, (vi) where a specific reserve allocation exists in connection therewith, or (vii) Polonia Delinquencies and (e) all assets classified by Polonia or any Polonia Subsidiary as REO, and all other assets currently held that were acquired through foreclosure or in lieu of foreclosure.

4.15.3. All loans receivable (including discounts) and accrued interest entered on the books of Polonia and the Polonia Subsidiaries arose out of bona fide arm’s-length transactions, were made for good and valuable consideration in the ordinary course of Polonia’s or the appropriate Polonia Subsidiary’s respective business, and the notes or other evidences of indebtedness with respect to such loans (including discounts), and all pledges, mortgages, deeds of trust and other collateral documents or security instruments relating thereto, are valid, true and genuine and are what they purport to be. To Polonia’s Knowledge, the loans, discounts and the accrued interest reflected on the books of Polonia and the Polonia Subsidiaries are subject to no defenses, set-offs or counterclaims (including, without limitation, those afforded by usury or truth-in-lending laws), except as may be provided by bankruptcy, insolvency or similar laws affecting creditors’ rights generally or by general principles of equity. All such loans are being transferred with good and marketable title, free and clear of any and all encumbrances, liens, pledges, equities, claims, charges, rights of first refusal or similar rights or security interests of any nature encumbering such loan and are evidenced by notes, agreements or other evidences of indebtedness which are true, genuine and correct, and to the extent secured, are secured by valid liens and security interests that are legal, valid and binding obligations of the maker thereof, enforceable in accordance with the respective terms thereof, except as such enforcement may be limited by bankruptcy, insolvency, reorganization or other similar laws or equitable principles affecting the enforcement of creditors’ rights, which have been perfected.

4.16. Securities Documents.

Polonia has made available to Prudential copies of its (a) annual reports on Form 10-K for the years ended December 31, 2015, 2014 and 2013, and (b) proxy materials used in connection with its meetings of shareholders held in 2016, 2015 and 2014. Such reports and such proxy materials complied, at the time filed with the SEC, in all material respects, with the Securities Laws.

4.17. Related Party Transactions.

Except as set forth in Polonia Disclosure Schedule 4.17, neither Polonia nor any Polonia Subsidiary is a party to any transaction (including any loan or other credit accommodation) with any

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Affiliate of Polonia or any Polonia Affiliate. All such transactions (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other Persons, and (c) did not involve substantially more than the normal risk of collectability or present other unfavorable features (as such terms are used under Regulation O of the FRB). No loan or credit accommodation to any Affiliate of Polonia or any Polonia Subsidiary is presently in default or, during the three year period prior to the date of this Agreement, has been in default or has been restructured, modified or extended. Neither Polonia nor any Polonia Subsidiary has been notified that principal and interest with respect to any such loan or other credit accommodation will not be paid when due or that the loan grade classification accorded such loan or credit accommodation by Polonia is inappropriate.

4.18. Deposits.

Except as set forth in Polonia Disclosure Schedule 4.18, as of the date of this Agreement, none of the deposits of Polonia or any Polonia Subsidiary is a “brokered deposit” as defined in 12 C.F.R. Section 337.6(a)(2).

4.19. Required Vote.

The affirmative vote of a majority of the votes cast by holders of issued and outstanding shares of Polonia Common Stock entitled to vote at a duly held meeting at which a quorum is present is required to approve this Agreement and the Merger under Polonia’s articles of incorporation and applicable law.

4.20. Registration Obligations.

Neither Polonia nor any Polonia Subsidiary is under any obligation, contingent or otherwise, which will survive the Effective Time by reason of any agreement to register any transaction involving any of its securities under the Securities Act.

4.21. Risk Management Instruments.

All interest rate swaps, caps, floors, option agreements, futures and forward contracts and other similar risk management arrangements, whether entered into for Polonia’s own account, or for the account of one or more of Polonia’s Subsidiaries or their customers (all of which are set forth in Polonia Disclosure Schedule 4.21), were entered into in the ordinary course of business consistent with past practice and in compliance with all applicable laws, rules, regulations and regulatory policies, and with counterparties believed at the time to be financially responsible and able to understand (either alone or in consultation with their advisors) and to bear the risks of such transactions; and each

of them constitutes the valid and legally binding obligation of Polonia or one of its Subsidiaries, enforceable in accordance with its terms (except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar laws of general applicability relating to or affecting creditors' rights or by general equity principles), and is in full force and effect. Neither Polonia nor any Polonia Subsidiary, nor to the Knowledge of Polonia any other party thereto, is in breach of any of its obligations under any such agreement or arrangement in any respect and there are no allegations or assertions of such by any party thereunder.

4.22. Fairness Opinion.

The board of directors of Polonia has received an oral opinion from FinPro to the effect that, subject to the terms, conditions and qualifications set forth therein, as of the date hereof, the Merger Consideration to be received by the shareholders of Polonia pursuant to this Agreement is fair to such shareholders from a financial point of view, which opinion will be confirmed in writing dated as of the

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date of this Agreement. Such opinion has not been amended or rescinded as of the date of this Agreement.

4.23. Trust Accounts.

Polonia and each of its Subsidiaries has properly administered all accounts for which it acts as a fiduciary, including but not limited to accounts for which it serves as trustee, agent, custodian, personal representative, guardian, conservator or investment advisor, in accordance with the terms of the governing documents and applicable laws and regulations. None of Polonia, any other Polonia Subsidiary, or any of their respective directors, officers or employees, has committed any breach of trust with respect to any such fiduciary account and the records for each such fiduciary account are true and correct in all material respects and accurately reflect the assets of such fiduciary account.

4.24. Intellectual Property.

Polonia and each Polonia Subsidiary (a) owns or possesses valid and binding licenses and other rights (subject to expirations in accordance with their respective terms) to use any and all patents, copyrights, trade secrets, trade names, service marks and trademarks, and (b) is a party to valid and binding licenses for any software, which are required for Polonia and each Polonia Subsidiary to conduct their respective businesses as currently conducted. Neither Polonia nor any Polonia Subsidiary has received any notice or has any Knowledge of any actual or threatened conflict with respect any patents, copyrights, trade secrets, trade names, service marks, trademarks, or licensed software used by Polonia or any Polonia Subsidiary in their respective businesses as currently conducted. Polonia and each Polonia Subsidiary has performed all of the obligations required to be performed as of the date of this Agreement, and is not in default in any material respect, under any license, contract, agreement, arrangement or commitment relating to any of the foregoing. Neither Polonia nor any Polonia Subsidiary has received any charge, complaint, claim, demand or notice alleging that it has infringed upon, diluted, misappropriated or otherwise violated any intellectual property owned or controlled by any third party, and no third party has infringed, diluted, misappropriated or otherwise violated any intellectual property rights of Polonia or any Polonia Subsidiary. Polonia and each Polonia Subsidiary (a) owns or possesses confidential information, including, but not limited to, customer lists and customer data, (b) has taken reasonable steps to protect such confidential information from unintended disclosure, and (c) represents and warrants that, to its Knowledge, such confidential information has not been disclosed to any third parties other than their Affiliates, third parties with which they have contractual nondisclosure agreements or Prudential and its Affiliates.

4.25. Labor Matters.

There are no labor or collective bargaining agreements to which Polonia or any Polonia Subsidiary is a party. There is no union organizing effort pending or to the Knowledge of Polonia, threatened against Polonia or any Polonia Subsidiary. There is no labor strike, labor dispute (other than routine employee grievances that are not related to union employees), work slowdown, stoppage or lockout pending or, to the Knowledge of Polonia, threatened against Polonia

or any Polonia Subsidiary. There is no unfair labor practice or labor arbitration proceeding pending or, to the Knowledge of Polonia, threatened against Polonia or any Polonia Subsidiary (other than routine employee grievances that are not related to union employees). Polonia and each Polonia Subsidiary is in compliance in all material respects with all applicable laws respecting employment and employment practices, terms and conditions of employment and wages and hours, including but not limited to the Fair Labor Standards Act, the Family and Medical Leave Act, Title VII of the Civil Rights Act, the Immigration and Nationality Act, and the National Labor Relations Act, and are not engaged in any unfair labor practice. Polonia and each Polonia Subsidiary represents that they have not made any commitments to others inconsistent with or in

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derogation of any of the foregoing. There are no pending or, to the Knowledge of Polonia, threatened claims or suits against Polonia or any Polonia Subsidiary, or for which any of them might be legally responsible, under any labor or employment law or brought or made by a current or former employee or applicant. Neither Polonia nor any Polonia Subsidiary is delinquent in any material respect in payments to any of its current or former officers, directors, managers, members, partners, employees or independent contractors for any wages, salaries, commissions, bonuses, benefits, expenses, or other compensation for any services performed or amounts required to be reimbursed, or has, to its Knowledge, any liability, whether actual or contingent, with respect to any misclassification of any person as an independent contractor rather than as an employee, or with respect to any employee leased from another employer.

4.26. Polonia Information Supplied.

4.26.1. The information relating to Polonia and any Polonia Subsidiary to be contained in the Merger Registration Statement, or in any other document filed with any Bank Regulator or other Governmental Entity in connection herewith will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances in which they are made, not misleading.

4.26.2. The information supplied by Polonia and any Polonia Subsidiary for inclusion in the Applications will, at the time each such document is filed with any Bank Regulator and up to and including the dates of any required regulatory approvals or consents, as such Applications may be amended by subsequent filings, be accurate in all material respects.

4.27. Investment Securities and Commodities

4.27.1. Polonia and all Polonia Subsidiaries have good title to all securities and commodities owned by them (except those sold under repurchase agreements or held in any fiduciary or agency capacity), free and clear of any liens and encumbrances, except to the extent such securities or commodities are pledged in the ordinary course of business to secure obligations of Polonia or Polonia Subsidiaries. Such securities and commodities are valued on the books of Polonia in accordance with GAAP.

4.27.2. Polonia and all Polonia Subsidiaries and their respective businesses employ, and have acted in compliance in all material respects with, investment, securities, commodities, risk management and other policies, practices and procedures (the “**Policies, Practices and Procedures**”) that Polonia believes are prudent and reasonable in the context of such businesses. Polonia has previously made available to Prudential in writing its material Policies, Practices and Procedures.

4.28.No Other Representations or Warranties.

4.28.1 Except for the representations and warranties made by Polonia in this Article IV and for the disclosures contained in the Polonia Disclosure Schedules, neither Polonia nor any other person makes any express or implied representation or warranty with respect to Polonia, its Subsidiaries, or their respective businesses, operations, assets, liabilities, conditions (financial or otherwise) or prospects, and Polonia hereby disclaims any such other representations or warranties.

4.28.2 Polonia acknowledges and agrees that neither Prudential nor any other person has made or is making any express or implied representation or warranty other than those contained in Article V and in the Prudential Disclosure Schedules.

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ARTICLE V
REPRESENTATIONS AND WARRANTIES OF Prudential

Subject to the disclosures set forth in the Prudential Disclosure Schedules delivered by Prudential to Polonia prior to the execution of this Agreement (which schedule sets forth, among other things, facts, circumstances and events the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more of the representations and warranties contained in this Article V, or to one or more of the Prudential's covenants contained in Article VII (and making specific reference to the Section of this Agreement to which they relate); *provided*, that (i) no such item is required to be set forth as an exception to a representation or warranty if its absence would not result in the related representation or warranty being deemed untrue or incorrect, (ii) the mere inclusion of an item in the Prudential Disclosure Schedules as an exception to a Prudential MAE Rep shall not be deemed an admission by Prudential that such item represents a material exception or that such item is reasonably likely to result in a Material Adverse Effect and (iii) disclosure in any paragraph of the Prudential Disclosure Schedules shall apply only to the indicated Section of this Agreement except to the extent that it is reasonably clear on the face of such disclosure that it is relevant to another paragraph of the Prudential Disclosure Schedules or another Section of this Agreement) the Prudential represents and warrants to Polonia as follows:

5.1. Organization.

5.1.1. Prudential is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania. Prudential has the requisite corporate power and authority to carry on its business as now conducted. Prudential is duly licensed or qualified to do business in the states of the United States and foreign jurisdictions where its ownership or leasing of property or the conduct of its business requires such qualification, except where the failure to be so qualified or licensed and in good standing would not, individually or in the aggregate, have a Material Adverse Effect on Prudential.

5.1.2. Prudential Bank is a savings bank duly organized and validly existing and in good standing under the laws of the Commonwealth of Pennsylvania. Prudential Bank and each other Prudential Subsidiary has the requisite corporate power and authority to carry on its business as now conducted. Prudential Bank and each other Prudential Subsidiary is duly licensed or qualified to do business in the states of the United States and foreign jurisdictions where its ownership or leasing of property or the conduct of its business requires such qualification, except where the failure to be so qualified or licensed and in good standing would not, individually or in the aggregate, have a Material Adverse Effect. The deposits of Prudential Bank are insured by the FDIC to the fullest extent permitted by law, and all premiums and assessments required to be paid in connection therewith have been paid when due. Prudential Bank is a member in good standing of the FHLB and owns the requisite amount of stock therein.

5.2. Capitalization.

5.2.1. The authorized capital stock of Prudential consists of 40,000,000 shares of common stock, \$0.01 par value per share, of which as of the date hereof, 8,060,799 shares are outstanding, validly issued, fully paid and nonassessable and free of preemptive rights, and 10,000,000 shares of preferred stock, \$0.01 par value per share, of which zero shares are outstanding. As of the date hereof, there are 1,484,010 shares of Prudential Common Stock held by Prudential as treasury stock. Except as set forth in Prudential Disclosure Schedule 5.2.1, neither Prudential nor any Prudential Subsidiary has or is bound by any Rights of any character relating to the purchase, sale or issuance or voting of, or right to receive dividends or other distributions on any shares of Prudential Common Stock,

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or any other security of Prudential or any securities representing the right to vote, purchase or otherwise receive any shares of Prudential Common Stock or any other security of Prudential or any Prudential Subsidiary, or pursuant to which Prudential or any Prudential Subsidiary is or could be required to register shares of Prudential capital stock or other securities under the Securities Act, other than shares issuable under the Prudential Stock Benefit Plans.

5.2.2. Prudential owns all of the capital stock of Prudential Bank free and clear of any liens, security interests, pledges, charges, encumbrances, agreements and restrictions of any kind or nature. Except for the Prudential Subsidiaries, Prudential does not possess, directly or indirectly, any equity interest in any corporate entity, except for equity interests held in the investment portfolios of Prudential Subsidiaries, equity interests held by Prudential Subsidiaries in a fiduciary capacity, and equity interests held in connection with the lending activities of Prudential Subsidiaries, including stock in the FHLB. Except as set forth in Prudential's Securities Documents, either Prudential or Prudential Bank, directly or indirectly, owns all of the outstanding shares of capital stock of or all equity interests in each Prudential Subsidiary free and clear of all liens, security interests, pledges, charges, encumbrances, agreements and restrictions of any kind or nature.

5.2.3. Except as set forth in Prudential's Securities Documents, to the Knowledge of Prudential, no Person or "group" (as that term is used in Section 13(d)(3) of the Exchange Act) is the beneficial owner (as defined in Section 13(d) of the Exchange Act) of 5% or more of the outstanding shares of Prudential Common Stock.

5.2.4. Prudential Disclosure Schedule 5.2.4 sets forth Prudential's and all Prudential Subsidiaries' capital stock, equity interest or other direct or indirect ownership interest in any Person other than a Prudential Subsidiary, where such ownership interest is equal to or greater than five percent (5%) of the total ownership interest of such Person.

5.3. Authority; No Violation.

5.3.1. Prudential has full corporate power and authority to execute and deliver this Agreement and, subject to receipt of the Regulatory Approvals, to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Prudential and the consummation by Prudential of the transactions contemplated hereby, including the Merger, have been duly and validly approved by the Board of Directors of Prudential, and no other corporate proceedings on the part of Prudential are necessary to consummate the transactions contemplated hereby, including the Merger. This Agreement has been duly and validly executed and delivered by Prudential, and subject to due and valid execution and delivery of this Agreement by Polonia, constitutes the valid and binding obligation of Prudential, enforceable against Prudential in accordance with its terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity.

5.3.2. Subject to receipt of Regulatory Approvals and Polonia's and Prudential's compliance with any conditions contained therein, and to the receipt of the requisite approval of the shareholders of Polonia, (a) the execution and delivery of this Agreement by Prudential, (b) the consummation of the transactions contemplated hereby, and (c) compliance by Prudential with any of the terms or provisions hereof does not and will not (i) conflict with or result in a breach of any provision of the articles of incorporation, certificate of formation, limited liability company agreement, bylaws or other similar organizational or governing document of Prudential or any Prudential Subsidiary; (ii) violate any statute, code, ordinance, rule, regulation, judgment, order, writ, decree or injunction applicable to Prudential or any Prudential Subsidiary or any of their respective properties or assets; (iii) violate, conflict with, result in a breach of any provisions of, constitute a default (or an event which, with notice or lapse

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of time, or both, would constitute a default), under, result in the termination of, accelerate the performance required by, or result in a right of termination or acceleration or the creation of any lien, security interest, charge or other encumbrance upon any of the properties or assets of Prudential or any Prudential Subsidiary under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, agreement, commitment or other instrument or obligation to which any of them is a party, or by which they or any of their respective properties or assets may be bound or affected; or (iv) contravene, conflict with or result in a violation or breach of any of the terms or requirements of, or give any Governmental Entity the right to revoke, withdraw, suspend, cancel, terminate or modify, any governmental authorization that is held by Prudential or any Prudential Subsidiary.

5.3.3. The Prudential Board of Directors has determined that the Merger, on the terms and conditions set forth in this Agreement, is advisable and in the best interests of Prudential and its shareholders and no other proceedings on the part of Prudential are necessary to approve the issuance of shares of Prudential Common Stock or consummate the transactions contemplated hereby.

5.4. Consents.

Except for (a) filings with Bank Regulators, the receipt of the Regulatory Approvals, and compliance with any conditions contained therein, (b) the filings of the Articles of Merger with the Department of State of the Commonwealth of Pennsylvania and the Maryland Department, (c) the filing with the SEC of (i) the Merger Registration Statement, and (ii) such reports under Sections 13(a), 13(d), 13(g) and 16(a) of the Exchange Act as may be required in connection with this Agreement and the transactions contemplated hereby and the obtaining from the SEC of such orders as may be required in connection therewith, (d) approval of the listing of Prudential Common Stock to be issued in the Merger on the Nasdaq, (e) such filings and approvals as are required to be made or obtained under the securities or “Blue Sky” laws of various states in connection with the issuance of the shares of Prudential Common Stock pursuant to this Agreement, and (f) the approval of this Agreement by the requisite vote of the shareholders of Polonia and no consents, waivers or approvals of, or filings or registrations with, any Governmental Entity are necessary, and no consents, waivers or approvals of, or filings or registrations with, any other third parties are necessary, in connection with (i) the execution and delivery of this Agreement by Prudential, and (ii) the completion of the Merger by Prudential and the other transactions contemplated by this Agreement. Prudential has no knowledge of any fact or circumstance pertaining to Prudential that would cause it to reasonably believe that any Regulatory Approvals or other required consents or approvals will not be received.

5.5. Financial Statements.

5.5.1. Prudential has previously made available to Polonia the Prudential Financial Statements. The Prudential Financial Statements have been prepared in accordance with GAAP, and (including the related notes where applicable) fairly present in each case in all material respects the consolidated financial position, results of operations and cash flows of Prudential and the Prudential Subsidiaries on a consolidated basis as of and for the respective periods ending on the dates thereof, in conformity with GAAP during the periods involved, except as indicated in the

notes thereto, or in the case of unaudited statements, as permitted by Form 10-Q.

5.5.2. At the date of each balance sheet included in the Prudential Financial Statements, Prudential did not have any material liabilities, obligations or loss contingencies of any nature (whether absolute, accrued, contingent or otherwise) of a type required to be reflected in such Prudential Financial Statements or in the footnotes thereto which are not fully reflected or reserved against therein or fully disclosed in a footnote thereto and subject, in the case of any unaudited statements, to normal,

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recurring audit adjustments and the absence of footnotes. The Prudential Financial Statements reflect only actual transactions and all other books and records of Prudential and the Prudential Subsidiaries have been, and are being, maintained in all material respects in accordance with applicable legal and accounting requirements and reflect only actual transactions.

5.5.3. The records, systems, controls, data and information of Prudential and its Subsidiaries are recorded, stored, maintained and operated under means (including any electronic, mechanical or photographic process, whether computerized or not) that are under the exclusive ownership and direct control of Prudential or its Subsidiaries or accountants (including all means of access thereto and therefrom), except for any non-exclusive ownership and non-direct control that would not reasonably be expected to have a material adverse effect on the system of internal accounting controls described below in this Section 5.5.3. Prudential (a) has implemented and maintains a system of internal control over financial reporting (as required by Rule 13a-15(a) of the Exchange Act) that is designed to provide reasonable assurances regarding the reliability of financial reporting and the preparation of its financial statements for external purposes in accordance with GAAP, (b) has implemented and maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) to ensure that material information relating to Prudential, including its consolidated Subsidiaries, is made known to the chief executive officer and the chief financial officer of Prudential by others within those entities, and (c) has disclosed, based on its most recent evaluation prior to the date hereof, to Prudential's outside auditors and the audit committee of Prudential's Board of Directors (the "**Prudential Audit Committee**") (i) any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) which are reasonably likely to adversely affect Prudential's ability to record, process, summarize and report financial information and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in Prudential's internal control over financial reporting. These disclosures (if any) were made in writing to Prudential's auditors and the Prudential Audit Committee and a copy has previously been made available to Polonia. As of the date hereof, to the Knowledge of Prudential's chief executive officer and chief financial officer, each of them will be able to give the certifications required pursuant to the rules and regulations adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, without qualification, when next due.

5.5.4. The allowance for loan and lease losses reflected in Prudential's audited consolidated balance sheet at September 30, 2015 was, and the allowance for loan and lease losses shown on the balance sheets in Prudential's Securities Documents for periods ending after September 30, 2015 will be, adequate, as of the dates thereof, under GAAP.

5.5.5. Since September 30, 2015, (a) neither Prudential nor any of its Subsidiaries nor any director, officer, employee, auditor, accountant or representative of Prudential or any of its Subsidiaries has received or otherwise had or obtained Knowledge of any complaint, allegation, assertion or claim, whether written or oral, regarding the accounting or auditing practices, procedures, methodologies or methods of Prudential or any of its Subsidiaries or their respective internal accounting controls, including any complaint, allegation, assertion or claim that Prudential or any of its Subsidiaries has engaged in illegal accounting or auditing practices, and (b) no attorney representing Prudential or any of its Subsidiaries, whether or not employed by Prudential or any of its Subsidiaries, has reported evidence of a violation of Securities Laws, breach of fiduciary duty or similar violation by Prudential or any of its

officers, directors, employees or agents to the Board of Directors of Prudential or any committee thereof or to any director or officer of Prudential.

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5.6. Taxes.

5.6.1. Prudential and the Prudential Subsidiaries are members of the same affiliated group within the meaning of Code Section 1504(a). Prudential and each Prudential Subsidiary has timely and duly filed all Tax Returns required to be filed by or with respect to Prudential and each Prudential Subsidiary, either separately or as a member of a group of corporations, on or prior to the date hereof and will timely and duly file all Tax Returns required to be filed by or with respect to Prudential and each Prudential Subsidiary, either separately or as a member of a group of corporations, on or prior to the Closing Date, taking into account any extensions (all such Tax Returns being accurate and correct in all material respects) and has duly paid or made provisions that are adequate for the payment of all Taxes which have been incurred by or are due or claimed to be due from Prudential and any Prudential Subsidiary by any Taxing Authority or pursuant to any written Tax sharing agreement on or prior to the date hereof other than Taxes or other charges which (a) are not delinquent, (b) are being contested in good faith and as to which adequate reserves (determined in accordance with GAAP) have been provided in the Prudential Financial Statements, or (c) have not yet been fully determined. As of the date of this Agreement, Prudential has received no written notice of, and except as disclosed in Prudential Disclosure Schedule 5.6.1 there is no audit examination, deficiency assessment, Tax investigation or refund litigation with respect to any Taxes of Prudential or any Prudential Subsidiary, and no written claim has been made by any Taxing Authority in a jurisdiction where Prudential or any Prudential Subsidiary does not file Tax Returns that Prudential or any Prudential Subsidiary is subject to Tax in that jurisdiction. Prudential and the Prudential Subsidiaries have not executed an extension or waiver of any statute of limitations on the assessment or collection of any Tax due that is currently in effect. Prudential and each Prudential Subsidiary has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, shareholder or other third party, and Prudential and each Prudential Subsidiary has timely complied with all applicable information reporting requirements under Part III, Subchapter A of Chapter 61 of the Code and similar applicable state and local information reporting requirements. The United States federal and state income Tax Returns Prudential and each Prudential Subsidiary subject to such Taxes have been audited by the IRS or relevant state Tax Authorities or are closed by the applicable statute of limitations for all taxable years through September 30, 2012.

5.6.2. The unpaid Taxes of Prudential and the Prudential Subsidiaries (a) do not exceed the reserve for Tax liability (rather than any reserve for deferred Taxes established to reflect timing differences between book and Tax income) set forth on the balance sheet of the Prudential Financial Statements and (b) will not exceed the reserve as adjusted for the passage of time through the Closing Date in accordance with the past customs and practice of Prudential in filing its Tax Returns. Since September 30, 2015, neither Prudential nor any Prudential Subsidiary has incurred any liability for Taxes arising from extraordinary gains or losses, as the term is used in GAAP.

5.6.3. Prudential and each Prudential Subsidiary has not disposed of property in a transaction presently being accounted for under the installment method under Section 453 of the Code. No excess loss account exists with respect to any Prudential Subsidiary. Prudential and each Prudential Subsidiary is not required to include in income any adjustment pursuant to Section 481(a) of the Code by reason of a voluntary change in accounting and Prudential has no Knowledge that the IRS has proposed such adjustment in accounting method. There are no rulings, requests for rulings, or closing agreements with any Taxing Authority specifically requested or entered into by Prudential or a Prudential Subsidiary, which could affect their respective Taxes for any period after the Closing. All transactions that

could give rise to an understatement of federal income Tax (within the meaning of Sections 6662 and 6662A of the Code) with respect to Prudential and each Prudential Subsidiary were adequately disclosed on Tax Returns to the extent required under the Code. There are no liens for Taxes upon any property or assets of

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Prudential and each Prudential Subsidiary except for liens for current Taxes, assessments, and other governmental charges not yet due, or which may thereafter be paid without penalty.

5.7.No Material Adverse Effect.

Prudential has not suffered any Material Adverse Effect since December 31, 2015 and no event has occurred or circumstance arisen since that date which, in the aggregate, has had or is reasonably likely to have a Material Adverse Effect on Prudential.

5.8.Ownership of Property; Insurance Coverage.

5.8.1. Prudential and each Prudential Subsidiary has good and, as to real property, marketable title to all assets and properties owned by Prudential or each Prudential Subsidiary in the conduct of their businesses, whether such assets and properties are real or personal, tangible or intangible, including assets and property reflected in the balance sheets contained in the Prudential Financial Statements or acquired subsequent thereto (except to the extent that such assets and properties have been disposed of in the ordinary course of business, since the date of such balance sheets), subject to no encumbrances, liens, mortgages, security interests or pledges, except (a) those items which secure liabilities for public or statutory obligations or any discount with, borrowing from or other obligations to FHLB, inter-bank credit facilities, or any transaction by a Prudential Subsidiary acting in a fiduciary capacity, (b) statutory liens for amounts not yet delinquent or which are being contested in good faith, (c) non-monetary liens affecting real property which do not adversely affect the value or use of such real property, and (d) those described and reflected in the Prudential Financial Statements. Prudential and the Prudential Subsidiaries, as lessee, have the right under valid and enforceable leases of real and personal properties used by Prudential and its Subsidiaries in the conduct of their businesses to occupy or use all such properties as presently occupied and used by each of them. Neither Prudential nor any Prudential Subsidiary is in default under any lease for any real or personal property to which either Prudential or any Prudential Subsidiary is a party, and there has not occurred any event that, with lapse of time or the giving of notice or both, would constitute such a default.

5.8.2. Prudential and each Prudential Subsidiary currently maintain insurance considered by each of them to be reasonable for their respective operations. Prudential and all Prudential Subsidiaries maintain such fidelity bonds and errors and omissions insurance as may be customary or required under applicable laws or regulations. All such insurance is valid and enforceable and in full force and effect, and within the last three years Prudential and each Prudential Subsidiary has received each type of insurance coverage for which it has applied and during such periods has not been denied indemnification for any claims submitted under any of its insurance policies.

5.8.3. All real property owned by Prudential or a Prudential Subsidiary is in material compliance with all applicable zoning laws and building codes, and the buildings and improvements located on such real property are in

good operating condition and in a state of good working order, ordinary wear and tear and casualty excepted. There are no pending or, to the Knowledge of Prudential, threatened condemnation proceedings against such real property. Prudential and the applicable Prudential Subsidiaries are in material compliance with all applicable health and safety related requirements for the owned real property, including those under the Americans with Disabilities Act of 1990 and the Occupational Safety and Health Act of 1970.

5.9. Legal Proceedings.

Except as set forth on Prudential Disclosure Schedule Section 5.9, neither Prudential nor any Prudential Subsidiary is a party to any, and there are no pending or, to the Knowledge of Prudential,

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threatened legal, administrative, arbitration or other proceedings, claims (whether asserted or unasserted), actions or governmental investigations or inquiries of any nature (a) against Prudential or any Prudential Subsidiary that could reasonably be expected to have a Material Adverse Effect, (b) to which Prudential or any Prudential Subsidiary's assets are or may be subject, (c) challenging the validity or propriety of any of the transactions contemplated by this Agreement, or (d) which could adversely affect the ability of Prudential to perform under this Agreement.

5.10. Compliance With Applicable Law.

5.10.1. Each of Prudential and each Prudential Subsidiary is in compliance in all material respects with all applicable federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders or decrees applicable to it, its properties, assets and deposits, its business, and its conduct of business and its relationship with its employees, including, without limitation, the Pennsylvania Banking Code of 1965, the Federal Reserve Act, the Federal Deposit Insurance Act, the USA PATRIOT Act, the Equal Credit Opportunity Act, the Fair Housing Act, the CRA, the Home Mortgage Disclosure Act, the Bank Secrecy Act, and all other applicable fair lending laws and other laws relating to discriminatory business practices, and neither Prudential nor any Prudential Subsidiary has received any written notice to the contrary. The Board of Directors of Prudential Bank has adopted and Prudential Bank has implemented an anti-money laundering program that contains adequate and appropriate customer identification verification procedures that has not been deemed ineffective by any Governmental Entity and that meets the requirements of Sections 352 and 326 of the USA PATRIOT Act and the regulations thereunder.

5.10.2. Each of Prudential and each Prudential Subsidiary has all material permits, licenses, authorizations, orders and approvals of, and has made all filings, applications and registrations with, all Governmental Entities and Bank Regulators that are required in order to permit it to own or lease its properties and to conduct its business as presently conducted; all such permits, licenses, certificates of authority, orders and approvals are in full force and effect and no suspension or cancellation of any such permit, license, certificate, order or approval is, to the Knowledge of Prudential, threatened or will result from the consummation of the transactions contemplated by this Agreement, subject to obtaining the Regulatory Approvals.

5.10.3. For the period beginning January 1, 2015, neither Prudential nor any Prudential Subsidiary has received any written notification or any other communication from any Bank Regulator (a) asserting that Prudential or any Prudential Subsidiary is not in compliance with any of the statutes, regulations or ordinances which such Bank Regulator enforces; (b) threatening to revoke any license, franchise, permit or governmental authorization; (c) requiring or threatening to require Prudential or any Prudential Subsidiary, or indicating that Prudential or any Prudential Subsidiary may be required, to enter into a cease and desist order, agreement or memorandum of understanding or any other agreement with any federal or state governmental agency or authority which is charged with the supervision or regulation of banks or engages in the insurance of bank deposits restricting or limiting, or purporting to restrict or limit the operations of Prudential or any Prudential Subsidiary, including without limitation any restriction on the payment of dividends; or (d) directing, restricting or limiting, or purporting to direct, restrict or limit, in any manner the operations of Prudential or any Prudential Subsidiary, including without limitation any restriction on the payment of dividends (any such notice, communication, memorandum, agreement or order described

in this sentence is hereinafter referred to as an “**Prudential Regulatory Agreement**”). Neither Prudential nor any Prudential Subsidiary is a party to or is subject to any order, decree, agreement, memorandum of understanding or similar arrangement with, or a commitment letter or similar submission to, or extraordinary supervisory letter from, any Bank Regulator or any federal or state governmental agency or authority charged with the supervision or regulation of issuers of securities or the supervision or regulation of it. The most recent regulatory rating given to

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Prudential Bank as to compliance with the CRA is satisfactory or better. There are no unresolved violations, criticisms or exceptions by any Regulatory Authority with respect to any Prudential Regulatory Agreement. There is no injunction, order, judgment or decree imposed upon Prudential or any Prudential Subsidiary or the assets of Prudential or any Prudential Subsidiary.

5.10.4. Since the enactment of the Sarbanes-Oxley Act, Prudential has been and is in compliance in all material respects with the applicable provisions of the Sarbanes-Oxley Act.

5.11. Employee Benefit Plans.

5.11.1. Neither Prudential nor any Prudential Subsidiary has any commitment to create any additional Prudential Compensation and Benefit Plan or to modify, change or renew any existing Prudential Compensation and Benefit Plan, except as required to maintain the qualified status thereof. Prudential has made available to Polonia, in its Securities Documents or otherwise, true and correct copies of the agreements or other documents establishing and evidencing the Prudential Compensation and Benefit Plans.

5.11.2. Each Prudential Compensation and Benefit Plan has been operated and administered in all material respects in accordance with its terms and with applicable law, including, but not limited to, ERISA, the Code, the Securities Act, the Exchange Act, the Age Discrimination in Employment Act, COBRA, HIPAA, the ACA and any regulations or rules promulgated thereunder, and all material filings, disclosures and notices required by ERISA, the Code, the Securities Act, the Exchange Act, the Age Discrimination in Employment Act, COBRA, HIPAA, ACA and any other applicable law have been timely made or any interest, fines, penalties or other impositions for late filings have been paid in full. Each Prudential Compensation and Benefit Plan which is a Pension Plan and which is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the IRS, and Prudential is not aware of any circumstances which are reasonably likely to result in revocation of any such favorable determination letter. There is no pending or, to the Knowledge of Prudential, threatened action, suit or claim relating to any of the Prudential Compensation and Benefit Plans (other than routine claims for benefits). Neither Prudential nor any Prudential Subsidiary has engaged in a transaction, or omitted to take any action, with respect to any Prudential Compensation and Benefit Plan that would reasonably be expected to subject Prudential or any Prudential Subsidiary to a material unpaid tax or penalty imposed by either Sections 4975, 4980B or 5000 of the Code or Section 502 of ERISA.

5.11.3. No liability under Title IV of ERISA has been incurred by Prudential or any Prudential Subsidiary with respect to any Prudential Compensation and Benefit Plan which is subject to Title IV of ERISA (“**Prudential Pension Plan**”) currently or formerly maintained by Prudential or any entity which is considered one employer with Prudential under Section 4001(b)(1) of ERISA or Section 414 of the Code (an “**Prudential ERISA Affiliate**”) since the effective date of ERISA that has not been satisfied in full, and no condition exists that presents a risk to Prudential or any Prudential ERISA Affiliate of incurring a liability under such Title. No Prudential Pension Plan had an “accumulated

funding deficiency” (as defined in Section 302 of ERISA), whether or not waived, as of the last day of the end of the most recent plan year ending prior to the date hereof; there is not currently pending with the PBGC any filing with respect to any reportable event under Section 4043 of ERISA nor has any reportable event occurred as to which a filing is required and has not been made (other than as might be required with respect to this Agreement and the transactions contemplated thereby). Neither Prudential nor any Prudential ERISA Affiliate has contributed to or has or had any obligation to contribute to any “multiemployer plan,” as defined in Section 3(37) of ERISA. Neither Prudential, nor any Prudential ERISA Affiliate, nor any Prudential Compensation and Benefit Plan, including any Prudential Pension Plan, nor any trust created thereunder, nor any trustee or administrator thereof has

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engaged in a transaction in connection with which Prudential, any Prudential ERISA Affiliate, and any Prudential Compensation and Benefit Plan, including any Prudential Pension Plan or any such trust or any trustee or administrator thereof, could reasonably be expected to be subject to either a civil liability or penalty pursuant to Section 409, 502(i) or 502(l) of ERISA or a tax imposed pursuant to Chapter 43 of the Code.

5.11.4. All contributions required to be accrued under the terms of any Prudential Compensation and Benefit Plan have been timely accrued, and all anticipated contributions and funding obligations are accrued on Prudential's consolidated financial statements to the extent required by GAAP. Prudential and each Prudential Subsidiary has expensed and accrued as a liability the present value of future benefits under each applicable Prudential Compensation and Benefit Plan for financial reporting purposes as required by GAAP.

5.11.5. Neither Prudential nor any Prudential Subsidiary has any obligations to provide retiree health, life insurance, death benefits, or disability insurance, under any Prudential Compensation and Benefit Plan, other than benefits mandated by Section 4980B of the Code. There has been no communication to employees by Prudential or any Prudential Subsidiary that would reasonably be expected to promise or guarantee such employees retiree health, life insurance, or disability insurance, or any retiree death benefits.

5.11.6. Prudential and its Subsidiaries do not maintain any Prudential Compensation and Benefit Plans covering employees who are not United States residents.

5.11.7. With respect to each Prudential Compensation and Benefit Plan, if applicable, Prudential has provided or made available to Polonia copies of the: (a) trust instruments and insurance contracts; (b) most recent Forms 5500 filed with the IRS, including all schedules and attachments thereto; (c) most recent actuarial reports and financial statements; (d) most recent summary plan description; (e) most recent determination letter issued by the IRS; (f) any Form 5310 or Form 5330 filed with the IRS within the last year; (g) most recent nondiscrimination tests performed under ERISA and the Code (including 401(k) and 401(m) tests); and (h) any PBGC Form 500 and 501 filings, along with any Notice of Intent to Terminate, ERISA Section 204(h) Notice, Notice of Plan Benefits, and all other documentation related to the prior termination of a Prudential Pension Plan.

5.11.8. Except as set forth on Prudential Disclosure Schedule 5.11.8, the consummation of the Merger will not, directly or indirectly (including, without limitation, as a result of any termination of employment or service at any time prior to or following the Effective Time) (a) entitle any employee, consultant or director to any payment or benefit (including severance pay, change in control benefit, or similar compensation) or any increase in compensation, (b) result in any increase in benefits payable under any Prudential Compensation and Benefit Plan, or (c) entitle any current or former employee, director or independent contractor of Prudential or any Prudential Subsidiary to any actual or deemed payment (or benefit) which could constitute a "parachute payment" (as such term is defined in Section 280G of the Code).

5.11.9. Neither Prudential nor any Prudential Subsidiary maintains any compensation plans, programs or arrangements under which any payment is reasonably likely to become non-deductible, in whole or in part, for tax reporting purposes as a result of the limitations under Section 162(m) of the Code and the regulations issued thereunder.

5.11.10. All deferred compensation plans, programs or arrangements are in compliance, both in form and operation, with Section 409A of the Code and all guidance issued thereunder.

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5.12. Environmental Matters.

5.12.1. Except as may be set forth in Prudential Disclosure Schedule 5.12, with respect to Prudential and each Prudential Subsidiary:

(A) To Prudential's Knowledge, neither the conduct nor operation of its business nor any condition of any property currently or previously owned or operated by it (including, without limitation, in a fiduciary or agency capacity), or on which it holds a lien, results or resulted in a violation of or gives rise to any potential material liability under, any Environmental Laws that is reasonably likely to impose a material liability (including a remediation obligation) upon Prudential or any Prudential Subsidiary. No condition has existed or event has occurred with respect to any of them or any such property that, with notice or the passage of time, or both, is reasonably likely to result in any material liability to Prudential or any Prudential Subsidiary by reason of any Environmental Laws. Neither Prudential nor any Prudential Subsidiary during the past five years has received any written notice from any Person or Governmental Entity that Prudential or any Prudential Subsidiary or the operation or condition of any property ever owned, operated, or held as collateral or in a fiduciary capacity by any of them are currently in violation of or otherwise are alleged to have liability under any Environmental Laws or relating to Materials of Environmental Concern (including, but not limited to, responsibility (or potential responsibility) for the cleanup or other remediation of any Materials of Environmental Concern at, on, beneath, or originating from any such property) for which a material liability may be reasonably likely to be imposed upon Prudential or any Prudential Subsidiary.

(B) There is no suit, claim, action, demand, executive or administrative order, directive, investigation or proceeding pending or, to Prudential's Knowledge, threatened, before any court, governmental agency or other forum against Prudential or any Prudential Subsidiary (a) for alleged noncompliance (including by any predecessor) with, or liability under, any Environmental Law or (b) relating to the presence of or release (defined herein) into the environment of any Materials of Environmental Concern (as defined herein), whether or not occurring at or on a site owned, leased or operated by Prudential or any Prudential Subsidiary.

5.13. Securities Documents

Prudential has made available to Polonia copies of its (a) annual reports on Form 10-K for the years ended September 30, 2015, 2014 and 2013, and (b) proxy materials used or for use in connection with its meetings of shareholders held in 2016, 2015 and 2014. Such reports and such proxy materials complied, at the time filed with the SEC, in all material respects, with the Securities Laws.

5.14. Brokers, Finders and Financial Advisors.

Neither Prudential nor any Prudential Subsidiary, nor any of their respective officers, directors, employees or agents, has employed any broker, finder or financial advisor in connection with the transactions contemplated by this Agreement, or incurred any liability or commitment for any fees or commissions to any such person in connection with the transactions contemplated by this Agreement except for the retention of Sandler O'Neill & Partners, L.P. ("Sandler") and the fee payable pursuant thereto.

5.15. Prudential Common Stock.

The shares of Prudential Common Stock to be issued pursuant to this Agreement, when issued in accordance with the terms of this Agreement, will be duly authorized, validly issued, fully paid and non-assessable and subject to no preemptive rights.

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5.16. Prudential Information Supplied.

5.16.1. The information relating to Prudential and any Prudential Subsidiary to be contained in the Merger Registration Statement, or in any other document filed with any Bank Regulator or other Governmental Entity in connection herewith, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances in which they are made, not misleading.

5.16.2. The Merger Registration Statement will comply with the provisions of the Exchange Act and the rules and regulations thereunder and the provisions of the Securities Act and the rules and regulations thereunder, except that no representation or warranty is made by Prudential with respect to statements made or incorporated by reference therein based on information supplied by Polonia specifically for inclusion or incorporation by reference in the Merger Registration Statement.

5.16.3. The information supplied by Prudential and any Prudential Subsidiary for inclusion in the Applications will, at the time each such document is filed with any Bank Regulator and up to and including the dates of any required regulatory approvals or consents, as such Applications may be amended by subsequent filings, be accurate in all material respects.

5.17. Loan Portfolio.

All loans receivable (including discounts) and accrued interest entered on the books of Prudential and the Prudential Subsidiaries arose out of bona fide arm's-length transactions, were made for good and valuable consideration in the ordinary course of Prudential's or the appropriate Prudential Subsidiary's respective business, and the notes or other evidences of indebtedness with respect to such loans (including discounts), and all pledges, mortgages, deeds of trust and other collateral documents or security instruments relating thereto, are valid, true and genuine and are what they purport to be. To Prudential's Knowledge, the loans, discounts and the accrued interest reflected on the books of Prudential and the Prudential Subsidiaries are subject to no defenses, set-offs or counterclaims (including, without limitation, those afforded by usury or truth-in-lending laws), except as may be provided by bankruptcy, insolvency or similar laws affecting creditors' rights generally or by general principles of equity. With respect to all such loans, Prudential or a Prudential Subsidiary has good and marketable title, free and clear of any and all encumbrances, liens, pledges, equities, claims, charges, rights of first refusal or similar rights or security interests of any nature encumbering such loan and are evidenced by notes, agreements or other evidences of indebtedness which are true, genuine and correct, and to the extent secured, are secured by valid liens and security interests that are legal, valid and binding obligations of the maker thereof, enforceable in accordance with the respective terms thereof, except as such enforcement may be limited by bankruptcy, insolvency, reorganization or other similar laws or equitable principles affecting the enforcement of creditors' rights, which have been perfected.

5.18. Investment Securities and Commodities.

5.18.1. Prudential and all Prudential Subsidiaries have good title to all securities and commodities owned by them (except those sold under repurchase agreements or held in any fiduciary or agency capacity), free and clear of any liens and encumbrances, except to the extent such securities or commodities are pledged in the ordinary course of business to secure obligations of Prudential or Prudential Subsidiaries. Such securities and commodities are valued on the books of Prudential in accordance with GAAP.

5.18.2. Prudential and all Prudential Subsidiaries and their respective businesses employ, and have acted in compliance in all material respects with, investment, securities, commodities,

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risk management and other policies, practices and procedures (the “**Prudential Policies, Practices and Procedures**”) that Prudential believes are prudent and reasonable in the context of such businesses. Before the date hereof, Prudential has made available to Polonia in writing its material Policies, Practices and Procedures.

5.19. Related Party Transactions.

Except as set forth in Prudential Disclosure Schedule 5.19, neither Prudential nor any Prudential Subsidiary is a party to any transaction (including any loan or other credit accommodation) with any Affiliate of Prudential or any Prudential Affiliate. All such transactions (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other Persons, and (c) did not involve substantially more than the normal risk of collectability or present other unfavorable features (as such terms are used under Regulation O of the FRB). No loan or credit accommodation to any Affiliate of Prudential or any Prudential Subsidiary is presently in default or, during the three year period prior to the date of this Agreement, has been in default or has been restructured, modified or extended. Neither Prudential nor any Prudential Subsidiary has been notified that principal and interest with respect to any such loan or other credit accommodation will not be paid when due or that the loan grade classification accorded such loan or credit accommodation by Prudential is inappropriate.

5.20. No Other Representations or Warranties.

5.20.1. Except for the representations and warranties made by Prudential in this Article V and for the disclosures contained in the Prudential Disclosure Schedule, neither Prudential nor any other person makes any express or implied representation or warranty with respect to Prudential, its Subsidiaries, or their respective businesses, operations, assets, liabilities, conditions (financial or otherwise) or prospects, and Prudential hereby disclaims any such other representations or warranties.

5.20.2. Prudential acknowledges and agrees that neither Polonia nor any other person has made or is making any express or implied representation or warranty other than those contained in Article IV and in the Polonia Disclosure Schedule.

ARTICLE VI
COVENANTS OF Polonia

6.1. Conduct of Business.

6.1.1. *Affirmative Covenants.* During the period from the date of this Agreement to the Effective Time, except as expressly contemplated or permitted by this Agreement, required by law or as consented to in writing by Prudential, which consent will not be unreasonably withheld, conditioned or delayed, Polonia will, and it will cause each Polonia Subsidiary to: operate its business, only in the usual, regular and ordinary course of business; use reasonable efforts to preserve intact its business organization and assets and maintain its rights and franchises; and voluntarily take no action which would, or would be reasonably likely to, (a) adversely affect the ability of the parties to obtain any Regulatory Approvals or other approvals of Governmental Entities required for the transactions contemplated hereby or increase the period of time necessary to obtain such approvals, or (b) adversely affect its ability to perform its covenants and agreements under this Agreement.

6.1.2. *Negative Covenants.* Polonia agrees that from the date of this Agreement to the Effective Time, except as otherwise specifically permitted or required by this Agreement, set forth in Polonia Disclosure Schedule 6.1.2, required by law or regulation or any Governmental Entity or

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consented to by Prudential in writing (which consent shall not be unreasonably withheld, conditioned or delayed), it will not, and it will cause each Polonia Subsidiary not to:

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

(B) change the number of authorized or issued shares of its capital stock, issue any shares of Polonia Common Stock, including any shares that are held as treasury stock as of the date of this Agreement, or issue or grant any Right or agreement of any character relating to its authorized or issued capital stock or any securities convertible into shares of such stock, make any grant or award under the Polonia Stock Benefit Plans, or split, combine or reclassify any shares of capital stock, or declare, set aside or pay any dividend or other distribution in respect of capital stock or redeem, repurchase or otherwise acquire any shares of capital stock, except that Polonia may issue, redeem or repurchase shares of Polonia Common Stock in connection with the (i) valid exercise, in accordance with the information set forth in Polonia Disclosure Schedule 3.3.9, of presently outstanding Polonia Options issued under the Polonia Stock Benefit Plans, or (ii) the vesting of presently outstanding Polonia Restricted Stock Awards in accordance with the information set forth in Polonia Disclosure Schedule 3.3.9 issued under the Polonia Stock benefit Plans.

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

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

(E) grant or agree to pay any bonus, severance or termination to, or enter into, renew, amend or extend any employment agreement, severance agreement and/or supplemental executive agreement with, or increase in any manner the compensation or fringe benefits of, any of its directors, officers or employees, except (a) as may be required pursuant to commitments existing on the date hereof and set forth on Polonia Disclosure Schedule 6.1.2(E), and (b) pay increases in the ordinary course of business consistent with past practices to non-officers and employees provided such increases shall not exceed 2% (on an annualized basis) with respect to any individual. Neither Polonia nor any Polonia Subsidiary shall hire or promote any employee to an officer position, promote an existing officer to a more senior officer position or hire any new employee at an annual rate of compensation in excess of \$45,000; provided that Polonia or a Polonia Subsidiary may hire at-will, non-officer employees to fill vacancies that exist as of the date hereof or which may from time to time arise in the ordinary course of business as long as the total number of full-time employees does not exceed the number thereof as of the date hereof;

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

(G) merge or consolidate Polonia or any Polonia Subsidiary with any other corporation; sell or, except as set forth in Polonia Disclosure Schedule 6.1.2(G), lease all or any substantial portion of the assets or business of Polonia or any Polonia Subsidiary; make any acquisition of

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

(H) sell or otherwise dispose of any asset of Polonia or of any Polonia Subsidiary other than in the ordinary course of business consistent with past practice; except for transactions with the FHLB, subject any asset of Polonia or of any Polonia Subsidiary to a lien, pledge, security interest or other encumbrance (other than in connection with deposits, repurchase agreements, bankers acceptances, "treasury tax and loan" accounts established in the ordinary course of business and transactions in "federal funds" and the satisfaction of legal requirements in the exercise of trust powers); except as may be permitted pursuant to item (Q) of this Section 6.1.2, incur liability of any nature, including any indebtedness for borrowed money (or guarantee any indebtedness for borrowed money);

(I) voluntarily take any action which would result in any of the representations and warranties of Polonia set forth in this Agreement becoming untrue as of any date after the date hereof or in any of the conditions set forth in Article IX hereof not being satisfied, except in each case as may be required by applicable law;

(J) change any method, practice or principle of accounting, except as may be required from time to time by GAAP (without regard to any optional early adoption date), any Bank Regulator responsible for regulating Polonia, or Polonia's independent accounting firm;

(K) except as set in Polonia Disclosure Schedule 6.1.2(K), waive, release, grant or transfer any rights of value or modify or change any existing agreement or indebtedness to which Polonia or any Polonia Subsidiary is a party;

(L) purchase any equity securities (other than additional shares of common stock of the FHLB as may be required), or purchase any debt securities other than (a) debt securities issued by U.S. Government Agencies or direct obligations of the U.S. Treasury with final maturities not to exceed three (3) years and a par of \$1.0 million per security, and (b) any U.S. government fixed-rate mortgage-backed security with a weighted average maturity not to exceed four (4) years that passes all applicable regulatory stress tests at the time of purchase, not to exceed \$2.0 million in any one security;

(M) except as permitted under Section 6.1.2(B), issue or sell any equity or debt securities;

(N) except for commitments issued prior to the date of this Agreement which have not yet expired and which have been disclosed on the Polonia Disclosure Schedule 6.1.2(N), and the renewal of existing lines of credit, make any new loan or other credit facility commitment (including without limitation, lines of credit and letters of credit) (i) to an existing credit relationship as of the date hereof, in an amount in excess of \$1,000,000 for a commercial real estate loan and in excess of \$100,000 for a commercial business loan; (ii) to a new credit relationship, in an amount in excess of \$1,000,000 for a commercial real estate loan or \$50,000 for a commercial business loan or (iii) in excess of \$500,000 for a residential loan. In addition, the prior approval of Prudential is required with respect to the following: (a) any overdraft to commercial clients in excess of \$35,000; (b) the granting of any new loans to directors, officers or employees or modifications to existing loans thereto except to the extent contractually required by the terms of the loans thereto and (c) any new credit or loan to an existing

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relationship that is rated “special mention,” “substandard,” or some lesser classification. With respect to any loan that requires Prudential prior approval, Prudential shall have three (3) Business Days to act on such request from date the request is submitted by Polonia Bank together with all relevant documentation for Prudential review, provided that Polonia Bank shall first have approved such loan or credit.

(O) except as set forth on the Polonia Disclosure Schedule 6.1.2(O), enter into, renew, extend or modify any other transaction (other than a deposit transaction) with any Affiliate;

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

(Q) borrow any new amounts from the FHLB, other than overnight borrowings or borrowings with bullet maturities of not more than one (1) year;

(R) make any material change in policies in existence on the date of this Agreement with regard to: the extension of credit, or the establishment of reserves with respect to the possible loss thereon or the charge off of losses incurred thereon; investments; asset/liability management; deposit pricing or gathering; or other banking policies except as may be required by changes in applicable law or regulations or GAAP, or by a Bank Regulator;

(S) enter into any new line of business;

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

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

(V) make any material change in its interest rate or fee pricing policies or practices with respect to depository accounts of Polonia Bank from those policies and practices in place as of the date hereof;

(W) incur any discretionary expense in excess of \$25,000 individually that is not otherwise addressed in this Section 6.1.2;

(X) issue any certificates of deposit, other than pursuant to renewals of existing certificates of deposit, with a maturity longer than twenty-four (24) months;

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

(Z) pay, discharge, settle, modify or compromise any claim, loan, action, litigation, arbitration or proceeding, other than any such payment, discharge, settlement, modification or compromise in the ordinary course of business consistent with past practice that involves solely money damages in the amount not in excess of \$25,000 individually or \$50,000 in the aggregate, and that does

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not create negative precedent for other pending or potential claims, actions, litigation, arbitration or proceedings;

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

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

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

(DD) issue any broadly distributed communication of a general nature to employees (including general communications relating to benefits and compensation, post-Closing employment, benefit or compensation information) without prior consultation with and without the prior consent of Prudential (which shall not be unreasonably withheld, conditioned or delayed) or issue any broadly distributed communication of a general nature to customers without the prior approval of Prudential (which shall not be unreasonably withheld, conditioned or delayed), except as required by law or for communications in the ordinary course of business consistent with past practice that do not relate to the Merger or other transactions contemplated hereby;

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

(FF) agree to do any of the foregoing.

6.2. Current Information and Cooperation.

6.2.1. Subject to compliance with applicable law, regulation and policy, during the period from the date of this Agreement to the Effective Time, Polonia will cause one or more of its representatives to confer with representatives of Prudential and report the general status of its ongoing operations at such times as Prudential may reasonably request. Polonia will promptly notify Prudential of any material change in the normal course of its business or in the

operation of its properties and, to the extent permitted by applicable law, of any governmental complaints, investigations or hearings (or communications indicating that the same may be contemplated), or the institution or the threat of litigation involving Polonia or any Polonia Subsidiary. Without limiting the foregoing, senior officers of Prudential and Polonia shall meet on a reasonably regular basis (expected to be at least monthly) to review the financial, credit and operational affairs, and the like, of Polonia and its Subsidiaries, in accordance with applicable law.

6.2.2. Polonia and Prudential Bank shall meet on a regular basis to discuss and plan for the conversion of Polonia's data processing and related electronic informational systems to those used by Prudential Bank, which planning shall include, but not be limited to, discussion of the possible termination by Polonia of third-party service provider arrangements effective at the Effective Time or at a date thereafter, non-renewal of personal property leases and software licenses used by Polonia in connection with its systems operations, retention of outside consultants and additional employees to assist with the conversion, and outsourcing, as appropriate, of proprietary or self-provided system services, it being understood that Polonia shall not be obligated to take any such action prior to the Effective Time

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and, unless Polonia otherwise agrees, no conversion shall take place prior to the Effective Time. In the event that Polonia takes, at the request of Prudential Bank, any action relative to third parties to facilitate the conversion that results in the imposition of any fees or charges, Prudential Bank shall indemnify Polonia for any such fees and charges, and the costs of reversing the conversion process, if for any reason the Merger is not consummated for any reason other than a breach of this Agreement by Polonia, or a termination of this Agreement under Section 11.1.8.

6.2.3. Each of the parties agrees to use its commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other party in doing, all things necessary, proper, and advisable to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated by this Agreement including, without limitation, any actions, assistance or cooperation necessary in preparation for the conversion and integration of Polonia's operations into Prudential Bank's operations. Notwithstanding any other provision contained in this Agreement, (a) neither Prudential nor Prudential Bank shall under any circumstance be permitted to exercise control of Polonia, Polonia Bank or any other Polonia Subsidiaries prior to the Effective Time.

6.2.4. Polonia shall provide Prudential Bank, within twenty-five (25) days after the end of each calendar month, a written list of nonperforming assets and Polonia Delinquencies (the term "nonperforming assets," for purposes of this subsection, means (a) loans that are Troubled Debt Restructurings, (b) loans on nonaccrual, (c) REO, (d) all loans thirty (30) days or more past due) as of the end of such month and (e) and impaired loans. On a monthly basis, Polonia shall provide Prudential Bank with a schedule of all loan approvals, which schedule shall indicate the loan amount, loan type and other material features of the loan, as well as the related loan origination/underwriting documentation and credit file detail if requested by Prudential Bank. On a monthly basis, Polonia shall provide Prudential Bank with the following reports: (a) watch list report, (b) classified asset report, (c) historic net charge-offs trends, (d) loan loss reserve analysis, (e) individual asset quality write ups, and (f) pipeline report.

6.2.5. Polonia shall promptly inform Prudential upon receiving notice of any legal, administrative, arbitration or other proceedings, demands, notices, audits or investigations by any federal, state or local commission, agency or board relating to the alleged liability of Polonia or any Polonia Subsidiary under any labor or employment law, or related to any claims made by or threatened by any current or former employee or applicant.

6.3. Access to Properties and Records.

Subject to Section 12.1 hereof, Polonia shall permit Prudential reasonable access during normal business hours upon reasonable written notice to its properties and those of the Polonia Subsidiaries, and shall disclose and make available to Prudential during normal business hours all of its books, papers and records relating to the assets, properties, operations, obligations and liabilities, including, but not limited to, all books of account (including the general ledger), tax records, minute books of directors' (other than minutes that discuss any of the transactions contemplated by this Agreement or any other subject matter Polonia determines based on the advice of legal counsel should be treated as

confidential) and shareholders' meetings, organizational documents, bylaws, contracts and agreements, filings with any regulatory authority, plans affecting employees, and any other business activities or prospects in which Prudential may have a reasonable interest; provided, however, that Polonia shall not be required to take any action that would provide access to or to disclose information where such access or disclosure would violate or prejudice the rights or business interests or confidences of any customer or other person or would result in the waiver by it of the privilege protecting communications between it and any of its counsel or that is otherwise prohibited by law or contractual agreement. Prudential shall use commercially reasonable efforts to minimize any interference with Polonia's regular business operations

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during any such access to Polonia's property, books and records. Polonia shall permit Prudential, at Prudential's sole expense, to cause a Phase I and any Phase II Environmental Site Assessment ("**Phase II**") recommended therein to be performed at each Polonia Real Property (provided that such right, with respect to leased Polonia Real Property, shall be subject to the applicable landlord's prior written consent) provided, however, that Prudential shall only have the right to conduct a Phase II prior to the Closing Date only to the extent that a Phase II is within the scope of additional testing recommended by the Phase I to be performed as a result of "Recognized Environmental condition" (as such term is defined by the American Society for Testing Materials) that was discovered in the Phase I. Any such Phase I shall be commenced within 30 days after the date of this Agreement and any such Phase II, to the extent permitted by the provisions hereof to be conducted prior to Closing, recommended to be performed by any such Phase I shall be commenced within 30 days of the Phase I report recommending such Phase II. Prudential and its environmental consultant shall conduct all environmental assessments pursuant to this Section at mutually agreeable times and so as to eliminate or minimize to the greatest extent possible interference with Polonia's operation of its business, and Prudential shall maintain or cause to be maintained reasonably adequate insurance with respect to any assessment conducted hereunder. Prudential shall be required to restore each Polonia Real Property to substantially its pre-assessment condition. All costs and expenses incurred in connection with any Phase I or Phase II and any restoration and clean up, shall be borne solely by Prudential. Prudential hereby agrees to indemnify, defend and hold Polonia harmless from and against any cost, expense, charge, lien, action or judgment, as well as any claim of a right to any such cost, expense, charge, lien, action or judgment arising from any act or omission of Prudential, Prudential's agents or contractors, or any services, labor, supplies or materials provided or performed by surveyors, engineers, architects and others hired by Prudential to make the inspections and tests, and from and against any personal injury and property damage caused by the act or negligence of Prudential or any of its agents, or independent contractors in connection with any Phase I or Phase II.

6.4. Financial and Other Statements.

6.4.1. Promptly upon receipt thereof, Polonia will furnish to Prudential copies of each annual, interim or special audit of the books of Polonia and the Polonia Subsidiaries made by its independent auditors and copies of all internal control reports submitted to Polonia by such auditors in connection with each annual, interim or special audit of the books of Polonia and the Polonia Subsidiaries made by such auditors.

6.4.2. As soon as reasonably available, Polonia will furnish to Prudential copies of all documents, statements and reports that it or any Polonia Subsidiary shall send to its shareholders or, to the extent legally permitted to do so, any Bank Regulator. Within 25 days after the end of each month, Polonia will deliver to Prudential a consolidated balance sheet and a consolidated statement of income, without related notes, for such month prepared in accordance with current financial reporting practices. Within two (2) days following each meeting of the Board of Directors, Polonia will deliver to Prudential a monthly financial reporting package for the previous month and previous month on a year to date basis, in the same form as is delivered to the Board of Directors of Polonia, prepared in accordance with current financial reporting practices.

6.4.3 To the extent legally permitted to so, Polonia will advise Prudential promptly of the receipt of any written communication of any Bank Regulator with respect to the condition or activities of Polonia or any of the Polonia Subsidiaries.

6.4.4. With reasonable promptness, Polonia will furnish to Prudential such additional financial data that Polonia possesses and as Prudential may reasonably request, including without limitation, detailed monthly financial statements and loan reports.

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6.5. Maintenance of Insurance.

Polonia shall maintain, and cause each Polonia Subsidiary to maintain, insurance in such amounts as are reasonable to cover such risks as are customary in relation to the character and location of their properties and the nature of their business, but in no event shall such coverage be less than coverage by the policies in place as of the date of this Agreement.

6.6. Disclosure Supplements.

From time to time as necessary, but in no event less than ten (10) days prior to the Effective Time, Polonia will supplement or amend the Polonia Disclosure Schedule delivered in connection herewith with respect to any matter hereafter arising which, if existing, occurring or known at the date of this Agreement, would have been required to be set forth or described in such Polonia Disclosure Schedule or which is necessary to correct any information in such Polonia Disclosure Schedule which has been rendered inaccurate thereby. Notwithstanding the foregoing, Polonia shall promptly notify Prudential if any representation or warranty of Polonia becomes materially inaccurate but in no event more than five (5) Business Days after Polonia has Knowledge of such material inaccuracy. No supplement or amendment to such Polonia Disclosure Schedule shall have any effect for the purpose of determining satisfaction of the conditions set forth in Article IX.

6.7. Consents and Approvals of Third Parties.

Polonia shall use all commercially reasonable efforts to obtain as soon as practicable all consents and approvals of third parties necessary or desirable for the consummation of the transactions contemplated by this Agreement prior to the Effective Time.

6.8. Failure to Fulfill Conditions.

In the event that Polonia determines that a condition to its obligation to complete the Merger cannot be fulfilled and that it will not waive that condition, it will promptly notify Prudential.

6.9. Reasonable Best Efforts.

Subject to the terms and conditions herein provided, Polonia agrees to use all commercially reasonable best efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable under

applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement.

6.10.No Solicitation.

6.10.1. From the date of this Agreement until the earlier to occur of the Closing or the termination of this Agreement in accordance with its terms, Polonia shall not, and shall cause its Subsidiaries and its and their respective officers, directors, employees, investment bankers, financial advisors, attorneys, accountants, consultants, affiliates and other agents (collectively, the “**Representatives**”) not to, directly or indirectly, (a) initiate, solicit or knowingly encourage, or take any other action to knowingly facilitate the making of any inquiry, offer or proposal which constitutes, or could reasonably be expected to lead to, an Acquisition Proposal; (b) participate in any discussions or negotiations regarding any Acquisition Proposal or furnish, or otherwise afford access, to any Person (other than Prudential) any information or data with respect to Polonia or any of its Subsidiaries or otherwise relating to an Acquisition Proposal; (c) release any Person from, waive any provisions of, or fail to enforce any confidentiality agreement or standstill agreement to which Polonia is a party; or (d) enter into any agreement, agreement in principle or letter of intent with respect to any Acquisition

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Proposal or approve or resolve to approve any Acquisition Proposal or any agreement, agreement in principle or letter of intent relating to an Acquisition Proposal. Any violation of the foregoing restrictions by Polonia or any Representative, whether or not such Representative is so authorized and whether or not such Representative is purporting to act on behalf of Polonia or otherwise, shall be deemed to be a breach of this Agreement by Polonia. Polonia and its Subsidiaries shall, and shall cause each of Polonia Representatives to, immediately cease and cause to be terminated any and all existing discussions, negotiations, and communications with any Persons with respect to any existing or potential Acquisition Proposal.

For purposes of this Agreement, “**Acquisition Proposal**” shall mean any inquiry, offer or proposal (other than an inquiry, offer or proposal from Prudential), whether or not in writing, contemplating, relating to, or that could reasonably be expected to lead to, an Acquisition Transaction. For purposes of this Agreement, “**Acquisition Transaction**” shall mean (a) any transaction or series of transactions involving any merger, consolidation, recapitalization, share exchange, liquidation, dissolution or similar transaction involving Polonia or any of its Subsidiaries; (b) any transaction pursuant to which any third party or group acquires or would acquire (whether through sale, lease or other disposition), directly or indirectly, any assets of Polonia or any of its Subsidiaries representing, in the aggregate, twenty-five percent (25%) or more of the assets of Polonia and its Subsidiaries on a consolidated basis; (c) any issuance, sale or other disposition of (including by way of merger, consolidation, share exchange or any similar transaction) securities (or options, rights or warrants to purchase or securities convertible into, such securities) representing twenty-five percent (25%) or more of the votes attached to the outstanding securities of Polonia or any of its Subsidiaries; (d) any tender offer or exchange offer that, if consummated, would result in any third party or group beneficially owning twenty-five percent (25%) or more of any class of equity securities of Polonia or any of its Subsidiaries; or (e) any transaction which is similar in form, substance or purpose to any of the foregoing transactions, or any combination of the foregoing.

6.10.2. Notwithstanding Section 6.10.1, Polonia may take any of the actions described in clause (b) of the first paragraph of Section 6.10.1 if, but only if, (a) Polonia has received a bona fide unsolicited written Acquisition Proposal that did not result from a breach of this Section 6.10; (b) the Board of Directors of Polonia determines in good faith, after consultation with and having considered the advice of its outside legal counsel and its independent financial advisor, that such Acquisition Proposal constitutes or is reasonably likely to lead to a Superior Proposal; (c) prior to furnishing or affording access to any information or data with respect to Polonia or any of its Subsidiaries or otherwise relating to an Acquisition Proposal, Polonia receives from such Person a confidentiality agreement with terms no less favorable to Polonia than those contained in the Confidentiality Agreements; and (d) the Board of Directors of Polonia determines in good faith, after consultation with and having considered the advice of its outside legal counsel, that the failure to take any such actions would be reasonably likely to violate its fiduciary duties under applicable laws. Polonia shall promptly provide to Prudential any non-public information regarding Polonia or its subsidiaries provided to any other Person that was not previously provided to Prudential, such additional information to be provided no later than the date of provision of such information to such other party.

For purposes of this Agreement, “**Superior Proposal**” shall mean any unsolicited bona fide written proposal (on its most recently amended or modified terms, if amended or modified) made by a third party to enter into an Acquisition Transaction on terms that the Board of Directors of Polonia reasonably determines in its good faith judgment, after

consultation with and having considered the advice of outside legal counsel and its financial advisor, (a) would, if consummated, result in the acquisition of all, but not less than all, of the issued and outstanding shares of Polonia Common Stock or all, or substantially all, of the assets of Polonia and its Subsidiaries on a consolidated basis; (b) would result in a transaction that (i) involves consideration to the holders of the shares of Polonia Common

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Stock that is more favorable than the Merger Consideration to be paid to Polonia's shareholders pursuant to this Agreement, considering, among other things, the nature of the consideration being offered, any regulatory approvals or other risks associated with the timing and consummation of the proposed transaction beyond, or in addition to, those specifically contemplated hereby, and which proposal is not conditioned upon obtaining additional financing and (ii) is, in light of the other terms of such proposal, more favorable to Polonia than the Merger and the transactions contemplated by this Agreement; and (c) is reasonably likely to be completed on the terms proposed, in each case taking into account all legal, financial, regulatory and other aspects of the proposal.

6.10.3. Polonia shall promptly (and in any event within forty-eight (48) hours) notify Prudential in writing if any proposals or offers are received by, any information is requested from, or any negotiations or discussions are sought to be initiated or continued with, Polonia or any Polonia Representatives, in each case in connection with any Acquisition Proposal, and such notice shall indicate the name of the Person initiating such discussions or negotiations or making such proposal, offer or information request and the material terms and conditions of any proposals or offers (and, in the case of written materials relating to such proposal, offer, information request, negotiations or discussion, providing copies of such materials (including e-mails or other electronic communications)) unless (a) such materials constitute confidential information of the party making such offer or proposal under an effective confidentiality agreement, (b) disclosure of such materials jeopardizes the attorney-client privilege or (c) disclosure of such materials contravenes any law, rule, regulation, order, judgment or decree. Polonia agrees that it shall keep Prudential informed, on a current basis, of the status and terms of any such proposal, offer, information request, negotiations or discussions (including any amendments or modifications to such proposal, offer or request).

6.10.4. Neither the Board of Directors of Polonia nor any committee thereof shall (a) withdraw, qualify or modify, or propose to withdraw, qualify or modify, in a manner adverse to Prudential in connection with the transactions contemplated by this Agreement (including the Merger), the Polonia Recommendation (as defined in Section 8.1), or make any statement, filing or release, in connection with the Polonia Shareholders Meeting or otherwise, inconsistent with the Polonia Recommendation (it being understood that taking a neutral position or no position with respect to an Acquisition Proposal shall be considered an adverse modification of the Polonia Recommendation); or (b) approve or recommend, or publicly propose to approve or recommend, any Acquisition Proposal.

6.10.5. Notwithstanding Section 6.10.4, prior to the date of Polonia Shareholders Meeting, the Board of Directors of Polonia may approve or recommend to the shareholders of Polonia a Superior Proposal and withdraw, qualify or modify the Polonia Recommendation in connection therewith (a "**Polonia Subsequent Determination**") after the third (3rd) Business Day following Prudential's receipt of a notice (the "**Notice of Superior Proposal**") from Polonia advising Prudential that the Board of Directors of Polonia, after receiving the advice of its outside legal counsel and, with respect to financial matters, its financial advisors, determines in good faith that it would be reasonably likely to result in a violation of its fiduciary duties under applicable law to continue to recommend this Agreement, then in submitting this Agreement to its shareholders, such Board of Directors may (but shall not be required to) submit this Agreement to its shareholders without recommendation (although the resolutions approving this Agreement as of the date hereof may not be rescinded or amended), in which event the Board of Directors may communicate the basis for its lack of a recommendation to its shareholders in the Proxy Statement-Prospectus or an appropriate amendment or supplement thereto to the extent required by law; *provided*, that the Board of Directors may not take any actions under this

sentence unless (i) it gives Prudential at least three (3) Business Days' prior written notice of its intention to take such action and a reasonable description of the event or circumstances giving rise to its determination to take such action (including, in the event such action is taken by the Board of Directors of Polonia in response to an Acquisition Proposal, the latest material terms and conditions of, and the identity of the third party

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making, any such Acquisition Proposal, or any amendment or modification thereof, or describe in reasonable detail such other event or circumstances) and (ii) at the end of such notice period, the Board of Directors takes into account any amendment or modification to this Agreement proposed by Prudential (*provided, however*, that Prudential shall not be obligated to propose any such adjustments, modifications to the terms and condition of this Agreement) and after receiving the advice of its outside legal counsel and, with respect to financial matters, its financial advisors, determines in good faith that it would nevertheless be reasonably likely to result in a violation of its fiduciary duties under applicable law to continue to recommend this Agreement. Any material amendment to any Acquisition Proposal will be deemed to be a new Acquisition Proposal for purposes of this Section 6.10.5 and will require a new notice period as referred to in this Section 6.10.5. Notwithstanding the foregoing, the changing, qualifying or modifying of the Polonia Recommendation or the making of a Polonia Subsequent Determination by the Board of Directors of Polonia shall not change the approval of the Board of Directors of Polonia for purposes of causing any applicable federal or state anti-takeover laws or regulations to be inapplicable to this Agreement and the Polonia Voting Agreements and the transactions contemplated hereby, including the Merger.

6.10.6. Nothing contained in Section 6.10 shall prohibit Polonia or the Board of Directors of Polonia from complying with Polonia's obligations under Rules 14d-9 and 14e-2(a) (as if such rules were applicable to Polonia) promulgated under the Exchange Act; provided, however, that any such disclosure relating to an Acquisition Proposal shall be deemed a change in the Polonia Recommendation unless the Board of Directors of Polonia reaffirms the Polonia Recommendation in such disclosure.

6.11. Merger-Related Costs.

Polonia agrees to consult with Prudential with respect to its loan, litigation and real estate valuation policies and practices (including loan classifications); provided, however, that neither Prudential nor Prudential Bank shall under any circumstance be permitted to exercise control of Polonia, Polonia Bank or any other Polonia Subsidiaries prior to the Effective Time. Prudential and Polonia shall also consult with respect to the character, amount and timing of restructuring charges to be taken by each of them in connection with the transactions contemplated hereby and shall take such charges as Prudential shall reasonably request and which are not inconsistent with GAAP; provided that no such actions shall be effected (i) until Prudential shall have irrevocably certified to Polonia that all conditions set forth in Article IX to the obligation of Prudential to consummate the transactions contemplated hereby have been satisfied or, where legally permissible, waived and (ii) more than five (5) Business Days prior to the Closing Date.

6.12. ESOP; 401(k) Plan; Severance Plan; Other Benefits Plans.

6.12.1. Polonia shall take all actions necessary to terminate the Polonia ESOP, effective no later than the day immediately prior to the Effective Time. The accounts of all participants and beneficiaries in the Polonia ESOP as of the Effective Time shall become fully vested upon termination of the Polonia ESOP. The Merger Consideration received with respect to the unallocated Polonia Common Stock held by the Polonia ESOP shall first be used to repay all then outstanding indebtedness under the outstanding loans to the ESOP. Following the Effective Time, any

remaining cash or Prudential Common Stock held in the ESOP suspense account after repayment of the outstanding ESOP loans shall be allocated in accordance with the terms of the Polonia ESOP. As soon as practicable after the date hereof, counsel for Polonia shall prepare all necessary documents to be filed with the IRS for a determination letter for termination of the Polonia ESOP, effective immediately prior to the Effective Time, and Polonia shall file or cause to be filed such documents with the IRS following review of such documents by Prudential and its counsel. The parties shall use their respective commercially

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reasonable best efforts to obtain such favorable determination letter. As soon as practicable following the later of the Effective Time or the receipt of a favorable determination letter from the IRS regarding the qualified status of the Polonia ESOP upon its termination, the account balances in the Polonia ESOP shall be either distributed to participants and beneficiaries or rolled over to an eligible tax-qualified retirement plan or individual retirement account as a participant or beneficiary may direct; provided however, that nothing contained herein shall delay the distribution or transfer of account balances in the Polonia ESOP in the ordinary course for reasons other than the termination of such plan. Prudential agrees to permit Continuing Employees to rollover their account balances in the Polonia ESOP to Prudential's 401(k) Plan provided they are still employed by Prudential or a Prudential Subsidiary at the time of such rollover. Polonia shall, or shall direct the fiduciaries of the Polonia ESOP to (to the extent permitted by law), provide Prudential and its counsel with a draft of each resolution, amendment, participant communication or other document relating to the termination of the Polonia ESOP or the voting of shares of Polonia Common Stock in the Polonia ESOP at the Polonia shareholder meeting held in accordance with Section 8.1 at least five (5) Business Days before such document is adopted, filed or distributed, and no such document shall be adopted, filed or distributed without Prudential's approval (not to be unreasonably withheld, conditioned or delayed). Prior to the Closing Date, Polonia shall provide Prudential with the final documentation evidencing that the actions contemplated herein have been effectuated. Notwithstanding anything herein to the contrary, Polonia shall continue to accrue and make contributions to the ESOP trust from the date of this Agreement through the termination date of the Polonia ESOP in an amount sufficient (but not to exceed) the loan payments which become due in the ordinary course on the outstanding loans to the ESOP prior to the termination of the ESOP and shall make a pro-rated payment on the ESOP loan for the 2016 Plan Year through and including the end of the calendar quarter immediately preceding the Closing, prior to the termination of the Polonia ESOP.

6.12.2. To the extent permitted by ERISA, Polonia shall request the trustees of the Polonia ESOP to make a Cash Election for a sufficient number of the unallocated shares of Polonia Common Stock held by the Polonia ESOP to satisfy any outstanding debt under the loan agreements between the Polonia ESOP and Polonia dated as of January 11, 2007 and November 9, 2012.

6.12.3. Polonia shall take all necessary action to cause the Polonia Bank Retirement Plan (the "**Polonia 401(k) Plan**") to be terminated effective no later than the day immediately prior to the Effective Time (the "**Plan Termination Date**"). The accounts of all participants and beneficiaries in the Polonia 401(k) Plan shall become fully vested as of the Plan Termination Date. As soon as practicable after the Plan Termination Date, the account balances in the Polonia 401(k) Plan shall be distributed as a participant or beneficiary may direct, consistent with applicable laws and regulations. Any Continuing Employee who elects to participate in Prudential's 401(k) Plan and who remains employed by Prudential or any Prudential Subsidiary at the time his or her account balance in the Polonia 401(k) Plan is distributed may elect to have such account balance rolled over into Prudential's 401(k) Plan. Polonia shall, or shall direct the fiduciaries of the Polonia 401(k) Plan to (to the extent permitted by law), provide Prudential and its counsel with a draft of each resolution, amendment, participant communication or other document relating to the termination of the Polonia 401(k) Plan at least five (5) Business Days before such document is adopted or distributed, and no such document shall be adopted or distributed without Prudential's approval (not to be unreasonably withheld, conditioned or delayed). Prior to the Closing Date, Polonia shall provide Prudential with the final documentation evidencing that the actions contemplated herein have been effectuated.

6.12.4. Prior to the Effective Time, Polonia shall take all reasonable action to cause the Amended and Restated Polonia Bank Employee Severance Compensation Plan to be amended to provide that each employee of Polonia Bank immediately prior to the Effective Time (other than any employee who is party to an employment agreement, severance agreement or change in control agreement or covered by any other severance plan) and whose employment is terminated as of the Effective Time or

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whose employment continues with Prudential or any Prudential Subsidiary as of the Effective Time and whose employment thereafter is terminated involuntarily other than for “cause” or who voluntarily resigns after being offered continued employment in a position that is not a “comparable position,” as defined, during the six-month period following the Effective Time shall be entitled to receive a lump sum severance payment from Prudential Bank equal in amount to two weeks’ base pay to be calculated based upon such employee’s base compensation for each full year such employee was employed by Polonia Bank, and subject to a minimum of four (4) weeks’ severance and a maximum of twenty-six (26) weeks’ severance, provided (i) such terminated employee had at least one year of credited service, (ii) such terminated employee enters into a release of claims against Prudential, Polonia and their respective Subsidiaries, Affiliates, directors, officers and employees, and (iii) Prudential Bank receives prior to such payment any required regulatory approval or non-objection from Bank Regulators. The Amended and Restated Polonia Bank Employee Severance Compensation Plan shall also be amended to reflect the following: (A) “cause” shall mean termination because of the employee’s personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties or willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or any regulatory order; (B) “year of service” shall mean each full 12-month period of service from the date of hire; and (C) “base compensation” shall mean (i) for salaried employees, the employee’s annual base salary at the rate in effect immediately preceding the Effective Time or, if higher, the rate in effect as of the date of termination, (ii) for employees whose compensation is determined in whole or in part on the basis of commission income, the sum of the employee’s base salary (if any) at the rate in effect immediately preceding the Effective Time plus the commissions earned by the employee in the 12 full calendar months immediately preceding the Effective Time or, if higher, the sum of the employee’s base salary (if any) at the rate in effect as of the date of termination plus the commissions earned by the employee in the twelve (12) full calendar months immediately preceding the date of termination, and (iii) for hourly employees, the employee’s total hourly wages (excluding bonuses, commissions, perquisites, benefits or similar payments) for the twelve (12) full calendar months immediately preceding the Effective Time or, if higher, the employee’s total hourly wages (excluding bonuses, commissions, perquisites, benefits or similar payments) for the twelve (12) full calendar months immediately preceding the date of termination; (D) “comparable position” shall mean a position that would (i) provide the employee with a base salary at least equal to 85% of the employee’s base salary in effect immediately prior to the Effective Time and (ii) have job skill requirements that are comparable to the requirements of the position held by the employee immediately prior to the Effective Time; (E) the lump sum severance payment with respect to any terminated employee shall be paid in the first payroll period following the later of (i) the date on which the revocation period for the employee’s executed release agreement expires without such release being revoked or (ii) the date of termination of such employee’s employment; and (F) all references in Section P of such plan to vested rights of the parties shall be deleted. Polonia shall provide Prudential and its counsel with a draft of each resolution, employee communication or other document relating to the amendment of the Amended and Restated Polonia Bank Employee Severance Compensation Plan at least five (5) Business Days before such document is adopted or distributed, and no such document shall be adopted or distributed without Prudential’s approval (not to be unreasonably withheld, conditioned or delayed). Prior to the Closing Date, Polonia shall provide Prudential with the final documentation evidencing that the actions contemplated herein have been effectuated.

6.12.5. Immediately prior to the Effective Time, Polonia shall cause Polonia Bank to pay to each of its employees in cash (less applicable federal, state and local tax withholding) as of the Effective Time the amount of any accrued but unused vacation leave and compensatory time determined in accordance with the Polonia Employee Handbook, provided that all of such payments are accrued as a liability as of the Final Statement Date.

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6.12.6. To the extent request by Prudential prior to the Closing Date, Polonia and the Polonia Subsidiaries shall cooperate in good faith with Prudential to amend, freeze, terminate or modify any Polonia Compensation and Benefit Plan not covered elsewhere in this Section 6.12 in accordance with the terms of such plan or agreement, to be effective as of or immediately prior to the Effective Time (or at such different time mutually agreed to by the parties), except that the winding up of any such plan or agreement may be completed following the Effective Time. Polonia shall provide Prudential and its counsel with a draft of each resolution, amendment, participant communication or other document relating to the foregoing at least five (5) business days before such document is adopted or distributed, and no such document shall be adopted or distributed without Prudential's approval (not to be unreasonably withheld, conditioned or delayed). Prior to the Closing Date, Polonia shall provide Prudential with the final documentation evidencing that the actions contemplated herein have been effectuated.

6.13. Polonia Consolidated Stockholders' Equity.

6.13.1. For purposes of the Closing Balance Sheet (as defined below), "***Polonia Consolidated Stockholders' Equity***" shall be Polonia's total consolidated stockholders' equity as of the Final Statement Date (as defined below) computed in accordance with GAAP, consistently applied but excluding (i) any change after April 30, 2016 in the net accumulated other comprehensive income (loss) related to unrealized gains or losses on available for sale securities, (ii) the after-tax impact of any net gains on sale of investment securities and/or loans realized after April 30, 2016, (iii) the after-tax impact of any accruals, reserves or charges resulting from expenses of the Merger and other transactions contemplated by this Agreement incurred after April 30, 2016 including but not limited to Polonia investment banking fees, attorney's and accountant's fees, amounts owing and paid under management contracts and termination fees under any Material Contracts with Polonia or any Polonia Subsidiary that are terminated in connection with the Merger or actions required to be taken by Polonia or any of its Subsidiaries pursuant to the terms of this Agreement (provided that all accruals and payments made pursuant to Section 6.12.5 of this Agreement shall not be excluded), (iv) the after-tax impact of any recoveries on or before the Final Statement Date (as defined below) of reserves taken by Polonia on or before April 30, 2016 with respect to litigation pending as of the date of this Agreement as set forth in Polonia Disclosure Schedule 4.10 as the result of entry into a binding settlement agreement or arbitration award or entry of a final judicial determination of a court of competent jurisdiction prior to the Final Statement Date, and (v) the after-tax impact of any recoveries or reversals on or before the Final Statement Date of the liability recorded, as reflected in the audited financial statements for the year ended December 31, 2015, with respect to the post-retirement deferred compensation and split dollar arrangement with the previous President of Polonia which was entered into in 1997 as a result of entry into a binding agreement with such person with respect to the benefits due thereto pursuant to such benefit arrangements prior to the Final Statement Date. In addition, for purposes of the Closing Balance Sheet, "***Polonia Net Equity Adjustments***" shall be the sum of the following items, but only if such sum is a positive amount: (x) the amount in clause (iv) above, plus (y) the amount in clause (v) above, minus (z) the aggregate legal and accounting fees and expenses incurred with respect to this Agreement and the transactions contemplated hereby, including but not limited to negotiation of this Agreement and the preparation of the Proxy Statement-Prospectus, but only to the extent such aggregate legal and accounting fees and expenses incurred on or before the Final Statement Date exceed \$350,000.

6.13.2. Polonia shall prepare a consolidated balance sheet of Polonia as of the Final Statement Date (the "***Closing Balance Sheet***") and the computation of Polonia Consolidated Stockholders' Equity and the Polonia Net Equity

Adjustments as of the Final Statement Date, determined in accordance with this Agreement. The Closing Balance Sheet shall be prepared in accordance with GAAP, consistently applied, and in a manner consistent with the audited consolidated balance sheet of Polonia as of December 31, 2015, except as provided in Section 6.13.1 above.

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6.13.3. After the shareholders of Polonia have approved the Merger, as required by this Agreement, and after all regulatory approvals required by law to consummate the Merger have been obtained (statutory waiting periods need not have expired), Polonia or Prudential may specify the succeeding month-end as the date of the Closing Balance Sheet (the “*Final Statement Date*”) by written notice to the other party delivered before the Final Statement Date specified in the notice. Upon delivery of such notice, Polonia shall promptly prepare the Closing Balance Sheet and shall deliver the Closing Balance Sheet to Prudential no later than twelve (12) calendar days after the Final Statement Date for the review and approval of Prudential. If Prudential disagrees in good faith with Polonia’s calculation of the Closing Balance Sheet, Prudential may, within five (5) Business Days following Polonia’s delivery of the Closing Balance Sheet, deliver to Polonia a written notice of disagreement setting forth in reasonable detail those items or amounts included in the Closing Balance Sheet as to which Prudential disagrees and the basis for such disagreement. Prudential shall provide reasonable supporting documentation for each such disagreement concurrently with the delivery of such notice of disagreement. The parties agree that the only valid basis for a notice of disagreement shall be that (A) an amount set forth in the Closing Balance Sheet was not properly calculated in accordance with GAAP or this Section 6.13 or (B) there was a mathematical or computational error in the recording of any amount included in the Closing Balance Sheet. Prudential shall be deemed to have agreed with all other items and amounts set forth in the Closing Balance Sheet other than those specified in a notice of disagreement.

6.13.4. If Prudential does not timely deliver a notice of disagreement to Polonia that complies with Section 6.13.3, or if Prudential delivers a notice to Polonia that states that Prudential agrees with Polonia’s calculation, the Closing Balance Sheet delivered pursuant to Section 6.13.3 shall be deemed to have been accepted and shall be final, binding and conclusive on the parties.

6.13.5. If Prudential timely delivers a notice of disagreement to Polonia that complies with Section 6.13.3, Polonia and Prudential shall, during the three (3) Business Days following such delivery, negotiate in good faith and use commercially reasonable efforts to resolve promptly all of the disputed items specified in the notice of disagreement. Any such disputed items that are resolved by a written agreement between Polonia and Prudential shall be final, binding and conclusive on the parties and shall become part of the Closing Balance Sheet.

6.13.6. If Polonia and Prudential are unable to resolve all of the disputed items specified in a notice of disagreement during such three-day period, either party may submit the unresolved disputed items to the Accounting Firm for resolution. Each party agrees to execute, if requested by the Accounting Firm, a reasonable engagement letter with such Accounting Firm. Polonia and Prudential shall jointly instruct the Accounting Firm that: (A) it shall act as an expert in accounting, and not as an arbitrator, to resolve the unresolved disputed items specified in the notice of disagreement in accordance with GAAP and this Section 6.13; and (B) it shall deliver to Polonia and Prudential, as promptly as practicable and in any event within ten (10) days following the submission of the unresolved disputed items to the Accounting Firm, a written report setting forth its calculation of the Closing Balance Sheet, which report shall be final, binding and conclusive on the parties. The fees and expenses of the Accounting Firm shall be borne by Polonia, on the one hand, and Prudential, on the other hand, in the same proportion that their respective positions are confirmed or rejected by the Accounting Firm (which proportionate allocations also shall be determined by the Accounting Firm and included in its report).

6.14. Anti-takeover Provisions.

Polonia and the Polonia Subsidiaries shall take all steps required by any relevant federal or state law or regulation or under any relevant agreement or other document to exempt or continue to exempt Prudential, Prudential Bank, the Merger, the Agreement and the transactions contemplated hereby from

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any provisions of an anti-takeover nature contained in Polonia's or its Subsidiaries' organizational documents, and the provisions of any applicable federal or state anti-takeover laws and regulations.

ARTICLE VII
COVENANTS OF Prudential

7.1. Conduct of Business.

During the period from the date of this Agreement to the Effective Time, except with the written consent of Polonia, which consent will not be unreasonably withheld, Prudential will, and it will cause each Prudential Subsidiary to use reasonable efforts to preserve intact its business organization and assets and maintain its rights and franchises; and voluntarily take no action that would, or would be reasonably likely to: (a) adversely affect the ability of the parties to obtain the Regulatory Approvals or other approvals of Governmental Entities required for the transaction contemplated hereby, or increase the period of time necessary to obtain such approvals; (b) adversely affect its ability to perform its covenants and agreements under this Agreement; or (c) result in the representations and warranties contained in Article V of this Agreement not being true and correct on the date of this Agreement or at any future date on or prior to the Closing Date or in any of the conditions set forth in Article IX hereof not being satisfied.

7.2. Current Information.

During the period from the date of this Agreement to the Effective Time as necessary, Prudential will cause one or more of its representatives to confer with representatives of Polonia and report the general status of its financial condition, operations and business and matters relating to the completion of the transactions contemplated hereby, at such times as Polonia may reasonably request. Prudential will promptly notify Polonia, to the extent permitted by applicable law, of any governmental complaints, investigations or hearings (or communications indicating that the same may be contemplated), which might adversely affect the ability of the parties to obtain the Regulatory Approvals or increase the period of time necessary to obtain such approvals; or the institution of material litigation involving Prudential and any Prudential Subsidiary. Prudential shall be reasonably responsive to requests by Polonia for access to such information and personnel regarding Prudential and its Subsidiaries as may be reasonably necessary for Polonia to confirm that the representations and warranties of Prudential contained herein are true and correct and that the covenants of Prudential contained herein have been performed in all material respects; provided, however, that Prudential shall not be required to take any action that would provide access to or to disclose information where such access or disclosure, in Prudential's reasonable judgment, would interfere with the normal conduct of Prudential's business or would violate or prejudice the rights or business interests or confidences of any customer or other person or would result in the waiver by it of the privilege protecting communications between it and any of its counsel.

7.3. Financial and Other Statements.

Prudential will make available to Polonia the Securities Documents filed by it with the SEC under the Securities Laws. Prudential will furnish to Polonia copies of all documents, statements and reports that it or Prudential Bank intends to file with any Bank Regulator with respect to the Merger. Prudential will furnish to Polonia copies of all documents, statements and reports that it sends to the shareholders of Prudential.

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7.4. Disclosure Supplements.

From time to time prior to the Effective Time as necessary, Prudential will supplement or amend the Prudential Disclosure Schedules delivered in connection herewith with respect to any material matter hereafter arising which, if existing, occurring or known at the date of this Agreement, would have been required to be set forth or described in such Prudential Disclosure Schedule or which is necessary to correct any information in such Prudential Disclosure Schedule which has been rendered inaccurate thereby. No supplement or amendment to such Prudential Disclosure Schedule shall have any effect for the purpose of determining satisfaction of the conditions set forth in Article IX.

7.5. Consents and Approvals of Third Parties.

Prudential shall use all commercially reasonable efforts to obtain as soon as practicable all consents and approvals of third parties, necessary or desirable for the consummation of the transactions contemplated by this Agreement.

7.6. Reasonable Best Efforts.

Subject to the terms and conditions herein provided, Prudential agrees to use all commercially reasonable best efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement.

7.7. Failure to Fulfill Conditions.

In the event that Prudential determines that a condition to its obligation to complete the Merger cannot be fulfilled and that it will not waive that condition, it will promptly notify Polonia.

7.8. Employee Benefits.

7.8.1. Prior to the Effective Time, Prudential shall take all reasonable action so that employees of Polonia and its Subsidiaries who become employees of Prudential or a Prudential Subsidiary (“**Continuing Employees**”) shall be entitled to participate, effective as soon as administratively practicable following the Effective Time, in each of the Prudential Compensation and Benefit Plans to the same extent as similarly-situated employees of Prudential and its Subsidiaries (it being understood that inclusion of the employees of Polonia and its Subsidiaries in the Prudential Compensation and Benefit Plans may occur at different times with respect to different plans and that any grants to any Continuing Employee under any Prudential Stock Plan shall be at the discretion of Prudential). Notwithstanding the

foregoing, Prudential may determine to continue any of the employee benefit plans, programs or arrangements of Polonia or any its Subsidiaries for Continuing Employees in lieu of offering participation in the Prudential Compensation and Benefit Plans providing similar benefits (e.g., medical and hospitalization benefits), to terminate any of such benefit plans, or to merge any such benefit plans with the corresponding Prudential Compensation and Benefit Plans, provided the result is the provision of benefits to Continuing Employees that are substantially similar to the benefits provided to the employees of Prudential and its Subsidiaries generally. Should Prudential notify Polonia in advance of the Effective Time that it wishes Polonia or any Polonia Subsidiary to terminate any Polonia Compensation and Benefit Plan prior to the Effective Time, Polonia shall take all steps necessary to comply with such request prior to the Effective Time; provided that Polonia shall have no obligation to terminate any such plan unless and until Prudential shall have irrevocably certified to Polonia that all conditions set forth in Article IX to the obligation of Prudential to consummate the transactions contemplated hereby have been satisfied or, where legally permissible, waived. Prudential shall cause

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each Prudential Compensation and Benefit Plan in which Continuing Employees are eligible to participate to recognize, for purposes of determining eligibility to participate in, the vesting of benefits and for all other purposes (but not for the accrual of benefits, except as specifically set forth herein) under the Prudential Compensation and Benefit Plans the service of such Continuing Employees with Polonia and its Subsidiaries or any predecessor thereto prior to the Effective Time; provided, however, that credit for benefit accrual purposes shall be given for purposes of Prudential vacation and other leave policies or programs and for purposes of the calculation of severance benefits under any severance compensation plan or practice of Prudential and its Subsidiaries as set forth in Prudential Disclosure Schedule 7.8.1 and provided further that Continuing Employees shall not be permitted to participate in any severance compensation plan or practice of Prudential and its Subsidiaries if they are a party to any employment, consulting, change in control or severance agreement or contract with Polonia or Polonia Bank which provides for severance payments or benefits or if they are covered by the Amended and Restated Polonia Bank Employee Severance Compensation Plan. This Agreement shall not be construed to limit the ability of Prudential or Prudential Bank to terminate the employment of any employee or to review employee benefits programs from time to time and to make such changes (including terminating any program) as they deem appropriate.

7.8.2. Prudential shall honor the terms of all Polonia Compensation and Benefit Plans set forth in Polonia Disclosure Schedule 4.12.1 and specifically identified on such schedule as being subject to honor by Prudential, subject to the receipt of any required prior approval or non-objection of Banking Regulators with respect to the provision of any payments, indemnification or other benefits pursuant thereto.

7.8.3. In the event of any termination of any medical, dental, health or disability plan (collectively, “**health plans**”) of Polonia and its Subsidiaries or the consolidation of any such health plans with a corresponding health plan of Prudential and its Subsidiaries, Prudential shall make available to Continuing Employees and their dependents employer-provided coverage under the corresponding health plans of Prudential and its Subsidiaries on the same basis as it provides coverage to employees of Prudential and its Subsidiaries, provided that Prudential shall cause each such plan to (a) waive any pre-existing condition restrictions or limitations to the extent such conditions are covered under the applicable health plans of Polonia and its Subsidiaries, (b) honor under such plans any deductible, co-payment and out-of-pocket expenses incurred by the employees and their dependents under the health plans of Polonia and its Subsidiaries during the portion of the plan year prior to participation in the corresponding health plan of Prudential and its Subsidiaries, and (c) waive any waiting period limitation or evidence of insurability requirement which would otherwise be applicable to the Continuing Employees and their dependents on or after the Effective Time, in each case to the extent such employee or dependent had satisfied any similar limitation or requirement under an analogous health plan of Polonia or its Subsidiaries prior to the Effective Time. Unless a Continuing Employee affirmatively terminates coverage under a health plan of Polonia and its Subsidiaries prior to the time that such Continuing Employee becomes eligible to participate in the corresponding health plan of Prudential and its Subsidiaries, no coverage of any of the Continuing Employees or their dependents shall terminate under any health plan of Polonia and its Subsidiaries prior to the time such Continuing Employees and their dependents become eligible to participate in the health plans, programs and benefits common to all employees of Prudential and its Subsidiaries and their dependents. In the event of a termination or consolidation of any health plan of Polonia and its Subsidiaries, terminated employees of Polonia and its Subsidiaries and qualified beneficiaries will have the right to continued coverage under group health plans of Prudential and its Subsidiaries in accordance with COBRA.

7.8.4. Prudential agrees to provide for retention bonuses to those employees of Polonia and its Subsidiaries who (i) are selected by Polonia and approved by Prudential and (ii) remain employed by Polonia and its Subsidiaries through the Effective Time and who thereafter remain

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employed by Prudential and its Subsidiaries through the date of the data processing systems conversion (or such other date mutually agreed to by the parties), provided that the aggregate amount of such retention bonuses shall not exceed \$50,000.

7.9. Directors and Officers Indemnification and Insurance.

7.9.1. From and after the Effective Time, Prudential shall indemnify, defend and hold harmless each person who is now, or who has been at any time before the date hereof or who becomes before the Effective Time, an officer, director or employee of Polonia or a Polonia Subsidiary (the “**Indemnified Parties**”) against all losses, claims, damages, costs, expenses (including attorney’s fees), liabilities or judgments or amounts that are paid in settlement (which settlement shall require the prior written consent of Prudential, which consent shall not be unreasonably withheld) of or in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, or administrative (each a “**Claim**”), in which an Indemnified Party is, or is threatened to be made, a party or witness in whole or in part or arising in whole or in part out of the fact that such person is or was a director or officer of Polonia or a Polonia Subsidiary or served at the request of such party as a director, officer, employee, trustee, manager or partner of another corporation, partnership, trust, joint venture, employee benefit plan or other entity if such Claim pertains to any matter of fact arising, existing or occurring at or before the Effective Time (including, without limitation, the Merger and the other transactions contemplated hereby), regardless of whether such Claim is asserted or claimed before, or after, the Effective Time, to the fullest extent as would have been permitted by Polonia under the MGCL and under Polonia’s articles of incorporation and bylaws or equivalent governing documents of any Polonia Subsidiary, as applicable, in each case as in effect on the date hereof. Prudential shall pay expenses in advance of the final disposition of any such action or proceeding to each Indemnified Party to the fullest extent as would have been permitted by Polonia under the MGCL and under Polonia’s articles of incorporation and bylaws upon receipt of an undertaking to repay such advance payments if such Indemnified Party shall be adjudicated or determined to be not entitled to indemnification in the manner set forth below. Any Indemnified Party wishing to claim indemnification under this Section 7.9.1 upon learning of any Claim, shall notify Prudential (but the failure so to notify Prudential shall not relieve it from any liability which it may have under this Section 7.9.1, except to the extent such failure prejudices Prudential) and shall deliver to Prudential the undertaking referred to in the previous sentence. Without limiting the foregoing, in any case in which approval by Prudential, one of its Subsidiaries or the board of directors thereof is required to effect any indemnification, at the election of the Indemnified Party, the determination of any such approval shall be made by a majority of the independent directors then in office or, if no such directors are then in office, by independent counsel mutually agreed upon between Prudential and the Indemnified Party. Nothing contained in Section 7.9 or any other provision of this Agreement shall limit any right to indemnification which any current or former director, officer, employee or agent of Polonia may have under applicable law or regulation or Polonia’s articles of incorporation, bylaws or the equivalent documents of any Subsidiary of Polonia, as applicable, in each case as in effect on the date hereof, which Prudential agrees to honor in accordance with their terms.

7.9.2. In the event that either Prudential or any of its successors or assigns (a) consolidates with or merges into any other person and shall not be the continuing or surviving bank or entity of such consolidation or merger or (b) transfers all or substantially all of its properties and assets to any person, then, and in each such case, proper provision shall be made so that the successors and assigns of Prudential shall assume the obligations set forth in this Section 7.9.

7.9.3. Prudential shall maintain, or shall cause Prudential Bank to maintain, in effect for six (6) years following the Effective Time, the current directors' and officers' liability insurance policies covering the officers and directors of Polonia (provided, that Prudential may substitute therefore policies of at least the same coverage containing terms and conditions which are not materially less

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favorable) with respect to matters occurring at or prior to the Effective Time; provided, however, that in no event shall Prudential be required to expend per year pursuant to this Section 7.9.3 more than one hundred fifty percent (150%) of the annual cost currently expended by Polonia with respect to such insurance (the “**Maximum Amount**”); provided, further, that if the amount of the annual premium necessary to maintain or procure such insurance coverage exceeds the Maximum Amount, Prudential shall use its reasonable best efforts to maintain the most advantageous policies of directors’ and officers’ insurance obtainable for a premium equal to the Maximum Amount or alternatively Prudential may either (i) request Polonia obtain an extended reporting period endorsement under Polonia’s existing directors’ and officers’ liability insurance policy or (ii) substitute therefor “tail” policies the material terms of which, including coverage and amount, are no less favorable in any material respect than Polonia’s existing insurance policies as of the date hereof, in each case if and to the extent that the same may be obtained for an amount that, in the aggregate, does not exceed two hundred fifty percent (250%) of the annual cost currently expended by Polonia with respect to such insurance. In connection with the foregoing, Polonia agrees in order for Prudential to fulfill its agreement to provide directors and officers liability insurance policies for six (6) years to provide such insurer or substitute insurer with such reasonable and customary representations as such insurer may request with respect to the reporting of any prior claims.

7.9.4. The obligations of Prudential provided under this Section 7.9 are intended to be enforceable against Prudential directly by the Indemnified Parties and their respective heirs and representatives and shall be binding on all respective successors and permitted assigns of Prudential.

7.10. Stock Listing.

Prior to the Effective Time, Prudential will take all steps necessary to list on the Nasdaq (or such other national securities exchange on which the shares of the Prudential Common Stock shall be listed as of the date of consummation of the Merger), subject to official notice of issuance, the shares of Prudential Common Stock to be issued in the Merger.

7.11. Stock and Cash Reserve.

Prudential agrees at all times from the date of this Agreement until the Merger Consideration has been paid in full to reserve a sufficient number of shares of its common stock and to maintain sufficient liquid accounts (at either the Prudential or Prudential Bank level) or borrowing capacity to fulfill its obligations under this Agreement.

7.12. Adverse Actions.

Neither Prudential nor any Prudential Subsidiary shall: (a) take any action that would, or is reasonably likely to, prevent or impede the Merger from qualifying as a reorganization within the meaning of Section 368 of the Code; or (b) take any action that is intended or is reasonably likely to result in (i) any of its representations and warranties set forth in this Agreement being or becoming untrue in any respect at any time at or prior to the Effective Time, (ii) any of the conditions to the Merger set forth in Article 9 not being satisfied, (iii) a material violation of any provision of this Agreement, or (iv) a material delay in the consummation of the Merger except, in each case, as may be required by applicable law or regulation.

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ARTICLE VIII
REGULATORY AND OTHER MATTERS

8.1. Shareholder Meeting.

Polonia will (a) as promptly as practicable after the Merger Registration Statement is declared effective by the SEC, take all steps necessary to duly call, give notice of, convene and hold a meeting of its shareholders (the “**Polonia Shareholders Meeting**”), for the purpose of considering this Agreement and the Merger, and for such other purposes as may be, in Polonia’s reasonable judgment, necessary or desirable, and (b) subject to Section 6.10, have its Board of Directors recommend approval of this Agreement to the Polonia shareholders (the “**Polonia Recommendation**”). Subject to Section 6.10.5, the Board of Directors of Polonia shall use its commercially reasonable best efforts to obtain from the shareholders of Polonia the required vote to approve the Merger, including by communicating to its shareholders its recommendation (and including such recommendation in the Proxy Statement-Prospectus) that they adopt and approve this Agreement and the transactions contemplated hereby. Polonia shall, upon request by Prudential, engage a proxy solicitor reasonably acceptable to Prudential to assist in the solicitation of proxies from shareholders relating to the required vote. Polonia shall adjourn or postpone the Polonia Shareholders Meeting, if, as of the time for which such meeting is originally scheduled there are insufficient shares of Polonia Common Stock represented (either in person or by proxy) to constitute a quorum necessary to conduct the business of such meeting, or if on the date of such meeting Polonia has not received proxies representing a sufficient number of shares necessary to obtain the vote required to approve this Agreement and the transactions contemplated hereby; provided, however that no more than one adjournment for a period of not more than 30 days shall be required hereby. Notwithstanding anything to the contrary herein, unless this Agreement has been terminated in accordance with its terms, the Polonia Shareholders Meeting shall be convened and this Agreement shall be submitted to the shareholders of Polonia at the Polonia Shareholders Meeting, for the purpose of voting on the adoption of this Agreement and the other matters contemplated hereby, and nothing contained herein shall be deemed to relieve Polonia of such obligation.

8.2. Proxy Statement-Prospectus.

8.2.1. For the purposes (x) of registering Prudential Common Stock to be offered to holders of Polonia Common Stock in connection with the Merger with the SEC under the Securities Act and (y) of holding the Polonia Shareholders Meeting, Prudential shall draft and prepare, and Polonia shall cooperate in the preparation of, the Merger Registration Statement, including a proxy statement of Polonia, and a prospectus of Prudential satisfying all applicable requirements of applicable state securities and banking laws, and of the Securities Act and the Exchange Act, and the rules and regulations thereunder (such proxy statement/prospectus in the form mailed to the Polonia shareholders, together with any and all amendments or supplements thereto, being herein referred to as the “**Proxy Statement-Prospectus**”). Prudential shall file the Merger Registration Statement, including the Proxy Statement-Prospectus, with the SEC. Each of Prudential and Polonia shall use their commercially reasonable efforts to have the Merger Registration Statement declared effective under the Securities Act as promptly as practicable after such filing, and each of Polonia and Prudential shall thereafter promptly mail the Proxy Statement-Prospectus to the Polonia shareholders. Prudential shall also use its commercially reasonable efforts to obtain all necessary state securities law or “Blue Sky” permits and approvals required to carry out the transactions contemplated by this

Agreement, and Polonia shall furnish all information concerning Polonia and the holders of Polonia Common Stock as may be reasonably requested in connection with any such action.

8.2.2. Polonia shall provide Prudential with any information concerning itself that Prudential may reasonably request in connection with the drafting and preparation of the Proxy

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Statement-Prospectus, and Prudential shall notify Polonia promptly of the receipt of any comments of the SEC with respect to the Proxy Statement-Prospectus and of any requests by the SEC for any amendment or supplement thereto or for additional information and shall provide to Polonia promptly copies of all correspondence between Prudential or any of their representatives and the SEC. Prudential shall give Polonia and its counsel reasonable opportunity to review and comment on the Proxy Statement-Prospectus prior to its being filed with the SEC and shall give Polonia and its counsel the reasonable opportunity to review and comment on all amendments and supplements to the Proxy Statement-Prospectus and all responses to requests for additional information and replies to comments prior to their being filed with, or sent to, the SEC. Each of Prudential and Polonia agrees to use commercially reasonable efforts, after consultation with the other party hereto, to respond promptly to all such comments of and requests by the SEC and to cause the Proxy Statement-Prospectus and all required amendments and supplements thereto to be mailed to the holders of Polonia Common Stock entitled to vote at their respective Polonia Shareholders Meeting at the earliest practicable time.

8.2.3. Polonia and Prudential shall promptly notify the other party if at any time it becomes aware that the Proxy Statement-Prospectus or the Merger Registration Statement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading. In such event, Polonia shall cooperate with Prudential in the preparation of a supplement or amendment to such Proxy Statement-Prospectus that corrects such misstatement or omission, and Prudential shall file an amended Merger Registration Statement with the SEC, and each party shall mail an amended Proxy Statement-Prospectus to its respective shareholders.

8.3. Regulatory Approvals.

Each of Polonia and Prudential will cooperate with the other and use all reasonable efforts to promptly prepare all necessary documentation, to effect all necessary filings within forty-five (45) days after the date of this Agreement or as soon as practicable thereafter and to obtain all necessary permits, consents, waivers, approvals and authorizations of the SEC, the Bank Regulators and any other third parties and governmental bodies necessary to consummate the transactions contemplated by this Agreement. Polonia and Prudential will furnish each other and each other's counsel with all information concerning themselves, their Subsidiaries, directors, officers and shareholders and such other matters as may be necessary or advisable in connection with the Proxy Statement-Prospectus and any application, petition or any other statement or application made by or on behalf of Polonia or Prudential to any Bank Regulatory or governmental body in connection with the Merger, and the other transactions contemplated by this Agreement. Each party shall have the right to review and approve in advance all characterizations of the information relating to such party and any of its Subsidiaries, which appear in any filing made in connection with the transactions contemplated by this Agreement with any governmental body. In addition, in the event that any filings are to be made with a Bank Regulator pursuant to 12 C.F.R. Part 359 (whether before or after the Closing Date) with respect to any severance payments or benefits or accelerated vesting of equity awards for any director, officer or employee of Polonia or the Polonia Subsidiaries, Polonia or Polonia Bank shall provide the written certification required by 12 C.F.R. §359.4(f) prior to the Closing Date. Each party shall give the other party and its counsel reasonable opportunity to review and comment on each filing prior to the Closing Date (including any filing pursuant to 12 C.F.R. Part 359) prior to its being filed with a Bank Regulator and shall give the other party and its counsel reasonable opportunity to review and comment on all regulatory filings, amendments and supplements to such filings and all responses to requests for

additional information and replies to comments prior to their being filed with, or sent to, a Bank Regulator.

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ARTICLE IX
CLOSING CONDITIONS

9.1. Conditions to Each Party's Obligations under this Agreement.

The respective obligations of each party under this Agreement shall be subject to the fulfillment at or prior to the Closing Date of the following conditions, none of which may be waived:

9.1.1. *Shareholder Approval.* This Agreement and the transactions contemplated hereby shall have been approved by the requisite vote of the shareholders of Polonia.

9.1.2. *Orders and Prohibitions.* None of Polonia, Prudential or any of their respective Subsidiaries shall be subject to any order, decree or injunction of a court or agency of competent jurisdiction that enjoins or prohibits the consummation of the transactions contemplated by this Agreement and no statute, rule or regulation shall have been enacted, entered, promulgated, interpreted, applied or enforced by any Governmental Entity or Bank Regulator, that enjoins or prohibits the consummation of the transactions contemplated by this Agreement.

9.1.3. *Regulatory Approvals.* All Regulatory Approvals, and other necessary approvals, authorizations and consents of any Governmental Entities required to consummate the transactions contemplated by this Agreement shall have been obtained and shall remain in full force and effect and all waiting periods relating to such approvals, authorizations or consents shall have expired; and no such approval, authorization or consent shall include any condition or requirement, excluding standard conditions that are normally imposed by the regulatory authorities in bank merger transactions, that would, in the good faith reasonable judgment of the Board of Directors of Prudential, materially and adversely affect the business, operations, financial condition, property or assets of the combined enterprise of Polonia and Prudential or materially impair the value of Polonia to Prudential.

9.1.4. *Effectiveness of Merger Registration Statement.* The Merger Registration Statement shall have become effective under the Securities Act and no stop order suspending the effectiveness of the Merger Registration Statement shall have been issued, and no proceedings for that purpose shall have been initiated or threatened by the SEC and, if the offer and sale of Prudential Common Stock in the Merger is subject to the "Blue Sky" laws of any state, shall not be subject to a stop order of any state securities commissioner.

9.1.5. *Nasdaq Listing.* The shares of Prudential Common Stock to be issued in the Merger shall have been authorized for listing on the Nasdaq, subject to official notice of issuance.

9.1.6. *Tax Opinion.* On the basis of facts, representations and assumptions which shall be consistent with the state of facts existing at the Closing Date, Prudential shall have received an opinion of Silver, Freedman, Taff & Tiernan LLP, and Polonia shall have received an opinion of Kilpatrick Townsend & Stockton LLP, each reasonably acceptable in form and substance to Prudential and Polonia, dated as of the Closing Date, substantially to the effect that for federal income tax purposes, the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. In rendering the tax opinion described in this Section 9.1.6, the law firms may require and rely upon customary representations contained in certificates of officers of Prudential and Polonia and their respective Subsidiaries.

9.2. Conditions to the Obligations of Prudential under this Agreement.

The obligations of Prudential under this Agreement shall be further subject to the satisfaction of the conditions set forth in this Section 9.2 at or prior to the Closing Date:

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9.2.1. *Representations and Warranties.* Each of the representations and warranties of Polonia set forth in this Agreement shall be true and correct as of the date of this Agreement and as of all times up to and including the Effective Time of the Merger as though made on and as of the Effective Time of the Merger (except to the extent such representations and warranties speak as of a specified date); provided, however, that the representations and warranties in Sections 4.11.5 and 4.17 shall be true and correct in all material respects and provided, further, none of the Polonia MAE Reps shall be deemed untrue or incorrect for purposes of this Section 9.2.1, and Polonia shall not be deemed to have breached any Polonia MAE Rep, in any case, as a consequence of the existence of any fact, event or circumstance except to the extent such fact, circumstance or event, individually or in the aggregate with all other facts, events or circumstances inconsistent with any representation or warranty set forth herein, has had or would be reasonably likely to have a Material Adverse Effect (without giving effect to any materiality or Material Adverse Effect qualifier in such representation or warranty). Polonia shall have delivered to Prudential a certificate to such effect signed by the Chief Executive Officer and the Chief Financial Officer of Polonia as of the Effective Time.

9.2.2. *Agreements and Covenants.* Polonia shall have performed in all material respects all obligations and complied in all material respects with all agreements or covenants to be performed or complied with by it at or prior to the Effective Time, and Prudential shall have received a certificate signed on behalf of Polonia by the Chief Executive Officer and Chief Financial Officer of Polonia to such effect dated as of the Effective Time.

9.2.3. *Dissenters' Rights.* Holders of no more than fifteen percent (15%) of the issued and outstanding shares of Polonia shall have exercised their statutory appraisal or dissenters' rights pursuant to Section 3.3.10 hereof prior to the Closing Date.

9.2.4. *No Change Resulting in Material Adverse Effect.* From the date hereof through the Closing Date, there shall not have occurred, on a consolidated basis, any change that individually or in the aggregate has a Material Adverse Effect with respect to Polonia.

Polonia will furnish Prudential with such certificates of its officers or others and such other documents to evidence fulfillment of the conditions set forth in this Section 9.2 as Prudential may reasonably request.

9.3. Conditions to the Obligations of Polonia under this Agreement.

The obligations of Polonia under this Agreement shall be further subject to the satisfaction of the conditions set forth in Sections 9.3.1 through 9.3.4 at or prior to the Closing Date:

9.3.1. *Representations and Warranties.* Each of the representations and warranties of Prudential set forth in this Agreement shall be true and correct in all material respects as of the date of this Agreement and as of all times up to and including the Effective Time of the Merger as though made on and as of the Effective Time of the Merger (except to the extent such representations and warranties speak as of a specified date); provided, however, that none of the Prudential MAE Reps shall be deemed untrue or incorrect for purposes of this Section 9.3.1, and Prudential shall not be deemed to have breached any Prudential MAE Rep, in any case, as a consequence of the existence of any fact, event or circumstance except to the extent such fact, circumstance or event, individually or in the aggregate with all other facts, events or circumstances inconsistent with any representation or warranty set forth herein, has had or would be reasonably likely to have a Material Adverse Effect (without giving effect to any materiality or Material Adverse Effect qualifier in such representation or warranty). Prudential shall have delivered to Polonia a certificate to such effect signed by the Chief Executive Officer and the Chief Financial Officer of Prudential as of the Effective Time.

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9.3.2. *Agreements and Covenants.* Prudential shall have performed in all material respects all obligations and complied in all material respects with all agreements or covenants to be performed or complied with by it at or prior to the Effective Time, and Polonia shall have received a certificate signed on behalf of Prudential by the Chief Executive Officer and Chief Financial Officer to such effect dated as of the Effective Time.

9.3.3. *Payment of Merger Consideration.* Prudential shall have delivered the Exchange Fund to the Exchange Agent on or before the Closing Date and the Exchange Agent shall provide Polonia with a certificate evidencing such delivery.

9.3.4. *No Change Resulting in Material Adverse Effect.* From the date hereof through the Closing Date, there shall not have occurred, on a consolidated basis, any change that individually or in the aggregate has a Material Adverse Effect with respect to Prudential or Prudential Bank.

Prudential will furnish Polonia with such certificates of its officers or others and such other documents to evidence fulfillment of the conditions set forth in this Section 9.3 as Polonia may reasonably request.

ARTICLE X
THE CLOSING

10.1. Time and Place.

Subject to the provisions of Articles IX and XI hereof, the Closing of the transactions contemplated hereby shall take place at the offices of Silver, Freedman, Taff & Tiernan LLP, 3299 K Street, NW, Suite 100 Washington, DC at 10:00 a.m. on the Closing Date, or at such other place or time upon which Prudential and Polonia mutually agree. A pre-closing of the transactions contemplated hereby (the “**Pre-Closing**”) shall take place at the offices of Silver, Freedman, Taff & Tiernan LLP, 3299 K Street, NW, Suite 100 Washington, DC at 1:00 p.m. on the Business Day prior to the Closing Date.

10.2. Deliveries at the Pre-Closing and the Closing.

At the Pre-Closing there shall be delivered to Prudential and Polonia the opinions, certificates, and other documents and instruments required to be delivered under Article IX hereof. At or prior to the Closing, Prudential shall have delivered the Merger Consideration as set forth under Section 9.3.4 hereof.

ARTICLE XI
TERMINATION, AMENDMENT AND WAIVER

11.1. Termination.

This Agreement may be terminated at any time prior to the Closing Date, whether before or after approval of the Merger by the shareholders of Polonia or Prudential:

11.1.1. At any time by the mutual written agreement of Prudential and Polonia;

11.1.2. By the Board of Directors of either party (provided that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained herein) if there shall have been a breach of any of the representations or warranties set forth in this Agreement on the part of the other party, which breach by its nature cannot be cured prior to the Termination Date or shall not have been cured within 30 days after written notice of such breach by the terminating party to the other party; provided, however, that neither party shall have the right to terminate

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this Agreement pursuant to this Section 11.1.2 unless the breach of representation or warranty, together with all other such breaches, would entitle the terminating party not to consummate the transactions contemplated hereby under Section 9.2.1 (in the case of a breach of a representation or warranty by Polonia) or Section 9.3.1 (in the case of a breach of a representation or warranty by Prudential);

11.1.3. By the Board of Directors of either party (provided that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained herein) if there shall have been a failure to perform or comply with any of the covenants or agreements set forth in this Agreement on the part of the other party, which failure by its nature cannot be cured prior to the Termination Date or shall not have been cured within 30 days after written notice of such failure by the terminating party to the other party; provided, however, that neither party shall have the right to terminate this Agreement pursuant to this Section 11.1.3 unless the breach of covenant or agreement, together with all other such breaches, would entitle the terminating party not to consummate the transactions contemplated hereby under Section 9.2.2 (in the case of a breach of covenant by Polonia) or Section 9.3.2 (in the case of a breach of covenant by Prudential);

11.1.4. At the election of the Board of Directors of either party if the Closing shall not have occurred by the Termination Date, or such later date as shall have been agreed to in writing by Prudential and Polonia; provided that no party may terminate this Agreement pursuant to this Section 11.1.4 in the event that any action or failure to act by such party has been a principal cause of or resulted in the failure of the Merger to occur on or before such date and such action or failure to act constitutes a breach of this Agreement;

11.1.5. By the Board of Directors of either party if the shareholders of Polonia shall have voted at the Polonia Shareholders Meeting on the transactions contemplated by this Agreement and such vote shall not have been sufficient to approve such transactions;

11.1.6. By the Board of Directors of either party if (a) final action has been taken by a Bank Regulator whose approval is required in connection with this Agreement and the transactions contemplated hereby, which final action (i) has become unappealable and (ii) does not approve this Agreement or the transactions contemplated hereby, or (b) any court of competent jurisdiction or other governmental authority shall have issued an order, decree, ruling or taken any other action restraining, enjoining or otherwise prohibiting the Merger and such order, decree, ruling or other action shall have become final and nonappealable;

11.1.7. By Polonia at any time during the three-day period following the Determination Date (as defined below), if both of the following conditions (A) and (B) exist:

(A) the Average Closing Price (as defined below) shall be less than the product of 0.800 and the Starting Price;
and

(B) (i) the number obtained by dividing the Average Closing Price by the Starting Price (such number being referred to herein as the “**Prudential Ratio**”) shall be less than (ii) the number obtained by dividing the Index Price on the Determination Date by the Index Price on the Starting Date (as defined below) and subtracting 0.200 from such quotient (such number being referred to herein as the “**Index Ratio**”); subject to the following: if Polonia elects to exercise its termination right pursuant to Section 11.1.7, it shall give prompt written notice to Prudential; provided that such notice of election to terminate may be withdrawn at any time within the aforementioned three-day period. For a period of five (5) Business Days after receipt of such notice, Prudential shall have the option of increasing the Exchange Ratio in a manner such, and to the extent required, so that the condition set forth in either clause (A) or (B) above shall be deemed not to exist.

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For purposes hereof, the condition set forth in clause (A) above shall be deemed not to exist if the Exchange Ratio is increased so that the Adjusted Per Share Stock Consideration (calculated by using the Average Closing Price, as provided in the definition of “**Adjusted Per Share Stock Consideration**”) after such increase is not less than 80% of the Adjusted Per Share Stock Consideration calculated by using the Starting Price in lieu of the Average Closing Price.

For purposes hereof, the condition set forth in clause (B) above shall be deemed not to exist if the Exchange Ratio is increased so that the Adjusted Prudential Ratio is not less than the Index Ratio.

If Prudential makes this election, within such period, it shall give prompt written notice to Polonia of such election and the revised Exchange Ratio, whereupon no termination shall have occurred pursuant to this Section 11.1.7 and this Agreement shall remain in effect in accordance with its terms (except as the Exchange Ratio, and derivatively the Per Share Stock Consideration, shall have been so modified), and any references in this Agreement to “Exchange Ratio” and “Per Share Stock Consideration” shall thereafter be deemed to refer to the Exchange Ratio and Per Share Stock Consideration after giving effect to any adjustment made pursuant to this Section 11.1.7.

For purposes of this Section 11.1.7, the following terms shall have the meanings indicated:

“**Adjusted Prudential Ratio**” means the number obtained by dividing (x) the sum of (i) the Average Closing Price plus (ii) the quotient obtained by dividing the aggregate increase in transaction value resulting from an increase in the Exchange Ratio by the total number of shares of Polonia Common Stock outstanding multiplied by the initial Exchange Ratio, on the Determination Date, by (y) the Starting Price. For purposes of calculating the increase in transaction value, the price per share of Prudential Common Stock shall be deemed to be the Average Closing Price.

“**Adjusted Per Share Stock Consideration**” means the product of the Per Share Stock Consideration times the Average Closing Price.

“**Average Closing Price**” means the average of the last reported closing prices per share of Prudential Common Stock as reported on the NASDAQ Stock Market (as reported in The Wall Street Journal or, if not reported therein, in another mutually agreed upon authoritative source) for the twenty consecutive trading days immediately preceding the Determination Date.

“**Determination Date**” shall mean the tenth calendar day immediately prior to the Effective Time, or if such calendar day is not a trading day on the NASDAQ Stock Market, the trading day immediately preceding such calendar day.

“**Index Price**” on a given date means the closing price of the NASDAQ Bank Index.

“**Starting Date**” means the trading day on the NASDAQ Stock Market immediately preceding the day on which the parties publicly announce the signing of this Agreement.

“**Starting Price**” means \$14.86.

If Prudential declares or effects a stock dividend, reclassification, recapitalization, split-up, combination, exchange of shares or similar transaction between the Starting Date and the Determination Date, the prices for the common stock of Prudential shall be appropriately adjusted for the purposes of applying this Section 11.1.7.

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11.1.8. By the Board of Directors of Prudential if Polonia has received a Superior Proposal and the Board of Directors of Polonia has entered into an acquisition agreement with respect to the Superior Proposal, terminated this Agreement, or withdrawn the Polonia Recommendation, failed to make the Polonia Recommendation or modified or qualified the Polonia Recommendation in a manner adverse to Prudential;

11.1.9. By the Board of Directors of Polonia if Polonia has received a Superior Proposal and the Board of Directors of Polonia has made a determination to accept such Superior Proposal.

11.2. Effect of Termination.

11.2.1. In the event of termination of this Agreement pursuant to any provision of Section 11.1, this Agreement shall forthwith become void and have no further force, except that the provisions of Sections 11.2, 12.1, 12.2, 12.5, 12.6, 12.9, 12.10, and any other Section which, by its terms, relates to post-termination rights or obligations, shall survive such termination of this Agreement and remain in full force and effect.

11.2.2. If this Agreement is terminated, expenses and damages of the parties hereto shall be determined as follows:

(A) Except as provided below, whether or not the Merger is consummated, all costs and expenses incurred in connection with this Agreement and the transactions contemplated by this Agreement shall be paid by the party incurring such expenses.

(B) In the event of a termination of this Agreement because of a willful breach of any representation, warranty, covenant or agreement contained in this Agreement, the breaching party shall remain liable for any and all damages, costs and expenses, including all reasonable attorneys' fees, sustained or incurred by the non-breaching party as a result thereof or in connection therewith or with respect to the enforcement of its rights hereunder.

(C) As a condition of Prudential's willingness, and in order to induce Prudential, to enter into this Agreement, and to reimburse Prudential for incurring the costs and expenses related to entering into this Agreement and consummating the transactions contemplated by this Agreement, Polonia hereby agrees to pay Prudential, and Prudential shall be entitled to payment of a termination fee of \$1,515,000 (the "**Prudential Payment**"). The Prudential Payment shall be paid within three (3) Business Days after written demand for payment is made by Prudential, following the occurrence of any of the events set forth below:

(i) Polonia terminates this Agreement pursuant to Section 11.1.9 or Prudential terminates this Agreement pursuant to Section 11.1.8; or

(ii) The entering into a definitive agreement by Polonia relating to an Acquisition Proposal or the consummation of an Acquisition Proposal involving Polonia within twelve (12) months after the occurrence of any of the following: (a) the termination of the Agreement by Prudential pursuant to Section 11.1.2 or 11.1.3 because of, in either case, a willful breach by Polonia; or (b) the failure of the shareholders of Polonia to approve this Agreement after the public disclosure of an Acquisition Proposal (which has not been withdrawn) that has been made known to senior management of Polonia or has been made directly to its shareholders generally.

(D) The right to receive the Prudential Payment under Section 11.2.2(C) will constitute the sole and exclusive remedy of Prudential against Polonia and its Subsidiaries and their

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respective officers and directors with respect to a termination under (i) or (ii) above. Polonia acknowledges that the agreements contained in Section 11.2.2(C) are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, Prudential would not enter into this Agreement. Accordingly, if Polonia fails to pay in a timely manner the amounts due under Section 11.2.2(C), and, in order to obtain such payment, Prudential makes a claim that results in a judgment against Polonia for the amounts set forth in Section 11.2.2(C), Polonia shall pay to Prudential the reasonable costs and expenses of Prudential (including reasonable attorneys' fees and expenses) in connection with such suit, together with interest on the amounts set forth in Section 11.2.2(C) at the prime rate published by The Wall Street Journal (Eastern Edition) and in effect on the date such payment was required to be made.

11.3. Amendment, Extension and Waiver.

Subject to applicable law, at any time prior to the Effective Time (whether before or after approval thereof by the shareholders of Polonia and Prudential), the parties hereto by action of their respective boards of directors, may (a) amend this Agreement, (b) extend the time for the performance of any of the obligations or other acts of any other party hereto, (c) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto, or (d) waive compliance with any of the agreements or conditions contained herein; provided, however, that after any approval of this Agreement and the transactions contemplated hereby by the shareholders of Polonia or the approval of the issuance of shares of Prudential Common Stock in connection with the Merger by the shareholders of Prudential, no amendment to this Agreement may be made which under applicable law or the applicable listing and corporate governance rules and regulations of NASDAQ further approval by the shareholders of Polonia or Prudential is required, unless such further shareholder approval is so obtained. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto. Any agreement on the part of a party hereto to any extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party, but such waiver or failure to insist on strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

ARTICLE XII
MISCELLANEOUS

12.1. Confidentiality.

Except as specifically set forth herein, Prudential and Polonia mutually agree to be bound by the terms of the confidentiality agreements dated December 14, 2015 and April 4, 2016 (the "**Confidentiality Agreements**"), previously executed by the parties hereto, which Confidentiality Agreements are hereby incorporated herein by reference. The parties hereto agree that the Confidentiality Agreements shall continue in accordance with their respective terms, notwithstanding the termination of this Agreement.

12.2. Public Announcements.

Polonia and Prudential shall cooperate with each other in the development and distribution of all news releases and other public disclosures with respect to this Agreement, and except as may be otherwise required by law or the applicable listing and corporate governance rules and regulations of NASDAQ, neither Polonia nor Prudential shall issue any news release, or other public announcement or communication with respect to this Agreement unless such news release, public announcement or communication has been approved by the other party (which approval shall not be unreasonably withheld, conditioned or delayed).

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12.3. Survival.

All representations, warranties and covenants in this Agreement or in any instrument delivered pursuant hereto or thereto shall expire on and be terminated and extinguished at the Effective Time, except for those covenants and agreements contained herein which by their terms apply in whole or in part after the Effective Time.

12.4. Notices.

All notices or other communications hereunder shall be in writing and shall be deemed given if delivered by receipted hand delivery, mailed by prepaid United States registered or certified mail, return receipt requested, sent by a nationally recognized overnight courier or given by email, addressed as follows:

Dennis Pollack, President and Chief Executive Officer

If to Prudential, to:

Prudential Bancorp, Inc.
1834 West Oregon Avenue
Philadelphia, PA 19145
Email: dpollack@prudentialsavingsbank.com

With required copies (which shall not constitute notice) to:

Raymond A. Tiernan, Esquire
Philip Ross Bevan, Esquire
Silver, Freedman, Taff & Tiernan LLP
3299 K Street, NW, Suite 100
Washington, DC 20007
Email: rtier@sfttlaw.com
rbeva@sfttlaw.com

If to Polonia, to:

Joseph T. Svetik, President and Chief Executive Officer
Polonia Bancorp, Inc.
3993 Huntingdon Pike, 3rd Floor

Huntingdon Valley, Pennsylvania 19006

Email: jsvetik@poloniabank.com

With required copies (which shall not constitute notice) to:

Aaron M. Kaslow, Esquire
Kilpatrick Townsend Stockton LLP
Suite 900

607 14th Street, NW
Washington, DC 20005-2018

or such other address as shall be furnished in writing by any party, and any such notice or communication shall be deemed to have been given: (a) as of the date delivered by hand; (b) three (3) Business Days after being delivered to the U.S. mail, postage prepaid; or (c) one (1) Business Day after being delivered to the overnight courier if next Business Day delivery is requested by the sender.

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12.5. Parties in Interest.

This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any party hereto without the prior written consent of the other party. Except for the provisions of Article III and Section 7.9, following the Effective Time, nothing in this Agreement, express or implied, is intended to confer upon any person, other than the parties hereto and their respective successors, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

12.6. Complete Agreement.

This Agreement, including the Exhibits and Disclosure Schedules hereto and the documents and other writings referred to herein or therein or delivered pursuant hereto, and the Confidentiality Agreements referred to in Section 12.1, contains the entire agreement and understanding of the parties with respect to its subject matter. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties other than those expressly set forth herein or therein. This Agreement supersedes all prior agreements and understandings (other than the Confidentiality Agreements referred to in Section 12.1 hereof) between the parties, both written and oral, with respect to its subject matter.

12.7. Counterparts.

This Agreement may be executed in one or more counterparts all of which shall be considered one and the same agreement and each of which shall be deemed an original. A facsimile copy or electronic transmission of a signature page shall be deemed to be an original signature page.

12.8. Severability.

In the event that any one or more provisions of this Agreement shall for any reason be held invalid, illegal or unenforceable in any respect, by any court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement and the parties shall use their reasonable efforts to substitute a valid, legal and enforceable provision which, insofar as practical, implements the purposes and intents of this Agreement.

12.9. Governing Law.

This Agreement shall be governed by the laws of the Commonwealth of Pennsylvania, without giving effect to its principles of conflicts of laws.

12.10. Interpretation.

When a reference is made in this Agreement to Sections or Exhibits, such reference shall be to a Section of or Exhibit to this Agreement unless otherwise indicated. The recitals hereto constitute an integral part of this Agreement. References to Sections include subsections, which are part of the related Section (e.g., a section numbered “Section 5.5.1” would be part of “Section 5.5” and references to “Section 5.5” would also refer to material contained in the subsection described as “Section 5.5.1”). The table of contents, index and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words “include”, “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation”. The phrases “the date of this Agreement”, “the date hereof” and terms of similar import, unless the context otherwise requires, shall be deemed to refer to the date set forth in the Recitals to this Agreement. The parties have participated jointly in the negotiation and drafting of this

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Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement. All documents and information set forth in Prudential's Securities Documents shall be deemed to have been "made available" or "provided" to Polonia.

12.11. Specific Performance; Jurisdiction.

12.11.1. The parties hereto agree that irreparable damage would occur in the event that the provisions contained in this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches or threatened breaches of this Agreement and to enforce specifically the terms and provisions hereof in the United States District Court for the Eastern District of Pennsylvania or in any state court located in the Commonwealth of Pennsylvania, this being in addition to any other remedy to which they are entitled at law or in equity. The parties hereby waive any defense that a remedy at law would be adequate and any requirement under any applicable law to post a bond or other security as a prerequisite to obtaining specific performance relief. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of the United States District Court for the Eastern District of Pennsylvania or of any state court located in the Commonwealth of Pennsylvania in the event any dispute arises out of this Agreement or the transactions contemplated by this Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any action relating to this Agreement or the transactions contemplated by this Agreement in any court other than the United States District Court for the Eastern District of Pennsylvania or any state court located in the Commonwealth of Pennsylvania.

12.11.2. EACH PARTY HERETO ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY THAT MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, IT IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL JURY IN RESPECT OF ANY CLAIM DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY HERETO CERTIFIES AND ACKNOWLEDGES THAT: (i) NO REPRESENTATIVE, AGENT, OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF ANY PROCEEDING, SEEK TO ENFORCE EITHER OF SUCH WAIVERS; (ii) IT UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF SUCH WAIVERS; (iii) IT MAKES SUCH WAIVERS VOLUNTARILY; AND (iv) IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 12.11.2.

[Signature page follows]

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IN WITNESS WHEREOF, Prudential and Polonia have caused this Agreement to be executed by their duly authorized officers as of the date first set forth above.

Prudential Bancorp, Inc.

By: /s/ Dennis Pollack
Name: Dennis Pollack
Title: President and Chief Executive Officer

Polonia Bancorp, Inc.

By: /s/ Joseph T. Svetik
Name: Joseph T. Svetik
Title: President and Chief Executive Officer

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EXHIBIT A

FORM OF AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (“Plan of Merger”) dated _____, 2016, is by and between Polonia Bank, a federally chartered stock savings bank (“PB”), and Prudential Savings Bank, a Pennsylvania-chartered stock savings bank (“Prudential Bank”).

WITNESSETH:

WHEREAS, PB is a federally chartered stock savings bank and a wholly owned subsidiary of Polonia Bancorp, Inc., a Maryland corporation (“Polonia”). The authorized capital stock of PB consists of _____ shares of common stock, par value \$_____ per share, of which _____ shares of common stock are issued and outstanding as of the date hereof.

WHEREAS, in accordance with the terms of that certain Agreement and Plan of Merger, dated June 2, 2016 (the “Agreement”), by and between Prudential Bancorp, Inc., a Pennsylvania corporation (“Prudential”), and Polonia, Polonia will merge with and into Prudential.

WHEREAS, as a result of the merger of Polonia with and into Prudential, PB will become a wholly owned subsidiary of Prudential.

WHEREAS, the respective Boards of Directors of PB and Prudential Bank have determined that the merger of PB with and into Prudential Bank, with Prudential Bank being the surviving institution (the “Resulting Institution”), under and pursuant to the terms and conditions set forth herein (said transaction being hereinafter referred to as the “Bank Merger”) is in the best interests of PB and Prudential Bank;

WHEREAS, it is anticipated that the Bank Merger would occur immediately after the transactions contemplated by the Agreement; and

WHEREAS, this Plan of Merger has been approved by the unanimous written consent of the sole shareholders of each of Prudential Bank and PB.

WHEREAS, this Plan of Merger must be approved by the Pennsylvania Department of Banking and Securities (“Department”) and the Federal Deposit Insurance Corporation (“FDIC”).

NOW, THEREFORE, in consideration of the mutual promises and mutual agreements contained herein, the parties hereto agree as follows:

1. Merger. At and on the Effective Time of the Bank Merger (as defined below), PB shall be merged with and into Prudential Bank with Prudential Bank surviving as the Resulting Institution (the “Bank Merger”). Prudential shall be the owner of 100% of the outstanding common stock of the Resulting Institution.
2. Effective Time. The Bank Merger will be effective upon the filing of Articles of Merger with the Pennsylvania Department of State or as of the date and time specified in such Articles of Merger as the Effective Time of the Bank Merger, as the case may be (the “Effective Time”), which shall not be earlier than the effective time of the Merger.
3. Articles of Incorporation. At the Effective Time, the articles of incorporation of the Resulting Institution shall be the articles of incorporation of Prudential Bank as in effect immediately prior to the Bank Merger, until thereafter amended in accordance with applicable law.

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4. Name. The name of the Resulting Institution shall be Prudential Bank.

5. Offices. The home office of the Resulting Institution shall be 1834 West Oregon Avenue, Philadelphia, Pennsylvania.

6. Directors and Officers. The officers and directors of Prudential Bank immediately prior to the Effective Time shall be the officers and directors of the Resulting Institution immediately after the Effective Time.

7. Rights and Duties of the Resulting Institution. The business of the Resulting Institution shall be that of a Pennsylvania chartered savings bank, as provided for in its articles of incorporation. All assets, rights interests, privileges, powers, franchises and property (real, personal and mixed) of Prudential Bank and PB shall be automatically transferred to and vested in the Resulting Institution by virtue of the Bank Merger without any deed or other document of transfer. The Resulting Institution without any order or action on the part of any court or otherwise and without any documents of assumption or assignment, shall hold and enjoy all of the assets, rights, privileges, powers, properties, franchises and interests, including, without limitation, appointments, powers, designations, nominations and all other rights, interests and powers as agent or fiduciary, in the same manner and to the extent as such rights, interests and powers were held or enjoyed by Prudential Bank and PB, respectively. The Resulting Institution shall be responsible for all of the liabilities, restrictions and duties of every kind and description of both Prudential Bank and PB immediately prior to the Bank Merger, including, without limitation, liabilities for all deposits, debts, obligations and contracts of Prudential Bank and PB, respectively, matured or unmatured, whether accrued, absolute, contingent or otherwise and whether or not reflected or reserved against on balance sheets, books of account or records of either Prudential Bank or PB. Deposit accounts shall be deemed issued in the name of the Resulting Institution in accordance with applicable Department and FDIC regulations. All rights of creditors and other obligees and all liens on property of either Prudential Bank or PB shall be preserved, shall be assumed by the Resulting Institution and shall not be released or impaired. The sole shareholder of the Resulting Institution shall possess all the voting rights with respect to the shares of stock of the Resulting Institution.

The liquidation account established by PB pursuant to the regulations of the Office of Comptroller of the Currency shall be assumed by the Resulting Institution.

8. Effect on Shares of Stock.
 - (a) Each share of Prudential Bank common stock issued and outstanding immediately prior to the Effective Time shall be unchanged and shall remain issued and outstanding.

(b) At the Effective Time, each share of PB common stock issued and outstanding immediately prior thereto shall, by virtue of the Bank Merger and without any action on the part of Prudential Bank or the holder thereof, be cancelled. No shares of capital stock of Prudential Bank or any other consideration shall be issuable or exchangeable with respect to shares of PB common stock.

9. Governing Law. This Plan of Merger shall be governed in all respects, including, but not limited to, validity, interpretation, effect and performance, by the laws of the Commonwealth of Pennsylvania, except as otherwise provided by the laws of the United States.

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10. Amendment. This Plan of Merger may be amended, modified or supplemented only by written agreement of Prudential Bank and PB at any time prior to the Effective Time.

11. Waiver. Subject to applicable law, any of the terms or conditions of this Plan of Merger may be waived at any time by whichever of the parties hereto is, or the shareholders of which are, entitled to the benefit thereof by action taken by the Board of Directors of such party.

12. Successors and Assigns. This Plan of Merger may not be assigned by any party hereto without the prior written consent of the other party. Subject to the foregoing, this Plan of Merger shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

13. Termination. This Plan of Merger shall terminate upon the termination of the Agreement in accordance with its terms. This Plan of Merger also may be terminated at any time prior to the Effective Time by mutual consent of Prudential Bank and PB in a written instrument, if and to the extent authorized by the respective Boards of Directors of Prudential Bank and PB. In the event of the termination of this Plan of Merger as provided in this Section 13, this Plan of Merger shall forthwith become null and void and of no further force or effect and there shall be no liability or obligation under this Plan of Merger on the part of any of the parties hereto or any of their respective directors, officers or affiliates, except that no party shall be relieved or released from any damages or liabilities arising out of any willful breach of this Plan of Merger.

14. Conditions Precedent. The obligations of the parties under this Plan of Merger to consummate the Bank Merger shall be subject to: (i) receipt of approval of the Bank Merger from all governmental and banking authorities whose approval is required, including, but not limited to, the consents, approvals and authorizations of the Department and the FDIC; (ii) the absence of any temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Bank Merger and (iii) consummation of the merger of Polonia with and into Prudential in accordance with the terms and conditions of the Agreement.

15. Other Terms. All terms used in this Plan of Merger shall, unless defined herein, have the meanings set forth in the Agreement.

16. Countersignatures. This Plan of Merger may be executed in any number of counterparts, and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

Signature Page Follows

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IN WITNESS WHEREOF, the parties have caused this Plan of Merger to be executed by their respective officers thereunto duly authorized as of the date first above written.

**PRUDENTIAL
SAVINGS
BANK**

Attest:

By: By:
Name: Name:
Title: Secretary Title:

**POLONIA
BANK**

Attest:

By: By:
Name: Name:
Title: Secretary Title:

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Exhibit B

FORM OF VOTING AGREEMENT

June 2, 2016

Polonia Bancorp, Inc.
3993 Huntingdon Pike
3rd Floor

Huntingdon Valley, PA 19006

Prudential Bancorp, Inc.
1834 West Oregon Avenue
Philadelphia, PA 19145

Ladies and Gentlemen:

Prudential Bancorp, Inc. (“**Prudential**”) and Polonia Bancorp, Inc. (“**Polonia**”) have entered into an Agreement and Plan of Merger dated as of June 2, 2016 (the “**Merger Agreement**”), pursuant to which, subject to the terms and conditions set forth therein, (a) Polonia will merge with and into (“**Prudential**”), with Prudential Bank surviving the merger (the “**Merger**”); and (b) the shareholders of Polonia will receive common stock of Prudential and/or cash consideration as stated in the Merger Agreement. All defined terms used but not defined herein shall have the meanings ascribed thereto in the Merger Agreement.

Prudential has requested, as a condition to its execution and delivery to Polonia of the Merger Agreement, that the undersigned, being directors and executive officers of Polonia, execute and deliver to Prudential this Letter Agreement.

The undersigned, in order to induce Prudential to execute and deliver to Polonia the Merger Agreement, and intending to be legally bound, hereby irrevocably:

(a) Agrees to be present (in person or by proxy) at all meetings of shareholders of Polonia called to vote for approval of the Merger so that all shares of common stock of Polonia over which the undersigned has sole voting power shall be counted for the purpose of determining the presence of a quorum at such meetings and to vote, or cause to be voted, all such shares (i) in favor of approval and adoption of the Merger Agreement and the transactions contemplated thereby (including any amendments or modifications of the terms thereof approved by the Board of Directors of Polonia), and (ii) against approval or adoption of any other merger, business combination, recapitalization, partial liquidation or similar transaction involving Polonia. In addition, the undersigned agrees to use his or her reasonable best efforts to cause any shares of common stock of Polonia over which the undersigned shares voting power to be voted in accordance with (i) and (ii) above;

(b) Agrees not to vote or execute any written consent to rescind or amend in any manner any prior vote or written consent, as a shareholder of Polonia, to approve or adopt the Merger Agreement;

(c) Agrees not to sell, transfer or otherwise dispose of any common stock of Polonia on or prior to the date of the meeting of Polonia shareholders to vote on the Merger Agreement, except: (i) in connection with estate or tax planning or similar purposes, including transfers to charities, charitable

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trusts, or other charitable organizations under Section 501(c)(3) of the IRC, to a lineal descendant or a spouse of the undersigned, or to a trust or other entity for the benefit of one or more of the foregoing persons; provided that the transferee agrees in writing to be bound by the terms of this Letter Agreement; (ii) except in connection with (A) the exercise of outstanding stock options in order to pay the exercise price of such stock options or satisfy any withholding taxes triggered by such exercise or (B) the withholding or sale of the minimum number of shares necessary to satisfy withholding taxes triggered by the vesting of outstanding restricted stock awards; (iii) by will or operation of law, in which case this Letter Agreement shall bind the transferee; or (iv) as Prudential may otherwise permit in its sole discretion; and

(d) Represents that the undersigned has the capacity to enter into this Letter Agreement and that it is a valid and binding obligation enforceable against the undersigned in accordance with its terms, subject to bankruptcy, insolvency and other laws affecting creditors' rights and general equitable principles.

I am signing this Letter Agreement solely in my capacity as a shareholder of Polonia and as an option holder, if I am such, and not in any other capacity, such as a director or officer of Polonia or as a fiduciary of any trusts in which I am not a beneficiary. Notwithstanding anything herein to the contrary: (a) I make no agreement or understanding herein in any capacity other than in my capacity as a beneficial owner of common stock of Polonia and (b) nothing herein shall be construed to limit, prevent or otherwise affect any action or inaction by me or any of my representatives, as applicable, in serving on Polonia's Board of Directors or as an officer of Polonia, in acting in my capacity as a director, officer or fiduciary of Polonia or in exercising my fiduciary obligations in the context of a Superior Proposal.

This Letter Agreement shall terminate and be of no further force and effect concurrently with, and automatically upon, the earliest to occur of (a) the Effective Time, (b) the date Prudential and I enter into a written agreement to terminate this Letter Agreement, or (c) the date of any termination of the Merger Agreement in accordance with its terms.

This Letter Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties. This Letter Agreement constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter of this Letter Agreement. This Letter Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

[Remainder of page intentionally blank; signature page follows]

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The undersigned intends to be legally bound hereby.

Sincerely,

Name:

Title:

Acknowledged and Agreed:

PRUDENTIAL BANCORP, INC.

By:

Name: Dennis Pollack

Title: President and Chief Executive Officer

Dated: June 2, 2016

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ANNEX B

Board of Directors

Polonia Bancorp, Inc.

3993 Huntingdon Pike

Huntingdon Valley, PA 19006

Dear Board Members:

You have requested our written opinion, as to the fairness, from a financial point of view to Polonia Bancorp, Inc.'s ("PBCP") stockholders, of the consideration as proposed in the Agreement and Plan of Merger (the "Agreement") by and among Prudential Bancorp, Inc. ("PBIP") and PBCP, pursuant to which PBCP will merge into PBIP.

Under the terms of the agreement, shareholders of PBCP will be entitled to elect to receive either 0.7591 shares of PBIP common stock or \$11.28 in cash for each common share of PBCP, subject to proration and allocation to ensure that 50% of outstanding PBCP shares are exchanged for shares of PBIP common stock and 50% are exchanged for cash. The exchange ratio and per share cash consideration are subject to adjustment based on the amount of PBCP's stockholders' equity prior to closing as calculated in accordance with the Agreement. PBCP's in-the-money option holders will receive cash for the positive difference between the per share cash consideration and the option exercise price.

FinPro Capital Advisors, Inc. ("FCA"), Member FINRA/SIPC, is a broker/dealer and an investment banking firm that provides valuation and merger advisory services to the bank and thrift industry, including appraisals and valuations of bank and thrift institutions and their securities in connection with mergers, acquisitions and other securities transactions. FCA has knowledge of and experience with the Mid-Atlantic bank and thrift market and financial institutions operating in the Mid-Atlantic region. PBCP's Board chose FCA because of its expertise, experience and familiarity with the bank and thrift industry.

PBCP engaged FCA to advise the Board of Directors of PBCP in connection with its merger and acquisition activities and to provide its opinion as to the fairness, from a financial point of view, of the consideration as defined in the Agreement. FCA acted as sole financial advisor to PBCP in connection with the merger and will receive total advisory fees equal to 1.25% of aggregate deal value, or approximately \$475 thousand, a portion of which is contingent upon the consummation of the merger. Additionally, PBCP has agreed to reimburse FCA for its out-of-pocket expenses and has agreed to indemnify FCA and certain related persons against certain liabilities possibly incurred in connection with the services performed.

Prior to this engagement, FCA has not provided investment banking services to PBCP for which it received a fee and has not provided services to PBIP within the last two years. FCA's parent company, FinPro, Inc. ("FinPro"), has provided professional consulting services to PBCP. The fees paid to FinPro by PBCP for such services are not, and have not been, material relative to FinPro's annual gross revenues. FinPro has not provided services to PBIP within the last two years.

In connection with its opinion, FCA reviewed and considered, among other things:

- Reviewed the Definitive Merger Agreement;
- Reviewed the most recent year-end and quarter-end audited and unaudited financial statements for each of PBCP and PBIP;
- Reviewed certain other public and non-public information regarding each of PBCP and PBIP including internal financial forecasts, regarding the financial results and the condition of PBCP and PBIP;
- Conducted an extensive sales process with PBCP;

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Fairness Opinion as of June 2, 2016 Page: 2

Considered the input received from the institutions contacted by FCA as part of the process regarding their feedback on PBCP, and hesitation to proceed forward in the bidding process due to issues such as the consent order, regulatory issues, litigation uncertainty, management turnover, declining loan and deposit balances, and lack of profitability;

Reviewed the trading and merger market for bank and thrift stocks;

Reviewed acquisition multiples of comparable institutions;

Reviewed the potential investment value of PBCP's shares; and

Analyzed the ability for PBIP to execute on the proposed transaction.

FCA considered financial studies, analyses and investigations, and economic and market information that FCA deemed relevant. FCA had discussions with the management of PBCP regarding its financial results. FCA considered certain financial data of PBCP and compared that data to other banks, thrifts and their holding companies that were recently merged or acquired. Additionally, FCA considered a range of potential investment values for PBCP's shares on a present value basis assuming the successful execution of their strategic plan.

FCA also considered the potential pro forma financial impact of the acquisition and considered the financial terms of the business combination involving these banks and the potential future benefit to PBCP stockholders. FCA analyzed the value of PBIP utilizing a trading valuation comparable approach to assess PBIP's value in the exchange. FCA conducted reverse due diligence on PBIP and conducted interviews of the management of PBIP regarding its financial results. Based upon reverse due diligence and the analysis conducted, FCA determined that PBIP is reasonably valued in the exchange.

FCA did not independently verify the financial data provided by or on behalf of PBCP or PBIP, but instead relied upon and assumed the accuracy and completeness of the data provided.

FCA expresses no opinion with respect to the amount or nature of any compensation to any officers, directors, or employees of any party to the transaction relative to the consideration to be paid to PBCP stockholders in the transaction or with respect to the fairness of any such compensation. The issuance of this opinion has been approved by FCA's Fairness Opinion Committee.

In reaching this opinion, FCA took into consideration the financial benefits of the proposed transaction to PBCP stockholders. Based on all factors deemed relevant and assuming the accuracy and completeness of the information and data provided by PBCP and PBIP, it is FCA's opinion as of this date, the merger consideration being offered by PBIP is fair, from a financial point of view, to PBCP's stockholders.

Respectfully Submitted,

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ANNEX C

**SECTIONS 3-201 THROUGH 3-213
OF THE MARYLAND GENERAL CORPORATION LAW**

MARYLAND CORPORATIONS AND ASSOCIATIONS CODE ANN (2014)

§ 3-201. Definitions.

(a) In general. — In this subtitle the following words have the meanings indicated.

(b) Affiliate. — “Affiliate” has the meaning stated in § 3-601 of this title.

(c) Associate. — “Associate” has the meaning stated in § 3-601 of this title.

(d) Beneficial owner. — “Beneficial owner”, when used with respect to any voting stock, means a person that:

(1) Individually or with any of its affiliates or associates, beneficially owns voting stock, directly or indirectly;

(2) Individually or with any of its affiliates or associates, has:

(i) The right to acquire voting stock (whether the right is exercisable immediately or within 60 days after the date on which beneficial ownership is determined), in accordance with any agreement, arrangement, or understanding, on the exercise of conversion rights, exchange rights, warrants, or options, or otherwise; or

(ii) Except solely by virtue of a revocable proxy, the right to vote voting stock in accordance with any agreement, arrangement, or understanding; or

(3) Except solely by virtue of a revocable proxy, has any agreement, arrangement, or understanding for the purpose of acquiring, holding, voting, or disposing of voting stock with any other person that beneficially owns, or the affiliates or associates of which beneficially own, directly or indirectly, the voting stock.

(e) Executive officer. — “Executive officer” means a corporation’s president, any vice president in charge of a principal business unit, division, or function, such as sales, administration, or finance, any other person who performs a policy making function for the corporation, or any executive officer of a subsidiary of the corporation who performs a policy making function for the corporation.

(f) Successor. —

(1) “Successor”, except when used with respect to a share exchange, includes a corporation which amends its charter in a way which alters the contract rights, as expressly set forth in the charter, of any outstanding stock, unless the right to do so is reserved by the charter of the corporation.

(2) “Successor”, when used with respect to a share exchange, means the corporation the stock of which was acquired in the share exchange.

(g) Voting stock. — “Voting stock” has the meaning stated in § 3-601 of this title.

§ 3-202. Right to fair value of stock

(a) General rule. — Except as provided in subsection (c) of this section, a stockholder of a Maryland corporation has the right to demand and receive payment of the fair value of the stockholder’s stock from the successor if:

(1) The corporation consolidates or merges with another corporation;

(2) The stockholder’s stock is to be acquired in a share exchange;

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(3) The corporation transfers its assets in a manner requiring action under § 3-105(e) of this title;

(4) The corporation amends its charter in a way which alters the contract rights, as expressly set forth in the charter, of any outstanding stock and substantially adversely affects the stockholder's rights, unless the right to do so is reserved by the charter of the corporation;

(5) The transaction is governed by § 3-602 of this title or exempted by § 3-603(b) of this title; or

(6) The corporation is converted in accordance with § 3-901 of this title.

(b) Basis of fair value. —

(1) Fair value is determined as of the close of business:

(i) With respect to a merger under § 3-106 or § 3-106.1 of this title, on the day notice is given or waived under § 3-106 or § 3-106.1 of this title; or

(ii) With respect to any other transaction, on the day the stockholders voted on the transaction objected to.

(2) Except as provided in paragraph (3) of this subsection, fair value may not include any appreciation or depreciation which directly or indirectly results from the transaction objected to or from its proposal.

(3) In any transaction governed by § 3-602 of this title or exempted by § 3-603(b) of this title, fair value shall be value determined in accordance with the requirements of § 3-603(b) of this title.

(c) When right to fair value does not apply. — Unless the transaction is governed by § 3-602 of this title or is exempted by § 3-603(b) of this title, a stockholder may not demand the fair value of the stockholder's stock and is bound by the

terms of the transaction if:

(1) Except as provided in subsection (d) of this section, any shares of the class or series of the stock are listed on a national securities exchange:

(i) With respect to a merger under § 3-106 or § 3-106.1 of this title, on the date notice is given or waived under § 3-106 or § 3-106.1 of this title; or

(ii) With respect to any other transaction, on the record date for determining stockholders entitled to vote on the transaction objected to;

(2) The stock is that of the successor in a merger, unless:

(i) The merger alters the contract rights of the stock as expressly set forth in the charter, and the charter does not reserve the right to do so; or

(ii) The stock is to be changed or converted in whole or in part in the merger into something other than either stock in the successor or cash, scrip, or other rights or interests arising out of provisions for the treatment of fractional shares of stock in the successor;

(3) The stock is not entitled, other than solely because of § 3-106 or § 3-106.1 of this title, to be voted on the transaction or the stockholder did not own the shares of stock on the record date for determining stockholders entitled to vote on the transaction;

(4) The charter provides that the holders of the stock are not entitled to exercise the rights of an objecting stockholder under this subtitle; or

(5) The stock is that of an open-end investment company registered with the Securities and Exchange Commission

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under the Investment Company Act of 1940 and the value placed on the stock in the transaction is its net asset value.

(d) Merger, consolidation, or share exchange. — With respect to a merger, consolidation, or share exchange, a stockholder of a Maryland corporation who otherwise would be bound by the terms of the transaction under subsection (c)(1) of this section may demand the fair value of the stockholder's stock if:

(1) In the transaction, stock of the corporation is required to be converted into or exchanged for anything of value except:

(i) Stock of the corporation surviving or resulting from the merger, consolidation, or share exchange, stock of any other corporation, or depositary receipts for any stock described in this item;

(ii) Cash in lieu of fractional shares of stock or fractional depositary receipts described in item (i) of this item; or

(iii) Any combination of the stock, depositary receipts, and cash in lieu of fractional shares or fractional depositary receipts described in items (i) and (ii) of this item;

(2) The directors and executive officers of the corporation were the beneficial owners, in the aggregate, of 5 percent or more of the outstanding voting stock of the corporation at any time within the 1-year period ending on:

(i) The day the stockholders voted on the transaction objected to; or

(ii) With respect to a merger under § 3-106 or § 3-106.1 of this title, the effective date of the merger; and

(3) Unless the stock is held in accordance with a compensatory plan or arrangement approved by the board of directors of the corporation and the treatment of the stock in the transaction is approved by the board of directors of the corporation, any stock held by persons described in item (2) of this subsection, as part of or in connection with the transaction and within the 1-year period described in item (2) of this subsection, will be or was converted into or exchanged for stock of a person, or an affiliate of a person, who is a party to the transaction on terms that are not

available to all holders of stock of the same class or series.

(e) Beneficial owners. — If directors or executive officers of the corporation are beneficial owners of stock in accordance with § 3-201(d)(2)(i) of this subtitle, the stock is considered outstanding for purposes of determining beneficial ownership by a person under subsection (d)(2) of this section.

§ 3-203. Procedure by stockholder

(a) Specific duties. — A stockholder of a corporation who desires to receive payment of the fair value of the stockholder's stock under this subtitle:

(1) Shall file with the corporation a written objection to the proposed transaction:

(i) With respect to a merger under § 3-106 or § 3-106.1 of this title, within 30 days after notice is given or waived under § 3-106 or § 3-106.1 of this title; or

(ii) With respect to any other transaction, at or before the stockholders' meeting at which the transaction will be considered or, in the case of action taken under § 2-505(b) of this article, within 10 days after the corporation gives the notice required by § 2-505(b) of this article;

(2) May not vote in favor of the transaction; and

(3) Within 20 days after the Department accepts the articles for record, shall make a written demand on the successor for payment for the stockholder's stock, stating the number and class of shares for which the stockholder demands payment.

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(b) Failure to comply with section. — A stockholder who fails to comply with this section is bound by the terms of the consolidation, merger, share exchange, transfer of assets, or charter amendment.

§ 3-204. Effect of demand on dividend and other rights

A stockholder who demands payment for his stock under this subtitle:

(1) Has no right to receive any dividends or distributions payable to holders of record of that stock on a record date after the close of business on the day as at which fair value is to be determined under § 3-202 of this subtitle; and

(2) Ceases to have any rights of a stockholder with respect to that stock, except the right to receive payment of its fair value.

§ 3-205. Withdrawal of demand

A demand for payment may be withdrawn only with the consent of the successor.

§ 3-206. Restoration of dividend and other rights

(a) When rights restored. — The rights of a stockholder who demands payment are restored in full, if:

(1) The demand for payment is withdrawn;

(2) A petition for an appraisal is not filed within the time required by this subtitle;

(3) A court determines that the stockholder is not entitled to relief; or

(4) The transaction objected to is abandoned or rescinded.

(b) Effect of restoration. — The restoration of a stockholder's rights entitles him to receive the dividends, distributions, and other rights he would have received if he had not demanded payment for his stock. However, the restoration does not prejudice any corporate proceedings taken before the restoration.

3-207. Notice and offer to stockholders

(a) Duty of successor. —

(1) The successor promptly shall notify each objecting stockholder in writing of the date the articles are accepted for record by the Department.

(2) The successor also may send a written offer to pay the objecting stockholder what it considers to be the fair value of his stock. Each offer shall be accompanied by the following information relating to the corporation which issued the stock:

(i) A balance sheet as of a date not more than six months before the date of the offer;

(ii) A profit and loss statement for the 12 months ending on the date of the balance sheet; and

(iii) Any other information the successor considers pertinent.

(b) Manner of sending notice. — The successor shall deliver the notice and offer to each objecting stockholder personally or mail them to him by certified mail, return receipt requested, bearing a postmark from the United States Postal Service, at the address he gives the successor in writing, or, if none, at his address as it appears on the records of the corporation which issued the stock.

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§ 3-208. Petition for appraisal; consolidation of proceedings; joinder of objectors

(a) Petition for appraisal. — Within 50 days after the Department accepts the articles for record, the successor or an objecting stockholder who has not received payment for his stock may petition a court of equity in the county where the principal office of the successor is located or, if it does not have a principal office in this State, where the resident agent of the successor is located, for an appraisal to determine the fair value of the stock.

(b) Consolidation of suits; joinder of objectors. —

(1) If more than one appraisal proceeding is instituted, the court shall direct the consolidation of all the proceedings on terms and conditions it considers proper.

(2) Two or more objecting stockholders may join or be joined in an appraisal proceeding.

§ 3-209. Notation on stock certificate

(a) Submission of certificate. — At any time after a petition for appraisal is filed, the court may require the objecting stockholders parties to the proceeding to submit their stock certificates to the clerk of the court for notation on them that the appraisal proceeding is pending. If a stockholder fails to comply with the order, the court may dismiss the proceeding as to him or grant other appropriate relief.

(b) Transfer of stock bearing notation. — If any stock represented by a certificate which bears a notation is subsequently transferred, the new certificate issued for the stock shall bear a similar notation and the name of the original objecting stockholder. The transferee of this stock does not acquire rights of any character with respect to the stock other than the rights of the original objecting stockholder.

§ 3-210. Appraisal of fair value

(a) Court to appoint appraisers. — If the court finds that the objecting stockholder is entitled to an appraisal of his stock, it shall appoint three disinterested appraisers to determine the fair value of the stock on terms and conditions the court considers proper. Each appraiser shall take an oath to discharge his duties honestly and faithfully.

(b) Report of appraisers — Filing. — Within 60 days after their appointment, unless the court sets a longer time, the appraisers shall determine the fair value of the stock as of the appropriate date and file a report stating the conclusion of the majority as to the fair value of the stock.

(c) Report of appraisers — Contents. — The report shall state the reasons for the conclusion and shall include a transcript of all testimony and exhibits offered.

(d) Report of appraisers — Service; objection. —

(1) On the same day that the report is filed, the appraisers shall mail a copy of it to each party to the proceedings.

(2) Within 15 days after the report is filed, any party may object to it and request a hearing.

§ 3-211. Action by court on appraisers' report

(a) Order of court. — The court shall consider the report and, on motion of any party to the proceeding, enter an order which:

(1) Confirms, modifies, or rejects it; and

(2) If appropriate, sets the time for payment to the stockholder.

(b) Procedure after order. —

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(1) If the appraisers' report is confirmed or modified by the order, judgment shall be entered against the successor and in favor of each objecting stockholder party to the proceeding for the appraised fair value of his stock.

(2) If the appraisers' report is rejected, the court may:

(i) Determine the fair value of the stock and enter judgment for the stockholder; or

(ii) Remit the proceedings to the same or other appraisers on terms and conditions it considers proper.

(c) Judgment includes interest. —

(1) Except as provided in paragraph (2) of this subsection, a judgment for the stockholder shall award the value of the stock and interest from the date as at which fair value is to be determined under § 3-202 of this subtitle.

(2) The court may not allow interest if it finds that the failure of the stockholder to accept an offer for the stock made under § 3-207 of this subtitle was arbitrary and vexatious or not in good faith. In making this finding, the court shall consider:

(i) The price which the successor offered for the stock;

(ii) The financial statements and other information furnished to the stockholder; and

(iii) Any other circumstances it considers relevant.

(d) Costs of proceedings. —

(1) The costs of the proceedings, including reasonable compensation and expenses of the appraisers, shall be set by the court and assessed against the successor. However, the court may direct the costs to be apportioned and assessed against any objecting stockholder if the court finds that the failure of the stockholder to accept an offer for the stock made under § 3-207 of this subtitle was arbitrary and vexatious or not in good faith. In making this finding, the court shall consider:

(i) The price which the successor offered for the stock;

(ii) The financial statements and other information furnished to the stockholder; and

(iii) Any other circumstances it considers relevant.

(2) Costs may not include attorney's fees or expenses. The reasonable fees and expenses of experts may be included only if:

(i) The successor did not make an offer for the stock under § 3-207 of this subtitle; or

(ii) The value of the stock determined in the proceeding materially exceeds the amount offered by the successor.

(e) Effect of judgement. — The judgment is final and conclusive on all parties and has the same force and effect as other decrees in equity. The judgment constitutes a lien on the assets of the successor with priority over any mortgage or other lien attaching on or after the effective date of the consolidation, merger, transfer, or charter amendment.

§ 3-212. Surrender of stock

The successor is not required to pay for the stock of an objecting stockholder or to pay a judgment rendered against it in a proceeding for an appraisal unless, simultaneously with payment:

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- (1) The certificates representing the stock are surrendered to it, indorsed in blank, and in proper form for transfer; or
- (2) Satisfactory evidence of the loss or destruction of the certificates and sufficient indemnity bond are furnished.

§ 3-213. Rights of successor with respect to stock

(a) General rule. — A successor which acquires the stock of an objecting stockholder is entitled to any dividends or distributions payable to holders of record of that stock on a record date after the close of business on the day as at which fair value is to be determined under § 3-202 of this subtitle.

(b) Successor in transfer of assets. — After acquiring the stock of an objecting stockholder, a successor in a transfer of assets may exercise all the rights of an owner of the stock.

(c) Successor in consolidation, merger, or share exchange. — Unless the articles provide otherwise, stock in the successor of a consolidation, merger, or share exchange otherwise deliverable in exchange for the stock of an objecting stockholder has the status of authorized but unissued stock of the successor. However, a proceeding for reduction of the capital of the successor is not necessary to retire the stock or to reduce the capital of the successor represented by the stock.

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