MALVERN BANCORP, INC.
Form 10-K
December 26, 2012

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

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended: September 30, 2012

or

o 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 (State or Other Jurisdiction of Incorporation or Organization)	45-5307782 (I.R.S. Employer Identification Number)
42 E. Lancaster Avenue, Paoli, Pennsylvania (Address of Principal Executive Offices)	19301 (Zip Code)

Registrant's telephone number, including area code: (610) 644-9400

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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value per share	The NASDAQ Stock Market, LLC

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES o NO x

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 x NO o

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 x NO o

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

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	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x

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

The aggregate market value of the 2,259,947 shares of the common stock of Malvern Federal Bancorp, Inc. (the predecessor to the Registrant), held by non-affiliates, based upon the closing price of $7.75 for the common stock on March 31, 2012, reported by the NASDAQ Stock Market, was approximately $17.5 million. Shares of common stock held by Malvern Federal Mutual Holding Company and its executive officers, directors and certain benefit plans have been excluded since such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the Issuer's common stock, par value $0.01 per share, outstanding as of December 21, 2012 was 6,558,473.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2013 Annual Meeting of Shareholders are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

MALVERN BANCORP, INC.
2012 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business	1
Item 1A.	Risk Factors	44
Item 1B.	Unresolved Staff Comments	48
Item 2.	Properties	49
Item 3.	Legal Proceedings	50
Item 4.	Mine Safety Disclosures	50
	PART II	
Item 5.	Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	50
Item 6.	Selected Financial Data	51
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	52
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	68
Item 8.	Financial Statements and Supplementary Data	69
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	123
Item 9A	Controls and Procedures	123
Item 9B.	Other Information	123
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	124
Item 11.	Executive Compensation	124
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	124

Item 13.	Certain Relationships and Related Transactions, and Director Independence	124
Item 14.	Principal Accounting Fees and Services	124
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	124
SIGNATURES		127

Table of Contents

Forward-Looking Statements

This Annual Report on Form 10-K contains certain forward looking statements (as defined in the Securities Exchange Act of 1934 and the regulations hereunder). Forward looking statements are not historical facts but instead represent only the beliefs, expectations or opinions of Malvern 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 future or condit terms such as "will," "would," "should," "could," "may," "likely," "probably," or "possibly." Forward looking statements inc 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 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 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 Bancorp, Inc. will be engaged. Malvern 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.

PART I

Item 1. Business.

General

On October 11, 2012, Malvern Bancorp, Inc. (the "Company" or "Malvern Bancorp-New") completed the "second-step" conversion of the Bank from the mutual holding company structure to the stock holding company structure pursuant to a Plan of Conversion and Reorganization. Upon completion of the conversion and reorganization, Malvern Bancorp-New, a Pennsylvania company, became the holding company for Malvern Federal Savings Bank ("Malvern Federal Savings" or the "Bank") and owns all of the issued and outstanding shares of the Bank's common stock. In connection with the conversion and reorganization, 3,636,875 shares of common stock, par value $0.01 per share, of the Malvern Bancorp-New, were sold in a subscription offering to certain depositors of the Bank and other investors for $10 per share, or $36.4 million in the aggregate, and 2,921,598 shares of common stock were issued in exchange for the outstanding shares of common stock of the former federally chartered mid-tier holding company for the Bank, Malvern Federal Bancorp, Inc. (the "Mid-Tier Holding Company") held by the "public" shareholders of the Mid-Tier Holding Company (all shareholders except Malvern Federal Mutual Holding Company). Each share of common stock of the Mid-Tier Holding Company was converted into the right to receive 1.0748 shares of common stock of the Malvern Bancorp-New in the conversion and reorganization. As a result of the stock offering and reorganization, the Company had $56.7 million of subscriptions, which were held in a deposit escrow account at the Bank, at September 30, 2012. Upon completion of the stock offering and the exchange, 6,558,473 shares of Malvern Bancorp-New common stock were issued and outstanding.

The Company is a Pennsylvania chartered corporation which owns all of the issued and outstanding shares of the Bank's common stock, the only equity securities which the Bank has issued. While the Company is authorized to

pursue all activities permitted by applicable laws and regulations for savings and loan holding companies, the Company's only business activity to date has been holding all of the outstanding common stock of Malvern Federal Savings. The Company 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 also are officers of Malvern Federal Savings to serve as officers of the Company. The Company also uses the Bank's support staff from time to time. These persons are not separately compensated by the Company.

Table of Contents

The Company is the successor to the Mid-Tier Holding Company and references to Malvern Bancorp-New or the Company include reference to the Mid-Tier Holding Company where applicable.

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 eight full service financial center offices.

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 Federal Home Loan Bank ("FHLB") of Pittsburgh. 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, provisions for loan losses, 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.

Prior to July 2011, the Bank, the Mid-Tier Holding Company and the Mutual Holding Company were regulated by the Office of Thrift Supervision (the "OTS"). As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the OTS was eliminated and, as of July 21, 2011, the regulatory oversight functions and authority of the OTS related to the Bank were transferred to the Office of the Comptroller of the Currency (the "OCC") and the regulatory oversight functions and authority of the OTS related to the Mid-Tier Holding Company and Mutual Holding Company, which were savings and loan holding companies, and now the Company, as the new savings and loan holding company for the Bank, were transferred to the Board of Governors of the Federal Reserve System (the "Federal Reserve Board" or the "FRB"). See "–Regulation - General" and "–Regulation - Recently Enacted Regulatory Reform."

The Bank is an active originator of residential home mortgage loans in our market area. Historically, Malvern Federal Savings was a traditional thrift institution which emphasized the origination of loans secured by one-to four-family, or "single-family" residential real estate located in its market area. Approximately eight years ago, we decided to focus on increasing our originations of loans secured by non-residential or commercial real estate loans as well as construction and development loans and home equity loans and lines of credit. Such loans are deemed attractive due to their generally higher yields and shorter anticipated lives compared to single-family residential mortgage loans. However, commercial real estate loans, construction and development loans and home equity loans and lines of credit are all deemed to have a higher risk of default than single-family residential mortgage loans.

The increase in our non-performing assets and in light of the increased risk represented by commercial real estate loans and construction and developments loans, we generally ceased originating any new construction and development loans in October 2009, with certain exceptions, and we ceased originating new commercial real estate loans in August 2010. In October 2010, the Mid-Tier Holding Company, the Bank and the Mutual Holding Company entered into Supervisory Agreements (the "Supervisory Agreement(s)") with the OTS. As discussed above, the regulatory functions of the OTS have been transferred to the OCC, in the case of the Bank, and the FRB in the case of the Company. Among other things, the terms of the Supervisory Agreements which remain in effect:

prohibit us from making or acquiring any new commercial real estate loans and/or commercial and industrial loans without the prior written non-objection of the OCC;

required us to develop a plan to reduce our problem assets;

2

Table of Contents

required us to develop enhanced policies and procedures for identifying, monitoring and controlling the risk associated with concentrations of commercial real estate loans;

required that an independent third party undertake reviews of our commercial real estate loans, construction and development loans, multi-family residential mortgage loans and commercial loans not less than once every six months; and

prohibit the Company from declaring or paying dividends or making any other capital distributions, such as repurchases of common stock, without the prior written approval of the FRB.

In addition, as a result of the Supervisory Agreements, Malvern Federal Savings is subject to certain additional restrictions pursuant to regulations of the OTS, including the following:

the Bank must limit its asset growth in any quarter to an amount which does not exceed the net interest credited on deposit liabilities during the quarter, unless otherwise permitted by the OCC (and, previously, the OTS);

the Bank is required to provide the OCC (and, previously, the OTS) with prior notice of any new director or senior executive officer; and

the Bank may not enter into, renew, extend or revise any contractual arrangements related to compensation or benefits with any director or officer without receiving prior written non-objection from the OCC (and, previously, the OTS).

For additional information, see “- Regulation – The Supervisory Agreements.”

Our headquarters is located at 42 East Lancaster Avenue, Paoli, Pennsylvania, and our telephone number is (610) 644-9400. We maintain a website at www.malvernfederal.com and we provide our customers with on-line banking and telephone banking services. The Company’s annual reports on Form 10-K, quarterly reports on Form10-Q, current reports on Form 8-K and other documents filed by the Company with the Securities and Exchange Commission (“SEC”) are available free of charge on the Company’s website under the Investor Relations menu. Such documents are available on the Company’s website as soon as reasonably practicable after they have been filed electronically with the SEC. The information presented on our website, currently and in the future, is not considered to be part of this document, or any document, incorporated by reference in this document.

Market Area and Competition

We conduct business from our corporate headquarters in Paoli, Pennsylvania, seven financial center offices located in Chester County, Pennsylvania and one financial center office in Delaware County, Pennsylvania. Our headquarters office is in Paoli, Pennsylvania, approximately 25 miles west of the City of Philadelphia. In addition to Chester County, our lending efforts are focused in neighboring Montgomery County and Delaware County, both of which are also in southeastern Pennsylvania. To a lesser extent, we provide services to other areas in the greater Philadelphia market area.

We face significant competition in originating loans and attracting deposits. This competition stems primarily from commercial banks, other savings banks and savings associations and mortgage-banking companies. Within our market area, we estimate that more than 73 other banks, credit unions and savings institutions are operating. There are several larger commercial banks which have a significant presence in our market area including Wells Fargo Bank, PNC Financial, TD Bank and Susquehanna Bank. We face additional competition for deposits from short-term money market funds and other corporate and government securities funds, mutual funds and from other

non-depository financial institutions such as brokerage firms and insurance companies.

Table of Contents

Lending Activities

General. At September 30, 2012, our net loan portfolio totaled $457.0 million or 64.2% of total assets. Historically, our principal lending activity has been the origination of loans collateralized by one- to four-family, also known as "single-family" residential real estate loans located in our market area. In light of the increased levels of our non-performing and problem assets, we have taken certain actions, commencing in the fiscal year ended September 30, 2010, in an effort to strengthen and enhance our loan underwriting policies and procedures and our loan administration and oversight policies and procedures. We have revised both our consumer loan policy and our commercial loan policy to strengthen certain of our minimum loan-to-value ("LTV") ratios, maximum gross debt ratios and minimum debt coverage ratio policy requirements. We have invested in and implemented software which facilitates our ability to internally review and grade loans in our portfolio and to monitor loan performance. During the fiscal year ended September 30, 2011, we established a Credit Review Department. The primary focus of the Credit Review Department to date has been the resolution of our non-performing and other problem assets. However, the Credit Review Department also participates in the loan underwriting and credit administration function. Our Chief Credit Officer, who heads the Credit Review Department, also is the Chairman of the Malvern Federal Savings Bank Loan Committee. In addition, due to the increased risk associated with such loans, during fiscal 2010, we discontinued, with certain exceptions, the origination of any new commercial real estate loans and construction and development loans. Pursuant to the terms of the Supervisory Agreement, we may not make, invest in or purchase any new commercial real estate loans and/or commercial and industrial loans without the prior written non-objection of the OCC, other than with respect to any refinancing, extension or modification of an existing commercial real estate or commercial and industrial loan where no new funds are advanced. With respect to our consumer loans, which consist primarily of home equity lines of credit and second mortgage loans, we also have ceased offering certain products which we deemed to be of higher risk, including second mortgage loans on non-owner occupied or investment properties, second mortgage "bullet" loans, which were amortized over 30 years but had a 15 year term, and no income/no asset ("NINA") loans.

The types of loans that we originate are subject to federal and state law and regulations. Interest rates charged by us on loans are affected principally by the demand for such loans and the supply of money available for lending purposes and the rates offered by our competitors. These factors are, in turn, affected by general and economic conditions, the monetary policy of the federal government, including the Federal Reserve Board, legislative tax policies and governmental budgetary matters.

Table of Contents

Loan Portfolio Composition. The following table shows the composition of our loan portfolio by type of loan at the dates indicated.

	September 30,									
	2012		2011		2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percen
	(Dollars in thousands)									
Residential mortgage	$231,803	50.2 %	$229,330	44.7 %	$230,966	41.8 %	$252,308	42.4 %	$248,118	43.3
Construction and Development:										
Residential and commercial	20,500	4.4	26,005	5.0	30,429	5.5	37,508	6.3	45,451	7.9
Land loans	632	0.1	2,722	0.6	2,989	0.6	3,237	0.6	4,530	0.8
Total construction and development loans	21,132	4.5	28,727	5.6	33,418	6.1	40,745	6.9	49,981	8.7
Commercial:										
Commercial real estate	112,199	24.3	131,225	25.5	143,095	25.9	142,863	24.0	138,522	24.2
Multi-family	2,087	0.5	5,507	1.1	6,493	1.2	9,613	1.6	1,906	0.3
Other	7,517	1.6	10,992	2.1	11,398	2.1	15,647	2.6	17,260	3.0
Total commercial loans	121,803	26.4	147,724	28.7	160,986	29.2	168,123	28.2	157,688	27.5
Consumer:										
Home equity lines of credit	20,959	4.5	20,735	4.0	19,927	3.6	19,149	3.2	12,393	2.2
Second mortgages	65,703	14.2	85,881	16.8	105,825	19.1	113,943	19.1	103,741	18.1
Other	762	0.2	788	0.2	1,086	0.2	1,143	0.2	1,304	0.2
Total consumer loans	87,424	18.9	107,404	21.0	126,838	22.9	134,235	22.5	117,438	20.5
Total loans	462,162	100.0%	513,185	100.0%	552,208	100.0%	595,411	100.0%	573,225	100.(
Deferred loan costs net	2,420		2,935		3,272		3,872		3,816	
Allowance for loan losses	(7,581)		(10,101)		(8,157)		(5,718)		(5,505)	
Loans receivable, net	$457,001		$506,019		$547,323		$593,565		$571,536	

Table of Contents

The following table shows the composition of our loan portfolio by fixed- and adjustable-rate at the dates indicated.

	September 30,								
	2012		2011		2010		2009		2
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amoun
	(Dollars in thousands)								
Fixed-Rate Loans:									
Residential mortgage	$215,599	46.7 %	$211,405	41.2 %	$201,285	36.4 %	$227,712	38.2 %	$218,21
Construction and Development:									
Residential and commercial	3,245	0.7	4,250	0.8	968	0.2	5,382	0.9	4,505
Land loans	--	--	1,376	0.3	1,312	0.3	1,558	0.3	1,575
Total fixed-rate construction and development loans	3,245	0.7	5,626	1.1	2,280	0.5	6,940	1.2	6,080
Commercial:									
Commercial real estate	38,041	8.2	40,231	7.8	40,833	7.4	56,126	9.4	52,406
Multi-family	1,671	0.4	932	0.2	950	0.2	3,519	0.6	--
Other	1,442	0.3	1,643	0.3	1,733	0.3	3,798	0.6	4,441
Total fixed-rate commercial loans	41,154	8.9	42,806	8.3	43,516	7.9	63,443	10.6	56,847
Consumer:									
Home equity lines of credit	--	--	--	--	--	--	--	--	--
Second mortgages	65,671	14.2	85,881	16.8	105,825	19.1	113,943	19.1	103,74
Other	470	0.1	552	0.1	822	0.1	867	0.2	960
Total fixed-rate consumer loans	66,141	14.3	86,433	16.9	106,647	19.2	114,810	19.3	104,70
Total fixed-rate loans	$326,139	70.6	$346,270	67.5	$353,728	64.0	$412,905	69.3	$385,84
Adjustable-Rate Loans:									
Residential mortgage	$16,204	3.5 %	$17,925	3.5 %	$29,681	5.4 %	$24,596	4.1 %	$29,904
Construction and Development:									
Residential and commercial	17,255	3.7	21,755	4.2	29,461	5.3	32,126	5.4	40,946
Land loans	632	0.1	1,346	0.3	1,677	0.3	1,679	0.3	2,955
Total adjustable-rate construction and development loans	17,887	3.8	23,101	4.5	31,138	5.6	33,805	5.7	43,901
Commercial:									
Commercial real estate	74,158	16.1	90,994	17.7	102,262	18.5	86,737	14.6	86,116
Multi-family	416	0.1	4,575	0.9	5,543	1.0	6,094	1.0	1,906
Other	6,075	1.3	9,349	1.8	9,665	1.8	11,849	2.0	12,819
Total adjustable-rate commercial loans	80,649	17.5	104,918	20.4	117,470	21.3	104,680	17.6	100,84
Consumer:									
Home equity lines of credit	20,959	4.5	20,735	4.0	19,927	3.6	19,149	3.2	12,393
Second mortgages	32	--	--	--	--	--	--	--	--
Other	292	0.1	236	0.1	264	0.1	276	0.1	344
Total adjustable-rate consumer loans	21,283	4.6	20,971	4.1	20,191	3.7	19,425	3.3	12,737
Total adjustable-rate loans	$136,023	29.4 %	$166,915	32.5 %	$198,480	36.0 %	$182,506	30.7 %	$187,38
Total loans	$462,162	100.0%	$513,185	100.0%	$552,208	100.0%	$595,411	100.0%	$573,22

6

Table of Contents

Loan Maturity. The following table presents the contractual maturity of our loans at September 30, 2012. The table does not include the effect of prepayments or scheduled principal amortization. Loans having no stated repayment schedule or maturity and overdraft loans are reported as being due in one year or less.

		Construction and Development		Commercial			Consumer			
	Residential Mortgage	Residential and Commercial	Land Loans	Commercial Real Estate	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Total
					(In thousands)					
Amounts due in:										
One year or less	$684	$6,788	$-	$6,344	$160	$398	$300	$102	$47	$14,823
After one year through two years	357	3,430	632	3,745	-	1,428	-	287	95	9,974
After two years through three years	537	3,754	-	9,821	913	170	-	333	122	15,650
After three years through five years	5,155	-	-	24,351	80	1,640	56	1,300	119	32,701
After five years through ten years	30,822	4,859	-	56,695	758	863	-	15,671	-	109,668
After ten years through fifteen years	37,669	-	-	6,646	-	1,308	4,766	19,178	5	69,572
Beyond fifteen years	156,579	1,669	-	4,597	176	1,710	15,837	28,832	374	209,774
Total	$231,803	$20,500	$632	$112,199	$2,087	$7,517	$20,959	$65,703	$762	$462,162
Interest rate terms on amounts due after one year:										
Fixed rate	$215,450	$3,245	$-	$34,687	$1,671	$1,422	$-	$65,569	$423	$322,467
Adjustable rate	15,669	10,467	632	71,168	256	5,697	20,659	32	292	124,872
Total	$231,119	$13,712	$632	$105,855	$1,927	$7,119	$20,659	$65,601	$715	$447,339

Table of Contents

Loan Originations, Purchases and Sales. Our lending activities are subject to underwriting standards and loan origination procedures established by our board of directors and management. Loan originations are obtained through a variety of sources, primarily existing customers as well as new customers obtained from referrals and local advertising and promotional efforts. In addition, we rely on a network of approximately ten mortgage brokers with respect to production of new single-family residential mortgage loans, second mortgage loans and home equity lines of credit. We receive applications from such brokers on standardized documents meeting Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") and Federal National Mortgage Association ("FNMA" or "Fannie Mae") guidelines and, if we determine to acquire loans from such brokers, they are underwritten and approved pursuant to the policies and procedures of Malvern Federal Savings Bank. Depending upon our arrangements with the particular broker, loans obtained from our broker network are classified either as "purchased," when the broker provides the loan funds at closing and closes the loan in its name, or as "originated," when Malvern Federal Savings Bank disburses the loan funds at closing and the documents reflect the Bank as the lender. Single-family residential mortgage loan applications and consumer loan applications are taken at any Malvern Federal Savings Bank branch office. We also accept internet applications submitted to our website. Applications for other loans typically are taken personally by our loan officers or business development officers, although they may be received by a branch office initially and then referred to one of our loan officers or business development officers. All loan applications are processed and underwritten centrally at our main office.

All of our single-family residential mortgage loans are written on standardized documents used by Freddie Mac and Fannie Mae. We also utilize an automated loan processing and underwriting software system for our new single-family residential mortgage loans. Property valuations of loans secured by real estate are undertaken by an independent third-party appraiser approved by our board of directors. We do not originate, and at September 30, 2012, we had no sub-prime loans in our portfolio.

As previously indicated, upon consideration of the increased levels of our non-performing and problem assets, we generally ceased originating new construction and development loans in October 2009, with certain exceptions, and we ceased originating new commercial real estate loans in August 2010. The Supervisory Agreements that we entered into in October 2010 prohibit us from making or acquiring any new commercial real estate loans and/or commercial and industrial loans without the prior written non-objection of the Office of the Comptroller of the Currency.

In addition to originating loans, we occasionally purchase participation interests in larger balance loans, typically commercial real estate or construction and development loans, from other financial institutions in our market area. Such participations are reviewed for compliance with our underwriting criteria before they are purchased. We actively monitor the performance of such loans through the receipt of regular reports from the lead lender regarding the loan's performance, physically inspecting the loan security property on a periodic basis, discussing the loan with the lead lender on a regular basis and receiving copies of updated financial statements from the borrower. At September 30, 2012, the largest loan participation interests from other institutions were comprised of six loans to four borrowers and their affiliates, which had an aggregate outstanding balance of approximately $8.9 million. Of those six loans, three construction and development loans to two borrowers and their affiliates, which had an aggregate outstanding balance on our books of $2.4 million at September 30, 2012, were impaired and on non-accrual status at such date. See "Asset Quality – Non-Performing Loans and Real Estate Owned."

In addition, we also occasionally sell whole loans or participation interests in loans we originate. We generally have sold participation interests in loans only when a loan would exceed our loans-to-one borrower limits. Our loans-to-one borrower limit, with certain exceptions, generally is 15% of the Bank's unimpaired capital and surplus. At September 30, 2012, our five largest outstanding loans to one borrower and related entities amounted to $8.8 million, $8.4 million, $8.3 million, $6.9 million and $5.3 million, respectively, and all of such loans were performing in accordance with their terms and complied with our loan-to-one borrower limit. In addition, in an effort to improve our interest rate risk exposure, on occasion, we sell long-term (20 or 30 year term) fixed-rate single family

residential mortgage loans to Freddie Mac and Fannie Mae while retaining the loan servicing rights for such loans. We receive a fee for continuing to service such loans when they are sold, and such fees are recorded as non-interest income.

Table of Contents

The following table shows our loan origination, purchase and repayment activities for the periods indicated.

	Year Ended September 30,		
	2012	2011	2010
	(In thousands)		
Total gross loans at beginning of period	$513,185	$552,208	$595,411
Originations by type:			
Residential mortgage	39,213	35,378	26,422
Construction and Development(1):			
Residential and commercial	4,961	3,890	7,250
Land loans	-	36	40
Commercial:			
Commercial real estate	3,831	3,146	28,354
Multi-family	221	494	45
Other	1,322	3,426	3,836
Consumer:			
Home equity lines of credit(1)	10,813	11,289	10,965
Second mortgages	1,426	6,719	6,952
Other	684	608	1,139
Total originations	62,471	64,986	85,003
Principal Repayments:			
Residential mortgage	49,872	54,691	53,338
Construction and Development:			
Residential and commercial	10,425	7,750	13,244
Land loans	1,923	235	287
Commercial:			
Commercial real estate	21,112	7,387	25,519
Multi-family	3,146	1,335	3,095
Other	4,779	3,542	8,063
Consumer:			
Home equity lines of credit	10,917	10,034	10,313
Second mortgages	25,653	28,848	25,935
Other	709	882	1,196
Total principal repayments	128,536	114,704	140,990
Net loan originations and principal repayments	(66,065)	(49,718)	(55,987)
Purchases:			
Residential mortgage(2)	25,914	27,683	10,130
Construction and Development:			
Residential and commercial	-	125	-
Consumer:			
Home equity lines of credit	361	-	131
Second mortgages	4,626	4,560	11,098
Total purchased	30,901	32,368	21,359
Residential mortgage loans securitization and sale	(10,671)	-	-
Other adjustments, net(3)	(5,188)	(21,673)	(8,575)
Net increase (decrease)	(51,023)	(39,023)	(43,203)
Total gross loans at end of period	$462,162	$513,185	$552,208

(1) Origination amounts for construction and development loans and line of credit loans reflect disbursements of loan proceeds during the period, although loans may have been originated in a prior period.
(2) Includes purchases of loans from our network of loan brokers.
(3) Reflects non-cash items related to transfers of loans to other real estate owned, recoveries and charge-offs.

The loans receivable portfolio is segmented into residential loans, construction and development loans, commercial loans and consumer loans. The residential loan segment has one class, one- to four-family first lien residential mortgage loans. The construction and development loan segment consists of the following classes: residential and commercial and land loans. Residential construction loans are made for the acquisition of and/or construction on a lot or lots on which a residential dwelling is to be built. Commercial construction loans are made for the purpose of acquiring, developing and constructing a commercial use structure. The commercial loan segment consists of the following classes: commercial real estate loans, multi-family real estate loans, and other commercial loans, which are also generally known as commercial and industrial loans or commercial business loans. The consumer loan segment consists of the following classes: home equity lines of credit, second mortgage loans and other consumer loans, primarily unsecured consumer lines of credit.

Residential Lending. Residential mortgage originations are secured primarily by properties located in the Company's primary market area and surrounding areas. At September 30, 2012, $231.8 million, or 50.2%, of our total loans consisted of single-family residential mortgage loans.

Our single-family residential mortgage loans generally are underwritten on terms and documentation conforming to guidelines issued by Freddie Mac and Fannie Mae. Applications for one- to four-family residential mortgage loans are taken by our Business Development Officer and are accepted at any of our banking offices and are then referred to the lending department at our main office in order to process the loan, which consists primarily of obtaining all documents required by Freddie Mac and Fannie Mae underwriting standards, and completing the underwriting, which includes making a determination whether the loan meets our underwriting standards such that the Bank can extend a loan commitment to the customer. We generally have retained for portfolio a substantial portion of the single-family residential mortgage loans that we originate. We currently originate fixed-rate, fully amortizing mortgage loans with maturities of 10 to 30 years. We also offer adjustable rate mortgage ("ARM") loans where the interest rate either adjusts on an annual basis or is fixed for the initial one, three or five years and then adjusts annually. However, due to local market conditions, we have not originated a significant amount of ARM loans in recent years. At September 30, 2012, $16.2 million, or 7.0%, of our one- to four-family residential loans consisted of ARM loans. We also offer "balloon" loans which are amortized on a 30 year schedule but become due at the fifth or seventh anniversary, bi-weekly mortgage loans and, until August 2008, for borrowers with credit scores exceeding 700, NINA loans. Our NINA loans amounted to $1.5 million in the aggregate at September 30, 2012. None of our NINA loan were impaired or on non-accrual status at September 30, 2012.

We underwrite one- to four-family residential mortgage loans with loan-to-value ratios of up to 95%, provided that the borrower obtains private mortgage insurance on loans that exceed 80% of the appraised value or sales price, whichever is less, of the secured property. We also require that title insurance, hazard insurance and, if appropriate, flood insurance be maintained on all properties securing real estate loans. We require that a licensed appraiser from our list of approved appraisers perform and submit to us an appraisal on all properties secured by a first mortgage on one- to four-family first mortgage loans. Our mortgage loans generally include due-on-sale clauses which provide us with the contractual right to deem the loan immediately due and payable in the event the borrower transfers ownership of the property. Due-on-sale clauses are an important means of adjusting the yields of fixed-rate mortgage loans in portfolio and we generally exercise our rights under these clauses.

Construction and Development Loans. In October 2009, we ceased originating any new construction and development loans, with certain limited exceptions. During fiscal 2010, we originated a total of three commercial construction loans which had an outstanding balance of $740,000 at September 30, 2012. Our only other new construction loans which we have made since we entered into the Supervisory Agreements in October 2010 have consisted of single-family residential construction loans which, by their terms, convert to permanent, long-term mortgage loans upon completion of construction ("construction/perm." loans). We had three of such construction/perm loans with an aggregate outstanding balance of $336,000 at September 30, 2012. Prior to October 2009, we originated construction

loans for residential and, to a lesser extent, commercial uses within its market area. We generally limited construction loans to builders and developers with whom we had an established relationship, or who were otherwise known to officers of the Bank. The amount of our outstanding construction and development loans decreased to $21.1 million or 4.5% of total loans at September 30, 2012 from $28.7 million or 5.6% of total loans as of September 30, 2011.

Table of Contents

Our construction and development loans currently in the portfolio typically have variable rates of interest tied to the prime rate which improves the interest rate sensitivity of our loan portfolio. At September 30, 2012, approximately 84.6% of our construction loans had variable rates of interest and 51.3% of such loans had two years or less in their remaining terms to maturity at such date.

Our current portfolio of construction loans generally have a maximum term to maturity of one year (for individual, owner-occupied dwellings), and loan-to-value ratios less than 80%. Residential construction loans to developers are made on either a pre-sold or speculative (unsold) basis. Limits are placed on the number of units that can be built on a speculative basis based upon the reputation and financial position of the builder, his/her present obligations, the location of the property and prior sales in the development and the surrounding area. Generally a limit of two unsold homes (one model home and one speculative home) is placed per project.

Prior to committing to a construction loan, we require that an independent appraiser prepare an appraisal of the property. Each project also is reviewed and inspected at its inception and prior to every disbursement of loan proceeds. Disbursements are made after inspections based upon a percentage of project completion. Monthly payment of interest is required on all construction loans and we often established interest reserves on construction loans to developers, which helps ensure interest payments are received during the construction period.

Our construction loans also include loans for the acquisition and development of land for sale (i.e. roads, sewer and water lines). We typically made these loans only in conjunction with a commitment for a construction loan for the units to be built on the site. These loans are secured by a lien on the property and were limited to a loan-to-value ratio not exceeding 70% of the appraised value at the time of origination. The loans have a variable rate of interest and require monthly payments of interest. The principal of the loan is repaid as units are sold and released. We limited loans of this type to our market area and to developers with whom we had established relationships. In most cases, we also obtained personal guarantees from the borrowers.

Our loan portfolio included one loan secured by unimproved real estate and lots (“land loan”), with an outstanding balance of $632,000, constituting 0.1% of total loans, at September 30, 2012. As previously indicated, we generally have ceased making any new land loans.

Our construction and development loans also include loans made to consumers for the construction of their individual homes underwritten on a construction/permanent basis. During the initial or construction phase, these loans require payment of interest only, which generally is tied to prime rate, as the home is being constructed. Upon the earlier of the completion of construction or one year, these loans automatically convert to long-term (generally 30 years), amortizing, fixed-rate single-family mortgage loans.

Construction and development loans generally are considered to involve a higher level of risk than one-to four-family residential lending, due to the concentration of principal in a limited number of loans and borrowers and the effect of economic conditions on developers, builders and projects. At September 30, 2012, the amounts outstanding on our five largest residential construction loans were approximately $1.1 million, $703,000, $600,000, $439,000 and $303,000. At September 30, 2012, the amounts outstanding on our five largest commercial construction or development loans were $3.6 million, $3.2 million, $3.0 million, $1.3 million and $1.0 million. The average size of our construction loans was approximately $622,000 at September 30, 2012. Additional risk is also associated with construction lending because of the inherent difficulty in estimating both a property’s value at completion and the estimated cost (including interest) to complete a project. The nature of these loans is such that they are more difficult to evaluate and monitor. In addition, speculative construction loans to a builder are not pre-sold and thus pose a greater potential risk than construction loans to individuals on their personal residences.

In order to mitigate some of the risks inherent to construction lending, we inspect properties under construction, review construction progress prior to advancing funds, work with builders with whom we have established relationships, require annual updating of tax returns and other financial data of developers and obtain personal guarantees from the principals. At September 30, 2012, $735,000, or 9.7%, of our allowance for loan losses was attributed to construction and development loans. Our non-performing construction and development loans amounted to $3.8 million at September 30, 2012 compared to $6.6 million at September 30, 2011. During the fiscal year ended September 30, 2012, we charged off a total of $826,000 in construction and development loans. See "Asset Quality – Non-Performing Loans and Real Estate Owned." In addition to our non-performing construction and development loans, at September 30, 2012 and 2011, we had $1.1 million and $1.2 million, respectively, in construction and development loans that were performing troubled debt restructurings.

Commercial Lending. In August 2010, the Company generally ceased originating new commercial real estate, multi-family real estate mortgage loans, or commercial business loans and we are no longer purchasing whole loans or participation interests in commercial loans from other financial institutions. The Supervisory Agreement, which became effective in October 2010, prohibits the Bank from originating or purchasing any new commercial real estate loans or commercial and industrial loans except for refinancing, extending or modifying existing loans where no new funds are advanced and except with the prior written non-objection of the OCC.

We hope to resume, on a relatively modest basis, commercial real estate lending during fiscal 2013. However, any such resumptions of commercial real estate lending is subject to the elimination of the lending restrictions contained in the Supervisory Agreements and the receipt of any other necessary approval or non-objections from the Office of the Comptroller of the Currency. No assurance can be given whether or when the OCC will permit us to resume commercial real estate lending. If we are permitted to resume commercial real estate lending, we expect to limit such lending to our market area and on terms and conditions in accordance with our strengthened loan underwriting policies and enhanced credit administration and review procedures.

At September 30, 2012, our loans secured by commercial real estate amounted to $112.2 million and constituted 24.3% of our total loans at such date. During the year ended September 30, 2012, the commercial real estate loan portfolio decreased by an aggregate of $19.0 million, or 14.5% due primarily to our ceasing, with certain exceptions, originations of new commercial real estate loans. As previously indicated, the Supervisory Agreement executed in October 2010 prevents us from making, investing in or purchasing any new multi-family residential loans, commercial real estate loans and/or commercial and industrial loans without the prior written non-objection of the OCC (or, prior to July 21, 2011, the OTS), other than with respect to any refinancing, extension or modification of an existing loan where no new funds are advanced. In addition to loan payoffs and normal amortization, the reduction of our commercial loan portfolio during fiscal 2012 reflects aggregate charge-offs of $951,000 of commercial real estate loans and the transfer of $1.5 million in commercial real estate loans to other real estate owned ("REO") during the fiscal year ended September 30, 2012.

Our commercial real estate loan portfolio consists primarily of loans secured by office buildings, retail and industrial use buildings, strip shopping centers, mixed-use and other properties used for commercial purposes located in its market area. Loans in our commercial real estate portfolio tend to be in an amount less than $3.0 million, but some exceed that amount. At September 30, 2012, the average amount outstanding on our commercial real estate loans was $404,000. The five largest commercial real estate loans outstanding were $5.2 million, $5.1 million, $4.4 million, $4.3 million and $3.3 million at September 30, 2012. During the year ended September 30, 2012, the average yield on our commercial real estate loans was 5.3% compared to 4.8% for our single-family residential mortgage loans. Commercial real estate loans are much more likely to have adjustable interest rates than single-family residential mortgage loans, which adds to the interest rate sensitivity of commercial real estate loans and makes them attractive. At September 30, 2012, approximately 66.1% of our commercial real estate loans had adjustable interest rates compared to 7.0% of our single-family residential mortgage loans with adjustable rates at such date.

Although terms for commercial real estate and multi-family loans vary, our underwriting standards generally allow for terms up to 10 years with the interest rate being reset in the fifth year and with monthly amortization not greater than 25 years loan and loan-to-value ratios of not more than 75%. Interest rates are either fixed or adjustable, based upon the prime rate plus a margin, and fees ranging from 0.5% to 1.50% are charged to the borrower at the origination of the loan. Prepayment fees are charged on most loans in the event of early repayment. Generally, we obtain personal guarantees of the principals as additional collateral for commercial real estate and multi-family real estate loans.

At September 30, 2012, our loan portfolio included $2.1 million of multi-family (more than four units) loans, constituting 0.5% of our total loans at such date. The two largest multi-family loans, with outstanding balances of $912,000 and $758,000, respectively, at September 30, 2012, comprised 80.1% of our multi-family loans at such

date. These loans are for properties located in Chester County and Delaware County, Pennsylvania, respectively. As of September 30, 2012, we had no non-accruing multi-family loans.

Table of Contents

Commercial and multi-family real estate loans generally present a higher level of risk than loans secured by one- to four-family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial and multi-family real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed, a bankruptcy court modifies a lease term, or a major tenant is unable to fulfill its lease obligations), the borrower's ability to repay the loan may be impaired. As of September 30, 2012, $1.5 million or 1.3% of our commercial real estate mortgage loans were on non-accrual status and an aggregate of $18.1 million of our commercial real estate loans at such date were classified for regulatory reporting purposes with $17.8 million classified substandard and $351,000 classified doubtful. See "Asset Quality – Asset Classification." As of September 30, 2012, $3.5 million, or 46.1% of our allowance for loan losses was allocated to commercial real estate mortgage loans. In addition, at September 30, 2012 we held $2.4 million of commercial real estate as real estate owned. See "Asset Quality – Non-Performing Assets and Real Estate Owned." During the fiscal year ended September 30, 2012, we charged off an aggregate of $951,000 in commercial real estate loans. In addition to our non-performing commercial real estate loans and commercial real estate owned, we had $6.0 million and $7.9 million of commercial real estate loans deemed performing troubled debt restructurings at September 30, 2012 and 2011, respectively.

At September 30, 2012, we had $7.5 million in commercial business loans (1.6% of gross loans outstanding). Our commercial business loans generally are made to small to mid-sized businesses located in our market area. The commercial business loans in our portfolio assist us in our asset/liability management since they generally provide shorter maturities and/or adjustable rates of interest in addition to generally having higher rates of return which are designed to compensate for the additional credit risk associated with these loans. The commercial business loans which we originated may be either a revolving line of credit or for a fixed term of generally 10 years or less. Interest rates are adjustable, indexed to a published prime rate of interest, or fixed. Generally, equipment, machinery, real property or other corporate assets secure such loans. Personal guarantees from the business principals are generally obtained as additional collateral. At September 30, 2012, the average balance of our commercial business loans was $251,000. As previously indicated, the Supervisory Agreement prevents us from making, investing in or purchasing any new commercial business loans (which are referred to as commercial and industrial loans in such agreement) without the prior written non-objection of the OTS (now, the OCC), other than with respect to any refinancing, extension or modification of an existing loan where no new funds are advanced.

Generally, commercial business loans are characterized as having higher risks associated with them than single-family residential mortgage loans. As of September 30, 2012, we had one non-accruing commercial business loans with an aggregate balance of $201,000. At such date, $226,000 or 3.0% of the allowance for loan losses was allocated to commercial business loans.

Prior to our cessation of new originations of commercial real estate, multi-family residential and commercial business loans, various aspects of a commercial real estate, multi-family loan and commercial business loan transactions were evaluated in an effort to mitigate the additional risk in these types of loans. In our underwriting procedures, consideration was given to the stability of the property's cash flow history, future operating projections, current and projected occupancy levels, location and physical condition. Generally, our practice in recent periods was to impose a debt service ratio (the ratio of net cash flows from operations before the payment of debt service to debt service) of not less than 125%. We also would evaluate the credit and financial condition of the borrower, and if applicable, the guarantor. Appraisal reports prepared by independent appraisers are obtained on each loan to substantiate the property's market value, and are reviewed by us prior to the closing of the loan.

Consumer Lending Activities. In our efforts to provide a full range of financial services to our customers, we offer various types of consumer loans. Our consumer loans amounted to $87.4 million or 18.9% of our total loan portfolio

at September 30, 2012. The largest components of our consumer loans are loans secured by second mortgages, consisting primarily of home equity loans, which amounted to $65.7 million at September 30, 2012, and home equity lines of credit, which amounted to $21.0 million at such date. Our consumer loans also include automobile loans, unsecured personal loans and loans secured by deposits. Consumer loans are originated primarily through existing and walk-in customers and direct advertising and, with respect to second mortgages and home equity lines of credit, through our broker network.

Table of Contents

Our home equity lines of credit are variable rate loans tied to the prime rate. Our second mortgages may have fixed or variable rates, although they generally have had fixed rates in recent periods. Our second mortgages have a maximum term to maturity of 20 years. Both our second mortgages and our home equity lines of credit generally are secured by the borrower's primary residence. However, our security generally consists of a second lien on the property. Our lending policy provides that our home equity loans have loan-to-value ratios of 85% or less when combined with any Malvern Federal Savings Bank's first mortgage. Our lending policy also provides that our home equity loans have loan-to-value ratios of 80% or less when combined with any first mortgage with any other financial institution. The maximum loan-to-value ratio on our home equity lines of credit is 80%. We offer home equity lines on a revolving line of credit basis, with interest tied to the prime rate. At September 30, 2012, the unused portion of our home equity lines of credit was $24.8 million.

Consumer loans generally have higher interest rates and shorter terms than residential loans; however, they have additional credit risk due to the type of collateral securing the loan or in some case the absence of collateral. In the year ended September 30, 2012, we charged-off $1.3 million of consumer loans. As a result of the recent declines in the market value of real estate and the deterioration in the overall economy, we are continuing to evaluate and monitor the credit conditions of our consumer loan borrowers and the real estate values of the properties securing our second mortgage loans as part of our on-going efforts to assess the overall credit quality of the portfolio in connection with our review of the allowance for loan losses. As of September 30, 2012, we had an aggregate of $762,000 of non-accruing second mortgage loans and home equity lines of credit, representing an improvement of $676,000 over the amount of non-accruing second mortgage loans and home equity lines of credit at September 30, 2011. At September 30, 2012, $1.0 million of our consumer loans were classified as substandard and we had no doubtful consumer loans. At September 30, 2012, an aggregate of $1.5 million of our allowance for loan losses was allocated to second mortgages and home equity lines of credit.

Loan Approval Procedures and Authority. Our board of directors establishes the Bank's lending policies and procedures. Our Lending Policy Manual is reviewed on at least an annual basis by our management team in order to propose modifications as a result of market conditions, regulatory changes and other factors. All loan modifications must be approved by our board of directors.

All loans in excess of $417,000 and all loans which are approved as an exception to our standard loan underwriting policies and procedures must be approved by the Bank's Board of Directors after such loans are recommended for approval by the Property and Loan Committee of the Board of Directors. Our Chief Lending Officer is authorized to approve residential mortgage loans up to $417,000. Commercial loans in amounts up to $200,000 must be approved by two designated commercial loan officers and consumer loans in excess of $100,000 but not exceeding $200,000 must be approved by a designated consumer loan officer and our Chief Lending Officer. Consumer loans under $100,000 can be approved by one designated loan officer.

Asset Quality

General. One of our key objectives is to continue to improve asset quality. Given the stagnant economy and its effects on our market area, the increased levels of our classified and non-performing assets and the provisions of the Supervisory Agreement, we have become much more proactive in our loan monitoring, collection and workout processes in dealing with delinquent or problem loans.

When a borrower fails to make a scheduled payment, we attempt to cure the deficiency by making personal contact with the borrower. Initial contacts are made as soon as five days after the date the payment is due, and late notices are sent approximately 16 days after the date the payment is due. In most cases, deficiencies are promptly resolved. If the delinquency continues, late charges are assessed and additional efforts are made to collect the deficiency. All loans which are delinquent 30 days or more are reported to the board of directors of Malvern Federal Savings on a monthly

basis.

On loans where the collection of principal or interest payments is doubtful, the accrual of interest income ceases ("non-accrual" loans). It is our policy to discontinue accruing additional interest and reverse any interest accrued on any loan which is 90 days or more past due. On occasion, this action may be taken earlier if the financial condition of the borrower raises significant concern with regard to his/her ability to service the debt in accordance with the terms of the loan agreement. Interest income is not accrued on these loans until the borrower's financial condition and payment record demonstrate an ability to service the debt.

Table of Contents

Real estate which is acquired as a result of foreclosure is classified as real estate owned until sold. Real estate owned is recorded at the lower of cost or fair value less estimated selling costs. Costs associated with acquiring and improving a foreclosed property is usually capitalized to the extent that the carrying value does not exceed fair value less estimated selling costs. Holding costs are charged to expense. Gains and losses on the sale of real estate owned are charged to operations, as incurred.

We account for our impaired loans under accounting principles generally accepted in the United States of America ("U.S. GAAP"). An impaired loan generally is one for which it is probable, based on current information, that the lender will not collect all the amounts due under the contractual terms of the loan. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Loans collectively evaluated for impairment include smaller balance residential real estate loans and consumer loans. These loans are evaluated as a group because they have similar characteristics and performance experience. Larger commercial and construction loans are individually evaluated for impairment. Our impaired loans amounted to $13.2 million and $14.9 million at September 30, 2012 and 2011, respectively.

Asset Classification. Federal regulations and our policies require that we utilize an internal asset classification system as a means of reporting problem and potential problem assets. We have incorporated an internal asset classification system, substantially consistent with Federal banking regulations, as a part of our credit monitoring system. Federal banking regulations set forth a classification scheme for problem and potential problem assets as "substandard," "doubtful" or "loss" assets. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected.

Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are required to be designated "special mention."

When an insured institution classifies one or more assets, or portions thereof, as "substandard" or "doubtful," it is required that a general valuation allowance for loan losses be established for loan losses in an amount deemed prudent by management. General valuation allowances represent loss allowances which have been established to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies one or more assets, or portions thereof, as "loss," it is required either to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge off such amount.

A savings institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by Federal bank regulators which can order the establishment of additional general or specific loss allowances. The Federal banking agencies, have adopted an interagency policy statement on the allowance for loan and lease losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that institutions have effective systems and controls to identify, monitor and address asset quality problems; that management analyze all significant factors that affect the collectibility of the portfolio in a reasonable manner; and that management establish acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Our management believes that, based on information currently available, the Company's allowance for loan

losses is maintained at a level which covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. However, actual losses are dependent upon future events and, as such; further additions to the level of allowances for loan losses may become necessary.

Table of Contents

We review and classify assets on a monthly basis and the board of directors is provided with monthly reports on our classified assets. We classify assets in accordance with the management guidelines described above. Loans classified as "substandard" and REO were $40.2 million, in the aggregate, including $4.6 million of other real estate owned, at September 30, 2012 compared to $39.9 million, in the aggregate, including $8.3 million of other real estate owned, at September 30, 2011. We had $351,000 in assets classified doubtful at September 30, 2012 compared to $1.1 million at September 30, 2011. Assets designated as "special mention" totaled $7.7 million at September 30, 2012 compared to $12.7 million at September 30, 2011. We attribute the improvement in the aggregate amount of our classified assets and assets designated special mention primarily to our enhanced loan monitoring, collection and charge-off efforts combined with the reductions in the size of our loan portfolio and our holdings of other real estate owned. Our efforts appear to have had some positive effect against the continuing impact of the lackluster economy on our borrowers, the increase in unemployment in the local economy and declining valuations in the collateral securing loans. We had no loans classified as loss at September 30, 2012 or 2011.

The Supervisory Agreement required us to develop and implement a written internal asset review and classification program to, among other things, require accurate and timely identification and reporting of all classified assets and to require an independent third party loan review consultant to review our commercial real estate, construction, multi-family and commercial loans not less than every six months.

Table of Contents

Delinquent Loans. The following table shows the delinquencies in our loan portfolio as of the dates indicated.

	At September 30, 2012 Loans Delinquent For:											
	31-89 Days				90 Days and Over				Total Delinquent Loans			
	Number	Amount	Percent of Total Delinquent Loans 31-89 Days		Number	Amount	Percent of Total Delinquent Loans 90 Day and Over		Number	Amount	Percent of Total Delinquent Loans Greater Than 30 Days	
	(Dollars in thousands)											
Residential mortgage	7	$1,402	30.9	%	14	$3,540	36.3	%	21	$4,942	34.6	%
Construction and Development:												
Residential and commercial	-	-	-		7	3,788	38.8		7	3,788	26.5	
Commercial:												
Commercial real estate	2	1,778	39.1		2	1,458	15.0		4	3,236	22.6	
Other	-	-	-		1	201	2.1		1	201	1.4	
Consumer:												
Home equity lines of credit	2	220	4.8		1	23	0.2		3	243	1.7	
Second mortgages	17	1,140	25.1		9	739	7.6		26	1,879	13.2	
Other	4	4	0.1		-	-	-		4	4	-	
Total	32	$4,544	100.0	%	34	$9,749	100.0	%	66	$14,293	100.0	%

	At September 30, 2011 Loans Delinquent For:											
	31-89 Days				90 Days and Over				Total Delinquent Loans			
	Number	Amount	Percent of Total Delinquent Loans 31-89 Days		Number	Amount	Percent of Total Delinquent Loans 90 Day and Over		Number	Amount	Percent of Total Delinquent Loans Greater Than 30 Days	
	(Dollars in thousands)											
Residential mortgage	6	$759	28.0	%	13	$2,866	22.2	%	19	$3,625	23.2	%
Construction and Development:												
Residential and commercial	-	-	-		7	6,617	51.2		7	6,617	42.4	
Commercial:												
Commercial real estate	1	195	7.2		3	1,765	13.7		4	1,960	12.5	
Other	1	22	0.8		2	229	1.8		3	251	1.6	
Consumer:												

Home equity lines of credit	1	16	0.6		2	61	0.5		3	77	0.5
Second mortgages	24	1,701	62.8		17	1,377	10.6		41	3,078	19.7
Other	2	16	0.6		-	-	-		2	16	0.1
Total	35	$2,709	100.0	%	44	$12,915	100.0	%	79	$15,624	100.0 %

17

Table of Contents

The table below sets forth information on our classified assets and assets designated special mention at the dates indicated.

	September 30,		
	2012	2011	2010
	(In thousands)		
Classified assets:			
Substandard(1)	$40,226	$39,860	$38,159
Doubtful	351	1,095	3,299
Loss	-	-	-
Total classified assets	40,577	40,955	41,458
Special mention assets	7,657	12,685	16,680
Total classified and special mention assets	$48,234	$53,640	$58,138

(1) Includes other real estate owned of $4.6 million, $8.3 million and $5.3 million, at September 30, 2012, 2011 and 2010, respectively.

Our total classified assets plus assets designated as special mention (assets designated special mention are assets which do not currently expose the institution to risk sufficient to warrant classification as substandard, doubtful or loss but which are deemed to have certain weaknesses) amounted to $48.2 million at September 30, 2012 compared to $53.6 million at September 30, 2011. Our total classified assets were $40.6 million at September 30, 2012 compared to $41.0 million at September 30, 2011. During the quarter ended September 30, 2012 four construction and development loans to one borrower with an aggregate balance of $8.4 million at such date, were classified as substandard, a change from their previous designation as special mention at June 30, 2012. These four loans are for site development for a 190 unit residential townhouse community in Downingtown, Pennsylvania, and for the demolition and redevelopment for mixed use commercial and residential purposes of six duplex multi-family homes and nine parcels of vacant land on approximately 7 acres in Downingtown, Pennsylvania. Three of these loans, with an aggregate outstanding balance of $4.9 million, are more than 30 days past due and the fourth loan, with an outstanding balance of $3.5 million, is more than 60 days past due. We are attempting to negotiate a loan modification agreement with the borrower which, among other things, would result in the loans being brought current. However, if a satisfactory loan modification agreement cannot be structured, these loans are likely to be placed on non-accrual status during the first quarter of fiscal 2013. In such event, we estimate that an additional charge to the allowance for loan losses of approximately $1.3 million would be required with respect to these loans if they are placed on non-accrual status.

Table of Contents

Non-Performing Loans and Real Estate Owned. The following table sets forth non-performing assets and performing troubled debt restructurings which are neither non-accruing nor more than 90 days past due and still accruing in our portfolio at the dates indicated. 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. There were no loans past due 90 days or more and still accruing interest for the periods shown. Troubled debt restructurings are loans which are modified in a manner constituting a concession to the borrower, such as forgiving a portion of interest or principal making loans at a rate materially less than that of market rates, when the borrower is experiencing financial difficulty.

	September 30,				
	2012	2011	2010	2009	2008
	(Dollars in thousands)				
Non-accruing loans:					
Residential mortgage	$3,540	$2,866	$8,354	$3,809	$1,402
Construction and Development:					
Residential and commercial	3,788	6,617	1,393	7,086	1,695
Commercial:					
Commercial real estate	1,458	1,765	4,476	785	4,050
Multi-family	-	-	1,093	-	-
Other	201	229	-	35	561
Consumer:					
Home equity lines of credit	23	61	457	407	205
Second mortgages	739	1,377	4,085	2,072	672
Other	-	-	3	1	-
Total non-accruing loans	9,749	12,915	19,861	14,195	8,585
Accruing loans delinquent more than 90 days past due	-	-	-	-	-
Real estate owned and other foreclosed assets:					
Residential mortgage	1,262	3,872	1,538	1,568	230
Construction and Development:					
Residential and commercial	-	-	1,085	196	-
Land	-	-	-	-	-
Commercial:					
Commercial real estate	2,405	4,415	2,602	4,006	-
Multi-family	486	-	70	-	-
Other	-	34	20	20	-
Consumer:					
Second mortgages	441	-	-	85	-
Total	4,594	8,321	5,315	5,875	230
Total non-performing assets	$14,343	$21,236	$25,176	$20,070	$8,815
Performing troubled debt-restructurings:					
Residential mortgage	864	1,049	2,277	-	-
Construction and Development:					
Land loans	1,148	1,160	1,170	-	-
Commercial:					
Commercial real estate	6,000	7,919	7,742	25	103
Multi-family	-	-	612	-	-
Other	175	175	175	-	-

Consumer:										
Home equity lines of credit	-		37		-		-		-	
Total performing troubled debt restructurings	8,187		10,340		11,976		25		103	
Total non-performing assets and performing troubled debt restructurings	$22,530		$31,576		$37,152		$20,095		$8,918	
Ratios:										
Total non-accrual loans as a percent of gross loans	2.11	%	2.52	%	3.60	%	2.38	%	1.52	%
Total non-performing assets as a percent of total asset	2.01	%	3.19	%	3.49	%	2.90	%	1.38	%
Total non-performing assets and performing troubled debt restructurings as a percent of total assets	3.17	%	4.74	%	5.16	%	2.91	%	1.39	%

Table of Contents

The Supervisory Agreement required the Bank to develop and implement a written plan, with specific strategies, targets and timeframes, to reduce the amounts of its non-performing assets, real estate owned, classified assets and assets designated special mention (collectively, "problem assets"). The Bank also is required to develop specific workout plans for each problem asset, or group of loans to any one borrower, in an amount of $500,000 or greater. The Supervisory Agreement also required the Bank to retain a qualified, full-time loan workout specialist to implement the above-described loan workout plans. During the fiscal year ended September 30, 2011, the Bank established a Credit Review Department designed to improve the tracking, reporting and early recognition of problem assets. Additional staffing added during fiscal year 2011 included a Chief Credit Officer, Loss Mitigation Specialist and Real Estate Owned Coordinator.

At September 30, 2012, our total non-performing assets amounted to $14.3 million, a reduction of $6.9 million, or 32.5% compared to our total non-performing assets at September 30, 2011. At September 30, 2012, the Company's total non-accruing loans amounted to $9.7 million, or 2.11% of total loans, compared to $12.9 million of non-accruing loans, or 2.52% of total loans, at September 30, 2011. Included in our non-performing assets at September 30, 2012 were 14 non-accruing single-family residential mortgage loans with an aggregate outstanding balance of $3.5 million at such date, and 10 non-accruing second mortgage loans and home equity loans, with an aggregate outstanding balance of $762,000. Our non-performing loans at September 30, 2012, also included the following significant items.

A $3.0 million participation interest in two construction and development loans for an aggregate of $34.3 million for the construction of 64 units of a proposed 198 unit age-restricted condominium community located in Delaware County, Pennsylvania. Since the loan was originated in December 2007, all of the proposed 64 units have been built, and 45 of the units have been sold. This loan was placed on non-accrual status in June 2011. Our loan carrying value was $1.4 million at September 30, 2012. Based on the terms of an agreement entered into in December 2011, these loans have been classified as troubled debt restructurings ("TDRs"), although they remained on non-accruing and non-performing status as of September 30, 2012. While these loans were performing in accordance with the terms and conditions of the restructuring agreement at September 30, 2012, they will continue to be deemed as non-accruing TDRs until sufficient criteria is met to change the status of the loan. While sales of units in this development currently are ahead of schedule, the loan documents, as modified, call for sales of the remaining 19 units over the next 25 months.

A $2.4 million participation interest in a $14.3 million construction and development loan for the development of commercial and mixed use facilities on approximately 40 acres located in Mount Laurel, New Jersey. This loan has been on non-accrual status since June 2011. We recorded a partial charge-off in the amount of $400,000 based on an updated appraisal during fiscal 2011. During fiscal 2012, we recorded an additional partial charge-off in the amount of $582,000. During the third quarter of fiscal 2012, the borrower sold a 20.1 acre parcel from this development to a third party, resulting in a $512,000 repayment to the Bank. As a result, our carrying value of this loan was reduced to $938,000 at September 30, 2012. The borrower and the bank group entered into a second forbearance agreement in November 2012. Pursuant to the terms of the new agreement the Bank is scheduled to receive a full repayment of the remaining carrying value before December 31, 2012.

A $1.3 million commercial real estate loan on a mixed use (warehouse and self-storage rental units) property located in Chester County, Pennsylvania, which was placed on non-accrual status in February 2011. Pursuant to the terms of a repayment plan and forbearance agreement entered into in June 2011, the borrower is making additional payments which we anticipate will be sufficient to result is loan becoming current and removed from non-accrual status during fiscal 2013.

Table of Contents

For the year ended September 30, 2012, additional gross interest income which would have been recorded had all of our non-accruing loans been current in accordance with their original terms amounted to $1.1 million. The amount that was included in interest income on such loans was $236,000 for the year ended September 30, 2012.

Our non-performing assets include REO in addition to non-performing loans. At September 30, 2012, our total REO amounted to $4.6 million, a decrease of $3.7 million compared to total REO at September 30, 2011. The $3.7 million decrease in REO at September 30, 2012 compared to September 30, 2011, was due to $6.2 million of sales of REO, at a net gain of $73,000, and $1.0 million in reductions to REO fair values which are reflected in other REO expense during fiscal 2012. Our REO at September 30, 2012 included the following significant items.

Nine separate properties located in the greater Philadelphia market area which were acquired as REO in July 2011 and which previously secured three separate commercial real estate loans to one borrower with an aggregate carrying value of $3.4 million at the time of foreclosure (which was net of $658,000 in charge-offs to the allowance for loan losses taken on the loans prior to foreclosure). The properties consist of various types and usages and include an industrial building in Philadelphia used to process and fabricate marble and granite, three mixed-use (retail space and apartments) buildings in Philadelphia, one building with six retail units in Philadelphia and one mixed-use (eight apartment units and one office) in Norristown, Pennsylvania. We recorded an aggregate of $420,000 in write-downs to these properties during fiscal 2011. In addition, we had $471,000 in additional write-downs during fiscal 2012. We sold and settled on seven of such properties at a net gain of $119,000 and with an aggregate net sales price of $1.7 million. The aggregate carrying value was $912,000 at September 30, 2012. We have entered into a five-year lease/purchase agreement on the eighth property and we are marketing the final property for sale.

Ten separate single-family residential rental properties with an aggregate carrying value of $1.5 million which previously secured loans to one borrower and which were acquired as real estate owned in September 2011. As a result of updated appraisals received during the fourth quarter of fiscal 2012, as well a result of agreement of sales, we recorded an aggregate of $251,000 in write-downs during fiscal 2012. Five of these properties are located in Chester County, Pennsylvania, three properties are located in Claymont, Delaware, one is located in Wilmington, Delaware, and one property is located in Morgantown, Pennsylvania. During fiscal 2012, four of these properties with an aggregate carrying value of $287,000, were sold at an aggregate net loss of $59,000. The remaining six properties had an aggregate carrying value in the amount of $879,000 at September 30, 2012. Two properties were sold in November 2012 for an aggregate of $399,000, with a gain on sale of $96,000.

A $1.3 million commercial real estate loan collateralized by first mortgages on two commercial mixed-use (retail space and apartments) located in Pottstown, Pennsylvania were acquired as REO in July 2012. We have retained a property management company to manage the properties and begin the process of being marketed for sale.

While not considered non-performing, our performing troubled debt restructurings are closely monitored as they consist of loans that have been modified where the borrower is experiencing financial difficulty. Troubled debt restructurings may be deemed to have a higher risk of loss than loans which have not been restructured. At September 30, 2012 our total performing troubled debt restructurings amounted to $8.2 million compared to $10.3 million of performing troubled debt restructurings at September 30, 2011. Our performing troubled debt restructurings at September 30, 2012 included the following significant items.

A total of five loans to one borrower with an aggregate outstanding balance of $775,000 at September 30, 2012 collateralized by single-family residential rental properties located primarily in Chester and Delaware Counties, Pennsylvania, which were restructured during the quarter ended September 30, 2010 to require payments of interest only for six months as well as a modification to the interest rate. All of these loans have remained current under their restructured terms. During fiscal 2012, all of these loans converted back to their original terms and interest rates.

21

Table of Contents

Four loans to one borrower with an aggregate outstanding balance of $2.9 million at September 30, 2012 collateralized by first mortgages on commercial real estate and approved lots. Two of these loans, with an aggregate outstanding balance of $1.9 million, are secured by owner occupied commercial real estate located in Montgomery County, Pennsylvania and the other two loans, with an aggregate outstanding balance of $1.0 million, are secured by 23 acres of approved lots located in Chester County, Pennsylvania. The four loans were restructured during the quarter ended September 30, 2010 to require payments of interest only for six months and they have been performing in accordance with their terms since they were restructured.

One loan to one borrower with an outstanding balance in the amount of $1.4 million at September 30, 2012 on a commercial real estate mixed use (warehouse and office space) property located in Delaware County, Pennsylvania. As a result of slow sales, the borrower was experiencing financial difficulties and on April 1, 2011 the Bank agreed to restructure the loan from its original terms to interest only until October 1, 2011. The borrower began making principal and interest payments in October 2011. As of September 30, 2012, the borrower was 61 days past due. Subsequent to September 30, 2012, this loan became more than 90 days past due and was placed on non-accrual status.

One commercial real estate loan to one borrower with an outstanding balance in the amount of $2.3 million at September 30, 2012 secured by a first mortgage on a 420 unit self-storage facility on approximately four acres located in Delaware County, Pennsylvania. This loan was restructured in March 2011 to require payments of interest only, at a reduced rate, for six months. An updated appraisal received in June 2012 indicated that the outstanding loan balance exceeded the value of the collateral property securing this loan. We have allocated $351,000 of our allowance for loan losses to this loan at September 30, 2012. Since the project was completed in April 2010, a total of 320 units have been rented, with 100 units being marketed for rent. The borrower has been paying as agreed under the terms of the restructuring. Under the restructured terms the borrower began making payments of principal and interest starting in April 2012.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses. We maintain the allowance at a level believed, to the best of management’s knowledge, to cover all known and inherent losses in the portfolio that are both probable and reasonable to estimate at each reporting date. Management reviews the allowance for loan losses on no less than a quarterly basis in order to identify those inherent losses and to assess the overall collection probability for the loan portfolio. Our evaluation process 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. Such risk ratings are periodically reviewed by management and revised as deemed appropriate. The establishment of the allowance for loan losses is significantly affected by management’s judgment and uncertainties and it is likely 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.

Our provision for loan losses was $810,000 for the fiscal year ended September 30, 2012 compared to $12.4 million in the year ended September 30, 2011. During the fiscal year ended September 30, 2012, our total net charge-offs to the allowance for loan losses amounted to $3.3 million compared to $10.4 million during fiscal year ended September 30, 2011. Our charge-offs and recoveries to the allowance for loan losses during fiscal 2012 included the following significant items.

A $1.1 million recovery recorded upon receipt of a $2.5 million payment in full satisfaction of a $1.4 million participation interest in a construction and development loan on a retirement community located in Montgomery County, Pennsylvania.

Table of Contents

A $428,000 partial charge-off on a commercial real estate loan to one borrower secured by a first mortgage on a 420 unit self-storage facility on approximately four acres located in Delaware County, Pennsylvania, reducing the carrying value of this loan at September 30, 2012 to $2.3 million based on a June 2012 appraisal. As of September 30, 2012, we had allocated $351,000 of our allowance for loan losses to this loan, which was a performing TDR at such date.

An aggregate of $582,000 in charge-offs taken on a participation interest in a non-performing construction and development loan for the development of commercial and mixed use facilities on approximately 40 acres located in Mount Laurel, New Jersey. We took a $412,000 partial charge-off in the first quarter of fiscal 2012 based on an October 2011 appraisal. An additional $170,000 partial charge-off was taken during the fourth quarter of fiscal 2012 based on on-going negotiations regarding the disposition of this loan. The borrower recently completed a sale of a portion of this site, resulting in a $512,000 payment to us which reduced our carrying value to $938,000 at September 30, 2012. It is anticipated that the Bank will receive full repayment of the remaining carrying value before December 31, 2012.

In February 2012, the Bank received proceeds of $884,000 on the short sale of an office building securing a $1.2 million commercial real estate loan securing two loans to one borrower located in Philadelphia, Pennsylvania. As a result, the Bank recorded a charge-off of $353,000 during fiscal 2012 with respect to these loans.

A total of 36 consumer second mortgage loans had full or partial charge-offs in the aggregate amount of $1.2 million during the fiscal year ended September 30, 2012. The primary reason for these charge-offs, which also included some short sales, was the decline in both the economy and reduced property values in the collateral securing these loans.

See “Asset Quality – Non-Performing Loans and Real Estate Owned.”

We will continue to monitor and modify our allowance 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.

Table of Contents

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

	September 30,				
	2012	2011	2010	2009	2008
	(Dollars in thousands)				
Balance at beginning of period	$10,101	$8,157	$5,718	$5,505	$4,541
Provision for loan losses	810	12,392	9,367	2,280	1,609
Charge-offs:					
Residential mortgage	1,367	2,478	824	124	144
Construction and Development:					
Residential and commercial	826	1,307	4,133	-	-
Commercial:					
Commercial real estate	951	2,460	927	1,760	90
Multi-family	113	164	525	-	-
Other	88	278	-	-	4
Consumer:					
Home equity lines of credit	72	166	168	-	-
Second mortgages	1,184	3,691	334	153	393
Other	22	6	22	60	19
Total charge-offs	4,623	10,550	6,933	2,097	650
Recoveries:					
Residential mortgage	-	1	-	-	-
Construction and Development:					
Residential and commercial	1,139	-	-	25	-
Commercial:					
Commercial real estate	5	1	-	-	-
Multi-family	-	1	1	-	-
Other	2	5	-	-	-
Consumer:					
Home equity lines of credit	2	3	-	-	-
Second mortgages	141	82	-	-	2
Other	4	9	4	5	3
Total recoveries	1,293	102	5	30	5
Net charge-offs	3,330	10,448	6,928	2,067	645
Balance at end of period	$7,581	$10,101	$8,157	$5,718	$5,505
Ratios:					
Ratio of allowance for loan losses to non-accrual loans	77.76 %	78.21 %	41.07 %	40.28 %	64.12 %
Ratio of net charge-offs to average loans outstanding	0.70 %	1.97 %	1.19 %	0.35 %	0.12 %
Ratio of net charge-offs to total allowance for loan losses	43.93 %	103.43 %	84.93 %	36.15 %	11.72 %

Table of Contents

The following table shows how our allowance for loan losses is allocated by type of loan at each of the dates indicated.

	2012			2011			2010			2009		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)											
Residential mortgage	$1,487	19.6 %	50.2 %	$1,458	14.4 %	44.7 %	$1,555	19.1 %	41.8 %	$1,307	22.9 %	42.4
Construction and Development:												
Residential and commercial	724	9.6	4.4	1,627	16.1	4.9	689	8.4	5.5	1,558	27.3	6.3
Land loans	11	0.2	0.1	49	0.5	0.6	63	0.8	0.6	57	1.0	0.6
Commercial:												
Commercial real estate	3,493	46.1	24.3	4,176	41.4	25.7	2,741	33.6	25.9	1,244	21.8	24.0
Multi-family	10	0.1	0.5	49	0.5	1.1	191	2.3	1.2	48	0.8	1.6
Other	226	3.0	1.6	317	3.1	2.1	303	3.7	2.1	298	5.2	2.6
Consumer:												
Home equity lines of credit	160	2.1	4.5	220	2.2	4.0	284	3.4	3.6	284	4.9	3.2
Second mortgages	1,389	18.3	14.2	2,154	21.3	16.7	2,264	27.8	19.1	889	15.6	19.1
Other	16	0.1	0.2	16	0.2	0.2	22	0.3	0.2	25	0.4	0.2
Total allocated	7,516	99.1	100.0	10,066	99.7	100.0	8,112	99.4	100.0	5,710	99.9	100
Unallocated	65	0.9	-	35	0.3	-	45	0.6	-	8	0.1	-
Balance at end of period	$7,581	100.0%	100.0%	$10,101	100.0%	100.0%	$8,157	100.0%	100.0%	$5,718	100.0%	100

Table of Contents

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Investment Activities

General. We invest in securities pursuant to our Investment Policy, which has been approved by our board of directors. The Board's Asset Liability Committee ("ALCO") monitors our investment activity and ensures that the Bank's investments are consistent with the Investment Policy. The board of directors of Malvern Federal Savings reviews all investment activity on a monthly basis.

Our Investment Policy is designed primarily to manage the interest rate sensitivity of our assets and liabilities, to generate a favorable return without incurring undue interest rate risk or credit risk, to complement our lending activities and to provide and maintain liquidity.

At September 30, 2012, our investment and mortgage-backed securities amounted to $80.5 million in the aggregate or 11.3% of total assets at such date. Our securities portfolio is comprised of mortgage-backed pass-through securities, as well as collateralized mortgage obligations, which amounted to $43.7 million or 54.3% of the securities portfolio at September 30, 2012, and U.S. government and agency obligations, municipal securities, corporate debt obligations and other securities. Our agency debt securities often have call provisions which provide the agency with the ability to call the securities at specified dates. We typically invest in securities with relatively short terms to maturity (less than 10 years). At September 30, 2012, $20.1 million of our investment securities had contractual maturities of one year or less and the estimated duration of our mortgage-backed securities portfolio was 3.4 years at such date.

At September 30, 2012, we had an aggregate of $260,000 in gross unrealized losses on our investment securities portfolio available for sale. Securities are evaluated on a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is 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. For equity securities, the full amount of the other-than-temporary impairment is recognized in earnings. Held to maturity securities are accounted for based upon the historical cost of the security. Available for sale securities can be sold at any time based upon needs or market conditions. Available for sale securities are accounted for at fair value, with unrealized gains and losses on these securities, net of income tax, reflected in shareholders' equity as accumulated other comprehensive income. At September 30, 2012, we had $80.5 million of securities classified as available for sale, no securities classified as held to maturity and no securities classified as trading account.

We do not purchase mortgage-backed derivative instruments that would be characterized “high-risk” under Federal banking regulations at the time of purchase, nor do we purchase corporate obligations which are not rated investment grade or better.

Table of Contents

Our mortgage-backed securities consist primarily of mortgage pass-through certificates and collateralized mortgage obligations issued by the Government National Mortgage Association ("GNMA" or "Ginnie Mae"), Fannie Mae or Freddie Mac. At September 30, 2012, all of our mortgage-backed securities and collateralized mortgage obligations were issued by GNMA, FNMA or FHLMC, and we held no mortgage-backed securities from private issuers. We do not purchase mortgage-backed derivative instruments that would be characterized "high-risk" under Federal banking regulations at the time of purchase.

Investments in mortgage-backed securities involve a risk that actual prepayments will be greater than estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments thereby changing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or in the event such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates.

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. The Company does not intend to sell and 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 September 30, 2012 represents other-than-temporary impairment.

At September 30, 2012, we owned one single issuer trust preferred security, which security had an unrealized loss of $236,000 at such date, compared to $210,000 at September 30, 2011. The Company has continued to receive contractual payments in a timely manner and management expects to continue to receive timely payments in the future based on the credit rating and performance of the issuer. On a quarterly basis, management reviews the credit rating and performance of the issuer, as well as the impact that the overall economy is expected to have on those measurements and the fair value of this security.

Table of Contents

Investment Securities Portfolio, Maturities and Yields. The following table sets forth the scheduled maturities, amortized cost and weighted average yields for our investment portfolio, at September 30, 2012. Due to repayments of the underlying loans, the average life maturities of mortgage-backed and asset-backed securities generally are substantially less than the final maturities.

The composition and maturities of the investment securities portfolio are indicated in the following table.

	One year or less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
Available for Sale Securities:											
U.S. government agencies and obligations(1)	$16,729	1.75%	$6,634	1.71%	$-	- %	$1,006	2.31%	$24,369	$24,617	1.76%
State and municipal obligations	-	-	1,929	2.33	7,016	2.04	272	2.04	9,217	9,387	2.10
Mortgage-backed securities	1,871	1.91	38,356	1.95	1,749	3.08	968	3.15	42,944	43,683	2.02
Single issuer trust preferred security	1,000	1.09	-	-	-	-	-	-	1,000	764	1.09
Corporate debt securities	500	1.16	1,506	1.75	-	-	-	-	2,006	2,057	1.60
Total AFS	20,100	1.72	48,425	1.92	8,810	2.25	2,201	2.64	79,536	80,508	1.93
Held to Maturity Securities:											
Mortgage-backed securities	-	-	-	-	-	-	-	-	-	-	-
Total HTM	-	-	-	-	-	-	-	-	-	-	-
Total debt securities	$20,100	1.72%	$48,425	1.92%	$8,810	2.25%	$2,201	2.64%	$79,536	$80,508	1.93%

(1) Includes FHLB notes

Table of Contents

The following table sets forth the composition of the Company's investment portfolio at the dates indicated.

	At September 30,					
	2012		2011		2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Securities available for sale:						
U.S. government obligations	$-	$-	$4,998	$5,010	$4,997	$4,997
U.S. government agencies(1)	24,369	24,617	28,372	28,442	15,705	15,754
State and municipal obligations	9,217	9,387	952	963	1,199	1,207
Single issuer trust preferred security	1,000	764	1,000	790	1,000	759
Corporate debt securities	2,006	2,057	2,185	2,214	1,451	1,475
Mortgage-backed securities:						
Federal National Mortgage Association	1,791	1,925	3,397	3,589	4,808	5,027
Federal Home Loan Mortgage Corporation	248	261	968	1,016	1,324	1,385
Government National Mortgage Association	1	1	147	151	165	169
Collateralized mortgage obligations	40,904	41,496	31,838	32,214	9,798	9,946
Total available for sale	79,536	80,508	73,857	74,389	40,447	40,719
Securities held to maturity:						
Mortgage-backed securities:						
Government National Mortgage Association	-	-	232	241	266	275
Federal National Mortgage Association	-	-	3,565	3,783	4,450	4,650
Total held to maturity	-	-	3,797	4,024	4,716	4,925
Total investment securities	$79,536	$80,508	$77,654	$78,413	$45,163	$45,644

---

(1) Includes FHLB notes.

Sources of Funds

General. Deposits, loan repayments and prepayments, proceeds from sales of loans, cash flows generated from operations and Federal Home Loan Bank advances are the primary sources of our funds for use in lending, investing and for other general purposes.

Deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposits consist of checking, both interest-bearing and non-interest-bearing, money market, savings and certificate of deposit accounts. At September 30, 2012, 41.2% of the funds deposited with Malvern Federal Savings Bank were in core deposits, which are deposits other than certificates of deposit.

The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. Our deposits are obtained predominantly from the areas where our branch

offices are located. We have historically relied primarily on customer service and long-standing relationships with customers to attract and retain these deposits; however, market interest rates and rates offered by competing financial institutions significantly affect our ability to attract and retain deposits.

Table of Contents

Malvern Federal Savings uses traditional means of advertising its deposit products, including broadcast and print media and we generally do not solicit deposits from outside our market area. In recent years, we have emphasized the origination of core deposits. While we have not engaged in the use of brokered deposits as a source of funds, as a result of the Supervisory Agreement, we are prohibited from using brokered deposits in the future without the prior written non-objection of the OCC.

We do not actively solicit certificate accounts in excess of $250,000, known as “jumbo CDs,” or use brokers to obtain deposits. At September 30, 2012, our jumbo CDs amounted to $17.7 million, of which $8.9 million are scheduled to mature within twelve months. At September 30, 2012, the weighted average remaining maturity of our certificate of deposit accounts was 24.1 months.

The following table sets forth the distribution of total deposits by account type, at the dates indicated.

	At September 30,					
	2012		2011		2010	
	Amount	Percent of Total Deposits	Amount	Percent of Total Deposits	Amount	Percent of Total Deposits
	(Dollars in thousands)					
Deposit Types:						
Savings	$41,712	7.7 %	$45,067	8.1 %	$42,385	7.1 %
Money market	70,955	13.1	86,315	15.6	80,980	13.5
Interest bearing demand	87,116	16.1	88,722	16.0	83,365	14.0
Non-interest bearing demand	23,062	4.3	19,833	3.6	18,503	3.1
Total core deposits	222,845	41.2	239,937	43.3	225,233	37.7
Time deposits with original maturities of:						
Three months or less	815	0.1	834	0.1	884	0.2
Over three months to six months	6,888	1.3	7,513	1.4	10,585	1.8
Over six months to twelve months	22,019	4.1	8,688	1.6	29,917	5.0
Over twelve months	288,421	53.3	297,483	53.6	330,239	55.3
Total time deposits	318,143	58.8	314,518	56.7	371,625	62.3
Total deposits	$540,988	100.0 %	$554,455	100.0 %	$596,858	100.0 %

At September 30, 2012, we had $160.9 million in certificates of deposit and other time deposits with balances of $100,000 or more maturing as follows:

Maturity Period	Amount (In thousands)
Three months or less	$ 9,312
Over three months through six months	27,314
Over six months through 12 months	33,719
Over twelve months	90,510
Total	$ 160,855

Table of Contents

The following table presents our time deposit accounts categorized by interest rates which mature during each of the periods set forth below and the amounts of such time deposits by interest rate at each of the periods indicated.

	Period to Maturity from September 30, 2012				At September 30,		
	One Year or Less	More than One Year to Two Years	More than Two Years to Three Years	More than Three Years	2012	2011	2010
				(In thousands)			
Interest Rate Range:							
0.99% and below	$44,477	$35,196	$14,516	$-	$94,189	$39,591	$24,241
1.00% to 1.99%	50,136	7,698	9,606	15,043	82,483	93,216	129,999
2.00% to 2.99%	37,985	18,973	14,312	27,940	99,210	130,983	119,666
3.00% to 3.99%	125	2,624	9,759	24,371	36,879	41,656	52,865
4.00% to 4.99%	1,275	1,513	2,254	-	5,042	7,934	43,187
5.00% to 5.99%	340	-	-	-	340	1,138	1,667
Total	$134,338	$66,004	$50,447	$67,354	$318,143	$314,518	$371,625

The following table sets forth our savings flows during the periods indicated.

	Year Ended September 30,		
	2012	2011	2010
	(Dollars in thousands)		
Opening balance	$554,455	$596,858	$516,511
Deposits	955,037	992,692	1,865,114
Withdrawals	973,480	$1,040,942	1,793,439
Interest credited	4,976	5,847	8,672
Ending balance	$540,988	$554,455	$596,858
Net (decrease) increase	$(13,467)	$(42,403)	$80,347
Percent (decrease) increase	(2.43)%	(7.10)%	15.56%

Borrowings. We utilize advances from the FHLB of Pittsburgh as an alternative to retail deposits to fund operations as part of our operating strategy. These FHLB advances are collateralized primarily by certain of our mortgage loans and mortgage-backed securities and secondarily by our investment in capital stock of the FHLB of Pittsburgh. FHLB advances are made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. The maximum amount that the FHLB of Pittsburgh will advance to member institutions, including Malvern Federal Savings, fluctuates from time to time in accordance with the policies of the FHLB. At September 30, 2012, we had $48.1 million in outstanding FHLB advances and $295.3 million of additional FHLB advances and other borrowings available. In addition, we have established a $50.0 million line of credit with the FHLB, none of which was outstanding at September 30, 2012. All amounts drawn on our FHLB line of credit are considered short-term borrowings. At September 30, 2012, $85,000 of our FHLB advances were scheduled to mature within one year.

At September 30, 2012, we had no FHLB advances that were short-term (maturities of one year or less). In addition, at September 30, 2012, we had nothing outstanding on our line of credit with the FHLB, which is payable on demand.

Table of Contents

Subsidiaries

In addition to the Bank, Malvern Bancorp, Inc. has one subsidiary, Malvern Federal Holdings, Inc., a Delaware corporation organized to hold and manage certain investment securities. The Bank has two subsidiaries, Malvern Federal Investments, Inc., a Delaware corporation organized as an operating subsidiary of the Bank to hold and manage certain investment securities, and Strategic Asset Management Group, Inc. ("SAMG"), a Pennsylvania corporation and insurance brokerage engaged in sales of property and casualty insurance, commercial insurance and life and health insurance. SAMG is currently is inactive.

Employees

At September 30, 2012, we had 92 full-time and 10 part-time employees. No employees are represented by a collective bargaining group, and we believe that its relationship with its employees is excellent.

REGULATION

Set forth below is a brief description of the material regulatory requirements that are applicable to Malvern Bancorp and Malvern Federal Savings Bank. This description is limited to certain material aspects of applicable laws and regulations and is qualified in its entirety by reference to applicable laws and regulations.

General

Malvern Federal Savings Bank, as a federally chartered savings association, is subject to federal regulation and oversight by the OCC extending to all aspects of its operations. Malvern Federal Savings Bank also is subject to regulation and examination by the Federal Deposit Insurance Corporation ("FDIC"), which insures its deposits to the maximum extent permitted by law, and requirements established by the Federal Reserve Board. Federal law provides the federal banking regulators, including the OCC and FDIC, with substantial enforcement powers. Any change in such regulations, whether by the FDIC, OCC or Congress, could have a material adverse impact on Malvern Bancorp and Malvern Federal Savings Bank and our operations.

The Supervisory Agreements

In October 2010, the Mid-Tier Holding Company, Malvern Federal Savings Bank and Malvern Federal Mutual Holding Company entered into Supervisory Agreements (the "Supervisory Agreement(s)") with the OTS. The agreements provide, among other things, that within specified time frames:

we were required to submit an updated, comprehensive business plan to the OTS that, among other things, addressed Malvern Federal Savings Bank's strategy to improve core earnings, maintain appropriate levels of liquidity and achieve profitability on a consistent basis. We must submit quarterly reports to the OCC (and, previously, the OTS) regarding Malvern Federal Savings Bank's compliance with the plan;

Malvern Federal Savings Bank must ensure that its financial reports to the OCC (and, previously, the OTS) are accurately prepared and timely filed in accordance with applicable law, regulations and regulatory guidance;

we were required to submit a written internal asset review and classification program to the OTS that, among other things, ensures the accurate and timely identification and classification of Malvern Federal Savings Bank's classified and criticized assets, and requires asset reviews for commercial real estate, construction and land development, multi-family and commercial loans by an independent third-party loan review consultant not less than every six

months;

we were required to submit to the OTS a detailed, written plan with targeted levels of Malvern Federal Savings Bank's problem assets (as defined), describing our strategies to reduce the levels of our problem assets to the targeted levels and the development of specific workout plans for problem assets in the amount of $500,000 or more and we must submit quarterly asset reports to the OCC (and, previously, the OTS) regarding, among other things, Malvern Federal Savings Bank's compliance with such plans;

Table of Contents

we were required to revise Malvern Federal Savings Bank's policies, procedures and methodologies relating to the allowance for loan and lease losses ("ALLL") to be in compliance with all applicable laws, regulations and regulatory guidance, and we must provide for a quarterly independent third-party review and validation of Malvern Federal Savings Bank's ALLL;

we were required to submit to the OTS a written program of its policies and procedures for identifying, monitoring and controlling risks associated with concentrations of commercial real estate credit which, among other things, establishes comprehensive concentration limits, provides for specific review procedures and reporting requirements to identify, monitor and control risks associated with concentrations of credit and contain a written action plan, with specific time frames, for bringing Malvern Federal Savings Bank into compliance with its concentration of credit limits;

Malvern Federal Savings Bank may not make, invest in, or purchase any new commercial real estate loans and/or commercial and industrial loans without the prior written non-objection of the OCC (and, previously, the OTS), other than with respect to any refinancing, extension or modification of an existing commercial real estate or commercial and industrial loan where no new funds are advanced;

Malvern Federal Savings Bank was required to develop and implement an information technology policy;

Malvern Federal Bancorp and Malvern Federal Mutual Holding Company are prohibited from declaring or paying dividends or making any other capital distributions (as defined) without receiving the prior written approval of the FRB (and, previously, the OTS); and

Malvern Federal Bancorp and Malvern Federal Mutual Holding Company are required to ensure Malvern Federal Savings Bank's compliance with its Supervisory Agreement.

While the OCC has noted some instances in which we may not have fully addressed all aspects of the Supervisory Agreements, we believe that we have complied in all material respects with the applicable terms of the Supervisory Agreements. We are continuing to review our compliance efforts with respect to the Supervisory Agreements in an effort to fully address the matters noted by the OCC.

As a result of the Supervisory Agreement with Malvern Federal Savings Bank, it is subject to certain additional restrictions pursuant to Federal banking regulations, including the following:

Malvern Federal Savings Bank must limit its asset growth in any quarter to an amount which does not exceed the net interest credited on deposit liabilities during the quarter, unless otherwise permitted by the OCC (and, previously, the OTS);

Malvern Federal Savings Bank is required to provide the OCC (and, previously, the OTS) with prior notice of any new director or senior executive officer;

Malvern Federal Savings Bank is restricted from making any "golden parachute payments," as defined;

Malvern Federal Savings Bank may not enter into, renew, extend or revise any contractual arrangements related to compensation or benefits with any director or officer without receiving prior written non-objection from the OCC (and, previously, the OTS);

Malvern Federal Savings Bank may not declare or pay any dividends or make other capital distributions, such as repurchases of common stock, without the prior written approval of the OCC (and, previously, the OTS);

Malvern Federal Savings Bank's ability to engage in transactions with affiliates, as defined, is restricted; and

---

Table of Contents

Malvern Federal Savings Bank may not engage in the use of brokered deposits without the prior written non-objection of the OCC (and, previously, the OTS).

Dodd-Frank Act

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act enacted in 2010, the powers of the Office of Thrift Supervision regarding Malvern Federal Savings Bank, Malvern Federal Bancorp and Malvern Federal Mutual Holding Company transferred to other federal financial institution regulatory agencies on July 21, 2011. As of the transfer date, all of the regulatory functions related to Malvern Federal Savings Bank that were under the jurisdiction of the Office of Thrift Supervision transferred to the OCC. In addition, as of that same date, all of the regulatory functions related to Malvern Federal Bancorp and Malvern Federal Mutual Holding Company, as savings and loan holding companies, that were under the jurisdiction of the OTS, transferred to the Federal Reserve Board.

The following aspects of the financial reform and consumer protection act are related to the operations of the Bank:

The Office of Thrift Supervision has been merged into the OCC and the authority of the other remaining bank regulatory agencies restructured. The federal thrift charter has been preserved under the jurisdiction of the OCC.

A new independent consumer financial protection bureau was established within the Federal Reserve Board, empowered to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws. Smaller financial institutions, like the Bank, are subject to the supervision and enforcement of their primary federal banking regulator with respect to the federal consumer financial protection laws.

Tier 1 capital treatment for "hybrid" capital items like trust preferred securities was eliminated subject to various grandfathering and transition rules.

The prohibition on payment of interest on demand deposits was repealed, effective July 21, 2011.

State consumer financial law is preempted only if it would have a discriminatory effect on a federal savings association, prevents or significantly interferes with the exercise by a federal savings association of its powers or is preempted by any other federal law. The OCC must make a preemption determination on a case-by-case basis with respect to a particular state law or other state law with substantively equivalent terms.

Deposit insurance has been permanently increased to $250,000 and unlimited deposit insurance for noninterest-bearing transaction accounts extended through December 31, 2012.

Deposit insurance assessment base calculation equals the depository institution's total assets minus the sum of its average tangible equity during the assessment period.

The minimum reserve ratio of the Deposit Insurance Fund increased to 1.35 percent of estimated annual insured deposits or assessment base; however, the FDIC was directed to "offset the effect" of the increased reserve ratio for insured depository institutions with total consolidated assets of less than $10 billion.

The following aspects of the financial reform and consumer protection act are related to the operations of the Company:

Authority over savings and loan holding companies transferred to the Federal Reserve Board on July 21, 2011.

Table of Contents

The Home Owners' Loan Act was amended to provide that leverage capital requirements and risk based capital requirements applicable to depository institutions and bank holding companies will be extended to thrift holding companies.

The Federal Deposit Insurance Act was amended to direct federal regulators to require depository institution holding companies to serve as a source of strength for their depository institution subsidiaries.

Public companies are required to provide their shareholders with a non-binding vote: (i) at least once every three years on the compensation paid to executive officers, and (ii) at least once every six years on whether they should have a "say on pay" vote every one, two or three years (however, smaller reporting companies have temporarily been exempted from this requirement until January 21, 2013).

A separate, non-binding shareholder vote is required regarding golden parachutes for named executive officers when a shareholder vote takes place on mergers, acquisitions, dispositions or other transactions that would trigger the parachute payments.

Securities exchanges are required to prohibit brokers from using their own discretion to vote shares not beneficially owned by them for certain "significant" matters, which include votes on the election of directors, executive compensation matters, and any other matter determined to be significant.

Stock exchanges, which includes the Nasdaq, will be prohibited from listing the securities of any issuer that does not have a policy providing for (i) disclosure of its policy on incentive compensation payable on the basis of financial information reportable under the securities laws, and (ii) the recovery from current or former executive officers, following an accounting restatement triggered by material noncompliance with securities law reporting requirements, of any incentive compensation paid erroneously during the three-year period preceding the date on which the restatement was required that exceeds the amount that would have been paid on the basis of the restated financial information.

Disclosure in annual proxy materials will be required concerning the relationship between the executive compensation paid and the financial performance of the issuer.

Item 402 of Regulation S-K will be amended to require companies to disclose the ratio of the Chief Executive Officer's annual total compensation to the median annual total compensation of all other employees.

Smaller reporting companies are exempt from complying with the internal control auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act.

Regulation of Malvern Bancorp, Inc.

Holding Company Acquisitions. Malvern Bancorp is a savings and loan holding company under the Home Owners' Loan Act, as amended, and is subject to examination and supervision by the Federal Reserve Board. Federal law generally prohibits a savings and loan holding company, without prior FRB approval, from acquiring the ownership or control of any other savings institution or savings and loan holding company, or all, or substantially all, of the assets or more than 5.0% of the voting shares of the savings institution or savings and loan holding company. These provisions also prohibit, among other things, any director or officer of a savings and loan holding company, or any individual who owns or controls more than 25.0% of the voting shares of such holding company, from acquiring control of any savings institution not a subsidiary of such savings and loan holding company, unless the acquisition is approved by the FRB.

The FRB may not approve any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (1) the approval of interstate supervisory acquisitions by savings and loan holding companies; and (2) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Table of Contents

Holding Company Activities. Malvern Bancorp operates as a unitary savings and loan holding company and is permitted to engage only in the activities permitted for financial institution holding companies or for multiple savings and loan holding companies. Multiple savings and loan holding companies are permitted to engage in the following activities: (i) activities permitted for a bank holding company under section 4(c) of the Bank Holding Company Act (unless the Federal Reserve Board prohibits or limits such 4(c) activities); (ii) furnishing or performing management services for a subsidiary savings association; (iii) conducting any insurance agency or escrow business; (iv) holding, managing, or liquidating assets owned by or acquired from a subsidiary savings association; (v) holding or managing properties used or occupied by a subsidiary savings association; (vi) acting as trustee under deeds of trust; or (vii) activities authorized by regulation as of March 5, 1987, to be engaged in by multiple savings and loan holding companies. Under the recently enacted legislation, savings and loan holding companies became subject to statutory capital requirements. While there are no specific restrictions on the payment of dividends or other capital distributions for savings and loan holding companies, federal regulations do prescribe such restrictions on subsidiary savings institutions, as described below. Malvern Federal Savings Bank is required to notify the Federal Reserve Board 30 days before declaring any dividend. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the Federal Reserve Board and the agency has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of the institution.

All savings associations subsidiaries of savings and loan holding companies are required to meet a qualified thrift lender, or QTL, test to avoid certain restrictions on their operations. If the subsidiary savings institution fails to meet the QTL, as discussed below, then the savings and loan holding company must register with the Federal Reserve Board as a bank holding company, unless the savings institution requalifies as a QTL within one year thereafter.

Federal Securities Laws. As the successor to Malvern Federal Bancorp, Inc., Malvern Bancorp has registered its common stock with the Securities and Exchange Commission under Section 12(b) of the Securities Exchange Act of 1934. Malvern Bancorp is subject to the proxy and tender offer rules, insider trading reporting requirements and restrictions, and certain other requirements under the Securities Exchange Act of 1934. Pursuant to the FRB regulations and our Plan of Conversion and Reorganization, we have agreed to maintain such registration for a minimum of three years following completion of the second-step conversion.

The Sarbanes-Oxley Act. As a public company, Malvern Bancorp is subject to the Sarbanes-Oxley Act of 2002 which addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our principal executive officer and principal financial officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the Securities and Exchange Commission under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

Regulation of Malvern Federal Savings Bank

General. Malvern Federal Savings Bank is subject to the regulation of the OCC, as its primary federal regulator and the FDIC, as the insurer of its deposit accounts, and, to a limited extent, the Federal Reserve Board. As the primary federal regulator of Malvern Federal Savings Bank, the OCC has extensive authority over the operations of federally chartered savings institutions. As part of this authority, Malvern Federal Savings Bank is required to file periodic reports with the OCC and is subject to periodic examinations by the OCC and the FDIC. The investment and lending authorities of savings institutions are prescribed by federal laws and regulations, and such institutions are prohibited

from engaging in any activities not permitted by such laws and regulations. Such regulation and supervision is primarily intended for the protection of depositors and the Deposit Insurance Fund, administered by the FDIC.

Table of Contents

The OCC's enforcement authority over all savings institutions includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OCC. As previously indicated, the OTS previously entered into Supervisory Agreement with each of the Bank, the Mid-Tier Holding Company and the Mutual Holding Company. The OCC is now the successor in interest to the OTS with respect to the application of the provisions of the Supervisory Agreement to the Bank.

Insurance of Accounts. The deposits of Malvern Federal Savings Bank are insured to the maximum extent permitted by the Deposit Insurance Fund and are backed by the full faith and credit of the U.S. Government. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the FDIC. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the OCC an opportunity to take such action.

The recently enacted financial institution reform legislation permanently increased deposit insurance on most accounts to $250,000. In addition, pursuant to Section 13(c)(4)(G) of the Federal Deposit Insurance Act, the FDIC has implemented two temporary programs to provide deposit insurance for the full amount of most non-interest bearing transaction deposit accounts and to guarantee certain unsecured debt of financial institutions and their holding companies. Under the unsecured debt program, the FDIC's guarantee expires on the earlier of the maturity date of the debt or December 31, 2012. The unlimited deposit insurance for non-interest-bearing transaction accounts was extended by the recently enacted legislation through the end of 2012 for all insured institutions without a separate insurance assessment (but the cost of the additional insurance coverage will be considered under the risk-based assessment system). Financial institutions could have opted out of either or both of these programs. We did opt out of the temporary liquidity guarantee program.

The Federal Deposit Insurance Corporation's risk-based premium system provides for quarterly assessments. Each insured institution is placed in one of four risk categories depending on supervisory and capital considerations. Within its risk category, an institution is assigned to an initial base assessment rate which is then adjusted to determine its final assessment rate based on its brokered deposits, secured liabilities and unsecured debt. The Federal Deposit Insurance Corporation recently amended its deposit insurance regulations (1) to change the assessment base for insurance from domestic deposits to average assets minus average tangible equity and (2) to lower overall assessment rates. The revised assessments rates are between 2.5 to 9 basis points for banks in the lowest risk category and between 30 to 45 basis points for banks in the highest risk category. The amendments became effective for the quarter beginning April 1, 2011 with the new assessment methodology being reflected in the premium invoices due September 30, 2011.

In 2009, the Federal Deposit Insurance Corporation collected a five basis point special assessment on each insured depository institution's assets minus its Tier 1 capital as of June 30, 2009. The amount of our special assessment, which was paid on September 30, 2009, was an additional expense of $320,000.

In 2009, the Federal Deposit Insurance Corporation also required insured deposit institutions on December 30, 2009 to prepay 13 quarters of estimated insurance assessments. Our prepayment totaled approximately $3.2 million. Unlike a special assessment, this prepayment did not immediately affect bank earnings. Banks will book the prepaid assessment as a non-earning asset and record the actual risk-based premium payments at the end of each quarter.

In addition, all institutions with deposits insured by the Federal Deposit Insurance Corporation are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize the predecessor to the Deposit Insurance Fund. These assessments will

continue until the Financing Corporation bonds mature in 2019.

Table of Contents

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is not aware of any existing circumstances which could result in termination of the Bank's deposit insurance.

Regulatory Capital Requirements. Federally insured savings institutions are required to maintain minimum levels of regulatory capital. The OCC has established capital standards consisting of a "tangible capital requirement," a "leverage capital requirement" and "a risk-based capital requirement." The OCC also is authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis.

Current OCC capital standards require savings institutions to satisfy the following capital requirements:

- tangible capital requirement – "tangible" capital equal to at least 1.5% of adjusted total assets;
- leverage capital requirement – "core" capital equal to at least 3.0% of adjusted total assets for the most highly rated institutions;
- an additional "cushion" of at least 100 basis points of core capital for all but the most highly rated savings associations effectively increasing their minimum Tier 1 leverage ratio to 4.0% or more; and
- risk-based capital requirement – "total" capital (a combination of core and "supplementary" capital) equal to at least 8.0% of "risk-weighted" assets.

Core capital generally consists of common stockholders' equity (including retained earnings). Tangible capital generally equals core capital minus intangible assets, with only a limited exception for purchased mortgage servicing rights. Malvern Federal Savings Bank had no intangible assets at September 30, 2012. Both core and tangible capital are further reduced by an amount equal to a savings institution's debt and equity investments in subsidiaries engaged in activities not permissible to national banks (other than subsidiaries engaged in activities undertaken as agent for customers or in mortgage banking activities and subsidiary depository institutions or their holding companies). These adjustments do not affect Malvern Federal Savings Bank's regulatory capital.

In determining compliance with the risk-based capital requirement, a savings institution is allowed to include both core capital and supplementary capital in its total capital, provided that the amount of supplementary capital included does not exceed the savings institution's core capital. Supplementary capital generally consists of general allowances for loan losses up to a maximum of 1.25% of risk-weighted assets, together with certain other items. In determining the required amount of risk-based capital, total assets, including certain off-balance sheet items, are multiplied by a risk weight based on the risks inherent in the type of assets. The risk weights range from 0% for cash and securities issued by the U.S. Government or unconditionally backed by the full faith and credit of the U.S. Government to 100% for loans (other than qualifying residential loans weighted at 80%) and repossessed assets.

Savings institutions must value securities available for sale at amortized cost for regulatory capital purposes. This means that in computing regulatory capital, savings institutions should add back any unrealized losses and deduct any unrealized gains, net of income taxes, on debt securities reported as a separate component of GAAP capital.

At September 30, 2012, Malvern Federal Savings Bank exceeded all of its regulatory capital requirements, with tangible, core and total risk-based capital ratios of 7.70%, 7.70% and 14.22%, respectively. Subsequent to September 30, 2012, we made an additional $25.0 million capital infusion into the Bank as a result of the successful completion of our second-step conversion and stock offering.

Any savings institution that fails any of the capital requirements is subject to possible enforcement actions by the OCC or the FDIC. Such actions could include a capital directive, a cease and desist order, civil money penalties, the establishment of restrictions on the institution's operations, termination of federal deposit insurance and the appointment of a conservator or receiver. The OCC's capital regulation provides that such actions, through enforcement proceedings or otherwise, could require one or more of a variety of corrective actions.

Prompt Corrective Action. The following table shows the amount of capital associated with the different capital categories set forth in the prompt corrective action regulations.

Capital Category	Total Risk-Based Capital	Tier 1 Risk-Based Capital	Tier 1 Leverage Capital
Well capitalized	10% or more	6% or more	5% or more
Adequately capitalized	8% or more	4% or more	4% or more
Undercapitalized	Less than 8%	Less than 4%	Less than 4%
Significantly undercapitalized	Less than 6%	Less than 3%	Less than 3%

In addition, an institution is "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Under specified circumstances, a federal banking agency may reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized institution as critically undercapitalized).

An institution generally must file a written capital restoration plan which meets specified requirements within 45 days of the date that the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. A federal banking agency must provide the institution with written notice of approval or disapproval within 60 days after receiving a capital restoration plan, subject to extensions by the agency. An institution which is required to submit a capital restoration plan must concurrently submit a performance guaranty by each company that controls the institution. In addition, undercapitalized institutions are subject to various regulatory restrictions, and the appropriate federal banking agency also may take any number of discretionary supervisory actions.

At September 30, 2012, Malvern Federal Savings Bank was not subject to the above mentioned restrictions.

The table below sets forth Malvern Federal Savings Bank's capital position relative to its regulatory capital requirements at September 30, 2012. The table below does not reflect the $25.0 million capital infusion to the Bank made on October 11, 2012 upon completion of our second-step offering.

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions		Excess Over Well-Capitaliz Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Rat
	(Dollars in thousands)							
Total risk-based capital (to risk-weighted assets)	$59,715	14.22%	$33,602	8.00%	$42,003	10.00%	$17,712	4.2
Tier 1 risk-based capital (to risk-weighted assets)	$54,436	12.96	$16,801	4.00	$25,202	6.00	$29,234	6.9
Tier 1 leverage capital (to adjusted tangible assets)	$54,436	7.70	$28,269	4.00	$35,336	5.00	$19,100	2.7

39

Table of Contents

Capital Distributions. OCC regulations govern capital distributions by savings institutions, which include cash dividends, stock repurchases and other transactions charged to the capital account of a savings institution to make capital distributions. A savings institution must file an application for OCC approval of the capital distribution if either (1) the total capital distributions for the applicable calendar year exceed the sum of the institution's net income for that year to date plus the institution's retained net income for the preceding two years, (2) the institution would not be at least adequately capitalized following the distribution, (3) the distribution would violate any applicable statute, regulation, agreement or OCC-imposed condition, or (4) the institution is not eligible for expedited treatment of its filings. If an application is not required to be filed, savings institutions which are a subsidiary of a savings and loan holding company (as well as certain other institutions) must still file a notice with the OCC at least 30 days before the board of directors declares a dividend or approves a capital distribution. The Supervisory Agreement prohibits Malvern Federal Savings from making any capital distributions without the prior written approval of the OCC.

An institution that either before or after a proposed capital distribution fails to meet its then applicable minimum capital requirement or that has been notified that it needs more than normal supervision may not make any capital distributions without the prior written approval of the OCC. In addition, the OCC may prohibit a proposed capital distribution, which would otherwise be permitted by OCC regulations, if the OCC determines that such distribution would constitute an unsafe or unsound practice.

Under federal rules, an insured depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it is already undercapitalized. In addition, federal regulators have the authority to restrict or prohibit the payment of dividends for safety and soundness reasons. The FDIC also prohibits an insured depository institution from paying dividends on its capital stock or interest on its capital notes or debentures (if such interest is required to be paid only out of net profits) or distributing any of its capital assets while it remains in default in the payment of any assessment due the FDIC. Malvern Federal Savings Bank is currently not in default in any assessment payment to the FDIC.

Qualified Thrift Lender Test. All savings institutions are required to meet a qualified thrift lender, or QTL, test to avoid certain restrictions on their operations. A savings institution can comply with the QTL test by either qualifying as a domestic building and loan association as defined in the Internal Revenue Code or meeting the QTL test of the OCC.

Currently, the OCC's QTL test requires that 65% of an institution's "portfolio assets" (as defined) consist of certain housing and consumer-related assets on a monthly average basis in nine out of every 12 months. To be a qualified thrift lender under the IRS test, the savings institution must meet a "business operations test" and a "60 percent assets test," each defined in the Internal Revenue Code.

If the savings institution fails to maintain its QTL status, the holding company's activities are restricted. In addition, it must discontinue any non-permissible business within three years. Nonetheless, any company that controls a savings institution that is not a qualified thrift lender must register as a bank holding company within one year of the savings institution's failure to meet the QTL test.

Statutory penalty provisions prohibit an institution that fails to remain a QTL from the following:

- Making any new investments or engaging in any new activity not allowed for both a national bank and a savings association;
- Establishing any new branch office unless allowable for a national bank; and
- Paying dividends unless allowable for a national bank.

Three years from the date a savings association should have become or ceases to be a QTL, by failing to meet either QTL test, the institution must comply with the following restriction:

Dispose of any investment or not engage in any activity unless the investment or activity is allowed for both a national bank and a savings association.

Table of Contents

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, a savings institution not in compliance with the QTL test is also prohibited from paying dividends unless it meets certain conditions and is also subject to an enforcement action for violation of the Home Owners' Loan Act, as amended.

At September 30, 2012, Malvern Federal Savings Bank met the requirements to be deemed a QTL.

Limitations on Transactions with Affiliates. Transactions between savings associations and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act as made applicable to savings associations by Section 11 of the Home Owners' Loan Act. An affiliate of a savings association includes any company or entity which controls the savings institution or that is controlled by a company that controls the savings association. In a holding company context, the holding company of a savings association (such as Malvern Bancorp) and any companies which are controlled by such holding company are affiliates of the savings association. Generally, Section 23A limits the extent to which the savings association or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such association's capital stock and surplus, and contains an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus. Section 23B applies to "covered transactions" as well as certain other transactions and requires that all transactions be on terms substantially the same, or at least as favorable, to the savings association as those provided to a non-affiliate. The term "covered transaction" includes the making of loans to, purchase of assets from and issuance of a guarantee to an affiliate and similar transactions. Section 23B transactions also include the provision of services and the sale of assets by a savings association to an affiliate. In addition to the restrictions imposed by Sections 23A and 23B, Section 11 of the Home Owners' Loan Act prohibits a savings association from (i) making a loan or other extension of credit to an affiliate, except for any affiliate which engages only in certain activities which are permissible for bank holding companies, or (ii) purchasing or investing in any stocks, bonds, debentures, notes or similar obligations of any affiliate, except for affiliates which are subsidiaries of the savings association.

In addition, Sections 22(g) and (h) of the Federal Reserve Act as made applicable to savings associations by Section 11 of the Home Owners' Loan Act, place restrictions on loans to executive officers, directors and principal shareholders of the savings association and its affiliates. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% shareholder of a savings association, and certain affiliated interests of either, may not exceed, together with all other outstanding loans to such person and affiliated interests, the savings association's loans to one borrower limit (generally equal to 15% of the association's unimpaired capital and surplus). Section 22(h) also requires that loans to directors, executive officers and principal shareholders be made on terms substantially the same as offered in comparable transactions to other persons unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the association and (ii) does not give preference to any director, executive officer or principal shareholder, or certain affiliated interests of either, over other employees of the savings association. Section 22(h) also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a savings association to all insiders cannot exceed the association's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers. Malvern Federal Savings Bank currently is subject to Sections 22(g) and (h) of the Federal Reserve Act and at September 30, 2012, was in compliance with the above restrictions.

Community Reinvestment Act. All federal savings associations have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. An institution's failure to comply with the provisions of the Community Reinvestment Act could result in restrictions on its activities. Malvern Federal Savings Bank received a "satisfactory" Community Reinvestment Act rating in its most recently completed examination.

Anti-Money Laundering. On October 26, 2001, in response to the events of September 11, 2001, the President of the United States signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to

Intercept and Obstruct Terrorism Act of 2001 (referred to as the USA PATRIOT Act). The USA PATRIOT Act significantly expands the responsibilities of financial institutions, including savings and loan associations, in preventing the use of the U.S. financial system to fund terrorist activities. Title III of the USA PATRIOT Act provides for a significant overhaul of the U.S. anti-money laundering regime. Among other provisions, it requires financial institutions operating in the United States to develop new anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such compliance programs are intended to supplement existing compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control Regulations. Malvern Federal Savings Bank has established policies and procedures to ensure compliance with the USA PATRIOT Act's provisions, and the impact of the USA PATRIOT Act on our operations has not been material.

Table of Contents

Federal Home Loan Bank System. Malvern Federal Savings Bank is a member of the Federal Home Loan Bank of Pittsburgh, which is one of 12 regional Federal Home Loan Banks that administers the home financing credit function of savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the FHLB. At September 30, 2012, Malvern Federal Savings Bank had $48.1 million of FHLB advances and nothing outstanding on its line of credit with the FHLB.

As a member, Malvern Federal Savings Bank is required to purchase and maintain stock in the FHLB of Pittsburgh in an amount equal to at least 1.0% of its aggregate unpaid residential mortgage loans or similar obligations at the beginning of each year. At September 30, 2012, Malvern Federal Savings Bank had $4.1 million in FHLB stock, which was in compliance with this requirement.

The Federal Home Loan Banks are required to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. The FHLB has communicated that it believes the calculation of risk-based capital under the current rules of the FHFA significantly overstates the market risk of the FHLB's private-label mortgage-backed securities in the current market environment and that it has enough capital to cover the risks reflected in the FHLB's balance sheet. As a result, an "other than temporary impairment" has not been recorded for the Bank's investment in FHLB stock. However, continued deterioration in the FHLB's financial position may result in impairment in the value of those securities. Management will continue to monitor the financial condition of the FHLB as it relates to, among other things, the recoverability of the Bank's investment.

Federal Reserve System. The Federal Reserve Board requires all depository institutions to maintain reserves against their transaction accounts (primarily NOW and Super NOW checking accounts) and non-personal time deposits. Because required reserves must be maintained in the form of vault cash or a noninterest-bearing account at a Federal Reserve Bank, the effect of this reserve requirement is to reduce an institution's earning assets. At September 30, 2012, Malvern Federal Savings Bank had met its reserve requirement.

TAXATION

Federal Taxation

General. The Company and Malvern Federal Savings Bank are subject to federal income taxation in the same general manner as other corporations with some exceptions listed below. The following discussion of federal, state and local income taxation is only intended to summarize certain pertinent income tax matters and is not a comprehensive description of the applicable tax rules. The Company files a consolidated federal income tax return with Malvern Federal Savings. Malvern Federal Bancorp's federal and state income tax returns for taxable years through September 30, 2008 have been closed for purposes of examination by the Internal Revenue Service or the Pennsylvania Department of Revenue.

Method of Accounting. For federal income tax purposes, we report income and expenses on the accrual method of accounting and file our federal income tax return on a fiscal year basis.

Bad Debt Reserves. The Small Business Job Protection Act of 1996 eliminated the use of the reserve method of accounting for bad debt reserves by savings institutions, effective for taxable years beginning after 1995. Prior to that time, Malvern Federal Savings Bank was permitted to establish a reserve for bad debts and to make additions to the reserve. These additions could, within specified formula limits, be deducted in arriving at taxable income. As a result of the Small Business Job Protection Act of 1996, savings associations must use the specific charge-off method in

computing their bad debt deduction beginning with their 1996 federal tax return. In addition, federal legislation required the recapture over a six year period of the excess of tax bad debt reserves at December 31, 1995 over those established as of December 31, 1987.

Table of Contents

Taxable Distributions and Recapture. Prior to the Small Business Job Protection Act of 1996, bad debt reserves created prior to January 1, 1988 were subject to recapture into taxable income if Malvern Federal Savings Bank failed to meet certain thrift asset and definitional tests. New federal legislation eliminated these savings association related recapture rules. However, under current law, pre-1988 reserves remain subject to recapture should Malvern Federal Savings Bank make certain non-dividend distributions or cease to maintain a bank charter.

At September 30, 2012, the total federal pre-1988 reserve was approximately $1.6 million. The reserve reflects the cumulative effects of federal tax deductions by Malvern Federal Savings for which no federal income tax provisions have been made.

Alternative Minimum Tax. The Internal Revenue Code imposes a tentative minimum tax at a rate of 20% of the corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income consists of a base of regular taxable income plus certain tax preferences. The alternative minimum tax is payable to the extent such tentative minimum tax is in excess of the regular income tax. Net operating losses, of which Malvern Federal Bancorp has none, can offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. The Company has been subject to the alternative minimum tax and has amounts available as credits for carryover, which do not expire.

Corporate Dividends-Received Deduction. The Company may exclude from its income 100% of dividends received from Malvern Federal Savings Bank as a member of the same affiliated group of corporations. The corporate dividends received deduction is 80% in the case of dividends received from corporations which a corporate recipient owns less than 80%, but at least 20% of the distribution corporation. Corporations which own less than 20% of the stock of a corporation distributing a dividend may deduct only 70% of dividends received.

State and Local Taxation

Pennsylvania Taxation. The Company is subject to the Pennsylvania Corporate Net Income Tax, Capital Stock and Franchise Tax. The Corporate Net Income Tax rate for 2012 is 9.99% and is imposed on unconsolidated taxable income for federal purposes with certain adjustments. In general, the Capital Stock and Franchise Tax is a tax imposed on a corporation's capital stock value at a statutorily defined rate, such value being determined in accordance with a fixed formula based upon average net income and net worth.

Malvern Federal Savings Bank is subject to tax under the Pennsylvania Mutual Thrift Institutions Tax Act, as amended to include thrift institutions having capital stock. Pursuant to the Mutual Thrift Institutions Tax, the tax rate is 11.5%. The Mutual Thrift Institutions Tax exempts Malvern Federal Savings Bank from other taxes imposed by the Commonwealth of Pennsylvania for state income tax purposes and from all local taxation imposed by political subdivisions, except taxes on real estate and real estate transfers. The Mutual Thrift Institutions Tax is a tax upon net earnings, determined in accordance with GAAP with certain adjustments. The Mutual Thrift Institutions Tax, in computing income according to GAAP, allows for the deduction of interest earned on state, federal and local obligations, while disallowing a percentage of a thrift's interest expense deduction in the proportion of interest income on those securities to the overall interest income of Malvern Federal Savings Bank. Net operating losses, if any, thereafter can be carried forward three years for Mutual Thrift Institutions Tax purposes.

Table of Contents

Item 1A. Risk Factors.

In analyzing whether to make or to continue an investment in our securities, investors should consider, among other factors, the following risk factors.

We Have Incurred Losses in Recent Years. There Can Be No Assurance That We Will Return to Profitability on a Sustained Basis.

While we reported net income of $2.0 million for the fiscal year ended September 30, 2012, during the years ended September 30, 2010 and 2011, we incurred net losses of $3.1 million and $6.1 million, respectively. These losses were primarily due to deterioration in the quality of our loan portfolio which resulted in significantly higher provisions for loan losses and other real estate owned expenses. In addition, the operating restrictions imposed by the Supervisory Agreements to which we are subject restrict our ability to increase our lending and grow the assets of Malvern Federal Savings Bank. Finally, our average balance of interest-earning assets has shrunk by 5.2% in fiscal 2012 compared to fiscal 2010, reducing our capacity to generate interest income.

Our ability to generate net income on a sustained basis depends on being able to reduce the costs associated with our non-performing assets and other problem assets we have experienced in recent years. In addition, our results in future periods will depend upon whether we are able to have the restrictions of the Supervisory Agreements abated such that we can resume originating commercial real estate loans and resume growing our balance sheet consistent with our business strategy. If we are unable to accomplish these items we may be unable to maintain profitability on a sustained basis. In addition, in the event we receive the regulatory approvals or non-objections necessary for us to resume originating commercial real estate loans, we will need to hire additional personnel for such purpose. We expect that, in such event, we would hire one or two additional loan officers and one additional staff employee, which will increase our salaries and benefits expense.

Our Portfolio of Loans Continues to Include a Significant Amount of Loans with a Higher Risk of Loss

Until fiscal 2010, our business plan had included as a strategy the increased originations of commercial real estate loans, construction and development loans and second mortgages (home equity loans). These loans have a higher risk of default and loss than single-family residential mortgage loans. The aggregate amount of our commercial real estate loans, construction and development loans and second mortgages (home equity loans) amounted to $199.0 million, or 43.1% of our total loan portfolio at September 30, 2012. Commercial real estate and construction and development loans generally are considered to involve a higher degree of risk due to a variety of factors, including generally larger loan balances and loan terms which often do not require full amortization of the loan over its term and, instead, provide for a balloon payment at the stated maturity date. Repayment of commercial real estate loans generally is dependent on income being generated by the rental property or underlying business in amounts sufficient to cover operating expenses and debt service. Repayment of construction and development loans generally is dependent on the successful completion of the project and the ability of the borrower to repay the loan from the sale of the property or obtaining permanent financing. Our second mortgage loans generally are considered to involve a higher degree of risk than single-family residential mortgage loans due to the generally higher loan-to-value ratios and their secondary position in the collateral to the existing first mortgage.

Our Provisions to Our Allowance for Loan Losses and Our Net Charge-Offs to Our Allowance for Loan Losses Have Adversely Affected, and May Continue to Adversely Affect, Our Results of Operations

Our customers may not repay their loans according to the original terms, and the collateral securing the payment of those loans may be insufficient to pay any remaining loan balance. While we maintain an allowance for loan losses to provide for loan defaults and non-performance, losses may exceed the value of the collateral securing the loans and

the allowance may not fully cover any excess loss.

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. Our allowance for loan losses is based on these judgments, as well as historical loss experience and an evaluation of the other risks associated with our loan portfolio, including but not limited to, the size and composition of the loan portfolio, current economic conditions and geographic concentrations within the portfolio. Federal regulatory agencies, as part of their examination process, review our loans and allowance for loan losses. If our assumptions or judgments used to determine the allowance prove to be incorrect, if the value of the collateral securing the loans decreases substantially or if our regulators disagree with our judgments, we may need to increase the allowance in amounts that exceed our expectations. Material additions to the allowance would adversely affect our results of operations and financial condition.

Table of Contents

We recorded an $810,000 provision for loan losses during the year ended September 30, 2012, compared to provisions of $12.4 million and $9.4 million for the years ended September 30, 2011 and 2010, respectively. Our non-performing assets amounted to $14.3 million or 2.01% of total assets at September 30, 2012, compared to $21.2 million or 3.19% of total assets at September 30, 2011 and $25.2 million, or 3.49% of total assets, at September 30, 2010. We had net charge-offs of $3.3 million for the year ended September 30, 2012 compared with $10.4 million and $6.9 million of net charge-offs for the year ended September 30, 2011 and 2010, respectively. The decrease in the provision for loan losses in fiscal 2012 compared to fiscal 2011 and fiscal 2010 was in response to, among other factors, the overall improvement in the trend of delinquent, impaired and non-performing loans.

The Supervisory Agreements Limit Our Ability to Grow and to Pay Dividends and Impose Other Restrictions Which May Adversely Affect Our Results of Operations And the Market Value of Our Common Stock

In October 2010, the Bank, the Company and the Mutual Holding Company entered into the Supervisory Agreements. See Item 1, "Business – Regulation – The Supervisory Agreements" in this Annual Report on Form 10-K. As a result of the Supervisory Agreement, the Bank must limit its asset growth in any quarter to an amount which does not exceed the amount of net interest credited on deposit liabilities during the quarter, unless otherwise permitted by the OCC. In addition, the Supervisory Agreements impose a number of operating restrictions, including a provision which prohibits, with certain exceptions, any new commercial real estate loans or commercial and industrial loans without the prior written non-objection of the OCC, and imposes requirements that the Bank revise and/or implement and monitor various identified policies, procedures and reports. The lending and growth restrictions in the Supervisory Agreements have had an adverse impact on the average yield earned on our loan portfolio and have contributed to a reduction in the average balance of our loan portfolio, both of which have reduced our interest income. In addition, compliance efforts related to the Supervisory Agreements have increased our non-interest expense. In addition, the restrictions in the Supervisory Agreements on our ability to declare or pay dividends or make stock repurchases without the prior written approval of the OCC may adversely affect the market value of our common stock. While we plan to request relief from the Supervisory Agreements during fiscal 2013, no assurance can be given whether any relief will be granted.

Higher Interest Rates Would Hurt Our Profitability

Management is unable to predict fluctuations of market interest rates, which are affected by many factors, including inflation, recession, unemployment, monetary policy, domestic and international disorder and instability in domestic and foreign financial markets, and investor and consumer demand.

Our primary source of income is net interest income, which is the difference between the interest income generated by our interest-earning assets (consisting primarily of single-family residential loans) and the interest expense generated by our interest-bearing liabilities (consisting primarily of deposits). The level of net interest income is primarily a function of the average balance of our interest-earning assets, the average balance of our interest-bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest-earning assets and our interest-bearing liabilities which, in turn, are impacted by such external factors as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve Board of Governors (the "FOMC"), and market interest rates.

A sustained increase in market interest rates could adversely affect our earnings. A significant portion of our loans have fixed interest rates and longer terms than our deposits and borrowings and our net interest income could be adversely affected if the rates we pay on deposits and borrowings increase more rapidly than the rates we earn on loans. In addition, the market value of our fixed-rate assets would decline if interest rates increase. For example, we estimate that as of September 30, 2012, a 300 basis point increase in interest rates would have resulted in our net portfolio value declining by approximately $10.2 million or 15%. Net portfolio value is the difference between

incoming and outgoing discounted cash flows from assets, liabilities and off-balance sheet contracts. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – How We Manage Market Risk.”

Table of Contents

The Ability to Realize Our Deferred Tax Asset May Be Reduced, Which May Adversely Impact Results of Operations

Realization of a deferred tax asset requires us to exercise significant judgment and is inherently uncertain because it requires the prediction of future occurrences. Our net deferred tax asset amounted to $6.8 million at September 30, 2012. Other than an $800,000 allowance with respect to state net operating losses and $74,000 allowance with respect to charitable contributions, we have not established a valuation allowance against our net deferred tax asset as we believe it is more likely than not that the remaining amount of the asset will be realized. In evaluating the need for a valuation allowance, we must estimate our taxable income in future years. Our deferred tax asset may be reduced in the future if estimates of future income or our tax planning strategies do not support the amount of the deferred tax asset. If it is determined that a valuation allowance with respect to our deferred tax asset is necessary, we may incur a charge to earnings and a reduction to regulatory capital for the amount included therein.

The Loss of Senior Management Could Hurt Our Operations

We rely heavily on our executive officers, Messrs. Anderson, Boyle, Hughes, Neiner and Fuchs. The loss of one or more members of senior management could have an adverse effect on us because, as a relatively small community bank, our senior executive officers have more responsibility than would be typical at a larger financial institution with more employees. In addition, we have fewer management-level personnel who are in a position to assume the responsibilities of our senior executive officers.

Strong Competition Within Our Market Area Could Hurt Our Profits and Slow Growth

We face intense competition in making loans, attracting deposits and hiring and retaining experienced employees. This competition has made it more difficult for us to make new loans and attract deposits. Price competition for loans and deposits sometimes results in us charging lower interest rates on our loans and paying higher interest rates on our deposits, which reduces our net interest income. Competition also makes it more difficult and costly to attract and retain qualified employees. Some of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our market area.

The Effects of the Current Economic Conditions Have Been Particularly Severe in Our Primary Market Areas

Substantially all of our loans are to individuals, businesses and real estate developers in Chester County, Pennsylvania and neighboring areas in southern Pennsylvania and our business depends significantly on general economic conditions in these market areas. Severe declines in housing prices and property values have been particularly acute in our primary market areas. A further deterioration in economic conditions or a prolonged delay in economic recovery in our primary market areas could result in the following consequences, any of which could have a material adverse effect on our business:

- Loan delinquencies may increase further;
- Problem assets and foreclosures may increase further;
- Demand for our products and services may decline;
- The carrying value of our other real estate owned may decline further; and

Collateral for loans made by us, especially real estate, may continue to decline in value, in turn reducing a customer's borrowing power, and reducing the value of assets and collateral associated with our loans.

Table of Contents

Increased and/or Special Federal Deposit Insurance Corporation Assessments Will Hurt Our Earnings

There has been a high level of bank failures in recent years, which has dramatically increased Federal Deposit Insurance Corporation (the "FDIC") resolution costs and led to a significant reduction in the balance of the Deposit Insurance Fund. As a result, the FDIC has significantly increased the initial base assessment rates paid by financial institutions for deposit insurance. Increases in the base assessment rate have increased our deposit insurance costs and negatively impacted our earnings. In addition, in May 2009, the Federal Deposit Insurance Corporation imposed a special assessment on all insured institutions. Our special assessment, which was reflected in earnings for the year ended September 30, 2009, was $320,000. In lieu of imposing an additional special assessment, the Federal Deposit Insurance Corporation required all institutions to prepay their assessments for the fourth quarter of 2009 and all of 2010, 2011 and 2012. Additional increases in the base assessment rate or special assessments would negatively impact our earnings.

We Operate In a Highly Regulated Environment and We May Be Adversely Affected By Changes in Laws and Regulations

We are subject to extensive regulation, supervision and examination by the FRB, our primary federal regulator, the OCC, the Bank's primary federal regulator, and by the Federal Deposit Insurance Corporation, as insurer of the Bank's deposits. Such regulation and supervision governs the activities in which an institution and its holding company may engage and are intended primarily for the protection of the insurance fund and the depositors and borrowers of the Bank rather than for holders of our common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations.

Federal Home Loan Bank of Pittsburgh May Not Pay Dividends Or Repurchase Capital Stock In The Future

In 2008, the Federal Home Loan Bank of Pittsburgh ("FHLB") announced that it would voluntarily suspend the payment of dividends and the repurchase of excess capital stock until further notice. The FHLB announced at that time that it expected its ability to pay dividends and add to retained earnings to be significantly curtailed due to low short-term interest rates, an increased cost of maintaining liquidity, other than temporary impairment charges, and constrained access to debt markets at attractive rates. While FHLB resumed paying dividends and making capital stock repurchase in February 2012, capital stock repurchases and dividends from member banks are reviewed on a quarterly basis by the FHLB and could be discontinued in the future. As of September 30, 2012, we held $4.1 million of FHLB capital stock.

The Fair Value of Our Investment Securities Can Fluctuate Due to Market Conditions Outside of Our Control

As of September 30, 2012, the fair value of our investment securities portfolio was approximately $80.5 million. We have historically taken a conservative investment strategy, with concentrations of securities that are backed by government sponsored enterprises. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could have a material adverse effect on us. The process for determining whether impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying

the security in order to assess the probability of receiving all contractual principal and interest payments on the security.

Table of Contents

We Are Dependent On Our Information Technology and Telecommunications Systems and Third-Party Servicers, and Systems Failures, Interruptions or Breaches of Security Could Have a Material Adverse Effect On Us

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on us.

In addition, we provide our customers with the ability to bank remotely, including over the Internet and over the telephone. The secure transmission of confidential information over the Internet and other remote channels is a critical element of remote banking. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security breaches. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, regulatory scrutiny, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could materially and adversely affect us.

Additionally, financial products and services have become increasingly technology-driven. Our ability to meet the needs of our customers competitively, and in a cost-efficient manner, is dependent on the ability to keep pace with technological advances and to invest in new technology as it becomes available. Many of our competitors have greater resources to invest in technology than we do and may be better equipped to market new technology-driven products and services. The ability to keep pace with technological change is important, and the failure to do so could have a material adverse impact on our business and therefore on our financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

Not applicable.

Table of Contents

Item 2. Properties.

We currently conduct business from our headquarters and eight full-service financial center offices. The following table sets forth the net book value of the land, building and leasehold improvements and certain other information with respect to our offices at September 30, 2012. We maintain automated teller machines ("ATMs") at each of our branch offices.

Description/Address	Leased/Owned	Date of Lease Expiration	Net Book Value of Property	Amount of Deposits
			(In thousands)	
Paoli Financial Center and Headquarters 42 East Lancaster Avenue Paoli, PA 19301	Owned	N/A	$ 2,840	N/A
Paoli Financial Center 34 East Lancaster Avenue Paoli, PA 19301	Owned	N/A	633	$ 219,093
Malvern Financial Center 100 West King Street Malvern, PA 19355	Owned	N/A	27	56,419
Exton Financial Center 109 North Pottstown Pike Exton, PA 19341	Owned	N/A	250	52,139
Coventry Financial Center 1000 Ridge Road Pottstown, PA 19465	Owned	N/A	294	62,610
Berwyn Financial Center 650 Lancaster Avenue Berwyn, PA 19313	Owned	N/A	641	45,908
Lionville Financial Center 537 West Uwchlan Avenue Downingtown, PA 19335	Owned	N/A	883	34,262
Westtown Financial Center 100 Skiles Boulevard West Chester, PA 19382	Leased	2015	109	33,505
Concordville Financial Center 940 Baltimore Pike Glen Mills, PA 19342	Leased	2030	456	37,052

Table of Contents

Item 3. Legal Proceedings.

Not Applicable.

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II

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

(a) Malvern Bancorp, Inc.'s common stock is listed on the NASDAQ Global Market under the symbol "MLVF". As of the close of business on September 30, 2012, there were 6,102,500 shares of Mid-Tier Holding Company common stock outstanding, held by approximately 557 stockholders of record, not including the number of persons or entities whose stock is held in nominee or "street" name through various brokerage firms and banks. In connection with the second-step conversion, as of October 11, 2012, each share of Malvern Federal Bancorp common stock was converted into the right to receive 1.0748 shares of common stock of Malvern Bancorp, Inc.

The following table sets forth the high and low prices of the Company's common stock as reported by the NASDAQ Stock Market and cash dividends declared per share for the periods indicated.

	Year Ended September 30,			
	2012		2011	
	High	Low	High	Low
First Quarter	$ 6.57	$ 5.51	$ 7.50	$ 5.05
Second Quarter	$ 8.93	$ 5.90	$ 8.99	$ 7.10
Third Quarter	$ 9.00	$ 7.76	$ 8.72	$ 6.76
Fourth Quarter	$ 10.64	$ 8.01	$ 7.75	$ 6.53

The following table summarized the cash dividends per share of common stock declared by the Company during the periods indicated.

	Year Ended September 30,	
	2012	2011
First Quarter	$ -	$ 0.03
Second Quarter	-	-
Third Quarter	-	-
Fourth Quarter	-	-

Pursuant to the terms of the Supervisory Agreement, the Company is prohibited from declaring or paying any dividends or making any other capital distributions (as defined) without receiving the prior written approval of the OCC.

(b) Not applicable.

(c) Purchase of Equity Securities

Not applicable. Pursuant to the terms of the Supervisory Agreement, the Company is prohibited from making any capital distributions, which is defined to include stock repurchases, without the prior written approval of the OCC.

Table of Contents

Item 6. Selected Financial Data.

Set forth below is selected financial and other data of Malvern Federal Bancorp, Inc. You should read the consolidated financial statements and related notes contained in Item 8 hereof which provide more detailed information.

	At September 30,				
	2012	2011	2010	2009	2008
Selected Financial Condition Data:	(Dollars in thousands)				
Total assets	$ 711,812	$ 666,568	$ 720,506	$ 691,639	$ 639,509
Loans receivable, net	457,001	506,019	547,323	593,565	571,536
Securities held to maturity	-	3,797	4,716	4,842	2,870
Securities available for sale	80,508	74,389	40,719	27,098	21,969
FHLB borrowings	48,085	49,098	55,334	99,621	113,798
Deposits	540,988	554,455	596,858	516,511	453,493
Shareholders' equity	62,636	60,284	66,207	69,842	68,836
Total liabilities	649,176	606,284	654,299	621,796	570,673
Allowance for loan losses	7,581	10,101	8,157	5,718	5,505
Non-accrual loans	9,749	12,915	19,861	14,195	8,585
Non-performing assets	14,343	21,236	25,176	20,070	8,815
Performing troubled debt restructurings	8,187	10,340	11,976	25	103
Non-performing assets and performing troubled debt restructurings	22,530	31,576	37,152	20,095	8,918

	Year Ended September 30,				
	2012	2011	2010	2009	2008
Selected Operating Data:	(Dollars in thousands, except per share data)				
Total interest and dividend income	$ 25,775	$ 29,726	$ 33,148	$ 34,701	$ 33,592
Total interest expense	8,412	10,198	13,641	18,681	19,105
Net interest income	17,363	19,528	19,507	16,020	14,487
Provision for loan losses	810	12,392	9,367	2,280	1,609
Net interest income after provision for loan losses	16,553	7,136	10,140	13,740	12,878
Total other income	3,065	1,729	1,941	2,013	1,846
Total other expenses	17,031	18,556	17,105	14,501	12,642
Income tax expense (benefit)	628	(3,579)	(1,895)	242	630
Net income (loss)	$ 1,959	$ (6,112)	$ (3,129)	$ 1,010	$ 1,452
Earnings income (loss) per share(1)	$ 0.33	$ (1.04)	$ (0.53)	$ 0.17	$ 0.05
Dividends per share	$ 0.00	$ 0.03	$ 0.12	$ 0.14	$ 0.04

	Year Ended September 30,				
	2012	2011	2010	2009	2008
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on assets (ratio of net income to average total assets)	0.30 %	(0.90)%	(0.45)%	0.15 %	0.25 %
Return on average equity (ratio of net income to average equity)	3.15	(9.64)	(4.53)	1.46	2.78

Interest rate spread(2)	2.67	2.88	2.78	2.13	2.18
Net interest margin(3)	2.79	3.02	2.98	2.46	2.61
Non-interest expenses to average total assets	2.59	2.72	2.48	2.13	2.19
Efficiency ratio(4)	83.37	87.29	79.75	80.42	77.40
Asset Quality Ratios:					
Non-accrual loans as a percent of gross loans	2.11	2.52	3.60	2.38	1.52
Non-performing assets as a percent of total assets	2.01	3.19	3.49	2.90	1.38
Non-performing assets and performing troubled debt restructurings as a percent of total assets	3.17	4.74	5.16	2.91	1.39
Allowance for loan losses as a percent of gross loans	1.64	1.97	1.48	0.96	0.96
Allowance for loan losses as a percent of non-accrual loans	77.76	78.21	41.07	40.28	64.12
Net charge-offs to average loans outstanding	0.70	1.97	1.19	0.35	0.12
Capital Ratios(5):					
Total risk-based capital to risk weighted assets	14.22	12.01	12.85	12.67	13.33
Tier 1 risk-based capital to risk weighted assets	12.96	10.76	11.83	11.96	12.40
Tangible capital to tangible assets	7.70	7.54	8.24	9.07	9.64
Tier 1 leverage (core) capital to adjustable tangible assets	7.70	7.54	8.24	9.07	9.64
Shareholders' equity to total assets	8.80	9.04	9.19	10.10	10.76
Other Data:					
Number of full service offices	8	8	8	7	7

---

(1) Earnings per share for the fiscal year ended September 30, 2008, is for period from May 20, 2008, the date of the initial stock issuance of Malvern Federal Bancorp, Inc., through September 30, 2008.

(2) Represents the difference between the weighted average yield on interest earning assets and the weighted average cost of interest bearing liabilities.

(3) Net interest income divided by average interest earning assets.

(4) Represents the ratio obtained from dividing non-interest expense by the sum of net interest income and total other income.

(5) Other than shareholders' equity to total assets, all capital ratios are for the Bank only.

Table of Contents

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

Overview

The Company's results of operations are primarily dependent on the results of the Bank, which is a wholly owned subsidiary of the Company. The Bank currently operates eight financial center offices in Chester and Delaware Counties, which are located in southeastern Pennsylvania approximately 25 miles west of downtown Philadelphia. The Bank's primary business consists of attracting deposits from the general public and using those funds together with funds we borrow to originate loans to our customers. At September 30, 2012, we had total assets of $711.8 million, including $457.0 million in net portfolio loans and $80.5 million of investment securities, total deposits of $541.0 million and total shareholders' equity of $62.6 million.

Our results of operations depend, to a large extent, on net interest income, which is the difference between the income earned on our loan and investment portfolios and interest expense on deposits and borrowings. Our net interest income is largely determined by our net interest spread, which is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities, and the relative amounts of interest-earning assets and interest-bearing liabilities.