MALVERN BANCORP, INC.
Form 10-Q
February 11, 2019

UNITED STATES OF AMERICA

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 Quarterly Period Ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 000-54835

MALVERN BANCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	45-5307782
(State or Other Jurisdiction of	(IRS Employer
Incorporation or Organization)	Identification No.)

42 Lancaster Avenue, Paoli, Pennsylvania 19301

(Address of Principal Executive Offices) (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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value $0.01:	7,774,594 shares
(Title of Class)	(Outstanding as of February 11, 2019)

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PART I – FINANCIAL INFORMATION

The following unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and, accordingly, do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal and recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended December 31, 2018 are not necessarily indicative of the results that may be expected for the full year ending September 30, 2019, or for any other interim period. The Malvern Bancorp, Inc. Annual Report on Form 10-K for the fiscal year ended September 30, 2018 should be read in conjunction with these financial statements.

Item 1. Financial Statements

MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	December 31, 2018	September 30, 2018
	(Dollars in thousands, except per share data)	
ASSETS		
Cash and due from depository institutions	$1,377	$1,563
Interest bearing deposits in depository institutions	98,499	29,271
Cash and Cash Equivalents	99,876	30,834
Investment securities available for sale, at fair value (amortized cost of $19,768 and $24,804, respectively)	19,231	24,298
Investment securities held to maturity (fair value of $28,557 and $28,968, respectively)	29,323	30,092
Restricted stock, at cost	9,493	8,537
Loans receivable, net of allowance for loan losses of $9,247 and $9,021, respectively	924,639	902,136
Other real estate owned	5,796	-
Accrued interest receivable	3,724	3,800
Property and equipment, net	7,067	7,181
Deferred income taxes	3,367	3,195
Bank-owned life insurance	19,524	19,403
Other assets	6,452	4,475
Total Assets	$1,128,492	$1,033,951
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Deposits-noninterest-bearing	39,734	41,677
Deposits-interest-bearing	803,466	732,486
Total Deposits	843,200	774,163
FHLB advances	118,000	118,000
Other short-term borrowings	-	2,500
Subordinated debt	24,500	24,461
Advances from borrowers for taxes and insurance	2,142	1,305
Accrued interest payable	1,251	784
Other liabilities	3,720	1,915

Total Liabilities	992,813	923,128
Commitments and Contingencies	-	-
Shareholders' Equity		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued	-	-
Common stock, $0.01 par value, 50,000,000 shares authorized, issued and outstanding: 7,774,594 at December 31, 2018 and 6,580,879 shares at September 30, 2018	78	66
Additional paid-in-capital	84,481	61,099
Retained earnings	52,423	50,412
Unearned Employee Stock Ownership Plan (ESOP) shares	(1,302)	(1,338)
Accumulated other comprehensive (loss) income	(1)	584
Total Shareholders' Equity	135,679	110,823
Total Liabilities and Shareholders' Equity	$1,128,492	$1,033,951

See accompanying notes to unaudited consolidated financial statements.

MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended December 31,	
	2018	2017
	(Dollars in thousands, except per share data)	
Interest and Dividend Income		
Loans, including fees	$10,095	$8,701
Investment securities, taxable	251	230
Investment securities, tax-exempt	61	65
Dividends, restricted stock	133	69
Interest-bearing cash accounts	372	446
Total Interest and Dividend Income	10,912	9,511
Interest Expense		
Deposits	2,944	2,155
Short-term borrowings	5	19
Long-term borrowings	633	563
Subordinated Debt	383	392
Total Interest Expense	3,965	3,129
Net Interest Income	6,947	6,382
Provision for Loan Losses	1,453	-
Net Interest Income after Provision for Loan losses	5,494	6,382
Other Income		
Service charges and other fees	940	271
Rental income - other	67	66
Net gains on sale of real estate	-	1,186
Net gains on sale of loans	18	67
Earnings on bank-owned life insurance	121	121
Total Other Income	1,146	1,711
Other Expenses		
Salaries and employee benefits	2,008	1,990
Occupancy expense	539	562
Federal deposit insurance premium	69	76
Advertising	30	54
Data processing	254	278
Professional fees	499	788
Other real estate owned expense, net	21	-
Other operating expenses	674	723
Total Other Expenses	4,094	4,471
Income before income tax expense	2,546	3,622
Income tax expense	535	3,219
Net Income	$2,011	$403

Earnings Per Common Share:		
Basic	$0.27	$0.06
Diluted	$0.27	$0.06
Weighted Average Common Shares Outstanding:		
Basic	7,555,810	6,445,264
Diluted	7,555,969	6,450,513

See accompanying notes to unaudited consolidated financial statements.

MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended December 31,	
	2018	2017
	(In thousands)	
Net Income	$2,011	$403
Other Comprehensive Income (Loss), Net of Tax:		
Unrealized holding losses on available-for-sale securities	(33)	(83)
Tax effect	7	25
Net of tax amount	(26)	(58)
Accretion of unrealized holding losses on securites transferred from available-for-sale to held-to-maturity	2	2
Tax effect	(1)	(1)
Net of tax amount	1	1
Fair value adjustments on derivatives	(710)	242
Tax effect	150	(23)
Net of tax amount	(560)	219
Total other comprehensive (loss), income	(585)	162
Total comprehensive income	$1,426	$565

See accompanying notes to unaudited consolidated financial statements.

MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(Dollars in thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, October 1, 2017	66	60,736	43,139	(1,483)	62	102,520
Net Income	-	-	403	-	-	403
Other comprehensive income	-	-	-	-	162	162
Committed to be released ESOP shares (3,600 shares)	-	60	-	36	-	96
Stock based compensation	-	15	-	-	-	15
Balance, December 31, 2017	66	60,811	43,542	(1,447)	224	103,196
Balance, October 1, 2018	66	61,099	50,412	(1,338)	584	110,823
Net Income	-	-	2,011	-	-	2,011
Other comprehensive loss	-	-	-	-	(585)	(585)
Stock issuance (net of issuance of proceeds of $25,000)	12	23,332	-	-	-	23,344
Committed to be released ESOP shares (3,600 shares)	-	36	-	36	-	72
Stock based compensation	-	14	-	-	-	14
Balance, December 31, 2018	$ 78	$ 84,481	$ 52,423	$ (1,302)	$ (1)	$ 135,679

See accompanying notes to unaudited consolidated financial statements.

MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended December 31,	
	2018	2017
	(In thousands)	
Cash Flows from Operating Activities		
Net income	$2,011	$403
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	191	187
Provision for loan losses	1,453	-
Deferred income tax (benefit) expense	(295)	2,849
ESOP expense	72	96
Stock based compensation	14	15
Amortization of premiums and discounts on investments securities, net	269	294
(Accretion) amortization of loan origination fees and costs	(192)	8
Amortization of mortgage servicing rights	10	13
Net gain on sale of real estate	-	(1,186)
Net gain on sale of secondary market loans	(18)	(67)
Proceeds from sale of secondary market loans	1,544	5,112
Originations of secondary market loans	(1,525)	(5,045)
Earnings on bank-owned life insurance	(121)	(121)
Decrease (increase) in accrued interest receivable	76	(205)
Increase in accrued interest payable	467	405
Increase in other liabilities	1,805	1,981
Increase in other assets	(2,419)	(367)
Amortization of subordinate debt	39	39
Net Cash Provided by Operating Activities	3,381	4,411
Cash Flows from Investing Activities		
Investment securities available-for-sale:		
Purchases	(5,000)	(30,140)
Sales	25	-
Maturities, calls and principal repayments	10,000	123
Investment securities held-to-maturity:		
Maturities, calls and principal repayments	512	747
(Loan originations) and principal collections, net	(29,560)	27,559
Net increase in restricted stock	(956)	(371)
Proceeds from sale of real estate	-	1,315
Purchase of property and equipment	(78)	(183)
Net Cash Used in Investing Activities	(25,057)	(950)
Cash Flows from Financing Activities		
Net increase in deposits	69,037	6,703

Proceeds for long-term borrowings	30,000	35,000
Repayment of long-term borrowings	(30,000)	(35,000)
Repayment of other borrowed money	(2,500)	-
Increase in advances from borrowers for taxes and insurance	837	1,342
Net proceeds from issuance of common stock	23,344	-
Net Cash Provided by Financing Activities	90,718	8,045
Net Increase in Cash and Cash Equivalents	69,042	11,506
Cash and Cash Equivalents - Beginning	30,834	117,136
Cash and Cash Equivalents - Ending	$99,876	$128,642
Supplemental Cash Flows Information		
Interest paid	$3,498	$2,724
Income taxes paid	$163	$-
Non-cash transfer to other real estate owned	$5,796	$-

See accompanying notes to unaudited consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – The Company

Malvern Bancorp, Inc. (the “Company” or “Malvern Bancorp”), a Pennsylvania corporation, is a registered bank holding company under the Bank Holding Company Act of 1956, as amended (the “Holding Company Act”). Malvern Bancorp is the holding company for Malvern Bank, National Association (“Malvern Bank” or the “Bank”), a national bank that was originally organized in 1887 as a federally-chartered savings bank. Malvern Bank now serves as one of the oldest banks headquartered on the Philadelphia Main Line. For more than a century, the Bank has been committed to helping people build prosperous communities as a trusted financial partner, forging lasting relationships through teamwork, respect and integrity. Effective February 12, 2018, the Bank converted from a federal savings bank charter to a national bank charter and Malvern Bancorp converted from a savings and loan holding company to a bank holding company. On October 9, 2018, the Company closed an underwritten public offering of shares of our common stock for gross proceeds of $25.0 million and net proceeds of approximately $23.3 million (after deducting the underwriting discount and other estimated offering expenses).

The Bank conducts business from its headquarters in Paoli, Pennsylvania, a suburb of Philadelphia, and through its nine other banking locations in Chester, Delaware and Bucks counties, Pennsylvania, Palm Beach Florida, and Morristown, New Jersey, its New Jersey regional headquarters. The Bank also maintains a representative office in Montchanin, Delaware. The Bank’s primary market niche is providing personalized service to its client base.

In preparing the unaudited consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the unaudited consolidated statements of condition and that affect the results of operations for the periods presented. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to change in the near term relate to the determination of the allowance for loan losses, other real estate owned, the evaluation of deferred tax assets, the other-than-temporary impairment evaluation of securities, and the valuation of derivative positions. The unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”).

Note 2 – Summary of Significant Accounting Policies

Basis of financial statement presentation. The unaudited condensed consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiary, Malvern Bank, National Association and the Bank’s wholly-owned subsidiary, Malvern Insurance Associates, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements present the Company’s financial position at December 31, 2018 and the results of operations for the three-month periods ended December 31, 2018 and 2017, and cash flows for the three-month periods ended December 31, 2018 and 2017. In management’s opinion, the unaudited condensed consolidated financial statements contain all adjustments, which include normal and recurring adjustments, necessary for a fair presentation of the financial position and results of operations as of the dates and for the interim periods presented. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and note disclosures included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on December 14, 2018. The consolidated statement of operations for the three- month periods ended December 31, 2018 and the consolidated statements of cash flows for the three-month periods ended December 31, 2018 are not necessarily indicative of the results of operations or cash flows for the full year ending September 30, 2019 or any other period.

There have been no significant changes to our Critical Accounting Policies as described in our 2018 Annual Report on Form 10-K.

Recently Issued Accounting Pronouncements

Financial. Instruments. In June 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied currently will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies, this ASU will be effective for interim and annual periods beginning after December 15, 2019. All entities may adopt the amendments in this Update earlier as of the fiscal year beginning after December 15, 2018, including interim periods within those fiscal years. The Company does not expect to early adopt these changes. The Bank has a software system in place to assist with the calculation of Current Expected Credit Losses ("CECL"). Data is being collected and refined and testing of the various models is in process. The Company is evaluating the impact of this new requirement to the consolidated financial statements.

Leases. In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The update requires lessees to recognize, as of the lease commencement date, assets and liabilities for all such leases with lease terms of more than 12 months, which is a change from the current GAAP requirement to recognize only capital leases on the balance sheet. Pursuant to the new standard, the liability initially recognized for the lease obligation is equal to the present value of the lease payments not yet made, discounted over the lease term at the implicit interest rate of the lease, if available, or otherwise at the lessee's incremental borrowing rate. The lessee is also required to recognize an asset for its right to use the underlying asset for the lease term, based on the liability subject to certain adjustments, such as for initial direct costs. Leases are required to be classified as either operating or finance, with expense on operating leases recorded as a single lease cost on a straight-line basis. For finance leases, interest expense on the lease liability is required to be recognized separately from the straight-line amortization of the right-of-use asset. Quantitative disclosures are required for certain items, including the cost of leases, the weighted-average remaining lease term, the weighted-average discount rate and a maturity analysis of lease liabilities. Additional qualitative disclosures are also required regarding the nature of the leases, such as basis, terms and conditions of: (i) variable interest payments; (ii) extension and termination options; and (iii) residual value guarantees. For lessors, the standard modifies classification criteria and accounting for sales- type and direct financing leases and requires a lessor to derecognize the carrying value of the leased asset that is considered to have been transferred to a lessee and record a lease receivable and residual asset ("receivable and residual" approach). This Update is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect to early adopt this standard. The new standard allows for a cumulative effect adjustment in the year of adoption by applying the new guidance as of the beginning of the earliest comparative period presented, using a modified retrospective transition approach with certain optional practical expedients. The Company is in the process of evaluating the impact of this guidance but expects to report higher assets and liabilities as a result of including additional leases on the consolidated statement of financial condition.

Note 3 – Non-Interest Income

On October 1, 2018, the Company adopted the amendments of ASU 2014-09 - Revenue from Contracts with Customers (Topic 606) and all subsequent ASUs that modified Topic 606. A significant amount of the Company's revenues is derived from net interest income on financial assets and liabilities, which are excluded from the scope of the amended guidance. Some sources of revenue included within non-interest income fall within the scope of Topic 606, while other sources do not. The Company recognizes revenue when the performance obligations related to the transfer of goods or services under the terms of the contract are satisfied. Some obligations are satisfied at a point in time while others are satisfied over a period of time. Revenue is recognized as the amount of consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. When consideration includes a variable component, the amount of consideration attributable to variability is included in the transaction price only to the extent it is probable that significant revenue recognized will not be reversed when uncertainty associated with the variable consideration is subsequently resolved. The Company's contracts generally do not contain terms that require significant judgement to determine the variability impacting the transaction price. The Company has included the following table regarding the Company's non-interest income for the periods presented.

	Three Months Ended December 31,	
	2018	2017
	(Dollars in thousands)	
Rental income - other	$67	$66
Net gains on sale of real estate	-	1,186
Net gains on sale of loans	18	67
Earnings on bank-owned life insurance	121	121
Non-interest income within the scope of other GAAP topics	206	1,440
ATM fees	1	4
Credit card fee income	6	6
DDA fee income	37	36
DDA service fees	19	18
Debit card fees	60	56
Other loan fee income	764	65
Other fee income	52	84

Other non-interest income	1	2
Non-interest income from contracts with customers	$940	$271
Total Non-interest Income	$1,146	$1,711

The majority of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans, investment securities, derivatives as well as revenue related to BOLI, sales of investment securities, rental income, and gain on sale of loans. Revenue-generating activities that are within the scope of ASC 606, which are presented in our statements of operations as components of other income included certain fees such as credit card fee income, DDA service and fee income, and debit card fees. The increase in other loan fee income is primarily due to the recognition of approximately $708,000 of net swap fees through the Bank's commercial loan hedging program.

Note 4 – 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. During the three months ended December 31, 2018, the Company granted 3,238 restricted shares , which are considered CSEs. The Company did not grant any stock options during the three months ended December 31, 2018.

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,	
	2018	2017
	(Dollars in thousands, except share and per share data)	
Net Income	$2,011	$403
Weighted average shares outstanding	7,668,751	6,572,605
Average unearned ESOP shares	(112,941)	(127,341)
Basic weighted average share outstanding	7,555,810	6,445,264
Plus: effect of potential dilutive common stock equivalents - stock options	159	5,249
Diluted weighted average common shares outstanding	7,555,969	6,450,513
Earnings per common share:		
Basic	$0.27	$0.06
Diluted	$0.27	$0.06

Note 5 – Employee Stock Ownership Plan

The Company established an employee stock ownership plan ("ESOP") for substantially all of its full-time employees. The current ESOP trustee is Pentegra. 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 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 Company's predecessor). 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 each of the three months ended December 31, 2018 and 2017, there were 3,600 shares committed to be released. At December 31, 2018, there were 111,165 unallocated shares and 148,053 allocated shares held by the ESOP. The unallocated shares had an aggregate fair value of approximately $2.2 million at December 31, 2018.

Note 6 - Investment Securities

The Company's investment securities are classified as available-for-sale or held-to-maturity at December 31, 2018 and at September 30, 2018. Investment securities available-for-sale are reported at fair value with unrealized gains or losses included in equity, net of tax. Accordingly, the carrying value of such securities reflects their fair value at the balance sheet date. Fair value is based upon either quoted market prices, or in certain cases where there is limited activity in the market for a particular instrument, assumptions are made to determine their fair value.

Transfers of debt securities from the available-for-sale category to the held-to-maturity category are made at fair value at the date of transfer. The unrealized holding gain or loss at the date of transfer remains in accumulated other comprehensive income and in the carrying value of the held-to-maturity investment security. Premiums or discounts on investment securities are amortized or accreted using the effective interest method over the life of the security as an adjustment of yield. Unrealized holding gains or losses that remain in accumulated other comprehensive income are amortized or accreted over the remaining life of the security as an adjustment of yield, offsetting the related amortization of the premium or accretion of the discount.

The following tables present information related to the Company's investment securities at December 31, 2018 and September 30, 2018.

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Investment Securities Available-for-Sale:				
State and municipal obligations	$6,944	$ 3	$ (14)	$6,933
Single issuer trust preferred security	1,000	-	(128)	872
Corporate debt securities	11,574	-	(398)	11,176
Mutual fund	250	-	-	250
Total	19,768	3	(540)	19,231
Investment Securities Held-to-Maturity:				
U.S. government agencies	$2,000	$ -	$ (14)	$1,986
State and municipal obligations	8,124	6	(27)	8,103
Corporate debt securities	3,689	-	(48)	3,641
Mortgage-backed securities:				
Collateralized mortgage obligations (CMO), fixed-rate	15,510	-	(683)	14,827
	29,323	6	(772)	28,557
Total investment securities	$49,091	$ 9	$ (1,312)	$47,788

	September 30, 2018			
	Amortized Cost	Gross Unrealized	Gross Unrealized	Fair Value

		Gains	Losses	
	(In thousands)			
Investment Securities Available-for-Sale:				
U.S. treasury notes	$9,996	$ -	$ (10)	$9,986
State and municipal obligations	6,953	-	(66)	6,887
Single issuer trust preferred security	1,000	-	(79)	921
Corporate debt securities	6,605	-	(351)	6,254
Mutual fund	250	-	-	250
Total	24,804	-	(506)	24,298
Investment Securities Held-to-Maturity:				
U.S. government agencies	$1,999	$ -	$ (20)	$1,979
State and municipal obligations	8,181	-	(66)	8,115
Corporate debt securities	3,715	-	(49)	3,666
Mortgage-backed securities:				
Collateralized mortgage obligations (CMO), fixed-rate	16,197	-	(989)	15,208
	$30,092	$ -	$ (1,124)	$28,968
Total investment securities	$54,896	$ -	$ (1,630)	$53,266

For the three months ended December 31, 2018 proceeds of available-for-sale investment securities sold amounted to approximately $25,000. There was no gain or loss with this sale. For the three months ended December 31, 2017, no available-for-sale investment securities were sold.

The following tables indicate gross unrealized losses not recognized in income and fair value, aggregated by investment category and the length of time individual securities have been in a continuous unrealized loss position at December 31, 2018 and September 30, 2018:

	December 31, 2018					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Investment Securities Available for Sale:						
State and municipal obligations	$1,635	$ (3)	$2,791	$ (11)	$4,426	$ (14)
Single issuer trust preferred security	-	-	872	(128)	872	(128)
Corporate debt securities	4,950	(25)	6,226	(373)	11,176	(398)
Total	$6,585	$ (28)	$9,889	$ (512)	$16,474	$ (540)
Investment Securities Held-to-Maturity:						
U.S. government agencies	$-	$ -	$1,986	$ (14)	$1,986	$ (14)
State and municipal obligations	1,860	(1)	5,077	(26)	6,937	(27)
Corporate debt securities	3,641	(48)	-	-	3,641	(48)
Mortgage-backed securities:						
CMO, fixed-rate	-	-	14,827	(683)	14,827	(683)
Total	$5,501	$ (49)	$21,890	$ (723)	$27,391	$ (772)
Total investment securities	$12,086	$ (77)	$31,779	$ (1,235)	$43,865	$ (1,312)

	September 30, 2018					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Investment Securities Available for Sale:						
U.S. treasury and notes	$9,986	$ (10)	$-	$ -	$9,986	$ (10)
State and municipal obligations	5,433	(56)	1,000	(10)	6,433	(66)
Single issuer trust preferred security	-	-	921	(79)	921	(79)
Corporate debt securities	-	-	6,254	(351)	6,254	(351)
Total	$15,419	$ (66)	$8,175	$ (440)	$23,594	$ (506)
Investment Securities Held-to-Maturity:						
U.S. government agencies	$-	$ -	$1,979	$ (20)	$1,979	$ (20)

State and municipal obligations	8,115	(66)	-	-	8,115	(66)
Corporate debt securities	3,666	(49)	-	-	3,666	(49)
Mortgage-backed securities:						
CMO, fixed-rate	127	(6)	15,081	(983)	15,208	(989)
Total	11,908	(121)	17,060	(1,003)	28,968	(1,124)
Total investment securities	$27,327	$ (187)	$25,235	$ (1,443)	$52,562	$ (1,630)

As of December 31, 2018, the estimated fair value of the securities disclosed above was primarily dependent upon the movement in market interest rates, particularly given the 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 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, 2018, the Company held two U.S. government agency securities, thirteen municipal bonds, five corporate securities, 37 mortgage-backed securities and one single issuer trust preferred security which were in an unrealized loss position. The Company does not intend to sell and expects that it is not more likely than not that it will 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, 2018 represents other-than-temporary impairment.

Investment securities having a carrying value of approximately $7.5 million and $17.9 million at December 31, 2018 and September 30, 2018, respectively were pledged to secure deposits. In addition, no investment securities were pledged to secure short-term borrowings at December 31, 2018. Investment securities having a carrying value of $3.1 million at September 30, 2018 were pledged to secure short-term borrowings.

The following table presents information for investment securities at December 31, 2018, based on scheduled maturities. Actual maturities can be expected to differ from scheduled maturities due to prepayment or early call options of the issuer.

	Amortized Cost	Fair Value
	(In thousands)	
Available-for-Sale:		
Within 1 year	$1,003	$1,000
Over 1 year through five years	8,337	8,170
After 5 years through ten years	9,973	9,606
Over 10 years	455	455
Total	$19,768	$19,231
Held-to-Maturity:		
Within 1 year	2,000	1,986
After 5 years through ten years	5,542	5,491
Over 10 years	6,271	6,253
Mortgage-backed securities:		
Collaterized mortgage obligations, fixed-rate	15,510	14,827
Total	$29,323	$28,557
Total investment securities	$49,091	$47,788

Note 7 - Loans Receivable and Related Allowance for Loan Losses

Loans receivable in the Company’s portfolio consisted of the following at the dates indicated below:

	December 31, 2018	September 30, 2018
Residential mortgage	$202,306	$197,219
Construction and Development:		
Residential and commercial	41,140	37,433
Land	7,180	9,221
Total Construction and Development	48,320	46,654
Commercial:		
Commercial real estate	508,448	493,929
Farmland	12,054	12,066
Multi-family	44,989	45,102
Other	84,236	80,059

Total Commercial	649,727	631,156
Consumer:		
Home equity lines of credit	14,484	14,884
Second mortgages	16,674	18,363
Other	1,915	2,315
Total Consumer	33,073	35,562
Total loans	933,426	910,591
Deferred loan fees and costs, net	460	566
Allowance for loan losses	(9,247)	(9,021)
Total loans receivable, net	$924,639	$902,136

The following tables summarize the primary classes of the allowance for loan losses ("ALLL"), segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2018 and September 30, 2018. Activity in the allowance is presented for the three months ended December 31, 2018 and 2017 and the year ended September 30, 2018, respectively.

		Construction and Development		Commercial				Consumer				
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Farmland	Multi-Family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
ance for loan	(Dollars in thousands)											
Months Ended nber 31, 8												
ning Balance	$1,062	$393	$49	$5,031	$66	$232	$467	$82	$326	$51	$1,262	$9,0
e-offs	(17)	-	-	(1,223)	-	-	-	-	-	(1)	-	(1,
eries	-	-	-	3	-	-	2	-	8	1	-	14
ions	119	46	(4)	1,533	(2)	42	(7)	(3)	57	(7)	(321)	1,4
g balance	$1,164	$439	$45	$5,344	$64	$274	$462	$79	$391	$44	$941	$9,2
g balance: dually evaluated mpairment	$-	$-	$-	$338	$-	$-	$-	$-	$179	$26	$-	$54
g balance: ively evaluted mpairment	$1,164	$439	$45	$5,006	$64	$274	$462	$79	$212	$18	$941	$8,7
receivable:												
g balance	$202,306	$41,140	$7,180	$508,448	$12,054	$44,989	$84,236	$14,484	$16,674	$1,915		$93
g balance: dually evaluated mpairment	$3,627	$-	$72	$10,349	$-	$-	$-	$34	$619	$26		$14,
g balance: ively evaluated mpairment	$198,679	$41,140	$7,108	$498,099	$12,054	$44,989	$84,236	$14,450	$16,055	$1,889		$91

		Construction and Development		Commercial				Consumer				
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Farmland	Multi-Family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
owance for n losses:	(Dollars in thousands)											
ee Months led December 017												
ginning ance	$1,004	$523	$132	$3,581	$9	$224	$541	$90	$402	$27	$1,872	$8,405
arge-offs	-	-	-	-	-	-	-	-	-	(2)	-	(2
coveries	2	-	-	9	-	-	1	1	19	2	-	34
visions	23	9	(2)	670	3	(24)	(93)	3	42	3	(634)	-
ling balance	$1,029	$532	$130	$4,260	$12	$200	$449	$94	$463	$30	$1,238	$8,437
ling balance: ividually luated or impairment	$-	$-	$-	$156	$-	$-	$-	$-	$156	$1	$-	$313
ling balance: ectively luted or impairment	$1,029	$532	$130	$4,104	$12	$200	$449	$94	$307	$29	$1,238	$8,124
ans receivable:												
ling balance	$186,831	$34,627	$18,599	$427,610	$1,711	$32,716	$71,933	$16,811	$21,304	$2,435		$814,5
ling balance: ividually luated or impairment	$2,438	$-	$89	$1,347	$-	$-	$239	$10	$578	$1		$4,702
ling balance: ectively luated or impairment	$184,393	$34,627	$18,510	$426,263	$1,711	$32,716	$71,694	$16,801	$20,726	$2,434		$809,8

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	Residential Mortgage	Construction and Development Residential and Commercial	Construction and Development Land	Commercial Real Estate	Commercial Farmland	Commercial Multi-Family	Commercial Other	Consumer Home Equity Lines of Credit	Consumer Second Mortgages	Consumer Other	Unallocated	Total
wance for loan es:	(Dollars in thousands)											
Ended ember 30,												
wance for t losses:												
nning Balance	$1,004	$523	$132	$3,581	$9	$224	$541	$90	$402	$27	$1,872	$8,40
ge-offs	(60)	-	-	(276)	-	-	(45)	-	(88)	(2)	-	(471
overies	58	-	-	11	-	-	4	1	52	7	-	133
isions	60	(130)	(83)	1,715	57	8	(33)	(9)	(40)	19	(610)	954
ng balance	$1,062	$393	$49	$5,031	$66	$232	$467	$82	$326	$51	$1,262	$9,02
ng balance: vidually uated impairment	$-	$-	$-	$1,448	$-	$-	$-	$-	$103	$26	$-	$1,57
ng balance: ctively uted impairment	$1,062	$393	$49	$3,583	$66	$232	$467	$82	$223	$25	$1,262	$7,44
s receivable:												
ng balance	$197,219	$37,433	$9,221	$493,929	$12,066	$45,102	$80,059	$14,884	$18,363	$2,315		$910,
ng balance: vidually uated impairment	$3,148	$-	$76	$17,409	$-	$-	$-	$34	$635	$26		$21,3
ng balance: ctively uated impairment	$194,071	$37,433	$9,145	$476,520	$12,066	$45,102	$80,059	$14,850	$17,728	$2,289		$889,

In assessing the adequacy of the ALLL, it is recognized that the process, methodology and underlying assumptions require a significant degree of judgment. The estimation of credit losses is not precise; the range of factors considered is wide and is significantly dependent upon management’s judgment, including the outlook and potential changes in the economic environment. At present, components of the commercial loan segments of the portfolio are new originations and the associated volumes continue to see increased growth. At the same time, historical loss levels have decreased as factors in assessing the portfolio. The combination of these factors has given rise to an increase in the unallocated level within the allowance. Any unallocated portion of the allowance in conjunction with the quarterly review and changes to the qualitative factors to adjust for the risk due to current economic conditions, reflects management's estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, regulatory requirements, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors.

The following table presents impaired loans in portfolio by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2018 and September 30, 2018.

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	(In thousands)				
December 31, 2018					
Residential mortgage	$ -	$ -	$ 3,627	$ 3,627	$ 3,782
Construction and Development:					
Land	-	-	72	72	72
Commercial:					
Commercial real estate	9,807	338	542	10,349	10,626
Consumer:					
Home equity lines of credit	-	-	34	34	35
Second mortgages	196	179	423	619	671
Other	26	26	-	26	26
Total impaired loans	$ 10,029	$ 543	$ 4,698	$ 14,727	$ 15,212
September 30, 2018					
Residential mortgage	$ -	$ -	$ 3,148	$ 3,148	$ 3,337
Construction and Development:					
Land	-	-	76	76	76
Commercial:					
Commercial real estate	16,343	1,448	1,066	17,409	17,685
Consumer:					
Home equity lines of credit	-	-	34	34	34
Second mortgages	120	103	515	635	730
Other	26	26	-	26	26
Total impaired loans	$ 16,489	$ 1,577	$ 4,839	$ 21,328	$ 21,888

The following table presents the average recorded investment in impaired loans in portfolio and related interest income recognized for the three months ended December 31, 2018 and 2017.

	Three Months Ended December 31, 2018	
	Average Impaired Loans	Interest Income Recognized on Impaired Loans
	(in thousands)	
Residential mortgage	$ 3,563	$ 27
Construction and Development:		
Land	73	1
Commercial:		
Commercial real estate	15,017	76
Consumer:		
Home equity lines of credit	45	-
Second mortgages	625	2
Other	26	-
Total	$ 19,349	$ 106

	Three Months Ended December 31, 2017	
	Average Impaired Loans	Interest Income Recognized on Impaired Loans
	(in thousands)	
Residential mortgage	$ 2,390	$ 12
Construction and Development:		
Land	91	1
Commercial:		
Commercial real estate	820	6
Other	241	3
Consumer:		
Home equity lines of credit	10	-
Second mortgages	495	2
Other	1	-
Total	$ 4,048	$ 24

The following table presents the classes of the loan portfolio summarized by loans considered to be rated as pass and the categories of special mention, substandard and doubtful within the Company's internal risk rating system as of December 31, 2018 and September 30, 2018.

	Pass	Special Mention	Substandard	Doubtful	Total
	(In thousands)				
December 31, 2018:					
Residential mortgage	$197,816	$ -	$ 4,490	$ -	$202,306
Construction and Development:					
Residential and commercial	41,140	-	-	-	41,140
Land	7,108	-	72	-	7,180
Commercial:					
Commercial real estate	495,225	1,549	11,674	-	508,448
Farmland	12,054	-	-	-	12,054
Multi-family	44,989	-	-	-	44,989
Other	84,086	-	150	-	84,236
Consumer:					
Home equity lines of credit	14,353	-	131	-	14,484
Second mortgages	15,700	101	873	-	16,674
Other	1,888	-	27	-	1,915
Total	$914,359	$ 1,650	$ 17,417	$ -	$933,426

	Pass (In thousands)	Special Mention	Substandard	Doubtful	Total
September 30, 2018:					
Residential mortgage	$193,584	$ -	$ 3,635	$ -	$197,219
Construction and Development:					
Residential and commercial	37,433	-	-	-	37,433
Land	9,146	-	75	-	9,221
Commercial:					
Commercial real estate	474,232	949	18,748	-	493,929
Farmland	12,066	-	-	-	12,066
Multi-family	45,102	-	-	-	45,102
Other	79,902	-	157	-	80,059
Consumer:					
Home equity lines of credit	14,707	-	177	-	14,884
Second mortgages	17,402	103	858	-	18,363
Other	2,289	-	26	-	2,315
Total	$885,863	$ 1,052	$ 23,676	$ -	$910,591

The following table presents loans that are no longer accruing interest by portfolio class.

	December 31, 2018	September 30, 2018
	(In thousands)	
Non-accrual loans:		
Residential mortgage	$1,783	$ 1,817
Commercial:		
Commercial real estate	520	520
Consumer:		
Home equity lines of credit	34	34
Second mortgages	199	290
Other	26	26
Total non-accrual loans	$2,562	$ 2,687

Under the Bank's loan policy, once a loan has been placed on non-accrual status, we do not resume interest accruals until the loan has been brought current and has maintained a current payment status for not less than six consecutive months. Interest income that would have been recognized on nonaccrual loans had they been current in accordance with their original terms was approximately $79,000 and $10,000 for the three months ended December 31, 2018 and 2017, respectively. At December 31, 2018 and September 30, 2018 there were approximately $759,000 and $374,000, respectively, of loans past due 90 days or more and still accruing interest. At December 31, 2018, $718,000 of loans past due 90 days or more and still accruing interest is attributed to one residential mortgage loan which is currently under 30 days delinquent for principal and interest due.

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by whether a loan payment is "current," that is, it is received from a borrower by the scheduled due date, or the length of time a scheduled payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories as of December 31, 2018 and September 30, 2018.

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days and More Past Due	Total Past Due	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
	(In thousands)						
December 31, 2018:							
Residential mortgage	$197,767	$2,334	$1,069	$1,137	4,540	$ 202,306	$ 719
Construction and Development:							
Residential and commercial	41,140	-	-	-	-	41,140	-

Land	7,180	-	-	-	-	7,180	-
Commercial:							
Commercial real estate	506,980	948	-	520	1,468	508,448	-
Farmland	12,054	-	-	-	-	12,054	-
Multi-family	44,989	-	-	-	-	44,989	-
Other	84,236	-	-	-	-	84,236	-
Consumer:							
Home equity lines of credit	14,284	69	97	34	200	14,484	-
Second mortgages	16,327	187	25	135	347	16,674	39
Other	1,886	2	-	26	28	1,915	1
Total	$926,843	$3,540	$1,191	$1,852	$6,583	$ 933,426	$ 759

	Current	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
	(In thousands)						
September 30, 2018:							
Residential mortgage	$193,727	$450	$1,016	$ 2,026	$3,492	$197,219	$ 339
Construction and Development:							
Residential and commercial	37,433	-	-	-	-	37,433	-
Land	9,221	-	-	-	-	9,221	-
Commercial:							
Commercial real estate	485,886	449	7,019	575	8,043	493,929	-
Farmland	12,066	-	-	-	-	12,066	
Multi-family	45,102	-	-	-	-	45,102	-
Other	80,059	-	-	-	-	80,059	-
Consumer:							
Home equity lines of credit	14,815	-	-	69	69	14,884	35
Second mortgages	17,928	121	103	211	434	18,363	-
Other	2,282	7	1	25	33	2,315	-
Total	$898,519	$1,027	$8,139	$ 2,906	$12,072	$910,591	$ 374

Restructured loans deemed to be trouble debt restructures ("TDRs") are typically the result of extension of the loan maturity date or a reduction of the interest rate of the loan to a rate that is below market, a combination of rate and maturity extension, or by other means including covenant modifications, forbearance and other concessions. However, the Company generally only restructures loans by modifying the payment structure to require payments of interest only for a specified period or by reducing the actual interest rate. Once a loan becomes a TDR, it will continue to be reported as a TDR during the term of the restructure.

The Company had twenty-two and eighteen loans classified as TDRs at December 31, 2018 and September 30, 2018, respectively, with an aggregate outstanding balance of $12.7 million and $18.9 million, respectively. At December 31, 2018, these loans were also classified as impaired. Eighteen of the TDR loans continue to perform under the restructured terms through December 31, 2018 and we continued to accrue interest on such loans through such date. As previously disclosed in the Company's Form 10-K filed on December 14, 2018, one TDR with an aggregate outstanding balance of approximately $7.0 million ceased to perform under modified terms and as a result the Company accepted a deed in lieu of foreclosure. During the quarter ended September 30, 2018, the Company established a specific reserve of approximately $1.3 million in its allowance for loan and lease losses as part of its quarterly credit review of the loan. The loan was performing under the terms of its modification agreement and had a letter of intent in place with an interested national tenant. During the quarter ended December 31, 2018, the Bank was alerted that the letter of intent fell through with a prospective national tenant. Subsequently, the loan was charged down by $1.2 million, to the appraised estimated fair market value less additional costs to sell the property, to a value of $5.8 million and transferred to other real estate owned. The Bank has engaged with a national real estate broker to list and market the property.

The Company had a $1.5 million provision for loan losses during the quarter ended December 31, 2018 compared to $125,000 for the quarter ended September 30, 2018. Provision expense was higher during the first quarter fiscal 2019 due primarily to the TDR commercial real estate loan write-down of approximately $1.2 million noted above and continued growth in the commercial loan portfolio during the quarter. At the same time the Company added a new qualitative factor, defined as Regulatory Oversight, to its allowance methodology to address the difference in the required allowance based on asset quality and the directionally consistent level of the allowance. Unique to the other factors, this is a single calculation figure which is subsequently applied to the loan portfolio by loan type (Commercial, Residential and Consumer) based upon the percent of each to total loans. It is derived from a review of a peer group consisting of 10 banks with similar asset size within the same general geographic area of Malvern Bank. This new factor amounted for an additional $390,000 added to the provision for the period.

Primarily, as a result of this transfer to other real estate owned, TDR loans at December 31, 2018 decreased by $6.2 million compared to September 30, 2018 and total non-performing assets at December 31, 2018 increased by $6.1 million compared to September 30, 2018.

All of such loans have been classified as TDRs since we modified the payment terms and in some cases interest rate from the original agreements and allowed the borrowers, who were experiencing financial difficulty, to make interest only payments for a period of time in order to relieve some of their overall cash flow burden. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and could result in potential incremental losses. These potential incremental losses have been factored into our overall estimate of the allowance for loan losses. The level of any defaults will likely be affected by future economic conditions. A default on a troubled debt restructured loan for purposes of this disclosure occurs when the borrower is 90 days past due or a foreclosure or repossession of the applicable collateral has occurred.

TDRs may arise in which, due to financial difficulties experienced by the borrower, the Company obtains through physical possession one or more collateral assets in satisfaction of all or part of an existing credit. Once possession is obtained, the Company reclassifies the appropriate portion of the remaining balance of the credit from loans to other real estate owned ("OREO"), which is included within other assets in the Consolidated Statements of Condition. For any residential real estate property collateralizing a consumer mortgage loan, the Company is considered to possess the related collateral only if legal title is obtained upon completion of foreclosure, or the borrower conveys all interest in the residential real estate property to the Company through completion of a deed in lieu of foreclosure or similar legal agreement. Excluding OREO, the Company had $2.1 million and $1.4 million of residential real estate properties in the process of foreclosure at December 31, 2018 and September 30, 2018, respectively.

	Total Troubled Debt Restructurings		Troubled Debt Restructured Loans That Have Defaulted on Modified Terms Within The Past 12 Months	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(Dollars in thousands)			
At December 31, 2018:				
Residential mortgage	14	$ 2,537	4	$ 500
Construction and Development:				
Land	1	72	-	-
Commercial:				
Commercial real estate	3	9,830	-	-
Consumer:				
Second mortgages	4	225	-	-
Total	22	$ 12,664	$ 4	$ 500
At September 30, 2018:				
Residential mortgage	10	$ 1,816	3	$ 289
Construction and Development:				
Land	1	76	-	-

Commercial:						
Commercial real estate	4		16,889	-		-
Consumer:						
Second mortgages	3		148	-		-
Total	18	$	18,929	3	$	289

The following table reports the performing status of all TDR loans. The performing status is determined by the loans compliance with the modified terms.

	December 31, 2018			September 30, 2018		
	Performing	Non-Performing		Performing	Non-Performing	
	(In thousands)					
Residential mortgage	$2,037	$	500	$1,527	$	289
Construction and Development:						
Land	72		-	76		-
Commercial:						
Commercial real estate	9,830		-	16,889		-
Consumer:						
Second mortgages	225		-	148		-
Total	$12,164	$	500	$18,640	$	289

The following table shows the new TDRs for the three months ended December 31, 2018 and 2017.

	For the Three Months Ended December 31,					
	2018			2017		
	Number of Contracts	Pre-Modifications Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modifications Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)					
Troubled Debt Restructurings:						
Residential mortgage	4	$ 732	$ 726	-	$ -	$ -
Consumer:						
Second mortgages	1	$ 80	$ 79	-	$ -	$ -
Total troubled debt restructurings	5	$ 812	$ 805	-	$ -	$ -

Note 8 - 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 corrective 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.

In July of 2013, the respective U.S. federal banking agencies issued final rules implementing Basel III and the Dodd-Frank Act capital requirements to be fully phased in on a global basis on January 1, 2019. The new regulations establish a new tangible common equity capital requirement, increase the minimum requirement for the current Tier 1 risk-weighted asset ("RWA") ratio, phase out certain kinds of intangibles treated as capital and certain types of instruments and change the risk weightings of certain assets used to determine required capital ratios. The new common equity Tier 1 capital component requires capital of the highest quality – predominantly composed of retained earnings and common stock instruments. For community banks such as Malvern Federal Savings Bank, a common equity Tier 1 capital ratio of 4.5% became effective on January 1, 2015. The new capital rules also increased the minimum Tier 1 capital ratio from 4.0% to 6.0% beginning on January 1, 2015. The rules also establish a capital conservation buffer of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and would result in the following minimum ratios: (1) a common equity Tier 1 capital ratio of 7.0%, (2) a Tier 1 capital ratio of 8.5%, and (3) a total capital ratio of 10.5%. The new capital conservation buffer requirement was phased in beginning in January 2017 at 0.625% of risk-weighted assets and increased by that amount each year until fully implemented in January 2019. An institution is also subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

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).

As of December 31, 2018, the Company's and the Bank's current capital levels exceed the required capital amounts to be considered "well capitalized" and we believe they also meet the fully-phased in minimum capital requirements, including the related capital conservation buffers, as required by the Basel III capital rules.

On October 9, 2018, the Company closed an underwritten public offering of shares of our common stock for gross proceeds of $25.0 million and net proceeds of approximately $23.3 million (after deducting the underwriting discount and other estimated offering expenses).

The following table summarizes the Company's compliance with applicable regulatory capital requirements as of December 31, 2018 and September 30, 2018:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018						
Tier 1 Leverage (Core) Capital (to adjusted assets)	$135,679	12.55 %	$ 43,246	4.00 %	$54,058	5.00 %
Common Equity Tier 1 Capital (to risk weighted assets)	135,679	14.61 %	41,793	4.50 %	60,368	6.50 %
Tier 1 Capital (to risk weighted assets)	135,679	14.61 %	55,724	6.00 %	74,299	8.00 %
Total Risk Based Capital (to risk weighted assets)	169,494	18.25 %	74,299	8.00 %	92,874	10.00 %
As of September 30, 2018						
Tier 1 Leverage (Core) Capital (to adjusted assets)	$110,239	10.63 %	$ 41,491	4.00 %	$51,864	5.00 %
Common Equity Tier 1 Capital (to risk weighted assets)	110,239	12.62 %	39,322	4.50 %	56,799	6.50 %
Tier 1 Capital (to risk weighted assets)	110,239	12.62 %	52,430	6.00 %	69,906	8.00 %
Total Risk Based Capital (to risk weighted assets)	143,787	16.45 %	69,906	8.00 %	87,383	10.00 %

The following table summarizes the Bank's compliance with applicable regulatory capital requirements as of December 31, 2018 and September 30, 2018:

	Actual	For Capital Adequacy Purposes	To be Well Capitalized

					Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018						
Tier 1 Leverage (Core) Capital (to adjusted assets)	$144,216	13.35 %	$43,219	4.00 %	$54,024	5.00 %
Common Equity Tier 1 Capital (to risk weighted assets)	144,216	15.54 %	41,752	4.50 %	60,308	6.50 %
Tier 1 Capital (to risk weighted assets)	144,216	15.54 %	55,670	6.00 %	74,225	8.00 %
Total Risk Based Capital (to risk weighted assets)	153,530	16.55 %	74,225	8.00 %	92,782	10.00 %
As of September 30, 2018						
Tier 1 Leverage (Core) Capital (to adjusted assets)	$131,746	12.71 %	$41,450	4.00 %	$51,812	5.00 %
Common Equity Tier 1 Capital (to risk weighted assets)	131,746	15.09 %	39,293	4.50 %	56,756	6.50 %
Tier 1 Capital (to risk weighted assets)	131,746	15.09 %	52,390	6.00 %	69,853	8.00 %
Total Risk Based Capital (to risk weighted assets)	140,833	16.13 %	69,853	8.00 %	87,317	10.00 %

Note 9 – Derivatives and Hedging Activities

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future uncertain cash amounts, the value of which are determined by interest rates.

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. At December 31, 2018, such derivatives were used to hedge the variable cash flows associated with FHLB advances.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next twelve months, the Company estimates approximately $381,000 to be reclassified to earnings in interest expense. The Company is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of twenty months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. These derivatives are not designated as hedges and are not speculative. Rather, these derivatives result from a service the Company provides to certain customers, which the Company implemented during the first quarter of fiscal 2019. As the interest rate swaps associated with this program do not meet the hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings.

The tables below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Statements of Financial Condition as of December 31, 2018 and September 30, 2018:

`	December 31, 2018					
	Asset derivatives			Liability derivatives		
	Notional Amount	Fair Value	Balance Sheet Location	Notional Amount	Fair Value	Balance Sheet Location
	(Dollars in thousand)					
Derivatives designated as a hedging instrument:						
Interest rate swap agreement	$35,000	$739	Other assets	$30,000	$204	Other liabilities

Derivatives not designated as a hedging instrument:						
Interest rate swap agreement	$25,350	$1,139	Other assets	$25,350	$1,140	Other liabilities

	September 30, 2018					
	Asset derivatives			Liability derivatives		
	Notional Amount	Fair Value	Balance Sheet Location	Notional Amount	Fair Value	Balance Sheet Location
	(Dollars in thousand)					
Derivatives designated as a hedging instrument:						
Interest rate swap agreement	$65,000	$1,245	Other assets	$ -	$ -	

The tables below presents the net gains (losses) recorded in accumulated other comprehensive income and the Consolidated Statements of Income relating to the cash flow derivative instruments for the three months ended December 31, 2018 and 2017.

	Three Months Ended December 31, 2018	
	Amount of Gain (Loss) Recognized in OCI on Derivative	Amount of Gain (Loss) Reclassified from OCI to Interest Income
	(Dollars in thousand)	
Interest rate swap agreements	$(639)	$ 71
Total derivatives	(639)	71

	Three Months Ended December 31, 2017	
	Amount of Gain (Loss) Recognized in OCI on Derivative	Amount of Gain (Loss) Reclassified from OCI to Interest Expense
	(Dollars in thousand)	
Interest rate swap agreements	$230	$ (13)
Total derivatives	230	(13)

The tables below present the effect of the Company's derivative financial instruments on the Consolidated Statements of Income for the quarter ended December 31, 2018 and December 31, 2017.

	Three Months Ended December 31, 2018		
	Consolidated Statement of Income (Dollars in thousand)	Amount of Gain (Loss) Recognized in Income on derivatives	
Derivatives not designated as a hedging instrument:			
Interest rate swap agreement	Other income	$	(1)
Total		$	(1)

	Three Months Ended December 31, 2017		
	Consolidated Statement of Income (Dollars in thousand)	Amount of Gain (Loss) Recognized in Income on derivatives	
Derivatives not designated as a hedging instrument:			
Interest rate swap agreement		$	-
Total		$	-

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

At December 31, 2018 and September 30, 2018, the fair value of derivatives was in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements. There were no adjustments for nonperformance risk at December 31, 2018 and September 30, 2018. At December 31, 2018 and September 30, 2018, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of zero for both periods, respectively, against its obligations under these agreements. If the Company had breached any of these provisions at December 31, 2018, it could have been required to settle its obligations under the agreements at the termination value and would have been required to pay any additional amounts due in excess of amounts previously posted as collateral with the respective counterparty.

Note 10 - Fair Value Measurements

The Company follows FASB ASC Topic 820 “Fair Value Measurement,” to record fair value adjustments to certain assets and to determine fair value disclosures for the Company’s financial instruments. 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.

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.

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.

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 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, could significantly affect the results of current or future valuations.

The Company monitors and evaluates available data to perform fair value measurements on an ongoing basis and recognizes transfers among the levels of the fair value hierarchy as of the date event or a change in circumstances that affects the valuation method chosen. There were no changes in valuation technique or transfers between levels at December 31, 2018 or September 30, 2018.

The tables below present the balances of assets measured at fair value on a recurring basis at December 31, 2018 and September 30, 2018:

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Assets:				
Investment securities available for sale:				
Debt securities:				
State and municipal obligations	$6,933	$ -	$6,933	$-
Single issuer trust preferred security	872	-	872	-
Corporate debt securities	11,176	-	11,176	-
Mutual funds	250	-	-	250
Total investment securities available for sale	$19,231	$ -	$18,981	$250
Derivative instruments	$1,878	$ -	$1,878	$-
Liabilities:				
Derivative instruments	$1,344	$ -	$1,344	$-

	September 30, 2018			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Assets:				
Investment securities available for sale:				
Debt securities:				
U.S. treasury notes	$9,986	$9,986	$-	$-
State and municipal obligations	6,887	-	6,887	-
Single issuer trust preferred security	921	-	921	-
Corporate debt securities	6,254	-	6,254	-
Mutual funds	250	-	-	250
Total investment securities available for sale	$24,298	$9,986	$14,062	$250
Derivative instruments	$1,245	$-	$1,245	$-

For assets measured at fair value on a nonrecurring basis that were still held at the end of the period, the following tables provide the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at December 31, 2018 and September 30, 2018:

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Other real estate owned	$5,796	$ -	$ -	$5,796

Impaired loans[1]	9,486	-	-	9,486
Total	$15,282	$ -	$ -	$15,282

	December 31, 2018 Fair Value at December 31, 2018			Range/(Weighted Average)
	(In thousands)	Valuation Technique	Unobservable Input	
Other real estate owned	$5,796	Appraisal of Collateral(2)	Collateral discount(3)	0%/(0%)
Impaired loans[1]	9,486	Appraisal of Collateral(2)	Collateral discount(3)	8.5%-12%/(9.1%)
Total	$15,282			

(1) At December 31, 2018, consisted of nine loans with an aggregate balance of $10.0 million and with $543,000 in specific loan loss allowance.
(2) Fair value is generally determined through independent appraisals of the underlying collateral primarily using comparable sales.
(3) Appraisals may be adjusted by management for qualitative factors such as time, changes in economic conditions and estimated liquidation expense.

	September 30, 2018			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Impaired loans(1)	$15,611	$ -	$ -	$15,611
Total	$15,611	$ -	$ -	$15,611

	September 30, 2018			
	Fair Value at September 30, 2018	Valuation Technique	Unobservable Input	Range/(Weighted Average)
	(In thousands)			
Impaired loans(1)	$15,611	Appraisal of Collateral(2)	Collateral discount(3)	8%-12%/(7.9%)
Total	$15,611			

(1) At September 30, 2018, there were twelve loans with an aggregate balance of $17.2 million and with $1.6 million in specific loan loss allowance.
(2) Fair value is generally determined through independent appraisals of the underlying collateral primarily using comparable sales.
(3) Appraisals may be adjusted by management for qualitative factors such as time, changes in economic conditions and estimated liquidation expense.

At December 31, 2018 and September 30, 2018, the Company did not have any additions to our mortgage servicing assets. At December 31, 2018 and September 30, 2018, the Company only sold loans with servicing released.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of FASB ASC 825. 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.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2018 and September 30, 2018. 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, 2018 and September 30, 2018 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 Securities—Investment and mortgage-backed securities available for sale (carried at fair value) 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 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.

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 loans is estimated by discounting contractual cash flows using discount rates based on current industry pricing, adjusted for prepayment and credit loss estimates.

Impaired Loans—Impaired loans are valued utilizing independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments to comparable assets based on the appraisers' market knowledge and experience. The appraisals are adjusted downward by management, as necessary, for changes in relevant valuation factors subsequent to the appraisal date and are considered level 3 inputs.

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.

Other Real Estate Owned—Assets acquired through foreclosure or deed in lieu of foreclosure are recorded at estimated fair value less estimated selling costs when acquired, thus establishing a new cost basis. Fair value is generally based on independent appraisals. These appraisals include adjustments to comparable assets based on the appraisers' market knowledge and experience, and are considered level 3 inputs. When an asset is acquired, the excess of the loan balance over fair value, less estimated selling costs, is charged to the allowance for loan losses. If the estimated fair value of the asset declines, a write-down is recorded through expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of, among other factors, changes in the economic conditions.

Deposits—Deposit liabilities are carried at cost. As such, valuation techniques discussed herein for deposits 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.

Borrowings—Advances from the FHLB are carried at amortized cost. However, we are required to estimate the fair value of long-term 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.

Subordinated Debt—The calculation of fair value in level 2 is based on observable market values where available.

Derivatives— The fair value of derivatives are based on valuation models using observable market data as of the measurement date (level 2). Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rate, and volatility factors to value the position. The majority of market inputs is actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

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 Company's commitments to extend credit and letters of credit carry current market interest rates if converted to loans and are not included in the table below. 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 Company 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.

The carrying amount and estimated fair value of the Company's financial instruments as of December 31, 2018 and September 30, 2018 are presented below:

	December 31, 2018				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(In thousands)				
Financial assets:					
Cash and cash equivalents	$99,876	$99,876	$99,876	$-	$-
Investment securities available for sale	19,231	19,231	-	18,981	250
Investment securities held to maturity	29,323	28,557	-	28,557	-
Loans receivable, net (including impaired loans)	924,639	921,891	-	-	921,891
Accrued interest receivable	3,724	3,724	-	3,724	-
Restricted stock	9,493	9,493	-	9,493	-
Mortgage servicing rights (included in Other Assets)	213	241	-	241	-
Derivatives (included in Other Assets)	1,878	1,878	-	1,878	
Financial liabilities:					
Savings accounts	44,438	44,438	-	44,438	-
Checking and NOW accounts	300,759	300,759	-	300,759	-
Money market accounts	253,436	253,436	-	253,436	-
Certificates of deposit	244,567	245,770	-	245,770	-
Borrowings (excluding sub debt)	118,000	118,074	-	118,074	-
Subordinated debt	24,500	24,500	-	24,500	-
Derivatives (included in Other Liabilities)	1,344	1,344	-	1,344	-
Accrued interest payable	1,251	1,251	-	1,251	-

	September 30, 2018				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(In thousands)				
Financial assets:					
Cash and cash equivalents	$30,834	$30,834	$30,834	$-	$-
Investment securities available for sale	24,298	24,298	9,986	14,062	250
Investment securities held to maturity	30,092	28,968	-	28,968	-
Loans receivable, net (including impaired loans)	902,136	893,520	-	-	893,520
Accrued interest receivable	3,800	3,800	-	3,800	-
Restricted stock	8,537	8,537	-	8,537	-
Mortgage servicing rights (included in Other Assets)	223	268	-	268	-
Derivatives (included in Other Assets)	1,245	1,245	-	1,245	
Financial liabilities:					
Savings accounts	44,642	44,642	-	44,642	-
Checking and NOW accounts	225,750	225,750	-	225,750	-
Money market accounts	270,834	270,834	-	270,834	-
Certificates of deposit	232,937	234,398	-	234,398	-
Borrowings (excluding sub debt)	120,500	120,420	-	120,420	-
Subordinated debt	24,461	24,461	-	24,461	-
Accrued interest payable	784	784	-	784	-

Note 11 – Income Taxes

In the fiscal first quarter of 2018, the Company revised its estimated annual effective rate to reflect a change in the federal statutory rate from 35% to 21%, resulting from legislation that was enacted on December 22, 2017. The rate change was administratively effective at the beginning of our calendar year, using a blended rate for the annual period. As a result, the blended statutory tax rate for the year was 24.5%. The provisional amount recorded in the first quarter of fiscal 2018 is related to the re-measurement of our deferred tax asset was $2.3 million, and no further adjustments were made.

A reconciliation from the expected federal income tax expense computed at the statutory federal income tax rate to the actual income tax expense included in the consolidated statements of income for the three months ended December 31, 2018 and 2017 is as follows:

:

	Three Months Ended December 31,		
	2018		2017
	(In thousands)		
Tax at statutory rate	$535	21.0%	