

MALVERN FEDERAL BANCORP INC
Form 10-Q
May 14, 2010

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

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: March 31, 2010

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

Commission File Number: 001-34051

MALVERN FEDERAL BANCORP, INC.
(Exact name of Registrant as specified in its charter)

United States
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

19301
(Zip Code)

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

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

YES NO

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

YES NO

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date: As of May 14, 2010, 6,102,500 shares of the Registrant's common stock were issued and outstanding.

MALVERN FEDERAL BANCORP, INC.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Malvern Federal Bancorp, Inc. and Subsidiaries
Consolidated Statements of Financial Condition (Unaudited)

	March 31, 2010	September 30, 2009
Assets		
Cash and due from depository institutions	\$ 8,511,896	\$ 10,815,796
Interest bearing deposits in depository institutions	31,134,612	14,508,803
Cash and Cash Equivalents	39,646,508	25,324,599
Investment securities available for sale	30,741,658	27,097,590
Investment securities held to maturity (fair value of \$4,859,210 and \$4,942,102, respectively)	4,779,072	4,842,176
Restricted stock, at cost	6,566,973	6,566,973
Loans receivable, net of allowance for loan losses of \$8,241,042 and \$5,717,510, respectively	578,014,079	593,565,338
Other real estate owned	4,023,967	5,874,854
Accrued interest receivable	2,119,740	2,226,206
Property and equipment, net	8,327,659	8,381,962
Deferred income taxes, net	3,726,147	2,331,656
Bank-owned life insurance	13,926,868	13,649,585
Other assets	4,401,526	1,777,629
Total Assets	\$ 696,274,197	\$ 691,638,568
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Deposits-noninterest-bearing	\$ 17,763,175	\$ 19,314,263
Deposits-interest-bearing	524,963,640	497,196,415
Total Deposits	542,726,815	516,510,678
FHLB advances	81,527,869	99,621,045
Advances from borrowers for taxes and insurance	2,176,788	1,227,604
Accrued interest payable	445,515	706,895
Other liabilities	1,294,650	3,729,966
Total Liabilities	628,171,637	621,796,188
Commitments and Contingencies	-	-
Shareholders' Equity		

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Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued	-	-
Common stock, \$0.01 par value, 40,000,000 shares authorized, issued and outstanding:		
6,102,500 at March 31, 2010 and 6,150,500 at September 30, 2009	61,525	61,525
Additional paid-in capital	25,928,021	25,937,027
Retained earnings	44,909,424	46,285,949
Treasury stock—at cost, 50,000 shares at March 31, 2010 and 2,000 shares at September 30, 2009	(476,920)	(19,000)
Unearned Employee Stock Ownership Plan (ESOP) shares	(2,371,800)	(2,444,565)
Accumulated other comprehensive income	52,310	21,444
Total Shareholders' Equity	68,102,560	69,842,380
Total Liabilities and Shareholders' Equity	\$ 696,274,197	\$ 691,638,568

See notes to unaudited consolidated financial statements.

TABLE OF CONTENTSMalvern Federal Bancorp, Inc. and Subsidiaries
Consolidated Statements of Operations (Unaudited)

	Three Months Ended March		Six Months Ended March 31,	
	2010	31, 2009	2010	2009
Interest and Dividend Income				
Loans, including fees	\$7,951,817	\$8,243,278	\$16,361,946	\$16,921,765
Investment securities, taxable	239,088	205,642	485,243	416,088
Investment securities, tax-exempt	9,462	21,207	20,974	42,089
Interest-bearing cash accounts	9,245	19,451	14,944	24,957
Total Interest and Dividend Income	8,209,612	8,489,578	16,883,107	17,404,899
Interest Expense				
Deposits	2,437,393	3,398,075	5,271,414	6,911,934
Short-term borrowings	6,267	7,418	7,794	8,699
Long-term borrowings	922,925	1,280,316	2,037,933	2,612,269
Total Interest Expense	3,366,585	4,685,809	7,317,141	9,532,902
Net Interest Income	4,843,027	3,803,769	9,565,966	7,871,997
Provision for Loan Losses	3,637,000	462,423	4,582,000	907,423
Net Interest Income after Provision for Loan Losses	1,206,027	3,341,346	4,983,966	6,964,574
Other Income				
Service charges and other fees	374,940	326,018	759,434	656,410
Rental income	62,500	63,580	127,365	126,966
Gain on sale of investment securities available for sale, net	-	9,410	-	27,206
Gain on disposal of fixed assets	-	8,200	-	8,200
Loss on sale of other real estate owned, net	(33,929)	-	(17,047)	-
Earnings on bank-owned life insurance	136,350	149,690	277,283	236,160
Total Other Income	539,861	556,898	1,147,035	1,054,942
Other Expense				
Salaries and employee benefits	1,466,308	1,525,717	3,133,027	3,084,017
Occupancy expense	487,657	513,584	940,397	956,489
Federal deposit insurance premium	229,886	86,653	867,726	168,330
Advertising	217,547	209,386	438,852	362,262
Data processing	380,861	278,356	775,400	585,101
Professional fees	275,699	224,758	518,308	506,421
Other real estate owned expense	365,512	57,799	793,251	59,760

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Other operating expenses	414,106	510,099	832,207	1,060,009
Total Other Expenses	3,837,576	3,406,352	8,299,168	6,782,389
Income (loss) before Income tax (benefit) expense	(2,091,688)	491,892	(2,168,167)	1,237,127
Income tax (benefit) expense	(866,521)	120,486	(954,759)	349,737
Net Income (loss)	\$(1,225,167)	\$371,406	\$(1,213,408)	\$887,390
Basic Earnings (Loss) Per Share	\$(0.21)	\$0.06	\$(0.21)	\$0.15
Dividends Declared Per Share	\$0.03	\$0.04	\$0.06	\$0.08

See notes to unaudited consolidated financial statements.

TABLE OF CONTENTSMalvern Federal Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, October 1, 2008	\$ 61,525	\$ 25,959,169	\$ 45,663,389	\$-	\$ (2,571,028)	\$ (277,356)	\$ 68,835,699
Comprehensive Income:							
Net Income	-	-	887,390	-	-	-	887,390
Net Change in unrealized loss on securities available for sale, net of taxes and reclassification adjustment	-	-	-	-	-	27,197	27,197
Total Comprehensive Income	-	-	-	-	-	-	914,587
Cash dividends declared (\$0.08 per share)	-	-	(221,489)	-	-	-	(221,489)
Committed to be released ESOP shares (6,701 shares)	-	(10,444)	-	-	72,763	-	62,319
Balance, March 31, 2009	\$ 61,525	\$ 25,948,725	\$ 46,329,290	\$-	\$ (2,498,265)	\$ (250,159)	\$ 69,591,116
Balance, October 1, 2009	\$ 61,525	\$ 25,937,027	\$ 46,285,949	\$ (19,000)	\$ (2,444,565)	\$ 21,444	\$ 69,842,380
Comprehensive Income:							
Net Loss	-	-	(1,213,408)	-	-	-	(1,213,408)
Net Change in unrealized gain on securities available for sale, net of taxes	-	-	-	-	-	30,866	30,866
Total Comprehensive Loss	-	-	-	-	-	-	(1,182,542)
Treasury stock purchased (48,000 shares)	-	-	-	(457,920)	-	-	(457,920)
	-	-	(163,117)	-	-	-	(163,117)

Cash dividends declared (\$0.06 per share)								
Committed to be released ESOP shares (6,702 shares)	-	(9,006)	-	-	72,765	-	63,759
Balance, March 31, 2010	\$ 61,525	\$ 25,928,021	\$ 44,909,424	\$ (476,920)	\$ (2,371,800)	\$ 52,310	\$ 68,102,560	

See notes to unaudited consolidated financial statements.

TABLE OF CONTENTSMalvern Federal Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended March 31,	
	2010	2009
Cash Flows from Operating Activities		
Net income (loss)	\$(1,213,408)	\$887,390
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	408,515	471,767
Provision for loan losses	4,582,000	907,423
Deferred income taxes (benefit)	(1,410,561)	(244,916)
ESOP expense	63,759	62,319
Amortization (accretion) of premiums and discounts on investments securities, net	(163,125)	(76,451)
Amortization of mortgage servicing rights	31,562	45,163
Net gain on sale of investment securities available for sale	-	(27,206)
Net gain on disposal of fixed assets	-	(8,200)
Loss on sale of other real estate owned	17,047	-
Write down of other real estate owned	671,782	-
Decrease in accrued interest receivable	106,466	250,268
(Decrease) increase in accrued interest payable	(261,380)	244,650
(Decrease) increase in other liabilities	(2,435,316)	94,364
Earnings on bank-owned life insurance	(277,283)	(236,160)
(Increase) decrease in other assets	363,784	1,142
Increase in prepaid FDIC assessment	(3,019,243)	(95,141)
Amortization of loan origination fees and costs	(342,649)	(122,139)
Net Cash (Used in) Provided by Operating Activities	(2,878,050)	2,154,273
Cash Flows from Investing Activities		
Proceeds from maturities and principal collections:		
Investment securities held to maturity	99,463	146,621
Investment securities available for sale	6,669,630	5,829,924
Proceeds from sales, investment securities available for sale	-	1,143,619
Purchases of investment securities available for sale	(10,139,996)	(7,682,027)
Loan purchases	(11,017,456)	(30,954,099)
Loan originations and principal collections, net	22,329,364	2,980,080
Proceeds from sale of other real estate owned	1,162,058	-
Purchase of other real estate owned	-	(780,281)
Purchases of bank-owned life insurance	-	(5,000,000)
Net decrease in restricted stock	-	328,700
Purchases of property and equipment	(354,212)	(249,069)
Net Cash Provided by (Used in) Investing Activities	8,748,851	(34,230,388)
Cash Flows from Financing Activities		
Net increase in deposits	26,216,137	48,057,325

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Net decrease in short-term borrowings	-	(8,500,000)
Proceeds from long-term borrowings	3,000,000	5,000,000
Repayment of long-term borrowings	(21,093,176)	(5,008,700)
Increase in advances from borrowers for taxes and insurance	949,184	1,324,551
Cash dividends paid	(163,117)	(221,489)
Treasury stock purchased	(457,920)	-
Net Cash Provided by Financing Activities	8,451,108	40,651,687
Net Increase in Cash and Cash Equivalents	14,321,909	8,575,572
Cash and Cash Equivalents - Beginning	25,324,599	12,922,297
Cash and Cash Equivalents - Ending	39,464,508	\$21,497,869
Supplementary Cash Flows Information		
Interest paid	\$7,578,521	\$9,288,252
Income taxes paid	\$730,750	\$395,700
Non-cash transfer of loans to foreclosed real estate	\$-	\$3,818,469

See notes to unaudited consolidated financial statements.

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

Note 1 – Organizational Structure and Nature of Operations

Malvern Federal Bancorp, Inc. (the “Company”) and its subsidiaries, Malvern Federal Holdings, Inc., a Delaware investment company, and Malvern Federal Savings Bank (the “Bank”) and the Bank’s subsidiaries, Strategic Asset Management Group, Inc. (“SAMG”) and Malvern Federal Investments, Inc., a Delaware investment company, provides various banking services, primarily the accepting of deposits and the origination of residential and commercial mortgage loans and consumer loans and other loans through the Bank’s seven full-service branches in Chester County, Pennsylvania. SAMG owns 50% of Malvern Insurance Associates, LLC. Malvern Insurance Associates, LLC offers a full line of business and personal lines of insurance products. As of March 31, 2010 and September 30, 2009, SAMG’s total assets were \$34,709 and \$34,709, respectively. There was no income reported for SAMG for the three and six months ended March 31, 2010 and 2009. The Company is subject to competition from various other financial institutions and financial services companies. The Company is also subject to the regulations of certain federal and state agencies and, therefore, undergoes periodic examinations by those regulatory agencies.

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements at March 31, 2010, and September 30, 2009 and for the three and six months ended March 31, 2010 and 2009 include the accounts of the Malvern Federal Bancorp, Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all the information or footnotes necessary for a complete presentation of financial condition, statement of income, changes in shareholders’ equity, and cash flows in conformity with accounting principles generally accepted in the United States. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements have been included. These financial statements should be read in conjunction with the audited consolidated financial statements of Malvern Federal Bancorp, Inc. and the accompanying notes thereto for the year ended September 30, 2009, which

are included in the Company's Annual Report on Form 10-K for the year ended September 30, 2009. The results for the three and six months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2010, or any other period.

In accordance with the subsequent events topic of the FASB Accounting Standards Codification (the "Codification" or the "ASC"), the Company evaluates events and transactions that occur after the statement of financial condition date for potential recognition and disclosure in the financial statements. The effect of all subsequent events that provide additional evidence of conditions that existed at the balance sheet date are recognized in the unaudited consolidated financial statements as of March 31, 2010.

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Significant Group Concentrations of Credit Risk

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

Cash and Cash Equivalents

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

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

Investment Securities

Debt securities held to maturity are securities that the Company has the positive intent and the ability to hold to maturity; these securities are reported at amortized cost and adjusted for unamortized premiums and discounts. Securities held for trading are securities that are bought and held principally for the purpose of selling in the near term; these securities are reported at fair value, with unrealized gains and losses reported in current earnings. At March 31, 2010 and September 30, 2009, the Company had no investment securities classified as trading. Debt securities that will be held for indefinite periods of time and equity securities, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments are classified as available for sale. Realized gains and losses are recorded on the trade date and are determined using the specific identification method. Securities held as available for sale are reported at fair value, with unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income ("AOCI"). Management determines the appropriate classification of investment securities at the time of purchase.

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

Note 2 – Summary of Significant Accounting Policies (Continued)

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

Loans Receivable

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

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

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

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

Allowance for Loan Losses

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

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

Note 2 – Summary of Significant Accounting Policies (Continued)

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

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

Troubled Debt Restructurings

Loans on accrual status whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. The accrual of interest income on troubled debt restructurings is generally discontinued if the loan is not current for six months subsequent to modification.

Loans Held For Sale

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

There were no loans held for sale at March 31, 2010 or September 30, 2009.

Loan Servicing

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

servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

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Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

Other Real Estate Owned

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

Restricted Stock

Restricted stock represents required investments in the common stock of a correspondent bank and is carried at cost. As of March 31, 2010 and September 30, 2009, restricted stock consists solely of the common stock of the Federal Home Loan Bank of Pittsburgh (“FHLB”). In December 2008, the FHLB notified member banks that it was suspending dividend payments and the repurchase of capital stock.

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

Property and Equipment

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

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank-Owned Life Insurance

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

Employee Benefit Plans

The Bank’s 401(k) plan allows eligible participants to set aside a certain percentage of their salaries before taxes. The Company may elect to match employee contributions up to a specified percentage of their respective salaries in an amount determined annually by the Board of Directors. The Company’s matching contribution related to the plan resulted in expenses of \$(1,885) and \$41,956, for the three and six months ended March 31, 2010, respectively. The Company’s matching contribution related to the plan resulted in expenses of \$8,153 and \$53,843, for the three and six months ended March 31, 2009, respectively.

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

Note 2 – Summary of Significant Accounting Policies (Continued)

The Company also maintains a Supplemental Executive and a Director Retirement Plan (the “Plans”). The accrued amount for the Plans included in other liabilities was \$820,887 and \$749,317 at March 31, 2010 and September 30, 2009, respectively. The expense associated with the Plans for the three and six months ended March 31, 2010 was \$40,435 and \$80,870, respectively. The expense associated with the Plans for the three and six months ended March 31, 2009 was \$37,302 and \$74,604, respectively.

Advertising Costs

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

Income Taxes

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

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

Commitments and Contingencies

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

Segment Information

The Company has one reportable segment, “Community Banking.” All of the Company’s activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, lending is dependent upon the ability of the Company to fund itself with deposits and other borrowings and

manage interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment or unit.

Comprehensive Income

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

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

Note 2 – Summary of Significant Accounting Policies (Continued)

The components of other comprehensive income (loss) and related tax effects are as follows for the periods indicated below

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2010	2009	2010	2009
Unrealized holding gains (losses) on available for sale securities	\$48,610	\$(65,644)	\$46,936	\$65,250
Reclassification adjustment for gains included in net income	-	9,410	-	27,206
Net Unrealized Gains (Losses)	48,610	(75,054)	46,936	38,044
Income tax expense (benefit)	(16,527)	113,212	(16,070)	(10,847)
Net of Tax Amount	\$32,083	\$38,158	\$30,866	\$27,197

Recent Accounting Pronouncements

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

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

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. ASU 2010-06 revises two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances, and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. The Company’s disclosures about fair value measurements are presented in Note 3: Fair Value Measurements. These new disclosure requirements were effective for the period ended March 31, 2010, except for the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. There was no significant effect to the Company’s financial statement disclosure upon adoption of

this ASU.

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

Note 3 – Earnings Per Share

Earnings Per Share

Basic earnings per common share is computed based on the weighted average number of shares outstanding reduced by unearned ESOP shares. Diluted earnings per share is computed based on the weighted average number of shares outstanding and common stock equivalents (“CSEs”) that would arise from the exercise of dilutive securities reduced by unearned ESOP shares. As of March 31, 2010 and for the three and six months ended March 31, 2010 and March 31, 2009 the Company had not issued and did not have any outstanding CSEs and at the present time, the Bank’s capital structure has no potential dilutive securities. For the three and six months ended March 31, 2010 and 2009, basic earnings per share is shown below

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Net Income (Loss)	\$ (1,225,167)	\$ 371,406	\$ (1,213,408)	\$ 887,390
Average common shares outstanding	6,122,756	6,152,500	6,122,533	6,152,500
Average unearned ESOP shares	(218,269)	(231,701)	(219,960)	(233,375)
Weighted average shares outstanding – basic	5,904,487	5,920,799	5,902,573	5,915,125
Earnings (Loss) per share – basic	(\$ 0.21)	\$ 0.06	(\$ 0.21)	\$ 0.15

Note 4 – Employee Stock Ownership Plan

In 2008, the Company established an employee stock ownership plan (“ESOP”) for substantially all of its full-time employees. Certain senior officers of the Bank have been designated as Trustees of the ESOP. Shares of the Company’s common stock purchased by the ESOP are held until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each such participant’s base compensation to the total base compensation of all eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to additional paid-in capital. During the period from May 20, 2008 to September 30, 2008, the ESOP purchased 241,178 shares of the Company’s common stock for approximately \$2.6 million, an average price of \$10.86 per share which was funded by a loan from Malvern Federal Bancorp, Inc. The ESOP loan is being repaid principally from the Bank’s contributions to the ESOP. The loan, which bears an interest rate of 5%, is being repaid in quarterly installments through 2026. Shares are released to participants proportionately as the loan is repaid. During the three and six months ended

March 31, 2010, there were 3,351 and 6,702 shares committed to be released, respectively, and ESOP expense was \$31,861 and \$63,759, respectively. During the three and six months ended March 31, 2009, there were 3,296 and 6,701 shares committed to be released, respectively, and ESOP expense was \$29,134 and \$62,319, respectively. At March 31, 2010, there were 216,606 unallocated shares held by the ESOP which had an aggregate fair value of approximately \$2.1 million.

TABLE OF CONTENTSMalvern Federal Bancorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5 - Investment Securities

At March 31, 2010 and September 30, 2009, all of the Company's mortgage-backed securities consisted solely of securities backed by residential mortgage loans. The Company held no mortgage-backed securities backed by commercial mortgage loans at either date.

Investment securities available for sale at March 31, 2010 and September 30, 2009 consisted of the following:

		March 31, 2010		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government obligations	\$999,907	\$ 1,734	\$ -	\$1,001,641
U.S. government agencies	6,947,149	11,101	(11,150)	6,947,100
FHLB notes	4,997,068	32,146	(3,013)	5,026,201
State and municipal obligations	1,200,493	6,196	(22,588)	1,184,101
Single issuer trust preferred security	1,000,000	-	(219,490)	780,510
Corporate debt securities	1,467,802	41,599	(896)	1,508,505
	16,612,419	92,776	(257,137)	16,448,058
Mortgage-backed securities:				
FNMA:				
Adjustable	3,888,854	145,003	-	4,033,857
Fixed	1,784,391	35,307	-	1,819,698
Balloon	317,546	4,019	-	321,565
FHLMC:				
Adjustable	968,443	20,276	-	988,719
Fixed	554,664	43,055	-	597,719
GNMA, adjustable	178,571	3,299	-	181,870
CMO, fixed-rate	6,357,513	20,126	(27,467)	6,350,172
	14,049,982	271,085	(27,467)	14,293,600
	\$30,662,401	\$ 363,861	\$ (284,604)	\$30,741,658

TABLE OF CONTENTSMalvern Federal Bancorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5 - Investment Securities (Continued)

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

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

Note 5 - Investment Securities (Continued)

Investment securities held to maturity at March 31, 2010 and September 30, 2009 consisted of the following:

	March 31, 2010			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Mortgage-backed securities:				
GNMA, adjustable	\$279,668	\$ 7,828	\$ -	\$287,496
GNMA, fixed	2,231	224	-	2,455
FNMA, fixed	4,497,173	96,249	(24,163)	4,569,259
	\$4,779,072	\$ 104,301	\$ (24,163)	\$4,859,210
	September 30, 2009			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Mortgage-backed securities:				
GNMA, adjustable	\$298,049	\$ 7,025	\$ -	\$305,074
GNMA, fixed	2,236	166	-	2,402
FNMA, fixed	4,541,891	92,735	-	4,634,626
	\$4,842,176	\$ 99,926	\$ -	\$4,942,102

TABLE OF CONTENTSMalvern Federal Bancorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5 - Investment Securities (Continued)

The following tables summarize the aggregate investments at March 31, 2010 and September 30, 2009 that were in an unrealized loss position.

	Less than 12 Months		March 31, 2010 More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment Securities						
Available for Sale						
FHLB Notes	\$1,996,560	\$ (3,013)	\$-	\$-	\$1,996,560	\$ (3,013)
U.S. government agencies	4,136,278	(11,150)	-	-	4,136,278	(11,150)
State and municipal obligations	354,590	(4,588)	27,000	(18,000)	381,590	(22,588)
Single issuer trust preferred security	-	-	780,510	(219,490)	780,510	(219,490)
Corporate debt security	186,041	(896)	-	-	186,041	(896)
Mortgage-backed securities:						
CMO, fixed-rate	3,536,542	(27,467)	-	-	3,536,542	(27,467)
	\$10,210,011	\$ (47,114)	\$807,510	\$ (237,490)	\$11,017,521	\$ (284,604)
Investment Securities Held to Maturity						
Mortgage-backed securities:						
FNMA, fixed	\$2,326,830	\$ (24,163)	\$-	\$-	\$2,326,830	\$ (24,163)
	\$2,326,830	\$ (24,163)	\$-	\$-	\$2,326,830	\$ (24,163)

TABLE OF CONTENTSMalvern Federal Bancorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5 - Investment Securities (Continued)

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

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

As of March 31, 2010, the estimated fair value of the securities disclosed above is primarily dependent upon the movement in market interest rates particularly given the negligible inherent credit risk associated with these securities. These investment securities are comprised of securities that are rated investment grade by at least one bond credit rating service. Although the fair value will fluctuate as the market interest rates move, management believes that these fair values will recover as the underlying portfolios mature and are reinvested in market rate yielding investments. As of March 31, 2010, the Company held four FHLB agency, eight U.S. government agencies, three tax-free municipals, one corporate debt security, seven agency mortgage-backed securities, and one single issuer trust preferred security which were in an unrealized loss position. The Company does not intend to sell and 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 March 31, 2010 represents other-than-temporary impairment.

During the six month ended March 31, 2010, the gross unrealized loss of the single issuer trust preferred security improved by \$142,090 from an unrealized loss at September 30, 2009 of \$361,580 to an unrealized loss of \$219,490 as of March 31, 2010. The stability of the underlying credit and the financial markets has contributed to this improvement. The historic changes in the economy and interest rates have continued to cause the pricing of agency, mortgage-backed securities, and trust preferred securities to widen dramatically over U.S. Treasury securities into the March 2010 quarter, but slight signs of improvement are beginning to occur. Management will continue to monitor the performance of this security and the markets to determine the true economic value of this security.

At March 31, 2010 and September 30, 2009 the Company had no securities pledged to secure public deposits.

TABLE OF CONTENTSMalvern Federal Bancorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5 - Investment Securities (Continued)

The amortized cost and fair value of debt securities by contractual maturity at March 31, 2010 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	\$4,297,828	\$4,336,393	\$-	\$-
Over 1 year through 5 years	11,112,436	11,149,479	-	-
After 5 years through 10 years	1,202,155	962,186	-	-
	16,612,419	16,448,058	-	-
Mortgage-backed securities	14,049,982	14,293,600	4,779,072	4,859,210
	\$30,662,401	\$30,741,658	\$4,779,072	\$4,859,210

Note 6 - Loans Receivable

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

	At March 31, 2010	At September 30, 2009
Mortgage Loans:		
One-to four-family	\$ 243,299,327	\$ 252,307,828
Multi-family	7,975,303	9,613,184
Construction or development	38,025,413	37,507,536
Land loans	3,203,782	3,236,550
Commercial real estate	146,238,845	142,863,313
Total Mortgage Loans	438,742,670	445,528,411
Commercial Loans	13,043,975	15,647,219
Consumer loans:		
Home equity lines of credit	19,680,206	19,149,135
Second mortgages	110,084,282	113,943,091
Other	1,091,344	1,142,967
Total Consumer Loans	130,855,832	134,235,193
Total Loans	582,642,477	595,410,823
Deferred loan costs, net	3,612,644	3,872,025
Allowance for loan losses	(8,241,042)	(5,717,510)

\$ 578,014,079 \$ 593,565,338

TABLE OF CONTENTSMalvern Federal Bancorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6 - Loans Receivable (Continued)

Included in loans receivable are nonaccrual loans in the amount of \$25,405,949 and \$14,194,724 at March 31, 2010 and September 30, 2009, respectively. Interest income that would have been recognized on these nonaccrual loans had they been current in accordance with their original terms was \$420,044 and \$239,315 for the three months ended March 31, 2010 and 2009, respectively, and was \$713,537 and \$328,003 for the six-months ended March 31, 2010 and 2009, respectively. There were no loans past due 90 days or more and still accruing interest at March 31, 2010 or September 30, 2009.

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

	Six Months Ended March 31, 2010	Six Months Ended March 31, 2009	Year Ended September 30, 2009
Balance at beginning of period	\$ 5,717,510	\$ 5,504,512	\$ 5,504,512
Provision for loan losses	4,582,000	907,423	2,280,100
Charge-offs	(2,060,332)	(1,566,769)	(2,096,928)
Recoveries	1,864	1,976	29,826
Net Charge-offs	(2,058,468)	(1,564,793)	(2,067,102)
Balance at end of period	\$ 8,241,042	\$ 4,847,142	\$ 5,717,510

At March 31, 2010 and September 30, 2009, 100% of impaired loan balances were measured for impairment based on the fair value of the loan's collateral. At March 31, 2010 of the \$13.1 million of troubled debt restructurings, \$4.3 million were considered impaired due to reduced collateral value of the properties securing the loans and a specific valuation allowance of \$529,000 was established. The loans have been classified as trouble debt restructurings since we modified the payment terms from the original agreement and allowed the borrower to make interest only payments in order to relieve some of their overall cash flow burden.

	March 31, 2010	September 30, 2009
Impaired loans without an allocated valuation allowance	\$ 3,344,954	\$ 10,570,188
Impaired loans with an allocated valuation allowance	12,984,464	3,624,536
Total impaired loans	\$ 16,329,418	\$ 14,194,724
Valuation allowance allocated to impaired loans	\$ 3,085,908	\$ 2,057,318

	Six Months Ended March 31, 2010	Year Ended September 30, 2009
Impaired loans without an allocated valuation allowance	\$ 3,344,954	\$ 10,570,188
Impaired loans with an allocated valuation allowance	12,984,464	3,624,536
Total impaired loans	\$ 16,329,418	\$ 14,194,724
Valuation allowance allocated to impaired loans	\$ 3,085,908	\$ 2,057,318

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Average impaired loans	\$	11,905,253	\$	14,285,848
Interest income recognized on impaired loans	\$	226,234	\$	698,270
Cash basis collections on impaired loans	\$	105,002	\$	859,681

TABLE OF CONTENTSMalvern Federal Bancorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7 - Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible and core capital (as defined in the regulations) to total adjusted tangible assets (as defined) and of risk-based capital (as defined) to risk-weighted assets (as defined). Management believes, as of March 31, 2010, that the Bank meets all capital adequacy requirements to which it is subject.

As of March 31, 2010, the most recent notification from the regulators categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum tangible, core, and risk-based ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's status of "well-capitalized."

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

	Actual		For Capital Adequacy Purposes				To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
As of March 31, 2010								
Tangible Capital (to tangible assets)	\$61,019,737	8.82 %	\$≥10,378,624	≥1.50 %	N/A			
Core Capital (to adjusted tangible assets)	61,019,737	8.82	≥27,676,330	≥4.00	\$≥34,595,413	≥5.00 %		
Tier 1 Capital (to risk-weighted assets)	61,019,737	11.86	≥20,572,542	≥4.00	≥30,858,812	≥6.00		
Total risk-based Capital (to risk-weighted assets)	66,174,871	12.87	≥41,145,083	≥8.00	≥51,431,354	≥10.00		
As of September 30, 2009:								
Tangible Capital (to tangible assets)	\$62,247,317	9.07 %	\$≥10,297,204	≥1.50 %	N/A			
Core Capital (to adjusted tangible assets)	62,247,317	9.07	≥27,459,211	≥4.00	\$≥34,324,014	≥5.00 %		
	62,247,317	11.96	≥20,815,426	≥4.00	≥31,223,140	≥6.00		

Tier 1 Capital (to risk-weighted assets)							
Total risk-based Capital (to risk-weighted assets)	65,907,510	12.67	≥41,630,853	≥8.00	≥52,038,566	≥10.00	

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

Note 8 - Fair Value Measurements

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

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

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

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

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

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

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

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

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of FASB ASC 825, "Disclosures About Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methods. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company

would realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. FASB ASC 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

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Note 8 - Fair Value Measurements (Continued)

The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2010 and September 30, 2009. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since March 31, 2010 and September 30, 2009 and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

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

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

Investment Securities—Investment and mortgage-backed securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are measured at fair value on a recurring basis. Fair value measurements for these securities are typically obtained from independent pricing services that we have engaged for this purpose. When available, we, or our independent pricing service, use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, our independent pricing service's applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare evaluations. For each asset class, pricing applications and models are based on information from market sources and integrate relevant credit information. All of our securities available for sale are valued using either of the foregoing methodologies to determine fair value adjustments recorded to our financial statements. The Company had no Level 1 securities as of March 31, 2010 or September 30, 2009. Level 2 securities include corporate bonds, agency bonds, municipal bonds, mortgage-backed securities, and collateralized mortgage obligations.

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

Impaired Loans—Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values may be discounted based on management's historical knowledge,

changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client's business. Impaired loans are reviewed and evaluated on a monthly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

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

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

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Note 8 - Fair Value Measurements (Continued)

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

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

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

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

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

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

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

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Note 8 - Fair Value Measurements (Continued)

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

	March 31, 2010
Total	