

MALVERN FEDERAL BANCORP INC
Form 10-Q
February 16, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended: December 31, 2009

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number: 001-34051

MALVERN FEDERAL BANCORP, INC.
(Exact name of Registrant as specified in its charter)
United States
(State or Other Jurisdiction of
Incorporation or Organization)

38-3783478
(I.R.S. Employer
Identification Number)

42 E. Lancaster Avenue, Paoli, Pennsylvania
(Address of Principal Executive Offices)

19301
(Zip Code)

(610) 644-9400
(Registrant's Telephone
Number, Including Area
Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date: As of February 16, 2010, 6,102,500 shares of the Registrant's common stock were issued and outstanding.

MALVERN FEDERAL BANCORP, INC.

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Consolidated Statements of Financial Condition (Unaudited)

	December 31, 2009	September 30, 2009
Assets		
Cash and due from depository institutions	\$ 8,352,357	\$ 10,815,796
Interest bearing deposits in depository institutions	10,170,494	14,508,803
Cash and Cash Equivalents	18,522,851	25,324,599
Investment securities available for sale	25,727,787	27,097,590
Investment securities held to maturity (fair value of \$4,863,583 and \$4,942,102, respectively)	4,809,263	4,842,176
Restricted stock, at cost	6,566,973	6,566,973
Loans receivable, net of allowance for loan losses of \$6,262,570 and \$5,717,510, respectively	590,235,603	593,565,338
Other real estate owned	4,447,849	5,874,854
Accrued interest receivable	2,304,365	2,226,206
Property and equipment, net	8,403,467	8,381,962
Deferred income taxes, net	2,777,120	2,331,656
Bank-owned life insurance	13,790,518	13,649,585
Other assets	4,578,289	1,777,629
Total Assets	\$ 682,164,085	\$ 691,638,568
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Deposits-noninterest-bearing	\$ 23,698,745	\$ 19,314,263
Deposits-interest-bearing	494,761,138	497,196,415
Total Deposits	518,459,883	516,510,678
FHLB line of credit	3,000,000	-
FHLB advances	87,117,605	99,621,045
Advances from borrowers for taxes and insurance	2,475,164	1,227,604
Accrued interest payable	526,138	706,895
Other liabilities	1,241,454	3,729,966
Total Liabilities	612,820,244	621,796,188
Commitments and Contingencies	-	-
Shareholders' Equity		

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Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued	-	-
Common stock, \$0.01 par value, 40,000,000 shares authorized, issued and outstanding:		
6,102,500 at December 31, 2009 and 6,150,500 at September 30, 2009	61,525	61,525
Additional paid-in capital	25,932,543	25,937,027
Retained earnings	46,214,649	46,285,949
Treasury stock—at cost, 50,000 shares at December 31, 2009 and 2,000 shares at September 30, 2009	(476,920)	(19,000)
Unearned Employee Stock Ownership Plan (ESOP) shares	(2,408,183)	(2,444,565)
Accumulated other comprehensive income (loss)	20,227	21,444
Total Shareholders' Equity	69,343,841	69,842,380
Total Liabilities and Shareholders' Equity	\$ 682,164,085	\$ 691,638,568

See notes to unaudited consolidated financial statements.

Table of ContentsMalvern Federal Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income (Unaudited)

	Three Months Ended December	
	2009	31, 2008
Interest and Dividend Income		
Loans, including fees	\$ 8,410,129	\$ 8,678,487
Investment securities, taxable	246,155	210,446
Investment securities, tax-exempt	11,512	20,882
Interest-bearing cash accounts	5,699	5,506
Total Interest and Dividend Income	8,673,495	8,915,321
Interest Expense		
Deposits	2,834,021	3,513,859
Short-term borrowings	1,527	1,281
Long-term borrowings	1,115,008	1,331,953
Total Interest Expense	3,950,556	4,847,093
Net Interest Income	4,722,939	4,068,228
Provision for Loan Losses	945,000	445,000
Net Interest Income after Provision for Loan Losses	3,777,939	3,623,228
Other Income		
Service charges and other fees	384,494	303,590
Rental income	64,865	63,386
Gain on sale of investment securities available for sale, net	-	17,796
Gain on sale of other real estate owned, net	16,882	-
Earnings on bank-owned life insurance	140,933	86,470
Total Other Income	607,174	471,242
Other Expenses		
Salaries and employee benefits	1,666,719	1,558,300
Occupancy expense	452,740	442,905
Federal deposit insurance premiums	637,840	81,677
Advertising	221,305	152,876
Data processing	394,539	306,745
Professional fees	242,609	281,663

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Other real estate owned expense	427,739	26,802
Other operating expenses	418,101	498,267
Total Other Expenses	4,461,592	3,349,235
Income (loss) before Income tax (benefit) expense	(76,479)	745,235
Income tax (benefit) expense	(88,238)	229,251
Net Income	\$ 11,759	\$ 515,984
Basic Earnings Per Share	\$ 0.00	\$ 0.09
Dividends Declared Per Share	\$ 0.03	\$ 0.04

See notes to unaudited consolidated financial statements.

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Inc. and Subsidiaries
Consolidated Statements of
Changes in Shareholders'
Equity (Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, October 1, 2008	\$61,525	\$25,959,169	\$45,663,389	\$-	\$(2,571,028)	\$(277,356)	\$68,835,699
Comprehensive Income:							
Net Income	-	-	515,984	-	-	-	515,984
Net change in unrealized loss on securities available for sale, net of reclassification adjustment and tax effect	-	-	-	-	-	65,355	65,355
Total Comprehensive Income	-	-	-	-	-	-	581,339
Cash dividend declared (\$0.04 per share)	-	-	(110,745)	-	-	-	(110,745)
Committed to be released ESOP shares (3,351 shares)	-	(3,196)	-	-	36,382	-	33,186
Balance, December 31, 2008	\$61,525	\$25,955,973	\$46,068,628	\$-	\$(2,534,646)	\$(212,001)	\$69,339,479
Balance, October 1, 2009	\$61,525	\$25,937,027	\$46,285,949	\$(19,000)	\$(2,444,565)	\$21,444	\$69,842,380
Comprehensive Income:							
Net Income	-	-	11,759	-	-	-	11,759
	-	-	-	-	-	(1,217)	(1,217)

Net change in unrealized gain on securities available for sale, net of reclassification adjustment and tax effect							
Total Comprehensive Income	-	-	-	-	-	-	10,542
Treasury stock purchased (48,000 shares)	-	-	-	(457,920)	-	-	(457,920)
Cash dividends declared (\$0.03 per share)	-	-	(83,059)	-	-	-	(83,059)
ESOP shares committed to be released (3,351 shares)	-	(4,484)	-	-	36,382	-	31,898
Balance, December 31, 2009	\$61,525	\$25,932,543	\$46,214,649	\$(476,920)	\$(2,408,183)	\$ 20,227	\$69,343,841

See notes to unaudited consolidated financial statements.

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Inc. and Subsidiaries
Consolidated Statements of
Cash Flows (Unaudited)

	Three Months Ended December 31,	
	2009	2008
Cash Flows from Operating Activities		
Net income	\$ 11,759	\$ 515,984
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation expense	208,862	232,886
Provision for loan losses	945,000	445,000
Deferred income taxes (benefit)	(445,007)	26,027
ESOP expense	31,898	33,186
Amortization (accretion) of premiums and discounts on investments securities, net	(154,446)	350,351
Amortization of mortgage servicing rights	6,007	24,500
Net gain on sale of investment securities available for sale	-	(17,796)
Gain on sale of other real estate owned	(16,882)	-
Write down of other real estate owned	359,500	-
(Increase) decrease in accrued interest receivable	(78,159)	270,733
(Decrease) increase in accrued interest payable	(180,757)	389,489
(Decrease) increase in other liabilities	(2,488,512)	300,467
Earnings on bank-owned life insurance	(140,933)	(86,470)
(Increase) decrease in other assets	210,630	(132,470)
Prepaid FDIC assessment	(3,017,297)	-
Amortization of loan origination fees and costs	(106,611)	(174,294)
Net Cash (Used in) Provided by Operating Activities	(4,854,948)	2,177,593
Cash Flows from Investing Activities		
Proceeds from maturities and principal collections:		
Investment securities held to maturity	69,520	109,911
Investment securities available for sale	3,170,811	449,866
Proceeds from sales, investment securities available for sale	-	1,143,619
Purchases of investment securities available for sale	(1,684,843)	(1,642,163)
Loan purchases	(6,162,390)	(15,396,557)
Loan originations and principal collections, net	8,653,736	(5,580,950)
Proceeds from sale of other real estate owned	1,084,387	-
Purchase of other real estate owned	-	(780,281)
Purchases of bank-owned life insurance	-	(5,000,000)
Net decrease in FHLB stock	-	328,700
Purchases of property and equipment	(230,367)	(332,826)
Net Cash Provided by (Used in) Investing Activities	4,900,854	(26,700,681)
Cash Flows from Financing Activities		

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Net increase in deposits	1,949,205	22,428,770
Net increase (decrease) in short-term borrowings	3,000,000	(500,000)
Proceeds from long-term borrowings	3,000,000	5,000,000
Repayment of long-term borrowings	(15,503,440)	(4,590,726)
Increase in advances from borrowers for taxes and insurance	1,247,560	1,002,638
Cash dividends paid	(83,059)	(110,745)
Treasury stock purchased	(457,920)	-
Net Cash (Used in) Provided by Financing Activities	(6,847,654)	23,229,937
Net Decrease in Cash and Cash Equivalents	(6,801,748)	(1,293,151)
Cash and Cash Equivalents - Beginning	25,324,599	12,922,297
Cash and Cash Equivalents - Ending	\$ 18,522,851	\$ 11,629,146
Supplementary Cash Flows Information		
Interest paid	\$ 4,131,313	\$ 4,457,604
Income taxes paid	\$ -	\$ -
Non-cash transfer of loans to foreclosed real estate	\$ -	\$ 2,525,800

See notes to unaudited consolidated financial statements.

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Malvern Federal Bancorp,
Inc. and Subsidiaries
Notes to Consolidated
Financial Statements
(Unaudited)

Note 1 – Organizational Structure and Nature of Operations

Malvern Federal Bancorp, Inc. (the “Company”) and its subsidiaries, Malvern Federal Holdings, Inc., a Delaware investment company, formed on September 26, 2008 for the purpose of managing certain investment securities, and Malvern Federal Savings Bank (the “Bank”) and the Bank’s subsidiaries, Strategic Asset Management Group, Inc. (“SAMG”) and Malvern Federal Investments, Inc., a Delaware investment company, formed on September 26, 2008 for the purpose of managing certain investment securities, provide various banking services, primarily the accepting of deposits and the origination of residential and commercial mortgage loans and consumer loans and other loans through the Bank’s seven full-service branches in Chester County, Pennsylvania. SAMG owns 50% of Malvern Insurance Associates, LLC. Malvern Insurance Associates, LLC offers a full line of business and personal lines of insurance products. As of December 31, 2009 and September 30, 2009, SAMG’s total assets were \$34,709 and \$34,709, respectively. There was no income reported for SAMG for the three months ended December 31, 2009. The net loss of SAMG for the three month ended December 31, 2008 was \$425. The Company is subject to competition from various other financial institutions and financial services companies. The Company is also subject to the regulations of certain federal and state agencies and, therefore, undergoes periodic examinations by those regulatory agencies.

On May 19, 2008 Malvern Federal Savings Bank completed its reorganization to a two-tier mutual holding company structure and the sale by the mid-tier stock company, Malvern Federal Bancorp, Inc., of shares of its common stock. In the reorganization and offering, the Company sold 2,645,575 shares of common stock to certain members of the Bank and the public at a purchase price of \$10.00 per share, issued 3,383,875 shares to Malvern Federal Mutual Holding Company and contributed 123,050 shares to the Malvern Federal Charitable Foundation. The Mutual Holding Company is a federally chartered mutual holding company. The Mutual Holding Company and the Company are subject to regulation and supervision of the Office of Thrift Supervision (“OTS”). Malvern Federal Mutual Holding Company became the owner of 55% of Malvern Federal Bancorp’s outstanding common stock immediately after the reorganization and must always own at least a majority of the voting stock of Malvern Federal Bancorp, Inc. In addition to the shares of Malvern Federal Bancorp, Inc. which it owns, Malvern Federal Mutual Holding Company was capitalized with \$100,000 in cash. The offering resulted in approximately \$26.0 million in net proceeds. An Employee Stock Ownership Plan (“ESOP”) was established which borrowed approximately \$2.6 million from Malvern Federal Bancorp, Inc. to purchase 241,178 shares of common stock. Principal and interest payments on the loan are being made quarterly over a term of 18 years at a fixed interest rate of 5.0%.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements at December 31, 2009 and September 30, 2009 and for the three months ended December 31, 2009 include the accounts of the Malvern Federal Bancorp, Inc. and its subsidiaries, including Malvern Federal Savings Bank and its subsidiaries, and Malvern Federal Holdings, Inc.. For the three months ended December 31, 2008, the consolidated financial statements are of Malvern Federal Savings Bank and its subsidiary, Strategic Asset Management Group, Inc. All significant intercompany transactions and balances have been eliminated.

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all the information or footnotes necessary for a complete presentation of financial condition, statement of income, changes in shareholders' equity, and cash flows in conformity with accounting principles generally accepted in the United States. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements have been included. These financial statements should be read in conjunction with the audited consolidated financial statements of Malvern Federal Bancorp, Inc. and the accompanying notes thereto for the year ended September 30, 2009, which are included in the Company's Annual Report on Form 10-K for the year ended September 30, 2009. The results for the three months ended December 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2010, or any other period.

The Company has evaluated subsequent events and transactions through February 16, 2010, the date the unaudited consolidated financial statements were issued, for potential recognition or disclosure herein.

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Malvern Federal Bancorp,
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Financial Statements
(Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the potential impairment of FHLB stock, the valuation of deferred tax assets, and the evaluation of other-than-temporary impairment of investment securities.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within Chester County, Pennsylvania. Note 5 discusses the types of investment securities that the Company invests in. Note 6 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer. Although the Company has a diversified portfolio, its debtors ability to honor their contracts is influenced by, among other factors, the region's economy.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from depository institutions and interest bearing deposits.

The Company maintains cash deposits in other depository institutions that occasionally exceed the amount of deposit insurance available. Management periodically assesses the financial condition of these institutions and believes that the risk of any possible credit loss is minimal.

The Company is required to maintain average reserve balances in vault cash with the Federal Reserve Bank based upon outstanding balances of deposit transaction accounts. Based upon the Company's outstanding transaction deposit balances, the Bank maintained a deposit account with the Federal Reserve Bank in the amount of \$5,371,000 and \$6,652,000 at December 31, 2009 and September 30, 2009, respectively.

Investment Securities

Debt securities held to maturity are securities that the Company has the positive intent and the ability to hold to maturity; these securities are reported at amortized cost and adjusted for unamortized premiums and discounts. Securities held for trading are securities that are bought and held principally for the purpose of selling in the near term; these securities are reported at fair value, with unrealized gains and losses reported in current earnings. At December 31, 2009 and September 30, 2009, the Company had no investment securities classified as trading. Debt

and equity securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments are classified as available for sale. Realized gains and losses are recorded on the trade date and are determined using the specific identification method. Securities held as available for sale are reported at fair value, with unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income (“AOCI”). Management determines the appropriate classification of investment securities at the time of purchase and reevaluates such designation as of each statement of financial condition date.

Securities are evaluated on a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether declines in their value are other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline and whether or not management intends to sell or expects that it is more likely than not that it will be required to sell the security prior to an anticipated recovery of the fair value. The term “other-than-temporary” is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value for a debt security is determined to be other-than-temporary, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

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Malvern Federal Bancorp,
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(Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

Loans Receivable

The Company, through the Bank, grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by residential and commercial mortgage loans throughout Chester County, Pennsylvania and surrounding areas. The ability of the Company's debtors to honor their contracts is dependent upon, among other factors, the real estate and general economic conditions in this area.

Loans receivable that management has the intent and ability to hold until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees and costs are deferred and recognized as an adjustment of the yield (interest income) of the related loans using the interest method. The Company is amortizing these amounts over the contractual lives of the loans.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or sooner if management has serious doubts about further collectibility 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 in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

In addition to originating loans, the Company purchases consumer and mortgage loans from brokers in our market area. Such purchases are reviewed for compliance with our underwriting criteria before they are purchased, and are generally purchased without recourse to the seller.

Allowance for Loan Losses

The Company maintains allowances for loan losses at a level deemed sufficient to absorb probable losses. The allowance for loan losses is established through a provision for loan losses charged as an expense. Loans are charged against the allowance when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectible based on evaluations of the collectibility of loans, and prior loss experience. The evaluation of the adequacy of the allowance for loan losses includes an analysis of the individual loans and overall risk characteristics and size of the different loan portfolios, and takes into consideration current economic and market conditions, the capability of specific borrowers to pay specific loan obligations, as well as current loan collateral values. However, actual losses on specific loans, which also are encompassed in the analysis, may vary from estimated losses. The

Company also maintains an allowance for losses on commitments to extend credit, which is included in other liabilities and is computed using information similar to that used to determine the allowance for loan, modified to take into account the probability of drawdown on the commitment as well as inherent risk factors on those commitments.

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Note 2 – Summary of Significant Accounting Policies (Continued)

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for all loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and mortgage loans for impairment disclosures, unless they are subject to a restructuring agreement.

Loans Held For Sale

The Company does not originate any loans specifically for the purpose of being sold. Since loans are not originated for the purpose of being sold, the cash flows from the sale of such loans have been classified as an investing activity in the consolidated statements of cash flows.

There were no loans held for sale at December 31, 2009 and September 30, 2009.

Loan Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into non-interest expense in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual

tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the previously established carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses from other real estate owned.

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(Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

Restricted Stock

Restricted stock represents required investments in the common stock of a correspondent bank and is carried at cost. As of December 31, 2009 and September 30, 2009, restricted stock consists solely of the common stock of the Federal Home Loan Bank of Pittsburgh (“FHLB”). In December 2008, the FHLB notified member banks that it was suspending dividend payments and the repurchase of capital stock.

Management’s evaluation and determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of an investment’s cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed using the straight-line and accelerated methods over estimated useful lives ranging from 3 to 39 years beginning when assets are placed in service. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred.

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.

Bank-Owned Life Insurance

The Company invests in bank owned life insurance (“BOLI”) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a chosen group of employees. The Bank is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Earnings from the increase in cash surrender value of the policies are included in other income on the statement of income.

Employee Benefit Plans

The Bank's 401(k) plan allows eligible participants to set aside a certain percentage of their salaries before taxes. The Company may elect to match employee contributions up to a specified percentage of their respective salaries in an amount determined annually by the Board of Directors. The Company's matching contribution related to the plan resulted in expenses of \$84,276 and \$82,993, for the three months ended December 31, 2009 and 2008, respectively.

The Company also maintains a Supplemental Executive and a Director Retirement Plan (the "Plans"). The accrued amount for the Plans included in other liabilities was \$785,102 and \$749,317 at December 31, 2009 and September 30, 2009, respectively. The expense associated with the Plans for the three months ended December 31, 2009 and 2008 was \$35,785 and \$35,078, respectively.

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Note 2 – Summary of Significant Accounting Policies (Continued)

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred.

Income Taxes

Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Malvern Federal Bancorp, Inc. and its subsidiaries file separate state income tax returns and a consolidated federal income tax return.

The Company adopted the provisions of Accounting Standards Codification (“ASC”) 740, Accounting for Uncertainty in Income Taxes, on October 1, 2008. Previously, the Company had accounted for tax contingencies in accordance with ASC 450, Accounting for Contingencies. As required by ASC 740, which clarifies Statement 109, Accounting for Income Taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied ASC 740 to all tax positions for which the statute of limitations remained open. As a result of the adoption of ASC 740, there was no material effect on the Company’s consolidated financial position or results of operations and no adjustment to retained earnings.

Commitments and Contingencies

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the statement of financial condition when they are funded.

Segment Information

The Company has one reportable segment, “Community Banking.” All of the Company’s activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, lending is dependent upon the ability of the Company to fund itself with deposits and other borrowings and manage interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment or unit.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale investment securities, are reported as a separate component of the shareholders' equity section of the statement of financial condition, such items, along with net income, are components of comprehensive income.

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Note 2 – Summary of Significant Accounting Policies (Continued)

The components of other comprehensive income (loss) and related tax effects are as follows for the three months ended December 31:

	2009	2008
Unrealized holding gains (losses) on available for sale securities	\$(1,674)	\$148,689
Reclassification adjustment for gains included in net income	(800)	(17,796)
Net Unrealized Gains (losses)	(2,474)	130,893
Income tax effect	(1,257)	65,538
Net of Tax Amount	\$(1,217)	\$65,355

Recent Accounting Pronouncements

In August 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2009-05, “Measuring Liabilities at Fair Value”, which updates ASC 820-10, “Fair Value Measurements and Disclosures”. The updated guidance clarifies that the fair value of a liability can be measured in relation to the quoted price of the liability when it trades as an asset in an active market, without adjusting the price for restrictions that prevent the sale of the liability. This guidance is effective beginning October 1, 2009. The adoption of this guidance did not have an impact on the Company’s valuation techniques for measuring liabilities at fair value.

In December 2009, FASB ASC 810-10-25, the consolidation guidance related to variable interest entities (“VIEs”), was amended to modify the approach used to evaluate VIEs and add disclosure requirements about an enterprise’s involvement with VIEs. These provisions are effective at the beginning of an entity’s annual reporting period that begins after November 15, 2009 and for interim periods within that period. The Company does not expect the adoption of this consolidation guidance to have a material effect on its consolidated financial statements.

In December 2009, FASB ASC 860, “Transfers and Servicing”, was amended to eliminate the concept of a “qualifying special-purpose entity” and change the requirements for derecognizing financial assets. The amendment requires additional disclosures intended to provide greater transparency about transfers of financial assets, including securitization transactions, and an entity’s continuing involvement in and exposure to the risks related to transferred financial assets. This updated guidance is effective for fiscal years beginning after November 15, 2009. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

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Note 3 – Earnings Per Share

Earnings Per Share

Basic earnings per common share is computed based on the weighted average number of shares outstanding reduced by unearned ESOP shares. Diluted earnings per share is computed based on the weighted average number of shares outstanding and common stock equivalents (“CSEs”) that would arise from the exercise of dilutive securities reduced by unearned ESOP shares. As of December 31, 2009 and for the three months ended December 31, 2009 and December 31, 2008 the Company had not issued and did not have any outstanding CSEs and at the present time, the Bank’s capital structure has no potential dilutive securities. For the three months ended December 31, 2009 and 2008, basic earnings per share is shown below

The following table sets forth the composition of the weighted average shares (denominator) used in the earnings per share computations.

	Three Months Ended December 31,	
	2009	2008
Net Income	\$ 11,759	\$ 515,984
Weighted average shares outstanding	6,122,315	6,152,500
Average unearned ESOP shares	(221,610)	(235,014)
Weighted average shares outstanding – basic	5,900,705	5,917,486
Earnings per share - basic	\$ 0.00	\$ 0.09

Note 4 – Employee Stock Ownership Plan

In 2008, the Company established an employee stock ownership plan (“ESOP”) for substantially all of its full-time employees. Certain senior officers of the Bank have been designated as Trustees of the ESOP. Shares of the Company’s common stock purchased by the ESOP are held until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each such participant’s base compensation to the total base compensation of all eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to additional paid-in capital. During the period from May 20, 2008 to September 30, 2008, the ESOP purchased 241,178 shares of the Company’s common stock for approximately \$2.6 million, an average price of \$10.86 per share which was funded by a loan from Malvern Federal Bancorp, Inc. The ESOP loan is being repaid principally from the Bank’s contributions to the ESOP. The loan, which bears an interest rate of 5%, is being repaid in quarterly installments through

2026. Shares are released to participants proportionately as the loan is repaid. During the three months ended December 31, 2009 and 2008, there were 3,351 and 3,351 shares committed to be released, respectively, and ESOP expense was \$31,898 and \$33,186, respectively. At December 31, 2009, there were 219,957 unallocated shares held by the ESOP which had an aggregate fair value of approximately \$2.1 million.

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Note 5 - Investment Securities

Investment securities available for sale at December 31, 2009 and September 30, 2009 consisted of the following:

		December 31, 2009		
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
U.S. government obligations	\$999,700	\$ 6,745	\$ -	\$ 1,006,445
U.S. government agencies	4,049,397	11,437	(2,054)	4,058,781
FHLB notes	3,997,499	50,777	(1)	4,048,275
State and municipal obligations	1,560,893	10,000	(21,937)	1,548,956
Single issuer trust preferred security	1,000,000	-	(287,450)	712,550
Corporate debt securities	1,473,391	34,234	(1,869)	1,505,756
	13,080,880	113,194	(313,311)	12,880,763
Mortgage-backed securities:				
FNMA:				
Adjustable	4,008,323	153,528	(23)	4,161,828
Fixed	1,936,431	29,569	-	1,966,000
Balloon	373,306	6,172	-	379,478
FHLMC:				
Adjustable	1,040,013	14,116	(1,025)	1,053,104
Fixed	570,185	35,951	-	606,136
GNMA, adjustable	184,090	2,331	-	186,421
CMO, fixed-rate	4,503,912	7,874	(17,729)	4,494,057
	12,616,260	249,541	(18,777)	12,847,024
	\$25,697,140	\$ 362,735	\$ (332,088)	\$25,727,787

At December 31, 2009 and September 30, 2009, all of the Company's mortgage-backed securities consisted solely of securities backed by residential mortgage loans. The Company held no mortgage-backed securities backed by commercial mortgage loans at either date.

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Note 5 - Investment Securities (Continued)

		September 30, 2009		
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
U.S. government obligations	\$999,480	\$ 11,457	\$ -	\$ 1,010,937
U.S. government agencies	5,448,761	25,241	-	5,474,002
FHLB notes	3,496,874	71,251	-	3,568,125
State and municipal obligations	1,767,569	9,038	(17,363)	1,759,244
Single issuer trust preferred security	1,000,000	-	(361,580)	638,420
Corporate debt securities	1,288,429	37,236	-	1,325,665
	14,001,113	154,223	(378,943)	13,776,393
Mortgage-backed securities:				
FNMA:				
Adjustable	4,545,602	151,558	(627)	4,696,533
Fixed	2,093,663	40,543	-	2,134,206
Balloon	432,342	4,500	-	436,842
FHLMC:				
Adjustable	1,105,739	11,059	(1,233)	1,115,565
Fixed	667,911	46,362	-	714,273
GNMA, adjustable	203,378	2,199	-	205,577
CMO, fixed-rate	4,015,521	13,126	(10,446)	4,018,201
	13,064,156	269,347	(12,306)	13,321,197
	\$27,065,269	\$ 423,570	\$ (391,249)	\$27,097,590

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Note 5 - Investment Securities (Continued)

Investment securities held to maturity at December 31, 2009 and September 30, 2009 consisted of the following:

	December 31, 2009			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
Mortgage-backed securities:				
GNMA, adjustable	\$287,526	\$ 7,297	\$ -	\$294,823
GNMA, fixed	2,234	211	-	2,445
FNMA, fixed	4,519,503	81,003	(34,191)	4,566,315
	\$4,809,263	\$ 88,511	\$ (34,191)	\$4,863,583
	September 30, 2009			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
Mortgage-backed securities:				
GNMA, adjustable	\$298,049	\$ 7,025	\$ -	\$305,074
GNMA, fixed	2,236	166	-	2,402
FNMA, fixed	4,541,891	92,735	-	4,634,626
	\$4,842,176	\$ 99,926	\$ -	\$4,942,102

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Note 5 - Investment Securities (Continued)

The following tables summarize the aggregate investments at December 31, 2009 and September 30, 2009 that were in an unrealized loss position.

	Less than 12 Months		December 31, 2009 More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment Securities Available for Sale						
FHLB Notes	\$499,980	\$ (1)	\$-	\$ -	\$499,980	\$ (1)
U.S. government obligations	747,892	(2,054)	-	-	747,892	(2,054)
State and municipal obligations	355,436	(3,937)	27,000	(18,000)	382,436	(21,937)
Single issuer trust preferred security	-	-	712,550	(287,450)	712,550	(287,450)
Corporate security	186,893	(1,869)	-	-	186,893	(1,869)
Mortgage-backed securities:						
FNMA:						
Adjustable	64,481	(18)	2,987	(5)	67,468	(23)
FHLMC:						
Adjustable	30,654	(222)	129,836	(803)	160,490	(1,025)
CMO, fixed-rate	3,023,556	(17,729)	-	-	3,023,556	(17,729)
	\$4,908,892	\$ (25,830)	\$872,373	\$ (306,258)	\$5,781,265	\$ (332,088)
Investment Securities Held to Maturity						
Mortgage-backed securities:						
FNMA, fixed	\$2,326,158	\$ (34,191)	\$-	\$ -	\$2,326,158	\$ (34,191)
	\$2,326,158	\$ (34,191)	\$-	\$ -	\$2,326,158	\$ (34,191)

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Note 5 - Investment Securities (Continued)

	Less than 12 Months		September 30, 2009 More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment Securities Available for Sale						
State and municipal obligations	\$184,877	\$ (17,363)	\$-	\$-	\$84,877	\$ (17,363)
Single issuer trust preferred security	-	-	638,420	(361,580)	638,420	(361,580)
Mortgage-backed securities:						
FNMA:						
Adjustable	301,396	(415)	78,775	(212)	380,171	(627)
FHLMC:						
Adjustable	349,060	(418)	166,512	(815)	515,572	(1,233)
CMO, fixed-rate	1,658,480	(10,446)	-	-	1,658,480	(10,446)
	\$2,493,813	\$ (28,642)	\$883,707	\$ (362,607)	\$3,377,520	\$ (391,249)

The Company had no securities classified as held to maturity which were in an unrealized loss position at September 30, 2009.

As of December 31, 2009, the estimated fair value of the securities disclosed above is primarily dependent upon the movement in market interest rates particularly given the negligible inherent credit risk associated with these securities. These investment securities are comprised of securities that are rated investment grade by at least one bond credit rating service. Although the fair value will fluctuate as the market interest rates move, management believes that these fair values will recover as the underlying portfolios mature and are reinvested in market rate yielding investments. As of December 31, 2009, the Company held one FHLB agency, two U.S. government agencies, three tax-free municipals, 11 mortgage-backed securities, and one single issuer trust preferred security which were in an unrealized loss position. The Company does not intend to sell or expects that it is more likely than not that it will not be required to sell these securities until such time as the value recovers or the securities mature. Management does not believe any individual unrealized loss as of December 31, 2009 represents other-than-temporary impairment.

During the quarter ended December 31, 2009, the gross unrealized loss of the single issuer trust preferred security improved by \$74,130 from an unrealized loss at September 30, 2009 of \$361,580 to an unrealized loss of \$287,450 as of December 31, 2009. The stability of the underlying credit and the financial markets has contributed to this improvement. The historic changes in the economy and interest rates have continued to cause the pricing of agency, mortgage-backed securities, and trust preferred securities to widen dramatically over U.S. Treasury securities into the December 2009 quarter, but slight signs of improvement are beginning to occur. Management will continue to

monitor the performance of this security and the markets to determine the true economic value of this security.

At December 31, 2009 and September 30, 2009 the Company had no securities pledged to secure public deposits.

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Note 5 - Investment Securities (Continued)

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2009 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	\$6,496,892	\$6,555,702	\$-	\$-
Over 1 year through 5 years	5,381,746	5,428,961	-	-
After 5 years through 10 years	1,202,242	896,100	-	-
	13,080,880	12,880,763	-	-
Mortgage-backed securities	12,616,260	12,847,024	4,809,263	4,863,583
	\$25,697,140	\$25,727,787	\$4,809,263	\$4,863,583

Note 6 - Loans Receivable

Loans receivable consisted of the following for the periods indicated below:

	At December 31, 2009	At September 30, 2009
Mortgage Loans:		
One-to four-family	\$ 246,227,213	\$ 252,307,828
Multi-family	8,009,350	9,613,184
Construction or development	34,641,171	37,507,536
Land loans	3,197,872	3,236,550
Commercial real estate	152,143,623	142,863,313
Total Mortgage Loans	444,219,229	445,528,411
Commercial Loans	14,015,863	15,647,219
Consumer loans:		
Home equity lines of credit	20,426,023	19,149,135
Second mortgages	112,918,778	113,943,091
Other	1,148,812	1,142,967
Total Consumer Loans	134,493,613	134,235,193
Total Loans	592,728,705	595,410,823

Deferred loan costs, net	3,769,468	3,872,025
Allowance for loan losses	(6,262,570)	(5,717,510)
	\$ 590,235,603	\$ 593,565,338

Included in loans receivable are nonaccrual loans in the amount of \$18,770,190 and \$14,194,724 at December 31, 2009 and September 30, 2009, respectively. Interest income that would have been recognized on these nonaccrual loans had they been current in accordance with their original terms was \$295,840 and \$130,086 for the three months ended December 31, 2009 and 2008, respectively. There were no loans past due 90 days or more and still accruing interest at December 31, 2009.

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Note 6 - Loans Receivable (Continued)

The following is an analysis of the activity in the allowance for loan losses during the periods indicated:

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Year Ended September 30, 2009
Balance at beginning of year	\$ 5,717,510	\$ 5,504,512	\$ 5,504,512
Provision for loan losses	945,000	445,000	2,280,100
Charge-offs	(400,859)	(1,151,074)	(2,096,928)
Recoveries	919	909	29,826
Net Charge-offs	(399,940)	(1,150,165)	(2,067,102)
Balance at end of year	\$ 6,262,570	\$ 4,799,347	\$ 5,717,510

At December 31, 2009 and September 30, 2009, 100% of impaired loan balances were measured for impairment based on the fair value of the loan's collateral.

	December 31, 2009	September 30, 2009
Impaired loans without an allocated valuation allowance	\$ 1,834,795	\$ 10,570,188
Impaired loans with an allocated valuation allowance	5,395,052	3,624,536
Total impaired loans	\$ 7,229,847	\$ 14,194,724
Valuation allowance allocated to impaired loans	\$ 2,207,478	\$ 2,057,318

	Three Months Ended December 31, 2009	Year Ended September 30, 2009
Average impaired loans	\$ 11,278,402	\$ 14,285,848
Interest income recognized on impaired loans	\$ 2,983	\$ 698,270
Cash basis collections on impaired loans	\$ 4,188	\$ 859,681

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Note 7 - Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt correction action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible and core capital (as defined in the regulations) to total adjusted tangible assets (as defined) and of risk-based capital (as defined) to risk-weighted assets (as defined). Management believes, as of December 31, 2009, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2009, the most recent notification from the regulators categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum tangible, core, and risk-based ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's status of "well-capitalized."

The Bank's actual capital amounts and ratios are also presented in the table:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2009						
Tangible Capital (to tangible assets)	\$ 62,253,067	9.18 %	\$ ≥10,167,444	≥1.50%	N/A	
Core Capital (to adjusted tangible assets)	62,253,067	9.18	≥27,113,183	≥4.00	\$ ≥33,891,479	≥ 5.00%
Tier 1 Capital (to risk-weighted assets)	62,253,067	12.03	≥20,704,842	≥4.00	≥31,057,263	≥ 6.00
Total risk-based Capital (to risk-weighted assets)	66,308,158	12.81	≥41,409,684	≥8.00	≥51,762,105	≥10.00
As of September 30, 2009:						
Tangible Capital (to tangible assets)	\$ 62,247,317	9.07 %	\$ ≥10,297,204	≥1.50%	N/A	

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Core Capital (to adjusted tangible assets)	62,247,317	9.07	≥27,459,211	≥4.00	\$	≥34,324,014	≥ 5.00%
Tier 1 Capital (to risk-weighted assets)	62,247,317	11.96	≥20,815,426	≥4.00		≥31,223,140	≥ 6.00
Total risk-based Capital (to risk-weighted assets)	65,907,510	12.67	≥41,630,853	≥8.00		≥52,038,566	≥10.00

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Note 8 - Fair Value Measurements

The table below presents a summary of activity in our other real estate owned during the three months ended December 31, 2009:

	December 31, 2009				Balance as of December 31, 2009
	Balance as of September 30, 2009	Additions	Sales, net	Write-downs	
One-to four-family	\$1,567,600	\$-	\$194,116	\$ -	\$1,373,484
Commercial real estate	4,006,291	-	592,041	359,500	3,054,750
Commercial	19,615	-	-	-	19,615
Second mortgages	85,008	-	85,008	-	-
Construction and development	196,340	-	196,340	-	-
Total	\$5,874,854	\$-	\$1,067,505	\$ 359,500	\$4,447,849

The Company uses fair value measurements to record fair value adjustments to certain assets to determine fair value disclosures. Investment and mortgage-backed securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans, real estate owned and certain other assets. These nonrecurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or write-downs of individual assets.

Under FASB ASC Topic 820, "Fair Value Measurements", the Company groups its assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1—Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2—Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3—Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset.

Under FASB ASC Topic 820, the Company bases its fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy in FASB ASC Topic 820.

Fair value measurements for assets where there exists limited or no observable market data and, therefore, are based primarily upon the Company's or other third-party's estimates, are often calculated based on the characteristics of the asset, the economic and competitive environment and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future valuations. At December 31, 2009 and September 30, 2009, the Company did have assets that were measured at fair value on a recurring basis that use Level 3 measurements.

FASB ASC 825 provides an option to elect fair value as an alternative measurement for selected financial assets and financial liabilities not previously recorded at fair value. The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of FASB ASC 825, "Disclosures About Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methods. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company would realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. FASB ASC 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

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Note 8 - Fair Value Measurements (Continued)

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2009 and September 30, 2009. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since December 31, 2009 and September 30, 2009 and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

The following assumptions were used to estimate the fair value of the Company's financial instruments:

Cash and Cash Equivalents—These assets are carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

Investment and Mortgage-backed Securities—Investment and mortgage-backed securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are measured at fair value on a recurring basis. Fair value measurements for these securities are typically obtained from independent pricing services that we have engaged for this purpose. When available, we, or our independent pricing service, use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, our independent pricing service's applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare evaluations. For each asset class, pricing applications and models are based on information from market sources and integrate relevant credit information. All of our securities available for sale are valued using either of the foregoing methodologies to determine fair value adjustments recorded to our financial statements. The Company had no Level 1 securities as of December 31, 2009 and September 30, 2009. Level 2 securities include corporate bonds, agency bonds, municipal bonds, mortgage-backed securities, and collateralized mortgage obligations.

Loans Receivable—We do not record loans at fair value on a recurring basis. As such, valuation techniques discussed herein for loans are primarily for estimating fair value for FASB ASC 825 disclosure purposes. However, from time to time, we record nonrecurring fair value adjustments to loans to reflect partial write-downs for impairment or the full charge-off of the loan carrying value. The valuation of impaired loans is discussed below. The fair value estimate for FASB ASC 825 purposes differentiates loans based on their financial characteristics, such as product classification, loan category, pricing features and remaining maturity. Prepayment and credit loss estimates are evaluated by loan type and rate. The fair value of one-to four-family residential mortgage loans is estimated by discounting contractual cash flows using discount rates based on current industry pricing, adjusted for prepayment and credit loss estimates. The fair value of loans is estimated by discounting contractual cash flows using discount rates based on our current pricing for loans with similar characteristics, adjusted for prepayment and credit loss estimates.

Impaired Loans—Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and is classified at a

Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client's business. Impaired loans are reviewed and evaluated on a monthly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

Accrued Interest Receivable—This asset is carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

Restricted Stock—Although restricted stock is an equity interest in the FHLB, it is carried at cost because it does not have a readily determinable fair value as its ownership is restricted and it lacks a market. The estimated fair value approximates the carrying amount.

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Note 8 - Fair Value Measurements (Continued)

Other Real Estate Owned—Other real estate owned includes foreclosed properties securing commercial, residential and construction loans. Real estate properties acquired through foreclosure are initially recorded at the fair value of the property at the date of foreclosure. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of cost or fair value less estimated costs to sell. Fair value is generally based upon independent market prices or appraised value of the collateral. Our appraisals are typically performed by independent third party appraisers. For appraisals of commercial and construction properties, comparable properties within the area may not be available. In such circumstances, our appraisers will rely on certain judgments in determining how a specific property compares in value to other properties that are not identical in design or in geographic area. Our current portfolio of other real estate owned is comprised of such properties and, accordingly, we classify other real estate owned as Level 3.

Deposits—Deposit liabilities are carried at cost. As such, valuation techniques discussed herein for loans are primarily for estimating fair value for FASB ASC 825 disclosure purposes. The fair value of deposits is discounted based on rates available for borrowings of similar maturities. A decay rate is estimated for non-time deposits. The discount rate for non-time deposits is adjusted for servicing costs based on industry estimates.

Long-Term Borrowings—Advances from the FHLB are carried at amortized cost. However, we are required to estimate the fair value of this debt under FASB ASC 825. The fair value is based on the contractual cash flows discounted using rates currently offered for new notes with similar remaining maturities.

Short-Term Borrowings—These liabilities are carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

Accrued Interest Payable—This liability is carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

Commitments to Extend Credit and Letters of Credit—The majority of the Bank's commitments to extend credit and letters of credit carry current market interest rates if converted to loans. Because commitments to extend credit and letters of credit are generally unassignable by either the Bank or the borrower, they only have value to the Bank and the borrower. The estimated fair value approximates the recorded deferred fee amounts, which are not significant.

Mortgage Servicing Rights—The fair value of mortgage servicing rights is based on observable market prices when available or the present value of expected future cash flows when not available. Assumptions, such as loan default rates, costs to service, and prepayment speeds significantly affect the estimate of future cash flows. Mortgage servicing rights are carried at the lower of cost or fair value.

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Note 8 - Fair Value Measurements (Continued)

The table below presents the balances of assets measured at fair value on a recurring basis:

	Total	December 31, 2009		
		Level 1	Level 2	Level 3
Debt securities available for sale	\$12,880,763	\$-	\$12,880,763	\$-
Mortgage-backed securities available for sale	12,847,024	-	12,847,024	-
Total	\$25,727,787	\$-	\$25,727,787	\$-
	Total	September 30, 2009		
		Level 1	Level 2	Level 3
Debt securities available for sale	\$13,776,393	\$-	\$13,776,393	\$-
Mortgage-backed securities available for sale	13,321,197	-	13,321,197	-
Total	\$27,097,590	\$-	\$27,097,590	\$-

For assets measured at fair value on a nonrecurring basis that were still held at the end of the period, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at December 31, 2009 and September 30, 2009:

	Total	December 31, 2009		
		Level 1	Level 2	Level 3
Other real estate owned	\$4,447,849	\$-	\$-	\$4,447,849
Impaired loans	3,187,574	-	-	3,187,574
Total	\$7,635,423	\$-	\$-	\$7,635,423
	Total	September 30, 2009		
		Level 1	Level 2	Level 3
Other real estate owned	\$5,874,854	\$-	\$-	\$5,874,854
Impaired loans	1,567,218	-	-	1,567,218
Total	\$7,460,072	\$-	\$-	\$7,460,072

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Note 8 - Fair Value Measurements (Continued)

The table below presents a summary of activity in our other real estate owned during the three months ended December 31, 2009:

	December 31, 2009				Balance as of December 31, 2009
	Balance as of September 30, 2009	Additions	Sales, net	Write-downs	
One-to four-family	\$1,567,600	\$-	\$194,116	\$-	\$1,373,484
Commercial real estate	4,006,291	-	592,041	359,500	3,054,750
Commercial	19,615	-	-	-	19,615
Second mortgages	85,008	-	85,008	-	-
Construction and development	196,340	-	196,340	-	-
Total	\$5,874,854	\$-	\$1,067,505	\$ 359,500	\$4,447,849

The carrying amount and estimated fair value of the Company's financial instruments as of December 31, 2009 and September 30, 2009:

	December 31, 2009		September 30, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	\$18,522,851	\$18,522,851	\$25,324,599	\$25,324,599
Investment securities available for sale	25,727,787	25,727,787	27,097,590	27,097,590
Investment securities held to maturity	4,809,263	4,863,583	4,842,176	4,942,102
Loans receivable	590,235,603	594,540,921	593,565,338	597,729,181
Accrued interest receivable	2,304,365	2,304,365	2,226,206	2,226,206
Restricted stock	6,566,973	6,566,973	6,566,973	6,566,973
Mortgage servicing rights	285,976	285,976	291,983	291,983
Financial liabilities:				
Deposits	518,459,883	518,728,017	516,510,678	518,478,826
Short-term borrowings	3,000,000	3,000,000	-	-
Long-term borrowings (FHLB advances)	87,117,605	90,104,201	99,621,045	100,713,237
Accrued interest payable	526,138	526,138	706,896	706,895

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Note 9 – Income Taxes

The following is reconciliation between the statutory federal income tax rate of 34% and the effective income tax rate on income before income taxes:

	Three Months Ended December 31,	
	2009	2008
At federal statutory rate	\$ (26,003)	\$ 253,380
Adjustments resulting from:		
State tax, net of federal benefit	(13,772)	27,104
Tax-exempt interest	(9,121)	(12,467)
Low-income housing credit	(10,226)	(10,226)
Earnings on bank-owned life insurance	(37,072)	(29,400)
Other	7,956	860
	\$ (88,238)	\$ 229,251

The Company's effective tax rate was 115.38%, and 30.767% at December 31, 2009 and 2008, respectively.

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Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward looking statements (as defined in the Securities Exchange Act of 1934 and the regulations thereunder). Forward looking statements are not historical facts but instead represent only the beliefs, expectations or opinions of Malvern Federal Bancorp, Inc. and its management regarding future events, many of which, by their nature, are inherently uncertain. Forward looking statements may be identified by the use of such words as: “believe”, “expect”, “anticipate”, “intend”, “plan”, “estimate”, or words of similar meaning, or forward or conditional terms such as “will”, “would”, “should”, “could”, “may”, “likely”, “probably”, or “possibly.” Forward looking statements include, but are not limited to, financial projections and estimates and their underlying assumptions; statements regarding plans, objectives and expectations with respect to future operations, products and services; and statements regarding future performance. Such statements are subject to certain risks, uncertainties and assumption, many of which are difficult to predict and generally are beyond the control of Malvern Federal Bancorp, Inc. and its management, that could cause actual results to differ materially from those expressed in, or implied or projected by, forward looking statements. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward looking statements: (1) economic and competitive conditions which could affect the volume of loan originations, deposit flows and real estate values; (2) the levels of non-interest income and expense and the amount of loan losses; (3) competitive pressure among depository institutions increasing significantly; (4) changes in the interest rate environment causing reduced interest margins; (5) general economic conditions, either nationally or in the markets in which Malvern Federal Bancorp, Inc. is or will be doing business, being less favorable than expected; (6) political and social unrest, including acts of war or terrorism; or (7) legislation or changes in regulatory requirements adversely affecting the business in which Malvern Federal Bancorp, Inc. is engaged. Malvern Federal Bancorp, Inc. undertakes no obligation to update these forward looking statements to reflect events or circumstances that occur after the date on which such statements were made.

As used in this report, unless the context otherwise requires, the terms “we,” “our,” “us,” or the “Company” refer to Malvern Federal Bancorp, Inc., a Federal corporation, and the term the “Bank” refers to Malvern Federal Savings Bank, a federally chartered savings bank and wholly owned subsidiary of the Company. In addition, unless the context otherwise requires, references to the operations of the Company include the operations of the Bank.

General

On May 19, 2008, Malvern Federal Savings Bank (“Malvern Federal Savings” or the “Bank”) completed its reorganization to the mutual holding company form of organization and formed Malvern Federal Bancorp, Inc. (the “Company”) to serve as the stock holding company for the Bank. In connection with the reorganization, the Company sold 2,645,575 shares of its common stock to certain members of the Bank and the public at a purchase price of \$10.00 per share. In addition, the Company issued 3,383,875 shares, or 55% of the outstanding shares, of its common stock to Malvern Federal Mutual Holding Company, a federally chartered mutual holding company (the “Mutual Holding Company”), and contributed 123,050 shares (with a value of \$1.2 million), or 2.0% of the outstanding shares, to the Malvern Federal Charitable Foundation, a newly created Delaware charitable foundation.

The Company is a federally chartered corporation which owns all of the issued and outstanding shares of the Bank’s common stock, the only shares of equity securities which the Bank has issued. Malvern Federal Bancorp does not own or lease any property, but instead uses the premises, equipment and furniture of the Bank. At the present time, the Company employs only persons who are officers of Malvern Federal Savings to serve as officers of the Company. The Company also may use the Bank’s support staff from time to time. These persons are not separately

compensated by Malvern Federal Bancorp.

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Malvern Federal Savings is a federally chartered community-oriented savings bank which was originally organized in 1887 and is headquartered in Paoli, Pennsylvania. The Bank currently conducts its business from its headquarters and seven additional financial centers.

The Bank is primarily engaged in attracting deposits from the general public and using those funds to invest in loans and investment securities. The Bank's principal sources of funds are deposits, repayments of loans and investment securities, maturities of investments and interest-bearing deposits, other funds provided from operations and wholesale funds borrowed from outside sources such as the FHLB. These funds are primarily used for the origination of various loan types including single-family residential mortgage loans, commercial real estate mortgage loans, construction and development loans, home equity loans and lines of credit and other consumer loans. The Bank derives its income principally from interest earned on loans, investment securities and, to a lesser extent, from fees received in connection with the origination of loans and for other services. Malvern Federal Savings' primary expenses are interest expense on deposits and borrowings and general operating expenses. Funds for activities are provided primarily by deposits, amortization of loans, loan prepayments and the maturity of loans, securities and other investments and other funds from operations.

Critical Accounting Policies

In reviewing and understanding financial information for Malvern Federal Bancorp, Inc., you are encouraged to read and understand the significant accounting policies used in preparing our consolidated financial statements. These policies are described in Note 2 of the notes to our unaudited consolidated financial statements included elsewhere herein. The accounting and financial reporting policies of Malvern Federal Bancorp, Inc. conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and to general practices within the banking industry. Accordingly, the consolidated financial statements require certain estimates, judgments, and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the periods presented. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may affect our reported results and financial condition for the period or in future periods.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. Subsequent recoveries are added to the allowance. The allowance is an amount that represents the amount of probable and reasonably estimable known and inherent losses in the loan portfolio, based on evaluations of the collectibility of loans. The evaluations take into consideration such factors as changes in the types and amount of loans in the loan portfolio, historical loss experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, estimated losses relating to specifically identified loans, and current economic conditions. This evaluation is inherently subjective as it requires material estimates including, among others, exposure at default, the amount and timing of expected future cash flows on impacted loans, value of collateral, estimated losses on our loan portfolio and general amounts for historical loss experience. All of these estimates may be susceptible to significant change.

While management uses the best information available to make loan loss allowance evaluations, adjustments to the allowance may be necessary based on changes in economic and other conditions or changes in accounting guidance. Historically, our estimates of the allowance for loan losses have not required significant adjustments from

management's initial estimates. In addition, the Office of Thrift Supervision (the "OTS"), as an integral part of its examination processes, periodically reviews our allowance for loan losses. The OTS may require the recognition of adjustments to the allowance for loan losses based on their judgment of information available to them at the time of their examinations. To the extent that actual outcomes differ from management's estimates, additional provisions to the allowance for loan losses may be required that would adversely impact earnings in future periods.

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

In evaluating our ability to recover deferred tax assets, we consider all available positive and negative evidence, including our past operating results and our forecast of future taxable income. In determining future taxable income, we make assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.

Other-Than-Temporary Impairment of Securities – Securities are evaluated on a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether declines in their value are other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline and whether or not management intends to sell or expects that it is more likely than not that it will be required to sell the security prior to an anticipated recovery of the fair value. The term “other-than-temporary” is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value for a debt security is determined to be other-than-temporary, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

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Comparison of Financial Condition at December 31, 2009 and September 30, 2009

The Company's total assets amounted to \$682.2 million at December 31, 2009 compared to \$691.6 million at September 30, 2009. The primary reasons for the decrease in assets during the first three months of fiscal 2010 were decreases of \$3.3 million in net loans receivable and of \$6.8 million in cash and cash equivalents at December 31, 2009 compared to September 30, 2009, which were partially offset by an increase of \$2.8 million in other assets at December 31, 2009. The increase in other assets at December 31, 2009 was primarily due to a \$3.0 million prepayment of our deposit insurance assessment as mandated by the FDIC for all federally insured depository institutions.

At December 31, 2009, the Company's total other real estate owned ("OREO") amounted to \$4.4 million compared to \$5.9 million at September 30, 2009. The \$1.5 million decrease in OREO at December 31, 2009 compared to September 30, 2009 was due primarily to sales of a construction or development property, a one-to four-family residential property, and a commercial real estate property, as well as a \$360,000 reduction in the fair value of one commercial real estate property located in Pottstown, PA, which was reflected in other real estate owned expense for the quarter.

Our total liabilities at December 31, 2009, amounted to \$612.8 million compared to \$621.8 million at September 30, 2009. The \$9.0 million, or 1.4% decrease in total liabilities was due primarily to a \$12.5 million decrease in long-term borrowings which was partially offset by a \$3.0 million increase in the outstanding balance on our FHLB line of credit. There was also a \$2.5 million decrease in other liabilities at December 31, 2009 which was primarily due to a \$2.3 million order to purchase certain investment securities which had not been settled as of September 30, 2009 and which settled in October 2009 upon delivery of the securities. Our total deposits increased by \$1.9 million in the quarter and amounted to \$518.5 million at December 31, 2009 compared to \$516.5 million at September 30, 2009.

Shareholders' equity decreased by \$499,000 to \$69.3 million at December 31, 2009 compared to \$69.8 million at September 30, 2009 primarily due to purchase of 48,000 shares of treasury stock for an aggregate of \$458,000 during first three months of fiscal 2010. We have repurchased a total of 50,000 shares under our share repurchase program that was announced on May 7, 2009. As we have previously indicated, while we will continue to assess stock repurchase opportunities, we expect that limited additional repurchases will be made in fiscal 2010 in light of, among other factors, the regulatory capital requirements of the Bank. Retained earnings decreased by \$71,000 to \$46.2 million as of December 31, 2009. This was due to the net income of \$12,000 for the three months ended December 31, 2009 being offset by the payment of \$83,000 in the aggregate in cash dividends on our common stock during the first quarter of fiscal 2010.

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The table below sets forth the amounts and categories of non-performing assets in our portfolio. Loans are generally placed on non-accrual status when they are 90 days or more past due as to principal or interest or when the collection of principal and/or interest becomes doubtful. Our non-performing assets include troubled debt restructurings (which involve forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates).

	December 31, 2009	September 30, 2009		
	(Dollars in Thousands)			
Non-accruing loans:				
One-to four-family	\$ 7,631	\$ 3,809		
Multi-family	445	-		
Commercial real estate	961	785		
Construction or development	7,051	7,086		
Commercial	56	35		
Home equity lines of credit	458	407		
Second mortgages	2,153	2,072		
Other	15	1		
Total non-accruing	18,770	14,195		
Troubled debt restructurings	81	81		
Total non-performing loans	18,851	14,276		
Other real estate owned and other foreclosed assets:				
One-to four-family	1,373	1,568		
Commercial real estate	3,055	4,006		
Commercial	20	20		
Second mortgages	-	85		
Construction or development	-	196		
Total	4,448	5,875		
Total non-performing assets	\$ 23,299	\$ 20,151		
Ratios:				
Non-performing loans as a percent of gross loans	3.18	%	2.40	%
Non-performing assets as a percent of total assets	3.42	%	2.91	%

The Company's total non-performing assets amounted to \$23.3 million at December 31, 2009, a \$3.1 million increase compared to total non-performing assets at September 30, 2009. The increase in non-performing assets at December 31, 2009 was due to an increase in the amount of the Company's non-accruing loans. There were no loans past due 90 days or more and still accruing interest at December 31, 2009 or September 30, 2009. At December 31, 2009, the Company had \$7.6 million of non-accruing single-family mortgage loans, comprised of 17 loans, compared to 12 non-accruing single-family mortgage loans, with an aggregate carrying value of \$3.8 million at September 30, 2009. At December 31, 2009, the Company had \$961,000 of non-accruing commercial real estate loans compared to \$785,000 of non-accruing commercial real estate loans at September 30, 2009. The Company's non-accruing commercial real estate loans at December 31, 2009 were comprised of an aggregate of three loans secured by properties located in Chester County, Pennsylvania and surrounding areas. At December 31, 2009, the Company had \$445,000 of non-accruing multi-family loans compared to no non-accruing multi-family loans at September 30, 2009. The Company's non-accruing multi-family loans at December 31, 2009 were comprised of three loans for one

multi-family property located in Chester County, Pennsylvania. The increase in the amounts of the Company's non-accruing loans primarily reflects the continuing effects of the recession in the Company's market area. The Company is continuing its efforts to resolve its non-performing assets without additional loss.

The Company's total OREO amounted to \$4.4 million at December 31, 2009 compared to \$5.9 million at September 30, 2009. The \$1.5 million decrease in OREO at December 31, 2009 compared to September 30, 2009 was due primarily to sales of a construction or development property, a one-to four-family residential property with a carrying value of \$196,000 at the time of sale, and a commercial property with a carrying value of \$592,000 at the time of sale, as well as a \$360,000 reduction in the fair value of one commercial real estate property located in Pottstown, PA, which was reflected in other real estate owned expense for the quarter.

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In addition to an increase in the amount of its non-performing assets at December 31, 2009 compared to September 30, 2009, the amount of the Company's performing but delinquent loans (loans delinquent 31 to 89 days) increased to \$11.7 million at December 31, 2009 from \$8.5 million at September 30, 2009. The Company is attempting to work with its borrowers to bring these loans current, but no assurance can be given that there may not be further increases in the Company's non-accruing loans.

Comparison of Our Operating Results for the Three Ended December 31, 2009 and 2008

General. Our net income was \$12,000 for the three months ended December 31, 2009 compared to net income of \$516,000 for the three months ended December 31, 2008. On a per share basis, net income was \$0.00 per share for the quarter ended December 31, 2009, compared to net income of \$0.09 per share for the quarter ended December 31, 2008. The primary reasons for the \$504,000, or 97.7% decrease in our net income in the first quarter of fiscal 2010 compared to fiscal 2009 were increases in other expenses of \$1.1 million and in the provision for loan losses of \$500,000, which were partially offset by a \$654,000 increase in net interest income, a \$137,000 increase in other income and a \$317,000 decrease in income taxes. The increase in other expenses primarily was the result of a \$556,000 increase in federal deposit insurance premium and a \$428,000 increase in real estate owned expense, along with smaller increases in salaries and employee benefits expense, advertising and deposit processing costs. Our interest rate spread of 2.68% and net interest margin of 2.89% for the three months ended December 31, 2009 increased when compared to a net interest spread of 2.19% and a net interest margin of 2.58% for the three months ended December 31, 2008.

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Average Balances, Net Interest Income, and Yields Earned and Rates Paid. The following tables show for the periods indicated the total dollar amount of interest from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. Tax-exempt income and yields have not been adjusted to a tax-equivalent basis. All average balances are based on monthly balances. Management does not believe that the monthly averages differ significantly from what the daily averages would be.

	Three Months Ended December 31,						
	Average Balance	2009 Interest	Average Yield/Rate	Average Balance	2008 Interest	Average Yield/Rate	
	(Dollars in Thousands)						
Interest Earning Assets:							
Loans receivable (1)	\$ 604,930	\$8,410	5.56 %	\$ 591,510	\$8,679	5.87 %	
Investment securities	31,096	257	3.32	26,350	231	3.51	
Deposits in other banks	11,148	6	0.23	5,846	5	0.34	
FHLB stock	6,567	-	0.00	6,351	-	0.00	
Total interest-earning assets	653,741	8,673	5.32	630,057	8,915	5.66 %	
Non-interest-earning assets	35,907			22,596			
Total assets	\$ 689,648			\$ 652,653			
Interest Bearing Liabilities:							
Demand and NOW accounts	\$ 95,081	303	1.28	\$ 55,971	209	1.50	
Money market accounts	61,618	161	1.04	59,392	343	2.31	
Savings accounts	39,376	29	0.28	37,605	50	0.53	
Time deposits	306,442	2,341	3.04	297,431	2,912	3.92	
Total deposits	502,517	2,834	2.24	450,399	3,514	3.12	
FHLB borrowings	92,941	1,117	4.80	107,712	1,333	4.95	
Total interest-bearing liabilities	595,458	3,951	2.64	558,111	4,847	3.47	
Non-interest-bearing liabilities	24,642			24,238			
Total liabilities	620,100			582,349			
Shareholders' Equity	69,548			70,304			
Total liabilities and shareholders' equity	\$ 689,648			\$ 652,653			
Net interest-earning assets	\$ 58,283			\$ 71,946			
Net interest income; average interest rate spread		\$4,722	2.68 %		\$4,068	2.19 %	
Net interest margin (2)			2.89 %			2.58 %	
Average interest-earning assets to average interest-bearing liabilities	109.79 %			112.89 %			

(1) Includes non-accrual loans during the respective periods. Calculated net of deferred fees and discounts and allowance for loan losses.

(2) Equals net interest income divided by average interest-earning assets.

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Interest and Dividend Income. The Company's interest and dividend income decreased by \$242,000 in the three month period ended December 31, 2009 compared to the three month period ended December 31, 2008. Interest income earned decreased in the three months ended December 31, 2009 over the prior comparable period in fiscal 2009 due primarily to declining yields on loans and investment securities. During the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009, the average yield on the Company's loan portfolio decreased by 31 basis points to 5.56%. However, the average balance of loans receivable increased by \$13.4 million, or 2.3% in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009, due primarily to growth in the Company's commercial real estate loans and home equity line of credit loans. Average yields on investment securities decreased to 3.32% for the three months ended December 31, 2009 from 3.51% for the same period ended 2009. The average balances of investment securities increased by \$4.7 million during the three months ended December 31, 2009 compared to the comparable prior year period.

Interest Expense. The Company's interest expense for the three month period ended December 31, 2009 was \$4.0 million, a decrease of \$896,000 from the three month period ended December 31, 2008. The Company had a \$680,000 decrease in interest expense on total deposits and a \$216,000 decrease in interest on FHLB borrowings during the first quarter of fiscal 2010 compared to the first quarter in fiscal 2009. The average rate paid on deposits decreased to 2.24% for the three months ended December 31, 2009 from 3.12% for the same period in fiscal 2009, and the average rate paid on borrowed funds decreased to 4.80% in the first quarter of fiscal 2010 compared to 4.95% in the first quarter of fiscal 2009 due to the repayment of approximately \$15.0 million in relatively higher-costing long-term FHLB borrowings. During the remaining three quarters of fiscal 2010, an additional \$30.0 million of our FHLB advances, with a weighted average interest rate of 6.34%, are scheduled to mature.

Provision for Loan Losses. We have identified the evaluation of the allowance for loan losses as a critical accounting policy where amounts are sensitive to material variation. This policy is significantly affected by our judgment and uncertainties and there is likelihood that materially different amounts would be reported under different, but reasonably plausible, conditions or assumptions. Our activity in the provision for loan losses is undertaken in order to maintain a level of total allowance for losses that management believes covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. Our evaluation process typically includes, among other things, an analysis of delinquency trends, non-performing loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of our loans, the value of collateral securing the loan, the borrower's ability to repay and repayment performance, the number of loans requiring heightened management oversight, local economic conditions and industry experience. The establishment of the allowance for loan losses is significantly affected by management judgment and uncertainties and there is likelihood that different amounts would be reported under different conditions or assumptions. Various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to make additional provisions for estimated loan losses based upon judgments different from those of management.

The provision for loan losses was \$945,000 for the quarter ended December 31, 2009 compared to \$445,000 for the quarter ended December 31, 2008. The Company had approximately \$400,000 of net charge-offs to the allowance for loan losses in the three months ended December 31, 2009. At December 31, 2009 the Company's total non-performing loans amounted to \$18.9 million, or 3.18% of total loans, compared to \$14.3 million, or 2.40% of total loans at September 30, 2009, and \$7.5 million, or 1.27% of total loans, at December 31, 2008. The \$4.6 million increase in non-performing loans during the first quarter of fiscal year 2010 was due primarily to a \$3.8 million increase in non-performing single-family residential mortgage loans, a \$445,000 increase in non-performing multi-family residential mortgage loans and a \$176,000 increase in non-performing commercial real estate loans. At December 31, 2009, the Company's allowance for loan losses amounted to \$6.3 million or 33.22% of non-performing loans and

1.06% of total loans, compared to \$5.7 million or 40.05% of non-performing loans and 0.96% of total loans at September 30, 2009.

We will continue to monitor and modify our allowances for loan losses as conditions dictate. No assurances can be given that our level of allowance for loan losses will cover all of the inherent losses on our loans or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the economic and other conditions used by management to determine the current level of the allowance for loan losses.

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The following table sets forth an analysis of our allowance for loan losses for the periods indicated.

	For the Three Months Ended December 31,		For the Year Ended September 30,
	2009	2008	2009
	(Dollars in Thousands)		
Balance at beginning of period	\$ 5,718	\$ 5,505	\$ 5,505
Provision for loan losses	945	445	2,280
Charge-offs:			
Mortgage:			
One-to four-family	10	-	124
Multi-family	-	-	-
Commercial real estate	-	-	-
Construction or development	160	-	-
Land loans	-	-	-
Commercial:			
Real estate	-	1,152	1,760
Other	-	-	-
Consumer:			
Home equity lines of credit	168	-	-
Second mortgages	63	-	153
Other	-	-	60
Total charge-offs	401	1,152	2,097
Recoveries:			
Mortgage:			