MALVERN BANCORP, INC.
Form 10-K
December 29, 2017

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, 2017

or

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

Commission File Number: 000-54835

MALVERN BANCORP, INC.

(Exact name of Registrant as specified in its charter)

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

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 ¨

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. ¨

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES ¨ NO x

The aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately $125.3 million, based on the last sale price on the NASDAQ Stock Market for the last business day of the Registrant's most recently completed second fiscal quarter.

The number of shares of the Issuer's common stock, par value $0.01 per share, outstanding as of December 29, 2017 was 6,572,684.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2018 Annual Meeting of Shareholders are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

MALVERN BANCORP, INC.

TABLE OF CONTENTS

Information included in or incorporated by reference in this Annual Report on Form 10-K, other filings with the Securities and Exchange Commission, the Company's press releases or other public statements, contain or may contain forward looking statements. Please refer to a discussion of the Corporation's forward looking statements and associated risks in ''Item 1 — Business — Historical Development of Business'' and ''Item 1A — Risk factors'' in this Annual Report on Form 10-K.

PART I.

This report, in Item 1, Item 7 and elsewhere, includes forward-looking statements within the meaning of Sections 27A of the Securities Act of 1933, as amended, and 21E of the Securities Exchange Act of 1934, as amended, that involve inherent risks and uncertainties. This report contains certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of Malvern Bancorp, Inc. and its subsidiaries, including statements preceded by, followed by or that include words or phrases such as ''believes,'' ''expects,'' ''anticipates,'' ''plans,'' ''trend,'' ''objective,'' ''continue,'' ''remain,'' ''pattern'' or similar expressions or future or conditional verbs such as ''will,'' ''would,'' ''should,'' ''could,'' ''might,'' ''can,'' ''may'' or similar expressions. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to: (1) competitive pressures among depository institutions may increase significantly; (2) changes in the interest rate environment may reduce interest margins; (3) prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions may vary substantially from period to period; (4) general economic conditions may be less favorable than expected; (5) political developments, wars or other hostilities may disrupt or increase volatility in securities markets or other economic conditions; (6) legislative or regulatory changes or actions may adversely affect the businesses in which Malvern Bancorp, Inc. is engaged; (7) changes and trends in the securities markets may adversely impact Malvern Bancorp, Inc.; (8) a delayed or incomplete resolution of any regulatory issues could adversely impact our planning; (9) difficulties in integrating any businesses that we may acquire, which may increase our expenses and delay the achievement of any benefits that we may expect from such acquisitions; (10) the impact of reputation risk created by the developments discussed above on such matters as business generation and retention, funding and liquidity could be significant; and (11) the outcome of any regulatory or legal investigations and proceedings may not be anticipated. Further information on other factors that could affect the financial results of Malvern Bancorp, Inc. are included in Item 1A of this Annual Report on Form 10-K and in Malvern Bancorp's other filings with the Securities and Exchange Commission. These documents are available free of charge at the Commission's website at http://www.sec.gov and/or from Malvern Bancorp, Inc. Malvern Bancorp, Inc. assumes no obligation to update forward-looking statements at any time.

Item 1. Business

General

Malvern Bancorp, Inc., a Pennsylvania corporation (the “Company” or “Malvern Bancorp”), is 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 common stock of the Bank. The Bank is currently a federally chartered, FDIC-insured savings bank that was originally organized in 1887. In October 2017, the Bank filed an application with the Office of the Comptroller of the Currency (the “OCC”) to convert from a federal savings bank to a national bank, with the name Malvern Bank, National Association. In connection with the charter conversion of the Bank, also in October 2017, the Company filed an application with the Federal Reserve Board (the “FRB”) to convert to a bank holding company from a savings and loan holding company.

The conversions remain subject to the receipt of all required regulatory approvals. The Company and the Bank filed the conversion application in order to better match the Bank’s regulatory charter to its current and planned business activity.

The Bank conducts business from its headquarters in Paoli, Pennsylvania, a suburb of Philadelphia, as well as eight other financial centers located throughout Chester and Delaware Counties, Pennsylvania and a Private Banking/Loan Production headquarters office in Morristown, New Jersey. The Bank also has a Private Banking/Loan Production office in Quakertown, Pennsylvania.

The Bank's principal business consists of attracting deposits from businesses and the general public primarily in Chester County, Pennsylvania and investing those deposits, together with borrowings and funds generated from operations, in one-to four-family residential real estate loans, construction and development loans, commercial and multi-family real estate loans, commercial business loans, home equity loans and lines of credit and other consumer loans, as well as investing in investment securities. In addition to Chester County, our lending efforts are focused in neighboring Bucks County, Montgomery County and Delaware County, which are also in southeastern Pennsylvania, New Jersey and the New York metropolitan marketplace. We also service client needs in the greater Philadelphia market area. Our primary market niche is providing personalized service to our client base.

The Bank's revenues are derived principally from interest on loans and investment securities, loan commitment and customer service fees and our mortgage banking operation. Our primary sources of funds are deposits, borrowings and principal and interest payments on loans and securities, as well as the sale of residential loans in the secondary market. The Bank's primary expenses are interest expense on deposits and borrowings, provisions for loan losses and general operating expenses.

The Bank owns 100% of Malvern Insurance Associates, LLC ("Malvern Associates"), a Pennsylvania limited liability company. Malvern Associates is a licensed insurance broker under Pennsylvania and New Jersey law.

The Bank owns a 10% non-controlling interest in Bell Rock Capital, LLC ("Bell Rock"), a Delaware limited liability company and investment advisor registered with the SEC, and headquartered in Rehoboth Beach, Delaware.

Certain mortgage-backed securities of the Bank are held through Delaware statutory trusts, 5% of which are owned by the Bank and 95% of which are owned by Coastal Asset Management Co., a Delaware corporation which is wholly owned by the Bank.

The Bank owns a 3.39% interest in Bankers Settlement Services Capital Region, LLC, a Pennsylvania limited liability company which acts as a title insurance agent or agency.

The Bank has representative offices, which are not branches, in Palm Beach, Florida and Montchanin, Delaware.

SEC Reports and Corporate Governance

The Company makes its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments thereto available on its website at *www.malvernfederal.com* without charge as soon as reasonably practicable after filing or furnishing them to the SEC. Also available on the website are the Company's corporate code of ethics that applies to all of the Company's employees, including principal officers and directors, and charters for the Audit Committee, Compensation Committee and Nominating Committee.

Additionally, the Company will provide without charge, a copy of its Annual Report on Form 10-K to any shareholder by mail. Requests should be sent to Malvern Bancorp, Inc., Attention: Shareholder Relations, 42 East Lancaster Avenue, Paoli, Pennsylvania, 19301. Our telephone number is (610) 644-9400.

Market Area and Competition

The banking business is highly competitive. We face substantial immediate competition and potential future competition both in attracting deposits and in originating loans. We compete with numerous commercial banks, savings banks and savings and loan associations, many of which have assets, capital and lending limits larger than those that we have. Other competitors include money market mutual funds, mortgage bankers, insurance companies, stock brokerage firms, regulated small loan companies, credit unions and issuers of commercial paper and other securities.

Our larger competitors have greater financial resources to finance wide-ranging advertising campaigns.

Additionally, we endeavor to compete for business by providing high quality, personal service to customers, customer access to our decision-makers and competitive interest rates and fees. We seek to hire and retain quality employees who desire greater responsibility than may be available working for a larger employer. Additionally, the local real estate and other business activities of our Directors help us develop business relationships by increasing our profile in our communities.

Products and Services

We derive substantially all of our income from our net interest income (i.e., the difference between the interest we receive on our loans and securities and the interest we pay on deposits and other borrowings). We offer a broad range of deposit and loan products. In addition, to attract the business of consumer and business customers, we also provide a broad array of other banking services. Products and services provided include personal and business checking accounts, retirement accounts, money market accounts, time and savings accounts, credit cards, wire transfers, access to automated teller services, internet banking, ACH origination, telephone banking, and mobile banking by phone. In addition, we offer safe deposit boxes. The Bank also offers remote deposit capture banking for business customers, providing the ability to electronically scan and transmit checks for deposit, reducing time and cost. In addition, the Bank offers mobile remote deposit capture banking for both retail and business customers, providing the convenience to deposit on the go.

Checking account products consist of both retail and business demand deposit products. Retail products include free checking and, for businesses, both interest-bearing accounts, which require a minimum balance, and non-interest bearing accounts. NOW accounts consist of both retail and business interest-bearing transaction accounts that have minimum balance requirements. Money market accounts consist of products that provide a market rate of interest to depositors but have limited check writing capabilities. Our savings accounts consist of statement type accounts. Time deposits consist of certificates of deposit, including those held in IRA accounts. CDARS/ICS Reciprocal deposits are offered based with the Bank’s participation in Promontory Interfinancial Network, LLC. Customers who are FDIC insurance sensitive are able to place large dollar deposits with the Company and the Company uses CDARS to place those funds into certificates of deposit issued by other banks in the Network. This occurs in increments of less than the FDIC insurance limits so that both the principal and interest are eligible for complete FDIC insurance coverage. The FDIC currently considers these funds as brokered deposits.

The Bank, through its partnership with Bell Rock, offers through its private banking and wealth management division personalized wealth management and advisory services to high net worth individuals and families. Services provided include liquidity management, investment services, custody, wealth planning, trust and fiduciary services, insurance and 401(k) services.

The Bank, through its Malvern Associates insurance broker subsidiary, offers insurance services.

Deposits serve as the primary source of funding for our interest-earning assets, but also generate non-interest revenue through insufficient funds fees, stop payment fees, safe deposit rental fees, card income, including ATM fees and credit and debit card interchange, gift card fees, and other miscellaneous fees. In addition, the Bank generates additional non-interest revenue associated with residential loan origination and sale, loan servicing, late fees and merchant services.

We offer personal and commercial business loans on a secured and unsecured basis, revolving lines of credit, commercial mortgage loans, and residential mortgages on both primary and secondary residences, home equity loans, bridge loans and other personal purpose loans. However, we are not and have not historically been a participant in the sub-prime lending market.

Commercial loans are loans made for business purposes and are primarily secured by collateral such as cash balances with the Bank, marketable securities held by or under the control of the Bank, business assets including accounts receivable, inventory and equipment, and liens on commercial and residential real estate.

Commercial construction loans are loans to finance the construction of commercial or residential properties secured by first liens on such properties. Commercial real estate loans include loans secured by first liens on completed commercial properties, including multi-family properties, to purchase or refinance such properties. Residential mortgages include loans secured by first liens on residential real estate, and are generally made to existing customers of the Bank to purchase or refinance primary and secondary residences. Home equity loans and lines of credit include loans secured by first or second liens on residential real estate for primary or secondary residences.

Consumer loans are made to individuals who qualify for auto loans, cash reserve, credit cards and installment loans.

The Bank’s lending policies generally provide for lending inside of our primary market area. However, the Bank will make loans to persons outside of our primary market area when we deem it prudent to do so. In an effort to promote a high degree of asset quality, the Bank focuses primarily upon offering secured loans. However, the Bank does make unsecured loans to borrowers with high net worth and income profiles. The Bank generally requires loan customers to maintain deposit accounts with the Bank. In addition, the Bank generally provides for a minimum required rate of interest in its variable rate loans. We believe that having senior management on-site allows for an enhanced local presence and rapid decision-making that attracts borrowers. The Bank’s lending limit to any one borrower is 15% of the Bank’s capital base (defined as tangible equity plus the allowance for loan losses) for most loans ($19.3 million) and 25% of the capital base for loans secured by readily marketable collateral ($32.2 million). At September 30, 2017, the Bank’s largest committed relationship totaled $16.4 million.

Our business model includes using industry best practices for community banks, including personalized service, state-of-the-art technology and extended hours. We believe that this will generate deposit accounts with larger average balances than we might attract otherwise. We also use pricing techniques in our efforts to attract banking relationships having larger than average balances.

Supervision and Regulation

The banking industry is highly regulated. Earnings of the Company are affected by state and federal laws and regulations and by policies of various regulatory authorities. Changes in applicable law or in the policies of various regulatory authorities could affect materially the business and prospects of the Company and the Bank. The following discussion of supervision and regulation is qualified in its entirety by reference to the statutory and regulatory provisions discussed.

As indicated above under “General,” the Bank has filed an application with the OCC to convert from a federal savings bank to a national bank. The OCC will continue to be the primary regulator of the Bank after the conversion.

In connection with the proposed conversion of the Bank to a national bank, the Company filed an application with the FRB to convert from a savings and loan holding company to a bank holding company. The FRB will continue to be the primary regulator of the Company after such conversion.

The conversions remain subject to the receipt of all required regulatory approvals.

Dodd-Frank Act

On July 21, 2010, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). The Dodd-Frank Act has significantly changed the bank regulatory structure and significantly impacted the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies have been given significant discretion in drafting the implementing rules and regulations. The discussion below generally discusses the material provisions of the Dodd-Frank Act applicable to the Company and the Bank and is not complete or meant to be an exhaustive discussion.

The following aspects of the Dodd-Frank Act are related to the operations of the Bank:

- 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. Financial institutions with assets of $10 billion or less, such as 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.

- State consumer financial law is preempted only if it would have a discriminatory effect on a federal savings association or a national bank, prevents or significantly interferes with the exercise by a federal savings association or national bank 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 another state law with substantively equivalent terms.

- Deposit insurance has been permanently increased to $250,000.

- The 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 Dodd-Frank Act are related to the operations of the Company:

- Regulatory authority over savings and loan holding companies was transferred to the FRB. The FRB will continue to regulate the Company after its conversion to a bank holding company.

- 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 was extended to thrift holding companies. After the conversions, these requirements will continue to be applicable to the Bank and the holding company as a national bank and a bank holding company, respectively, but the Home Owners' Loan Act will no longer be applicable.

- 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.

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 has been 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. This information must be reported for the first time for the first full fiscal year beginning on or after January 1, 2017.

Regulation of Malvern Bancorp, Inc.

Holding Company Acquisitions. Malvern Bancorp is currently a savings and loan holding company under the Home Owners' Loan Act, as amended, and is subject to examination and supervision by the FRB. 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% 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% 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.

Once the Company is a bank holding company, it will be required to obtain the prior approval of the FRB before it may, by merger, purchase or otherwise, directly or indirectly acquire all or substantially all of the assets of any bank or bank holding company if, after such acquisition, it will own or control more than 5% of the voting shares of such bank or bank holding company.

Holding Company Activities. Malvern Bancorp currently 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 FRB 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 recently enacted legislation, savings and loan holding companies that have total assets over $1 billion became subject to statutory capital requirements. As of September 30, 2017, Malvern Bancorp had total assets of $1.05 billion and, accordingly, must meet the following four minimum capital ratios:

Capital Ratio	Regulatory Minimum	
Common Equity Tier 1 Capital	4.5	%
Tier 1 Leverage Capital	4.0	%
Tier 1 Risk-Based Capital	6.0	%
Total Risk-Based Capital	8.0	%

The leverage capital requirement is calculated as a percentage of total assets and the other three capital requirements are calculated as a percentage of risk-weighted assets. For a more detailed discussion of the capital rules, see “Recent Regulatory Capital Rules” under “Regulation of the Bank” below. The Bank and the Company are in compliance with all capital requirements applicable to them.

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. The Bank is required to notify the FRB 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 FRB 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.

As a national bank and a bank holding company, the Bank and the Company will be subject to the capital requirements promulgated by their respective regulators.

Federal Securities Laws. Malvern Bancorp has registered its common stock with the Securities and Exchange Commission under Section 12(b) of the Securities Exchange Act of 1934 (the “Exchange Act”). Accordingly, Malvern Bancorp is subject to the proxy and tender offer rules, insider trading reporting requirements and restrictions, and certain other requirements under the Exchange Act.

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.

Volcker Rule Regulations

Regulations adopted by the federal banking agencies to implement the provisions of the Dodd Frank Act commonly referred to as the Volcker Rule contain prohibitions and restrictions on the ability of financial institution holding companies and their affiliates to engage in proprietary trading and to hold certain interests in, or to have certain relationships with, various types of investment funds, including hedge funds and private equity funds. The Company is in compliance with the various provisions of the Volcker Rule regulations.

Regulation of the Bank

General. As the Bank is currently a federally chartered savings bank, it 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 FRB. As the primary federal regulator of the Bank, the OCC has extensive authority over the operations of federally chartered savings institutions. As part of this authority, the 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.

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.

After the conversion of the Bank to a national bank, it will continue to be subject to the regulation of the OCC, as its primary federal regulator, the FDIC will continue to be the insurer of its deposit accounts, and the FRB will be the primary regulator of the Company, as a bank holding company.

Insurance of Accounts. The deposits of the 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 FDIC'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. To implement the Dodd Frank Act, the FDIC 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.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, or FICO, 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.

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.

As noted above, the Dodd Frank Act raises the minimum reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% and requires the FDIC to offset the effect of this increase on insured institutions with assets of less than $10 billion (small institutions). The FDIC has adopted a rule to accomplish this by imposing a surcharge on larger institutions commencing when the reserve ratio reaches 1.15% and ending when it reaches 1.35%. The reserve ratio reached 1.15% on June 30, 2016. Accordingly, surcharges began on July 1, 2016. Small institutions will receive credits for the portion of their regular assessments that contributed to growth in the reserve ratio between 1.15% and 1.35%. The credits will apply for each quarter the reserve ratio is above 1.38%, in amounts as determined by the FDIC.

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.

In July of 2013 the respective U.S. federal banking agencies issued final rules implementing Basel III and the Dodd-Frank Act capital requirements to be fully phased in on a global basis on January 1, 2019. The regulations establish a new tangible common equity capital requirement, increase the minimum requirement for the current Tier 1 risk-weighted asset ("RWA") ratio, phase out certain kinds of intangibles treated as capital and certain types of instruments and change the risk weightings of certain assets used to determine required capital ratios. The new common equity Tier 1 capital component requires capital of the highest quality – predominantly composed of retained earnings and common stock instruments. For community banks such as the Bank, a common equity Tier 1 capital ratio of 4.5% became effective on January 1, 2015. The new capital rules also increased the current minimum Tier 1 capital ratio from 4.0% to 6.0% beginning on January 1, 2015. In addition, in order to make capital distributions and pay discretionary bonuses to executive officers without restriction, an institution must also maintain greater than 2.5% in common equity attributable to a capital conservation buffer to be phased in from January 1, 2016 until January 1, 2019. The new rules also increased the risk weights for several categories of assets, including an increase from 100% to 150% for certain acquisition, development and construction loans and more than 90-day past due exposures. The new capital rules maintain the general structure of the prompt corrective action rules, but incorporate the new common equity Tier 1 capital requirement and the increased Tier 1 RWA requirement into the prompt corrective action framework.

Savings institutions such as the Bank are currently required to satisfy the following capital requirements:

- Tangible capital requirement – "tangible" capital equal to at least 1.5% of adjusted total assets;
- Common equity Tier 1 capital requirement – generally consists of retained earnings and common stock instruments equal to at least 4.5% of "risk weighted" assets;

-9-

- Tier 1 capital requirement – equal to at least 6.0%;
- 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. The Bank had no intangible assets at September 30, 2017. 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 the 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.

The table below sets forth the Bank's capital position relative to the OCC’s regulatory capital requirements at September 30, 2017. As indicated in the table, the Bank exceeded all of its regulatory capital requirements. Malvern Bancorp, Inc. is now subject to the regulatory capital ratios imposed by the Dodd-Frank Act on savings and loan holding companies because it had assets in excess of $1.0 billion as of September 30, 2017.

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions		Excess Over Well-Capitalized Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)							
Tier 1 leverage capital (to adjusted tangible assets)	$120,902	12.02%	$40,234	4.00%	$50,292	5.00 %	$70,610	7.02 %
Common equity Tier 1 (to risk-weighted assets)	$120,902	14.75	36,894	4.50	53,292	6.50	67,610	8.25
Tier 1 risk-based capital (to risk-weighted assets)	$120,902	14.75	49,192	6.00	65,590	8.00	55,312	6.75
Total risk-based capital (to risk-weighted assets)	$129,369	15.78	65,590	8.00	81,987	10.00	47,382	5.78

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**	**Common Equity Tier 1 Capital**	**Tier 1 Leverage Capital**
Well capitalized	10% or more	8% or more	6.5% or more	5% or more
Adequately capitalized	8% or more	6% or more	4.5% or more	4% or more
Undercapitalized	Less than 8%	Less than 6%	Less than 4.5%	Less than 4%
Significantly undercapitalized	Less than 6%	Less than 4%	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).

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 if either (1) the institution would not be well capitalized following the distribution; (2) the proposed distribution would reduce the amount or retire any part of the institution’s common or preferred stock or (3) the savings institution is a subsidiary of a savings and loan holding company and the proposed dividend is not a cash dividend. If a savings institution, such as the Bank, that is the subsidiary of a savings and loan holding company, has filed a notice with the FRB for a cash dividend and is not required to file an application or notice with the OCC for any of the reasons described above, then the savings institution is only required to provide an informational copy to the OCC of the notice filed with the FRB.

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. The 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.

The Bank did not meet the QTL requirements effective December 31, 2016, and has filed an application with the OCC to convert to a national bank. In addition, the Company has filed an application with the FRB to convert to a bank holding company. The Company and the Bank filed the conversion applications in order to better match the Bank’s regulatory charter to its current and planned business activity. Upon conversion to a national bank, the Bank will no longer be required to meet the QTL test.

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. The Bank currently is subject to Sections 22(g) and (h) of the Federal Reserve Act and at September 30, 2017, 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. The Bank received a “satisfactory” Community Reinvestment Act rating in its most recently completed examination.

Anti-Money Laundering. All financial institutions, including savings and loan associations are subject to federal laws that are designed to prevent the use of the U.S. financial system to fund terrorist activities. Financial institutions operating in the United States are required 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. The Bank has established policies and procedures to ensure compliance with these provisions, and their impact on our operations has not been material.

Federal Home Loan Bank System. The 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, 2017, the Bank had $118.0 million of FHLB advances and $150.0 million available on its line of credit with the FHLB.

As a member, the 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, 2017, Malvern Federal Savings Bank had $5.6 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, 2017, the Bank had met its reserve requirement.

Employees

As of September 30, 2017, we had a total of 81 full-time equivalent employees. No employees are represented by a collective bargaining group, and we believe that our relationship with our employees is excellent.

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 are subject to credit risk in connection with our lending activities, and our financial condition and results of operations may be negatively impacted by economic conditions and other factors that adversely affect our borrowers.

Our financial condition and results of operations are affected by the ability of our borrowers to repay their loans, and in a timely manner. Lending money is a significant part of the banking business. Borrowers, however, do not always repay their loans. The risk of non-payment is assessed through our underwriting and loan review procedures based on several factors including credit risks of a particular borrower, changes in economic conditions, the duration of the loan and in the case of a collateralized loan, uncertainties as to the future value of the collateral and other factors. Despite our efforts, we do and will experience loan losses, and our financial condition and results of operations will be adversely affected. Our non-performing assets were approximately $1.2 million at September 30, 2017. Our allowance for loan losses was approximately $8.4 million at September 30, 2017. Our loans between thirty and eighty-nine days delinquent totaled $5.0 million at September 30, 2017.

The changing economic environment may continue to create volatility and impact our operations and results.

Developments in the economy both specific and non-specific to the financial services industry have resulted in uncertainty in the financial markets in general and a related general economic uncertainty globally. As a consequence of the most recent protracted United States recessionary period, business activities across a wide range of industries have faced serious difficulties which have altered the way the industry approaches its markets. In recent fiscal periods, however; there have been bright spots in economic recovery; an increase in employment, in the housing market and in consumer spending, to cite some major factors. This is buoyed by, geo-political issues, fiscal and monetary policy shifts in the U.S. and the overall sustainability of positive sectors of the markets.

As a result of these factors affecting the overall economy, many lending institutions, including us, are cautious about the volatility and impact in the performance of their loans, including residential, construction, commercial and consumer loans. In addition, the values of real estate collateral supporting many commercial loans and home mortgages, while they have improved, remain subject to shifting dynamics in the broader markets. Moreover, competition among depository institutions for deposits and quality loans has increased significantly while the significant decline in economic growth has led to a slowdown in banking related activities. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial services industry. In particular, we may face the following risks in connection with these events:

- we potentially face increased regulation of our industry and compliance with such regulation may increase our costs and limit our ability to pursue business opportunities;
- customer demand for loans secured by real estate could be reduced due to weaker economic conditions, an increase in unemployment, a decrease in real estate values or an increase in interest rates;
- the process we use to estimate losses inherent in our credit exposure requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans; and
- the value of the portfolio of investment securities that we hold may be adversely affected.

Changes in interest rates could adversely affect our financial condition and results of operation.

Our net income depends primarily upon our net interest income. Net interest income is the difference between interest income earned on loans, investments and other interest-earning assets and the interest expense incurred on deposits and borrowed funds. 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.

Different types of assets and liabilities may react differently, and at different times, to changes in market interest rates. We expect that we will periodically experience gaps in the interest rate sensitivities of our assets and liabilities. That means either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. When interest-bearing liabilities mature or re-price more quickly than interest-earning assets, an increase in market rates of interest could reduce our net interest income. Likewise, when interest-earning assets mature or re-price more quickly than interest-bearing liabilities, falling interest rates could reduce our net interest income. We are unable to predict changes in market interest rates, which are affected by many factors beyond our control, including inflation, deflation, recession, unemployment, money supply, domestic and international events and changes in the United States and other financial markets.

We also attempt to manage risk from changes in market interest rates, in part, by controlling the mix of interest rate sensitive assets and interest rate sensitive liabilities. However, interest rate risk management techniques are not exact. A rapid increase or decrease in interest rates could adversely affect our results of operations and financial performance.

Our high concentration of commercial real estate loans exposes us to increased lending risk.

As of September 30, 2017, the primary composition of our total loan portfolio was as follows:

- commercial real estate loans of $437.8 million, or 52.0% of total loans;
- construction and development loans of $54.0 million, or 6.4% of total loans;
- commercial and industrial loans of $116.3 million, or 13.8% of total loans;
- residential real estate loans of $192.5 million, or 22.9% of total loans and
- consumer loans of $41.6 million, or 4.9% of total loans

Commercial real estate loans, which comprised 52.0% of our total loan portfolio as of September 30, 2017, expose us to a greater risk of loss than do residential mortgage loans. Commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential loans. Consequently, an adverse development with respect to one commercial loan or one credit relationship exposes us to a significantly greater risk of loss compared to an adverse development with respect to one residential mortgage loan. Any significant failure to pay on time by our customers or a significant default by our customers would materially and adversely affect us.

Although the economy in our market area generally, and the real estate market in particular, is improving, we can give you no assurance that it will continue to grow or that the rate of growth will accelerate to historic levels. Many factors could reduce or halt growth in our local economy and real estate market. Accordingly, it may be more difficult for commercial real estate borrowers to repay their loans in a timely manner in the current economic climate, as commercial real estate borrowers' ability to repay their loans frequently depends on the successful development of their properties. The deterioration of one or a few of our commercial real estate loans could cause a material increase in our level of nonperforming loans, which would result in a loss of revenue from these loans and could result in an increase in the provision for loan and lease losses and/or an increase in charge-offs, all of which could have a material adverse impact on our net income. We also may incur losses on commercial real estate loans due to declines in occupancy rates and rental rates, which may decrease property values and may decrease the likelihood that a borrower may find permanent financing alternatives. Given the continued weaknesses in the commercial real estate market in general, there may be loans where the value of our collateral has been negatively impacted. Any weakening of the commercial real estate market may increase the likelihood of default of these loans, which could negatively impact our loan portfolio's performance and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, we could incur material losses. Any of these events could increase our costs, require management time and attention, and materially and adversely affect us.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease.

Like all financial institutions, we maintain an allowance for loan losses to provide for loan defaults and nonperformance. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities might have a material adverse effect on our financial condition and results of operations.

A new accounting standard will likely require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The Financial Accounting Standards Board has adopted a new accounting standard that will be effective for the Company and the Bank after December 15, 2019. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which would likely require us to increase our allowance for loan losses, and to greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses may have a material adverse effect on our financial condition and results of operations.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

Section 404 of the Sarbanes-Oxley Act requires us to evaluate annually the effectiveness of our internal controls over financial reporting as of the end of each fiscal year and to include a management report assessing the effectiveness of our internal controls over financial reporting in our Annual Report on Form 10-K. Section 404 also requires our independent registered public accounting firm to report on our internal controls over financial reporting. If we fail to maintain the adequacy of our internal controls, we cannot assure you that we will be able to conclude in the future that we have effective internal controls over financial reporting. If we fail to maintain effective internal controls, we might be subject to sanctions or investigation by regulatory authorities, such as the Securities and Exchange Commission (the “SEC”) or NASDAQ. Any such action could adversely affect our financial results and the market price of our common stock and may also result in delayed filings with the SEC.

As we previously disclosed, in November 21, 2017, we were advised by BDO USA, LLP (“BDO”), our independent registered public accounting firm, that BDO had concluded that a material weakness in our internal controls over financial reporting existed, and that BDO’s report on the effectiveness of the Company’s internal control over financial reporting as of September 30, 2016 in Item 9A of the Company’s fiscal 2016 10-K that the Company’ internal control over financial reporting was effective as of September 30, 2016, should no longer be relied upon. BDO also informed us at that time that BDO’s audit report on the Company’s consolidated financial statements as of September 30, 2016 and 2015, and for each of the years in the two year period ended September 30, 2016, and BDO’s completed interim reviews of the Company’s consolidated interim financial statements as of and for the periods ended December 31, 2016, March 31, 2017 and June 30, 2017 (collectively, the “Specified Financial Statements”), should no longer be relied upon. We have restated the Specified Financial Statements, which were included in amendments to the Company’s fiscal 2016 10-K and 10-Qs for the first three quarters of fiscal 2017 that we have filed with the SEC. The matters described above related to our income tax account balances. As a result of the foregoing, management has determined that its internal control over financial reporting as of September 30, 2017 was not effective. See Item 9A herein. While management believes that it has remediated the underlying causes of this material weakness, if our remediation efforts do not operate effectively or if we are unsuccessful in implementing or following our remediation efforts, this may result in untimely or inaccurate reporting of our financial results.

Strong competition within our market area could hurt our profits and slow growth.

The banking and financial services industry in our market area is highly competitive. We may not be able to compete effectively in our markets, which could adversely affect our results of operations. The increasingly competitive environment is a result of changes in regulation, changes in technology and product delivery systems, and consolidation among financial service providers. Larger institutions have greater access to capital markets, with higher lending limits and a broader array of services. Competition may require increases in deposit rates and decreases in loan rates, and adversely impact our net interest margin.

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, New Jersey and the New York metropolitan marketplace. Our business depends significantly on general economic conditions in these market areas. While these areas at present show stable trends and good economic conditions, a change in these trends and/or an economic downturn in the local real estate market could harm our financial condition and results of operation in the following ways:

- 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.

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.

The fair value of our investment securities can fluctuate due to market conditions outside of our control.

As of September 30, 2017, the fair value of our investment securities portfolio was approximately $49.5 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.

Our growth-oriented business strategy could be adversely affected if we are not able to attract and retain skilled employees or if we lose the services of our senior management team.

Our ability to manage growth will depend upon our ability to continue to attract, hire and retain skilled employees. The loss of members of our senior management team, including those officers named in the summary compensation table of our proxy statement, could have a material adverse effect on our results of operations and ability to execute our strategic goals. Our success will also depend on the ability of our officers and key employees to continue to implement and improve our operational and other systems, to manage multiple, concurrent customer relationships and to hire, train and manage our employees.

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.

Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, securities, deposits, and loans. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches (including privacy breaches), but such events may still occur and may not be adequately addressed if they do occur. In addition any compromise of our systems could deter customers from using our products and services. Although we rely on security systems to provide security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from compromises or breaches of security.

In addition, we outsource a majority of our data processing to certain third-party providers. If these third-party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any system failures, interruption, or breach of security could damage our reputation and result in a loss of customers and business thereby subjecting us to additional regulatory scrutiny, or could expose us to litigation and possible financial liability. Furthermore, we may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures arising from operational and security risks. Any of these events could have a material adverse effect on our financial condition and results of operations.

The effects of the Tax Cuts and Jobs Act on our business have not yet been fully analyzed and could have an adverse effect on our net income.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”) was signed into law. We are in the process of analyzing the Act and its possible effects on the Company and the Bank. The Act reduces the corporate tax rate to 21 percent from 35 percent, among other things. It could also require us to write down our deferred tax assets, which would reduce our net income during the first quarter of fiscal 2018. We cannot determine at this time the amount of any such write down, or the full effects of the Act on our business and financial results.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

At September 30, 2017, the Bank owns and maintains the premises in which the headquarters and six full-service financial centers are located, and leases a financial center in Glen Mills, Pennsylvania and in Villanova, Pennsylvania and a private banking office in Morristown, New Jersey. The Bank also leases representative offices in Montchanin, Delaware and Palm Beach, Florida. The location of each of the offices is as follows:

Paoli Headquarters	42 East Lancaster Avenue, Paoli, PA 19301
Paoli Financial Center	34 East Lancaster Avenue, Paoli, PA 19301
Malvern Financial Center	100 West King Street, Malvern, PA 19355
Exton Financial Center	109 North Pottstown Pike, Exton, PA 19341
Coventry Financial Center	1000 Ridge Road, Pottstown, PA 19465
Berwyn Financial Center	650 Lancaster Avenue, Berwyn, PA 19312

Lionville Financial Center	537 West Uwchlan Avenue, Downingtown, PA 19335
Glen Mills Financial Center	940 Baltimore Pike, Glen Mills, PA 19342
Villanova Private Banking Office	801 East Lancaster Avenue, Villanova, PA 19085
Morristown Private Banking Office	163 Madison Avenue, 3rd Floor, Morristown, NJ 07960
Montchanin Representative Office	16 W. Rockland Road, Montchanin, Delaware 19710
Palm Beach Representative Office	205 Worth Avenue, Suite 308, Palm Beach, Florida 33480

Item 3. Legal Proceedings.

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company's financial condition or results of operations.

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.

The common stock of the Company is traded on the NASDAQ Global Select Market under the symbol "MLVF". As of September 30, 2017, the Company had 427 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. On September 30, 2017, the closing sale price was $26.75.

The following table sets forth the high and low closing sales price of a share of the Company’s common stock for the years ended September 30, 2017 and 2016.

	Year Ended September 30,			
	2017		2016	
	High	Low	High	Low
First Quarter	$21.25	$16.36	$17.70	$15.31
Second Quarter	$22.00	$19.35	$17.65	$15.67
Third Quarter	$24.60	$21.10	$16.50	$15.40
Fourth Quarter	$26.95	$22.50	$17.20	$15.00

For the years ended September 30, 2017 and 2016, no cash dividends per share of common stock were declared by the Company.

Stockholders Return Comparison

Set forth below is a line graph presentation comparing the cumulative stockholder return on the Company’s common stock, on a dividend reinvested basis, against the cumulative total returns of the Standard & Poor’s Composite, the SNL Mid-Atlantic Bank Index and the SNL Mid-Atlantic Thrift Index for the period from October 12, 2012 through September 30, 2017.

Item 6. Selected Financial Data.

The following tables set forth selected consolidated financial data as of the dates and for the periods presented. The selected consolidated statement of financial condition data as of September 30, 2017 and 2016 and the selected consolidated summary of operating data for the years ended September 30, 2017, 2016 and 2015 have been derived from our audited consolidated financial statements and related notes that we have included elsewhere in this Annual Report. The selected consolidated statement of financial condition data as of September 30, 2015, 2014 and 2013 and the selected consolidated summary of operating data for the years ended September 30, 2014 and 2013 have been derived from audited consolidated financial statements that are not presented in this Annual Report.

The selected historical consolidated financial data as of any date and for any period are not necessarily indicative of the results that may be achieved as of any future date or for any future period. You should read the following selected statistical and financial data in conjunction with the more detailed information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes that we have presented elsewhere in this Annual Report.

All numbers set forth below reflect the restatements described under Item 7 herein.

	At September 30,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Summary of Operating Data:					
Total interest and dividend income	$33,782	$25,244	$20,462	$20,167	$22,301
Total interest expense	9,446	6,732	5,248	5,071	6,944
Net interest income	24,336	18,512	15,214	15,096	15,357
Provision for loan losses	2,791	947	90	263	11,235
Net interest income after provision for loan losses	21,545	17,565	15,124	14,833	4,122
Total other income	2,341	2,333	2,535	2,155	2,860
Total other expenses	15,147	13,922	13,961	16,644	19,775
Income tax expense (benefit)	2,922	(6,174)	(970)	(367)	6,010
Net income (loss)	$5,817	$12,150	$4,668	$711	$(18,803)
Earnings (loss) per share	$0.90	$1.90	$0.73	$0.11	$(2.96)
Dividends per share	$0.00	$0.00	$0.00	$0.00	$0.00
Statement of Financial Condition Data					
Securities available for sale	$14,587	$66,387	$128,354	$100,943	$124,667
Securities held to maturity	34,915	40,551	57,221	-	-
Loans held for sale	-	-	-	-	10,367
Loans receivable, net	834,331	574,160	391,307	386,074	401,857

Total assets	1,046,012	821,272	655,690	542,264	601,554
Deposits	790,396	602,046	465,522	412,953	484,596
FHLB borrowings	118,000	118,000	103,000	48,000	38,000
Other short-term borrowing	5,000	—	—	—	—
Shareholders' equity	102,520	96,157	82,749	77,160	75,406
Allowance for loan losses	8,405	5,434	4,667	4,589	5,090
Non-accrual loans in portfolio	1,038	1,617	1,399	2,391	1,901
Non-performing assets in portfolio	1,211	2,313	2,567	4,355	5,863
Performing troubled debt restructurings in portfolio	2,238	2,039	1,091	1,009	1,346
Non-performing assets and performing troubled debt restructurings in portfolio	3,449	4,352	3,658	5,364	7,209
Performance Ratios:					
Return on average assets	0.62 %	1.61 %	0.75 %	0.12 %	(2.79)%
Return on average equity	5.93	14.07	5.79	0.94	(20.24)
Interest rate spread(1)	2.57	2.53	2.48	2.59	2.25
Net interest margin(2)	2.72	2.65	2.62	2.74	2.43
Non-interest expenses to average total assets	1.62	1.85	2.25	2.84	2.93
Efficiency ratio(3)	57.39	67.22	77.62	96.74	110.95
Asset Quality Ratios:					
Non-accrual loans as a percent of gross loans	0.12	0.28	0.35	0.62	0.47
Non-performing assets as a percent of total assets	0.12	0.28	0.39	0.80	0.97
Non-performing assets and performing troubled debt restructurings as a percent of total assets	0.33	0.53	0.56	0.99	1.20
Allowance for loan losses as a percent of gross loans	1.00	0.94	1.18	1.18	1.26
Allowance for loan losses as a percent of non-performing loans	694.04	234.93	333.60	191.93	267.75
Net (recovery) charge-offs to average loans outstanding	(0.02)	0.04	0.00	0.19	3.07
Capital Ratios(4):					
Total risk-based capital to risk weighted assets	15.78	15.42	17.30	20.87	18.97
Tier 1 risk-based capital to risk weighted assets	14.75	14.50	16.21	19.62	17.72
Tangible capital to tangible assets	N/A	N/A	N/A	12.17	10.91
Tier 1 leverage (core) capital to adjustable tangible assets	12.02	10.98	11.01	12.17	10.91
Shareholders' equity to total assets	9.80	11.71	12.62	14.23	12.54

(1) Represents the difference between the weighted average yield on interest earning assets and the weighted average cost of interest bearing liabilities.
(2) Net interest income divided by average interest earning assets.
(3) Efficiency ratio, which is a non-GAAP financial measure, is computed by dividing other expense, less non-core items, by net interest income on a tax equivalent basis plus other income, excluding net securities gains (losses). Included in non-core items are costs which include expenses related to the Company's corporate restructuring initiatives. The Company believes these adjustments are necessary to provide the most accurate measure of core operating results as a means to evaluate comparative results. See table below for the calculation of the efficiency ratio.
(4) Other than shareholders' equity to total assets, all capital ratios are for the Bank only.

The following table presents the calculation of efficiency ratio.

	At September 30,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Other expense	$15,147	$13,922	$13,961	$16,644	$19,775
Less: non-core items	159	111	439	—	—
Other expense, excluding non-core items	14,988	13,811	13,522	16,644	19,775
Net interest income (tax-equivalent basis)	24,512	18,777	15,400	15,152	15,442
Other income, excluding net investment securities gains	1,878	1,768	2,020	2,052	2,381
Total	26,390	20,545	17,420	17,204	17,823
Efficiency ratio	56.79 %	67.22 %	77.62 %	96.74 %	110.95%

Item 7. Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations.

The purpose of this analysis is to provide the reader with information relevant to understanding and assessing the Company's results of operations for each of the past three years and financial condition for each of the past two years. To fully appreciate this analysis, the reader is encouraged to review the consolidated financial statements and accompanying notes thereto appearing under Item 8 of this report, and statistical data presented in this document.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

See Page 1 of this Annual Report on Form 10-K for information regarding forward-looking statements.

Explanatory Note

As previously reported in a Form 8-K filed on November 28, 2017 (the "Item 4.02 8-K"), on November 21, 2017, the Company was advised by BDO USA, LLP ("BDO"), its independent registered public accounting firm, that the Company should disclose that BDO's audit report on the Company's consolidated financial statements as of September 30, 2016 and 2015, and for each of the years in the two year period ended September 30, 2016, and BDO's completed interim reviews of the Company's consolidated interim financial statements as of and for the periods ended December 31, 2016, March 31, 2017 and June 30, 2017 (collectively, the "Specified Financial Statements"), should no longer be relied upon. As a result of the foregoing, the Company restated the Specified Financial Statements, which were included in amendments to the Company's fiscal 2016 10-K and 10-Qs for the first three quarters of fiscal 2017 that the Company filed with the SEC.

The matters described above relate to the Company's income tax account balances. The effect of these matters is to increase net income for fiscal 2016 by approximately $208,000, fiscal 2015 by approximately $970,000 and fiscal 2014 by approximately $388,000. For the fiscal year ended September 30, 2017, the net effect is a decrease to net income of approximately $796,000 and an increase in tax liability account of $796,000. These matters have no effect on the Company's cash position, net interest margin, pre tax income or the Company's operating expenses.

See Item 9A herein.

All numbers in this Annual Report on Form 10-K reflect the restatements referred to above.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Note 2 to our audited consolidated financial statements contains a summary of our significant accounting policies. Management believes our policy with respect to the methodology for the determination of the allowance for loan losses involves more complexity and requires management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could materially impact results of operations. This critical policy and its application are periodically reviewed with the Audit Committee and our Board of Directors.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of probable loan losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the Company's Consolidated Statements of Financial Condition.

The evaluation of the adequacy of the allowance for loan losses includes, among other factors, an analysis of historical loss rates by loan category applied to current loan totals. However, actual loan losses may be higher or lower than historical trends, which vary. Actual losses on specified problem loans, which also are provided for in the evaluation, may vary from estimated loss percentages, which are established based upon a limited number of potential loss classifications. The allowance for loan losses is established through a provision for loan losses charged to expense. Management believes that the current allowance for loan losses will be adequate to absorb loan losses on existing loans that may become uncollectible based on the evaluation of known and inherent risks in the loan portfolio. The evaluation takes into consideration such factors as changes in the nature and size of the portfolio, overall portfolio quality, and specific problem loans and current economic conditions which may affect our borrowers' ability to pay.

The evaluation also details historical losses by loan category and the resulting loan loss rates which are projected for current loan total amounts. Loss estimates for specified problem loans are also detailed. In addition, OCC, as an integral part of their examination process, periodically review our allowance for loan losses. The OCC may require us to make additional provisions for loan losses based upon information available to them at the time of their examination. All of the factors considered in the analysis of the adequacy of the allowance for loan losses may be subject to change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses may be required that could materially adversely impact earnings in future periods.

Other Real Estate Owned

Assets acquired through foreclosure consist of other real estate owned and financial assets acquired from debtors. Other real estate owned is carried at the lower of cost or fair value, less estimated selling costs. The fair value of other real estate owned is determined using current market appraisals obtained from approved independent appraisers, agreements of sale, and comparable market analysis from real estate brokers, where applicable. Changes in the fair value of assets acquired through foreclosure at future reporting dates or at the time of disposition will result in an adjustment in assets acquired through foreclosure expense or net gain (loss) on sale of assets acquired through foreclosure, respectively.

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

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

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

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

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

Fair value measurements for assets where there exists limited or no observable market data and, therefore, are based primarily upon the Company's or other third-party's estimates, are often calculated based on the characteristics of the asset, the economic and competitive environment and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future valuations. At September 30, 2017, the Company had $137,000 of assets that were measured at fair value on a non-recurring basis using Level 3 measurements.

Income Taxes

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

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

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 $6.7 million and $8.8 million at September 30, 2017 and at September 30, 2016, respectively. Our total deferred tax assets decreased to $7.0 million at September 30, 2017 compared to $9.4 million at September 30, 2016. The Company's DTA allowance as of September 30, 2016 of $61,000 has decreased by $61,000 to zero at September 30, 2017.

Due to the improvement in the Company's earnings performance, both on a book and taxable income basis, the Company achieved three consecutive fiscal years of positive book income for the fiscal year ended September 30, 2017 and has already exhibited eight consecutive quarters of positive taxable income as of the quarter ended September 30, 2017.

Other-Than-Temporary Impairment of Securities

Securities are evaluated on a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether declines in their value are other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline and whether 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.

Derivatives

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

Interest rate swaps are valued by a third party, using models that primarily use market observable inputs, such as yield curves, and are validated by comparison with valuations provided by the respective counterparties. The credit risk associated with derivative financial instruments that are subject to master netting agreements is measured on a net basis by counterparty portfolio. The significant assumptions used in the models, which include assumptions for interest rates, are independently verified against observable market data where possible. Where observable market data is not available, the estimate of fair value becomes more subjective and involves a high degree of judgment. In this circumstance, fair value is estimated based on management's judgment regarding the value that market participants would assign to the asset or liability. This valuation process takes into consideration factors such as market illiquidity. Imprecision in estimating these factors can impact the amount recorded on the balance sheet for an asset or liability with related impacts to earnings or other comprehensive income.

Overview and Strategy

Our business strategy is to operate as a well-capitalized and profitable financial institution dedicated to providing exceptional personal service to our individual and business customers. Highlights of our business strategy are discussed below:

Improving Core Earnings. With interest rates falling to historically low levels, it has become increasingly difficult for financial institutions to maintain acceptable levels of net interest income. Until recently, with the Bank unable to grow its asset base and loan portfolio, increasing interest income has been a challenge. This lack of growth in the loan portfolio through fiscal year-end 2014, combined with higher deposit and borrowing costs, have all contributed to a decline in the Banks' net interest margin. In an effort to achieve consistent sustainable earnings, i.e. improve the net interest margin, we are implementing specific product and pricing strategies designed to increase the yield on loans and reduce the cost of funding. In fiscal 2014, we resumed originating commercial real estate loans and commercial business loans, which have higher yields than single-family residential mortgage loans, on a relatively modest basis in accordance with our business plan and our strengthened loan underwriting and loan administration policies and procedures. We also have established a funding composition plan, which is designed to increase checking accounts, primarily non-interest-bearing accounts, as well as savings and money market accounts. We are attempting to increase our core deposits, which we define as all deposit accounts other than certificates of deposit. At September 30, 2017, our core deposits amounted to 65.6% of total deposits ($518.6 million), compared to 58.4% of total deposits ($351.8 million) at September 30, 2016. We have continued our promotional efforts to increase core deposits. We review our deposit products on an ongoing basis and we are considering additional deposit products and are currently offering more flexible delivery options, such as mobile banking, as part of our efforts to increase core deposits. We expect to increase our commercial checking accounts and we plan to enhance our cross-marketing as part of our efforts to gain additional deposit relationships with our loan customers.

Maintain Low Levels of Problem Assets. We are continuing in our efforts to maintain low levels of problem assets. At September 30, 2017, our total non-performing assets in portfolio were $1.2 million or 0.12% of total assets, reflecting a reduction of $4.7 million, or 79.4%, compared to $5.9 million of total non-performing assets at September

30, 2013 (when total non-performing assets amounted to 0.97% of total assets). The October 2013 bulk sale of problem loans resulted in a dramatic reduction of the Company’s non-performing assets. The bulk sale was undertaken as an efficient mechanism for disposing of non-performing and underperforming assets and improving the Bank’s credit quality in the process. As a result of the sale, the Company significantly reduced its exposure to sectors that experienced economic weakness and significant declines in collateral valuations and has substantially reduced the amount of non-accruing loans.

Growing Our Loan Portfolio and Resuming Commercial Real Estate and Construction and Development Lending. We have resumed, on a relatively modest basis, the origination of commercial real estate loans and construction and development loans in our market area. Such loans are being underwritten in accordance with our strengthened loan underwriting standards and our enhanced credit review and administration procedures. We continue to believe that we can be a successful niche lender to small and mid-sized commercial borrowers and homebuilders in our market area. In light of the improvements in economic conditions and real estate values, we believe that the resumption of commercial real estate and construction and development lending in a planned, deliberative fashion with the loan underwriting and administrative enhancements that we have implemented in recent periods, together with modest loan growth, will increase our interest income and our returns in future periods.

Increasing Market Share Penetration. The Company continues to move forward with momentum in expanding our presence in key markets in 2017. We continue to execute on our business plans and are positioning the Company to take advantage of the growth activity we are achieving in our markets, which included our new wealth management locations in Palm Beach, Florida and Montchanin, Delaware. With the entry into Florida and Delaware markets, we are working to solidify and expand the service relationship with our new customers. We remain excited by the potential to create incremental shareholder value from our strategic growth. We believe that our earnings performance demonstrates the Company’s commitment to achieving meaningful growth, an essential component of providing consistent and favorable long-term returns to our shareholders. However, while we continue to see an improvement in balance sheet strength and core earnings performance, we remain cautious about the credit stability of the broader markets. We operate in a competitive market area for banking products and services. In recent years, we have been working to increase our deposit share in Chester and Delaware counties and we increased our marketing and promotional efforts. During fiscal year 2017, we continued to execute on our business plans and have positioned the Company to take advantage of the growth activity we are achieving in our markets, which includes our two new private banking/loan production offices in Villanova, Pennsylvania and Morristown, New Jersey. Our business plans call for us to achieve the transition to a commercial bank balance sheet. With entry into New Jersey lending market, we are working to solidify and expand the service relationship with our new customers. In our effort to increase market share as well as non-interest income, we plan to evaluate increasing our business in non-traditional products, such as wealth management.

Continuing to Provide Exceptional Customer Service. As a community-oriented savings bank, we take pride in providing exceptional customer service as a means to attract and retain customers. We deliver personalized service to our customers that distinguish us from the large regional banks operating in our market area. Our management team has strong ties to and deep roots in, the local community. We believe that we know our customers’ banking needs and can respond quickly to address them.

Introduction

The following sections discuss the Company’s Results of Operations, Asset and Liability Management, Liquidity and Capital Resources.

Results of Operations

Net income for the year ended September 30, 2017 was $5.8 million as compared to $12.2 million earned in fiscal 2016 and $4.7 million earned in fiscal 2015. Our net income for fiscal 2017 decreased by 52.1 percent compared to fiscal 2016. For fiscal 2017, the fully diluted earnings per common share was $0.90 as compared with $1.90 per share in fiscal 2016 and $0.73 per share in fiscal 2015. However, net income prior to income tax expense (benefit) showed $8.7 million in 2017 and $6.0 million in 2016, an increase of $2.8 million or 46.2%.

For the year ended September 30, 2017, the Company's return on average shareholders' equity (''ROE'') was 5.93 percent and its return on average assets (''ROA'') was 0.62 percent. The comparable ratios for the year ended September 30, 2016, were ROE of 14.07 percent and ROA of 1.61 percent.

Earnings for fiscal 2017 benefitted from increase in net income, as well as an increase in non interest income. The increases in non interest income, primarily in service charges and other fees, rental income and an increase in net gain on sale of loans, which were partially offset by an decrease in net gain on sale of investments and a decrease in earnings on bank owned life insurance. The increase in non-interest expenses was due to increases in salaries and benefits, occupancy expenses, advertising expenses, data processing expense, professional fees and other operating expenses. The increase was offset by decreases in FDIC insurance.

Use of Non-GAAP Disclosures

Reported amounts are presented in accordance with U.S. GAAP. The Company's management believes that the supplemental non-GAAP information contained herein, including the efficiency ratio, are utilized by regulators and market analysts to evaluate a company's financial condition and therefore, such information is useful to investors. These disclosures should not be viewed as a substitute for financial results determined in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures which may be presented by other companies.

Net Interest Income

Net interest income is the difference between the interest earned on the portfolio of earning assets (principally loans and investments) and the interest paid for deposits and borrowings, which support these assets. Net interest income is presented on a fully tax-equivalent basis by adjusting tax-exempt income (primarily interest earned on obligations of state and political subdivisions) by the amount of income tax which would have been paid had the assets been invested in taxable issues. We believe this to be the preferred measurement of net interest income as it provides a relevant comparison between taxable and non-taxable amounts.

The following table presents the components of net interest income on a fully tax-equivalent basis, a non-GAAP measure, for the periods indicated, together with a reconciliation of net interest income as reported under GAAP.

	Year Ended September 30,								
	2017			2016			2015		
(Dollars in thousands)	Amount	**Increase (Decrease) from Prior Year**	**Percent Change**	Amount	**Increase (Decrease) from Prior Year**	**Percent Change**	Amount	**Increase (Decrease) from Prior Year**	**Percent Change**
Interest income:									
Loans, including fees	$30,850	$9,634	45.41	$21,216	$4,724	28.64	$16,492	$(1,251)	(7.05)
Investment securities	2,206	(1,624)	(42.40)	3,830	57	1.51	3,773	1,470	63.83
Dividends, restricted stock	257	7	2.80	250	(61)	(19.61)	311	188	152.85
Interest-bearing cash accounts	631	418	196.24	213	141	195.83	72	18	33.33
Total interest income	33,944	8,435	33.07	25,509	4,861	23.54	20,648	425	2.10
Interest expense:									
Deposits	6,236	1,699	37.45	4,537	1,106	32.24	3,431	(538)	(13.56)
Short-term borrowings	34	34	100.00	—	—	—	—	—	—
Long-term borrowings	2,176	(19)	(0.87)	2,195	378	20.80	1,817	715	64.88
Borrowings	1,000	1,000	100.00	—	—	—	—	—	—
Total interest expense	9,446	2,714	40.31	6,732	1,484	28.28	5,248	177	3.49
Net interest income on a fully tax-equivalent basis	24,498	5,721	30.47	18,777	3,377	21.93	15,400	248	1.64
Tax-equivalent adjustment [1]	(162)	103	38.87	(265)	(79)	42.47	(186)	(130)	232.14
Net interest income, as reported under GAAP	$24,336	$5,824	31.46	$18,512	$3,298	21.68	$15,214	$118	0.78

(1) Computed using a federal income tax rate of 34 percent for Years ended September 30, 2017, 2016 and 2015.

Net interest income is directly affected by changes in the volume and mix of interest-earning assets and interest-bearing liabilities, which support those assets, as well as changes in the rates earned and paid. Net interest income is presented in this financial review on a tax equivalent basis by adjusting tax-exempt income (primarily interest earned on various obligations of state and political subdivisions) by the amount of income tax which would have been paid had the assets been invested in taxable issues, and then in accordance with the Company's consolidated financial statements. Accordingly, the net interest income data presented in this financial review differ from the Company's net interest income components of the Consolidated Financial Statements presented elsewhere in this report.

Net interest income, on a tax-equivalent basis, for the year ended September 30, 2017 increased $5.7 million, or 30.5 percent, to $24.5 million, from $18.8 million for fiscal 2016. The Company's net interest margin increased seven basis points to 2.72 percent in fiscal 2017 from 2.65 percent for the fiscal year ended September 30, 2016. From fiscal 2015 to fiscal 2016, net interest income on a tax equivalent basis increased by $3.4 million and the net interest margin increased by three basis points. During fiscal 2017, our net interest margin was impacted by increases in the yield on investments and interest-bearing cash accounts, as well as increase in the cost of deposits and borrowings and decreases in the yield on loans and FHLB stock.

The increase in net interest income during fiscal 2017 was attributable in part to the slight increase in short-term interest rates that continued to remain at historic low levels throughout 2017. The Company experienced growth of $7.6 million in non-interest bearing deposits during fiscal 2017 and $157.3 million in interest-bearing demand, savings, money market and time deposits under $100,000 during fiscal 2017 as customers' desire for safety and liquidity continued to remain as one of their primary investment concerns. During the twelve months ended September 30, 2017, the Company's net interest spread increased by four basis points reflecting a 17 basis points increase in the average yield on interest-earning assets as well as a 13 basis points increase in the average interest rates paid on interest-bearing liabilities.

For the year ended September 30, 2017, average interest-earning assets increased by $191.3 million to $900.7 million, as compared with the year ended September 30, 2016. The fiscal 2017 change in average interest-earning asset volume was primarily due to increased loan volume. Average interest-bearing liabilities increased by $158.5 million in fiscal 2017 compared to fiscal 2016, due primarily to an increase in average interest-bearing deposits of $137.2 million and a $21.3 million increase in average borrowings.

For the year ended September 30, 2016, average interest-earning assets increased by $122.7 million to $709.5 million, as compared with the year ended September 30, 2015. The fiscal 2016 change in average interest-earning asset volume was primarily due to increased loan volume. Average interest-bearing liabilities increased by $123.7 million in fiscal 2016 compared to fiscal 2015, due primarily to an increase in average interest-bearing deposits of $99.7 million and a $24.0 million increase in average borrowings.

The factors underlying the year-to-year changes in net interest income are reflected in the tables presented on pages 27 and 28, each of which have been presented on a tax-equivalent basis (assuming a 34 percent tax rate for fiscal 2017, 2016 and 2015). The table on page 30 (Average Statements of Condition with Interest and Average Rates) shows the Company's consolidated average balance of assets, liabilities and shareholders' equity, the amount of income produced from interest-earning assets and the amount of expense incurred from interest-bearing liabilities, and net interest income as a percentage of average interest-earning assets.

Net Interest Margin

The following table quantifies the impact on net interest income (on a tax-equivalent basis) resulting from changes in average balances and average rates over the past three years. Any change in interest income or expense attributable to both changes in volume and changes in rate has been allocated in proportion to the relationship of the absolute dollar amount of change in each category.

Analysis of Variance in Net Interest Income Due to Volume and Rates

	Fiscal 2017/2016			Fiscal 2016/2015		
	Increase (Decrease)			Increase (Decrease)		
	Due to Change in:			Due to Change in:		
	Average	Average	Net	Average	Average	Net
(In thousands)	Volume	Rate	Change	Volume	Rate	Change
Interest-earning assets:						
Loans, including fees	$9,628	$ 6	$9,634	$5,313	$ (589)	$4,724
Investment securities	(1,656)	32	(1,624)	(202)	259	57
Interest-bearing cash accounts	116	302	418	12	129	141
Dividends, restricted stock	9	(3)	6	62	(123)	(61)
Total interest-earning assets	8,097	337	8,434	5,185	(324)	4,861
Interest-bearing liabilities:						
Money market deposits	599	597	1,196	246	357	603
Savings deposits	(1)	6	5	—	3	3
Certificates of deposit	440	(72)	368	432	12	444
Other interest-bearing deposits	20	110	130	3	53	56
Total interest-bearing deposits	1,058	641	1,699	681	425	1,106
Borrowings	403	611	1,014	475	(97)	378
Total interest-bearing liabilities	1,461	1,252	2,713	1,156	328	1,484
Change in net interest income	$6,636	$ (915)	$5,721	$4,029	$ (652)	$3,377

Interest income on a tax-equivalent basis for the year ended September 30, 2017 increased by approximately $8.4 million or 33.1 percent as compared with the year ended September 30, 2016. This increase was due primarily to increases in the balances of the Company's loans. Interest income on a tax-equivalent basis for the year ended September 30, 2016 increased by approximately $4.9 million or 23.5 percent as compared with the year ended September 30, 2015. This increase was due primarily to increases in the balances of the Company's loans.

The average balance of the Company’s loan portfolio increased $230.5 million in fiscal 2017 to $738.5 million from $508.0 million in fiscal 2016, primarily driven by an increase in commercial real estate loans.

The average loan portfolio represented approximately 82.0 percent of the Company’s interest-earning assets (on average) during fiscal 2017 and 71.6 percent for fiscal 2016. Average investment securities decreased during fiscal 2017 by $64.8 million compared to fiscal 2016. The average yield on interest-earning assets increased from 3.60 percent in fiscal 2016 to 3.77 percent in fiscal 2017.

Interest expense for the year ended September 30, 2017 was principally impacted by both volume and rate mix related factors. The changes resulted in increased expense of $2.7 million due to an increase in deposits and borrowings in fiscal 2017. Average interest-bearing liabilities increased $158.5 million from fiscal 2016 to fiscal 2017. For the year ended September 30, 2016, interest expense increased $1.5 million as compared with fiscal 2015, principally reflecting an increase in deposits and borrowings. Average interest-bearing liabilities increased $123.7 million from fiscal 2015 to fiscal 2016.

The Company’s net interest spread on a tax-equivalent basis (i.e., the average yield on average interest-earning assets, calculated on a tax equivalent basis, minus the average rate paid on interest-bearing liabilities) increased four basis points to 2.57 percent in fiscal 2017 from 2.53 percent for the year ended September 30, 2016. The increase in fiscal 2017 reflected an increase of spreads between yields earned on investments and interest-bearing cash accounts and rates paid for supporting funds. The net interest spread increased five basis points in fiscal 2016 as compared with fiscal 2015, primarily as a result of an increase of spreads between yields earned on investments and interest-bearing cash accounts and rates paid for supporting funds.

The cost of total average interest-bearing liabilities increased to 1.20 percent, an increase of 13 basis points, for the year ended September 30, 2017, from 1.07 percent for the year ended September 30, 2016, which followed an increase of three basis points from 1.04 percent for the year ended September 30, 2015.

The following table, ‘‘Average Statements of Condition with Interest and Average Rates’’, on a tax-equivalent basis presents for the years ended September 30, 2017, 2016 and 2015, the Company’s average assets, liabilities and shareholders’ equity. The Company’s net interest income, net interest spreads and net interest income as a percentage of interest-earning assets (net interest margin) are also reflected.

	Year Ended September 30,								
	2017			2016			2015		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands)								
ASSETS									
Interest earning assets:									
Loans receivable[(1)]	$738,496	$30,850	4.18 %	$507,973	$21,216	4.18 %	$384,125	$16,492	4.29 %
Investment securities	85,030	2,206	2.59	149,812	3,830	2.56	158,282	3,773	2.38
Deposits in other banks	71,754	631	0.88	46,429	213	0.46	39,975	72	0.18
FHLB stock	5,436	257	4.72	5,243	250	4.77	4,369	311	7.12
Total interest earning assets[(1)]	900,716	33,944	3.77	709,457	25,509	3.60	586,751	20,648	3.52
Non-interest earning assets									
Cash and due from banks	1,789			15,585			7,003		
Bank owned life insurance	18,683			18,165			18,492		
Other assets	20,151			14,177			13,592		
Allowance for loan losses	(6,930)			(4,968)			(4,610)		
Total non-interest earning assets	33,693			42,959			34,477		
Total assets	$934,409			$752,416			$621,228		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest bearing liabilities:									
Money Market accounts	$234,204	$2,069	0.88 %	$138,997	$874	0.63 %	$72,467	$271	0.37 %
Savings accounts	43,937	37	0.08	45,060	32	0.07	44,975	29	0.06
Certificate accounts	270,054	3,861	1.43	239,810	3,492	1.46	209,994	3,048	1.45
Other interest- bearing deposits	102,936	269	0.26	90,054	139	0.15	86,814	83	0.10
Total deposits	651,131	6,236	0.96	513,921	4,537	0.88	414,250	3,431	0.83
Borrowed funds	136,885	3,210	2.34	115,598	2,195	1.90	91,588	1,817	1.98
Total interest-bearing liabilities	788,016	9,446	1.20	629,519	6,732	1.07	505,838	5,248	1.04
Non-interest bearing liabilities									
Demand deposits	40,759			31,263			28,650		
Other liabilities	6,044			5,262			6,775		

Total non-interest-bearing liabilities	46,803			36,525			35,425		
Shareholders' equity	99,590			86,372			79,965		
Total liabilities and shareholders' equity	$934,409			$752,416			$621,228		
Net interest income (tax-equivalent basis)		$24,498			$18,777			$15,400	
Net interest spread			2.57 %			2.53 %			2.48 %
Net interest margin			2.72 %			2.65 %			2.62 %
Tax-equivalent adjustment(2)		(162)			(265)			(186)	
Net Interest income		$24,336			$18,512			$15,214	

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

(2) The tax-equivalent adjustment was computed based on a statutory Federal income tax rate of 34 percent for fiscal years 2017, 2016 and 2015.

Investment Portfolio

For the year ended September 30, 2017, the average volume of investment securities decreased by $64.8 million to approximately $85.0 million or 9.4 percent of average earning assets, from $149.8 million on average, or 21.1 percent of average earning assets, in fiscal 2016. At September 30, 2017, the total investment portfolio amounted to $49.5 million, a decrease of $57.4 million from September 30, 2016. The decrease in the investment portfolio was done in the ordinary course of business policy, with the proceeds used to fund loan growth. It was primarily the result of available-for-sale investment securities sold during fiscal 2017. At September 30, 2017, the principal components of the investment portfolio were government agency obligations, Federal agency obligations including mortgage-backed securities, obligations of U.S. states and political subdivision, corporate bonds and notes, and equity securities.

During the year ended September 30, 2017, volume related factors decreased investment revenue by $1.7 million, while rate related factors increased investment revenue by $32,000. The tax-equivalent yield on investments increased by three basis points to 2.59 percent from a yield of 2.56 percent during the year ended September 30, 2016. The decrease in the investment portfolio was attributed to the sales, amortization, and calls recorded during fiscal 2017. The yield on the portfolio increased in fiscal 2017 compared to fiscal 2016 due primarily to higher rates earned on taxable securities.

During fiscal 2015, the Company reclassified at fair value approximately $57.5 million in available-for-sale investment securities to the held-to-maturity category. The net unrealized loss at date of transfer amounted to $115,000. This is being amortized over the remaining life of the securities as an adjustment of yield, offsetting the related amortization of the premium or accretion of the discount on the transferred securities. No gains or losses were recognized at the time of reclassification. Management considers the held-to-maturity classification of these investment securities to be appropriate as the Company has the positive intent and ability to hold these securities to maturity.

As of September 30, 2017, the estimated fair value of the available-for-sale securities disclosed below was 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 September 30, 2017, the Company held two government agency securities, two municipal bonds, three corporate securities, 36 mortgage-backed securities and one single issuer trust preferred security which were in an unrealized loss position. The Company does not intend to sell and expects that it is not more likely than not that it will be required to sell these securities until such time as the value recovers or the securities mature. Management does not believe any individual unrealized loss as of September 30, 2017 represents other-than-temporary impairment.

Securities available-for-sale are a part of the Company's interest rate risk management strategy and may be sold in response to changes in interest rates, changes in prepayment risk, liquidity management and other factors. The Company continues to reposition the investment portfolio as part of an overall corporate-wide strategy to produce reasonable and consistent margins where feasible, while attempting to limit risks inherent in the Company's balance sheet.

For fiscal 2017, proceeds of investment securities sold amounted to approximately $51.1 million. Gross realized gains on investment securities sold amounted to approximately $464,000, while gross realized losses amounted to approximately $1,000, for the period. For fiscal 2016, proceeds of investment securities sold amounted to approximately $62.8 million. Gross realized gains on investment securities sold amounted to approximately $595,000, while gross realized losses amounted to approximately $30,000, for the period. For fiscal 2015, proceeds of investment securities sold amounted to approximately $70.4 million. Gross realized gains on investment securities sold amounted to approximately $610,000, while gross realized losses amounted to approximately $95,000, for the period.

The varying amount of sales from the available-for-sale portfolio over the past few years, and the significant volume of such sales in fiscal 2017, reflect the significant volatility present in the market. Given the historic low interest rates prevalent in the market, it is necessary for the Company to protect itself from interest rate exposure. Securities that once appeared to be sound investments can, after changes in the market, become securities that the Company has the flexibility to sell to avoid losses and mismatches of interest-earning assets and interest-bearing liabilities at a later time.

The table below illustrates the maturity distribution and weighted average yield on a tax-equivalent basis for investment securities at September 30, 2017 on a contractual maturity basis.

	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:											
State and municipal obligations	$-	- %	$4,207	1.87 %	$2,330	1.90 %	$455	3.40 %	$6,992	$7,029	1.98 %
Single issuer trust preferred security	-	-	-	-	-	-	1,000	1.948	1,000	934	1.94
Corporate debt securities	-	-	-	-	6,627	2.89	-	-	6,627	6,374	2.89
Mutual fund	-	-	250	2.00	-	-	-	-	250	250	2.00
Total	$-	- %	$4,457	1.88 %	$8,957	2.63 %	$1,455	2.39 %	$14,869	$14,587	2.38 %
Held to Maturity Securities:											
U.S. government agencies and obligations	$-	- %	1,999	1.29 %	$-	-%	$-	-%	$1,999	1,991	1.29 %
State and municipal obligations	-	-	-	-	1,895	2.24	7,679	1.49	9,574	9,663	1.64
Corporate debt securities	-	-	-	-	3,818	3.82	-	-	3,818	3,844	3.82
Mortgage-backed securities	-	-	-	-	-	-	19,524	1.79	19,524	19,068	1.78
Total	$-	- %	$1,999	1.29 %	$5,713	3.30 %	$27,203	1.70 %	34,915	34,566	1.94 %
Total Investment Securities	$-	- %	$6,456	1.70 %	$14,670	2.89 %	$28,658	1.74 %	$49,784	$49,153	2.07 %

For information regarding the carrying value of the investment portfolio, see Note 5 and Note 11 of the Notes to the Consolidated Financial Statements.

The following table sets forth the carrying value of the Company's investment securities, as of September 30, for each of the last three years.

(In thousands)	2017	2016	2015
Investment Securities Available-for-Sale:			
U.S. government agencies	$—	$—	$815
State and municipal obligations	7,029	25,307	42,083
Single issuer trust preferred security	934	878	850
Corporate debt securities	6,374	40,202	69,982
Mutual Fund	250	—	—
Mortgage-backed securities:			
Federal National Mortgage Association	—	—	8,692
Federal Home Loan Mortgage Company	—	—	5,932
Collateralized mortgage obligations	—	—	—
Total available-for-sale	$14,587	$66,387	$128,354
Investment Securities Held-to-Maturity:			
U.S. government agencies	$1,999	$2,999	$14,301
State and municipal obligations	9,574	9,826	10,075
Corporate debt securities	3,818	3,916	4,011
Mortgage-backed securities:			
Collateralized mortgage obligations, fixed- rate	19,524	23,810	28,834
Total held-to-maturity	$34,915	$40,551	$57,221
Total investment securities	$49,502	$106,938	$185,575

For information regarding the Company’s investment portfolio, see Note 5 and Note 11 of the Notes to the Consolidated Financial Statements.

Loan Portfolio

Lending is one of the Company’s primary business activities. The Company’s loan portfolio consists of residential, construction and development, commercial and consumer loans, serving the diverse customer base in its market area. The composition of the Company’s portfolio continues to change due to the local economy. Factors such as the economic climate, interest rates, real estate values and employment all contribute to these changes. Growth is generated through business development efforts, repeat customer requests for new financings, penetration into existing markets and entry into new markets.

The Company seeks to create growth in commercial lending by offering customer-focused products and competitive pricing and by capitalizing on the positive trends in its market area. Products offered are designed to meet the financial requirements of the Company’s customers. It is the objective of the Company’s credit policies to diversify the commercial loan portfolio to limit concentrations in any single industry.

At September 30, 2017, total gross loans amounted to $842.1 million, an increase of $263.8 million or 45.6 percent as compared to September 30, 2016. For the year ended September 30, 2017, growth of $264.4 million in commercial loans and $25.4 million in construction and development loans were partially offset by decreases of $16.7 million in residential mortgage loans and $9.3 million in total consumer loans. Even though the Company continues to be challenged by the competition for lending relationships that exists within its market, growth in volume has been achieved through successful lending sales efforts to build on continued customer relationships.

The average balance of our total loans increased $230.5 million or 45.4 percent for the year ended September 30, 2017 as compared to September 30, 2016, while the average yield on loans remained the same in fiscal 2017 compared with fiscal 2016. The increase in average total loan volume was due primarily to the volume of new loan originations. During fiscal 2017 compared to fiscal 2016, the volume-related factors during the period contributed to an increase of interest income on loans of $9.6 million, while the rate-related changes increased interest income by $6,000.

The following table presents information regarding the components of the Company’s loan portfolio on the dates indicated.

	September 30,				
	2017	2016	2015	2014	2013
	(In thousands)				
Residential mortgage	$192,500	$209,186	$214,958	$231,324	$239,900
Construction and Development:					
Residential and commercial	35,622	18,579	5,677	5,964	6,672
Land	18,377	10,013	2,142	1,033	2,439
Total construction and development	53,999	28,592	7,819	6,997	9,111
Commercial:					
Commercial real estate	437,760	231,439	87,686	71,579	70,571
Multi-family	39,768	19,515	7,444	1,032	1,971
Farmland	1,723	-	-	-	-
Other	74,837	38,779	13,380	5,480	5,573
Total commercial	554,088	289,733	108,510	78,091	78,115
Consumer:					
Home equity lines of credit	16,509	19,757	22,919	22,292	20,431
Second mortgages	22,480	29,204	37,633	47,034	54,532
Other	2,570	1,914	2,359	2,839	2,648
Total consumer	41,559	50,875	62,911	72,165	77,611
Total loans	842,146	578,386	394,198	388,577	404,737
Deferred loan fees and costs, net	590	1,208	1,776	2,086	2,210
Allowance for loan losses	(8,405)	(5,434)	(4,667)	(4,589)	(5,090)
Loans receivable, net	$834,331	$574,160	$391,307	$386,074	$401,857

At September 30, 2017, our net loan portfolio totaled $834.3 million or 79.8% of total assets. 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 in recent fiscal years, we have taken certain actions 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 address certain 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. Our Credit Review Department’s primary focus has been to review and maintain the loan portfolio, along with the review of underwriting of all new credits.

At times, the Company purchases single-family residential mortgage loans and consumer loans from a network of mortgage brokers. These loans are underwritten at the Bank and closed in the Bank’s name.

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.

The loans receivable portfolio is segmented into residential mortgage loans, construction and development loans, commercial loans and consumer loans. The residential mortgage 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 construction loans 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 and occupied by the home-owner. Commercial construction loans are made for the purpose of acquiring, developing and constructing a commercial use structure and for acquisition, development and construction of residential properties by residential developers. 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, 2017, $192.5 million, or 22.9%, of our total loans in portfolio 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 loan origination officers 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 the low interest rate environment and demand for fixed rate products, we have not originated a significant amount of ARM loans in recent years. At September 30, 2017, $44.4 million, or 23.1%, of our one-to four-family residential mortgage loans consisted of ARM loans.

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. The amount of our outstanding construction and development loans in portfolio increased to $54.0 million or 6.4% of gross loans at September 30, 2017 from $28.6 million or 4.9% of total loans as of September 30, 2016. From October 2009 through September 30, 2013, we ceased originating any new construction and development loans, with certain limited exceptions. During fiscal 2014, we resumed originating construction loans to builders and developers in our market area, on a relatively modest basis consistent with our business plan filed with the OCC. We generally limit construction loans to builders and developers with whom we have an established relationship, or who are otherwise known to officers of the Bank. Our construction loans also include single-family residential construction loans which may if approved convert to permanent, long-term mortgage loans upon completion of construction ("construction/perm" loans). During the initial or construction phase, these construction/perm loans require payment of interest only, which generally is tied to prime rate, as the home is being constructed. On residential construction to perm loans the interest rate is as approved. Upon the earlier of the completion of construction or one year, these loans if approved by the appropriate approving authority convert to long-term (generally 30 years), amortizing, fixed-rate single-family mortgage loans.

Our current portfolio of construction loans generally have a maximum term as approved based upon the underwriting (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 and monthly payment of interest is required on all construction loans.

Our construction loans also include loans for the acquisition and development of land for sale (i.e. roads, sewer and water lines). We typically make 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 are limited to a loan-to-value ratio not exceeding 75% 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 limit loans of this type to our market area and to developers with whom we have established relationships. In most cases, we also obtain personal guarantees from the borrowers.

Our loan portfolio included nine loans secured by unimproved real estate and lots ("land loan"), with an outstanding balance of $18.4 million, constituting 2.2% of total loans, at September 30, 2017.

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, 2017, $657,000, or 7.8 percent, of our allowance for loan losses was attributed to construction and development loans. We had no loans in non-performing construction and development loans in portfolio at September 30, 2017 and at September 30, 2016. At September 30, 2017 and 2016, we had $94,000 and $109,000, respectively, in construction and development loans that were performing troubled debt restructurings.

Commercial Lending. At September 30, 2017, our loans in portfolio secured by commercial real estate amounted to $437.8 million and constituted 52.0 percent of our gross loans at such date. During the year ended September 30, 2017, the commercial real estate loan portfolio increased by $206.3 million, or 89.2 percent. During fiscal 2017, we had zero charge-offs of commercial real estate loans, as compared to $99,000 in charge-offs at fiscal 2016.

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.

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 amortization typically not greater than 25 years and loan-to-value ratios of not more than 80%. 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.

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, 2017, we had no non-accruing commercial real estate mortgage loans and an aggregate of $2.0 million of our commercial real estate loans at such date were classified for regulatory reporting purposes as substandard. As of September 30, 2017, $2.8 million, or 32.9% of our allowance for loan losses was allocated to commercial real estate mortgage loans. In addition, at September 30, 2017 and 2016, we had no real estate owned which were acquired from foreclosures on, or our acceptance of a deed-in-lieu of foreclosure, on commercial real estate loans. As of September 30, 2017, our commercial real estate loans held in portfolio were deemed performing troubled debt restructurings were $554,000 compared to $1.8 million at September 30, 2016.

At September 30, 2017, our loan portfolio included 15 loans with an aggregate book value of $39.8 million secured by multi-family (more than four units) properties, constituting 4.7% of our gross loans at such date. As of September 30, 2017, we had no non-accruing multi-family loans.

At September 30, 2017, we had $74.8 million in commercial business loans (8.9% of gross loans outstanding) in portfolio. Our commercial business loans generally have been 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 have 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.

Generally, commercial business loans are characterized as having higher risks associated with them than single-family residential mortgage loans. As of September 30, 2017, we had no non-accruing commercial business loans in our loan portfolio. At such date, $416,000 or 5.0% of the allowance for loan losses was allocated to commercial business loans.

At September 30, 2017 and 2016, we held no commercial business loans in portfolio that were deemed performing troubled debt restructurings.

In our underwriting procedures, consideration is 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 is 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 120%. We also 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. 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 $41.6 million or 4.9% of our total loan portfolio at September 30, 2017. The largest components of our consumer loans are loans secured by second mortgages, consisting primarily of home equity loans, which amounted to $22.5 million at September 30, 2017, and home equity lines of credit, which amounted to $16.5 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.

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 15 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 the maximum loan-to-value ratio on our home equity lines of credit is 80%, when Malvern Federal Savings has the first mortgage. However, the maximum loan-to-value ratio on our home equity lines of credit is reduced to 75%, when the Bank does not have the first mortgage. At September 30, 2017, the unused portion of our home equity lines of credit was $26.4 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 cases the absence of collateral. In the year ended September 30, 2017, we charged-off $223,000 of consumer loans mostly consisting of second mortgage loans. 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, 2017, we had an aggregate of $212,000 of non-accruing second mortgage loans and home equity lines of credit, representing an improvement of $140,000 over the amount of non-accruing second mortgage loans and home equity lines of credit at September 30, 2016. At September 30, 2017, $868,000 of our consumer loans were classified as substandard consumer loans. At September 30, 2017, an aggregate of $516,000 of our allowance for loan losses was allocated to second mortgages and home equity lines of credit.

The following table presents the contractual maturity of our loans held in portfolio at September 30, 2017. 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.

	At September 30, 2017, Maturing			
	In One Year or Less	After One Years Through Five Years	After Five Years	Total
	(In thousands)			
Residential mortgage	$328	$ 6,417	$ 185,755	$ 192,500
Construction and Development:				
Residential and commercial	22,430	10,307	2,885	35,622
Land	13,461	2,698	2,218	18,377
Total construction and development	35,891	13,005	5,103	53,999
Commercial:				
Commercial real estate	14,020	94,265	329,475	437,760
Farmland	—	—	1,723	1,723
Multi-family	6,000	15,215	18,553	39,768
Other	17,563	41,735	15,539	74,837

Total commercial	37,583	151,215	365,290	554,088
Consumer:				
Home equity lines of credit	—	—	16,509	16,509
Second mortgages	45	3,463	18,972	22,480
Other	173	2,039	358	2,570
Total consumer	218	5,502	35,839	41,559
Total	$74,020	$ 176,139	$591,987	$842,146
Loans with:				
Fixed rates	$7,265	$ 24,649	$268,182	$300,096
Variable rates	66,755	151,490	323,805	542,050
Total	$74,020	$ 176,139	$591,987	$842,146

For additional information regarding loans, see Note 6 of the Notes to the Consolidated Financial Statements.

Allowance for Loan Losses and Related Provision

The purpose of the allowance for loan losses (''allowance'') is to absorb the impact of probable losses inherent in the loan portfolio. Additions to the allowance are made through provisions charged against current operations and through recoveries made on loans previously charged-off. The allowance for loan losses is maintained at an amount considered adequate by management to provide for potential credit losses based upon a periodic evaluation of the risk characteristics of the loan portfolio. In establishing an appropriate allowance, an assessment of the individual borrowers, a determination of the value of the underlying collateral, a review of historical loss experience and an analysis of the levels and trends of loan categories, delinquencies and problem loans are considered. Such factors as the level and trend of interest rates, current economic conditions and peer group statistics are also reviewed. At fiscal 2017 year-end, the level of the allowance was $8.4 million as compared to a level of $5.4 million at September 30, 2016. The Company made loan loss provisions of $2.8 million in fiscal 2017 compared with $947,000 in fiscal 2016 and $90,000 in fiscal 2015. The level of the allowance during the respective annual fiscal periods of 2017, 2016 and 2015 reflects the change in average volume, credit quality within the loan portfolio, the level of charge-offs, loan volume recorded during the periods and the Company's focus on the changing composition of the commercial and residential real estate loan portfolios.

At September 30, 2017, the allowance for loan losses amounted to 1.00 percent of total loans. In management's view, the level of the allowance at September 30, 2017 is adequate to cover losses inherent in the loan portfolio. Management's judgment regarding the adequacy of the allowance constitutes a ''Forward Looking Statement'' under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from management's analysis, based principally upon the factors considered by management in establishing the allowance.

Although management uses the best information available, the level of the allowance for loan losses remains an estimate, which is subject to significant judgment and short-term change. Various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to increase the allowance based on their analysis of information available to them at the time of their examination. Furthermore, the majority of the Company's loans are secured by real estate in the State of Pennsylvania. Future adjustments to the allowance may be necessary due to economic factors impacting Pennsylvania real estate and further deterioration of the economic climate, as well as, operating, regulatory and other conditions beyond the Company's control. The allowance for loan losses as a percentage of total loans amounted to 1.00 percent, 0.94 percent and 1.18 percent at September 30, 2017, 2016 and 2015, respectively.

Net recoveries were $180,000 in fiscal 2017, compared to net charge-offs of $180,000 in fiscal 2016 and net charge-offs of $12,000 in fiscal 2015. During fiscal 2017, the Company experienced a decrease in charge-offs and an increase in recoveries compared to fiscal 2016. Charge-offs were lower in most of the portfolio segments in fiscal 2017 than in fiscal 2016 and recoveries were primarily higher in consumer loan portfolio segment in fiscal 2017 than in fiscal 2016. Consumer loan recoveries were $148,000 higher in fiscal 2017 compared to fiscal 2016.

Five-Year Statistical Allowance for Loan Losses

The following table reflects the relationship of loan volume, the provision and allowance for loan losses and net charge-offs for the past five years.

	September 30,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Average loans outstanding	$738,496	$507,973	$384,125	$407,169	$447,196
Total loans at end of period	$842,146	$578,386	$394,198	$388,577	$404,737
Analysis of the Allowance of Loan Losses					
Balance at beginning of year	$5,434	$4,667	$4,589	$5,090	$7,581
Charge-offs:					
Residential mortgage	—	9	—	83	994
Construction and Development:					
Residential and commercial	—	91	1	37	5,768
Land	—	—	—	—	99
Commercial:					
Commercial real estate	—	99	48	183	6,315
Multi-family	—	—	—	—	—
Other	—	—	—	—	94
Consumer:					
Home equity lines of credit	—	—	—	14	—
Second mortgages	218	291	138	618	1,042
Other	5	70	34	6	9
Total charge-offs	223	560	221	941	14,321
Recoveries:					
Residential mortgage	2	17	17	23	199
Construction and Development:					
Residential and commercial	90	243	98	1	—
Commercial:					
Commercial real estate	40	3	9	9	117
Other	9	3	3	3	23
Consumer:					
Home equity lines of credit	18	1	2	1	17
Second mortgages	232	100	69	136	235
Other	12	13	11	4	4
Total recoveries	403	380	209	177	595
Net (recoveries) charge-offs	(180)	180	12	764	13,726
Provision for loan losses	2,791	947	90	263	11,235
Balance at end of year	$8,405	$5,434	$4,667	$4,589	$5,090
	(0.02)%	0.04%	0.00%	0.19%	3.07%

Ratio of net (recovery) charge-offs during the year to average loans outstanding during the year										
Allowance for loan losses as a percentage of total loans at end of year	1.00	%	0.94	%	1.18	%	1.18	%	1.26	%

For additional information regarding loans, see Note 6 of the Notes to the Consolidated Financial Statements.

Implicit in the lending function is the fact that loan losses will be experienced and that the risk of loss will vary with the type of loan being made, the creditworthiness of the borrower and prevailing economic conditions. The allowance for loan losses has been allocated in the table below according to the estimated amount deemed to be reasonably necessary to provide for the possibility of losses being incurred within the following categories of loans at September 30, for each of the past five years.

The table below shows, for three types of loans, the amounts of the allowance allocable to such loans and the percentage of such loans to total loans.

	September 30, 2017			2016			2015			2014			2013		
	Amount	Loans to Total Loans		Amount	Loans to Total Loans		Amount	Loans to Total Loans		Amount	Loans to Total Loans		Amount	Loans to Total Loans	
	(Dollars in thousands)														
Residential mortgage	$1,004	22.8	%	$1,201	36.2	%	$1,486	54.5	%	$1,672	59.5	%	$1,414	59.3	%
Construction and Development:															
Residential and commercial	523	4.2		199	3.2		30	1.5		291	1.5		164	1.6	
Land loans	132	2.2		97	1.7		35	0.5		13	0.3		56	0.6	
Commercial:															
Commercial real estate	3,581	52.0		1,874	40.0		1,235	22.2		1,248	18.4		1,726	17.4	
Farmland	9	0.2													
Multi-family	224	4.7		109	3.4		104	1.9		29	0.3		40	0.5	
Other	541	8.9		158	6.7		108	3.4		50	1.4		59	1.4	
Consumer:															
Home equity lines of credit	90	2.0		116	3.4		139	5.8		168	5.8		137	5.0	
Second mortgages	402	2.7		467	5.0		761	9.6		1,033	12.1		1,393	13.5	
Other	27	0.3		34	0.4		24	0.6		23	0.7		22	0.7	
Total allocated	6,533	100.0		4,255	100.0		3,922	100.0		4,527	100.0		5,011	100.0	
Unallocated	1,872	-		1,179	-		745	-		62	-		79	-	
Balance at end of period	$8,405	100.0	%	$5,434	100.0	%	$4,667	100.0	%	$4,589	100.0	%	$5,090	100.0	%

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

Asset Quality

The Company manages asset quality and credit risk by maintaining diversification in its loan portfolio and through review processes that include analysis of credit requests and ongoing examination of outstanding loans and delinquencies, with particular attention to portfolio dynamics and mix. The Company strives to identify loans experiencing difficulty early enough to correct the problems, to record charge-offs promptly based on realistic assessments of current collateral values, and to maintain an adequate allowance for loan losses at all times.

It is generally the Company's policy to discontinue interest accruals once a loan is past due as to interest or principal payments for a period of ninety days. When a loan is placed on non-accrual status, interest accruals cease and uncollected accrued interest is reversed and charged against current income. Payments received on non-accrual loans are applied against principal. A loan may only be restored to an accruing basis when it again becomes well secured and in the process of collection or all past due amounts have been collected and a satisfactory period of ongoing repayment exists. Accruing loans past due 90 days or more are generally well secured and in the process of collection. For additional information regarding loans, see Note 6 of the Notes to the Consolidated Financial Statements.

Non-Performing and Past Due Loans and OREO

Non-performing loans include non-accrual loans and accruing loans which are contractually past due 90 days or more. Non-accrual loans represent loans on which interest accruals have been suspended. It is the Company's general policy to consider the charge-off of loans at the point they become past due in excess of 90 days, with the exception of loans that are both well-secured and in the process of collection. Troubled debt restructurings represent loans on which a concession was granted to a borrower, such as a reduction in interest rate to a rate lower than the current market rate for new debt with similar risks, and which are currently performing in accordance with the modified terms. For additional information regarding loans, see Note 6 of the Notes to the Consolidated Financial Statements.

The following table sets forth, as of the dates indicated, the amount of the Company's non-accrual loans, accruing loans past due 90 days or more, other real estate owned (''OREO'') and troubled debt restructurings.

	At September 30,				
	2017	2016	2015	2014	2013
	(In thousands)				
Non-accrual loans	$1,038	$1,617	$1,399	$2,391	$1,901
Accruing loans past due 90 days or more	173	696	—	—	—
Total non-performing loans	1,211	2,313	1,399	2,391	1,901
Other real estate owned	—	—	1,168	1,964	3,962
Total non-performing assets	$1,211	$2,313	$2,567	$4,355	$5,863
Troubled debt restructured loans — performing	$2,238	$2,039	$1,091	$1,009	$1,346

At September 30, 2017, non-performing assets totaled $1.2 million, or 0.12% of total assets, as compared with $2.3 million, or 0.28%, at September 30, 2016. The reduction in non-performing assets from September 30, 2017 was attributable to four loans with an outstanding balance of approximately $435,000 at September 30, 2016 which were returned to accruing status during fiscal 2017, as well as, an aggregate balance of $413,000 of paid-offs loans, principal payments of $180,000, offset in part by the addition of three single residential loans (totaling approximately $318,000) and two consumer loans (totaling approximately $151,000) into non-accrual status.

Troubled debt restructured loans, totaled $2.3 million and $2.2 million at September 30, 2017 and at September 30, 2016. A total of $2.2 and $2.0 million of troubled debt restructured loans were performing pursuant to the terms of their respective modifications at September 30, 2017 and September 30, 2016, respectively. At September 30, 2017, one troubled debt restructured loan with an outstanding balance of approximately $22,000, was deemed non-performing, while one loan with an outstanding balance of $139,000 was deemed non-performing at September 30, 2016. The performing troubled debt restructured loans increased by $199,000 at September 30, 2017 compared to September 30, 2016 primarily due to four residential mortgage loans with an aggregate outstanding balance of $1.2 million and two second mortgage loans with an outstanding balance of approximately $126,000 being classified as a performing TDRs during fiscal 2017, as well as one residential mortgage loan with an outstanding balance of $153,000 at September 30, 2017 returned to accruing status. These increases were offset by two commercial loans with an aggregate outstanding balance of approximately $1.3 million at September 30, 2016, being paid off during fiscal 2017.

Total non-performing assets decreased $254,000 from September 30, 2015 to September 30, 2016. The reduction in non-performing assets from September 30, 2015 was attributable to two commercial loans to one borrower with an outstanding balance of approximately $492,000 at September 30, 2015 which were returned to accruing status during fiscal 2016, as well as, $117,000 in charge-offs, payments of $212,000, offset in part by the addition of seven single residential loans (totaling approximately $658,000), one commercial real estate loan (totaling approximately $193,000) and six consumer loans (totaling approximately $186,000) into non-accrual status. In addition, the

Company reduced other real estate owned at September 30, 2016 to zero as compared to $1.2 million at September 30, 2015. The decrease was attributable to three single residential loans and one commercial real estate loan sold during the fiscal 2016. The decrease in REO at September 30, 2016 compared to September 30, 2015, was due to $1.2 million of sales of REO, at a net gain of $19,000, as well as $20,000 in reduction to fair value which are reflected in other REO expense during fiscal 2016.

Other Income

The following table presents the principal categories of non-interest income for each of the years in the three-year period ended September 30, 2017.

	Year Ended September 30,							
	2017	2016	**Increase (Decrease)**	% Change	2016	2015	**Increase (Decrease**	% Change
	(Dollars in thousands)							
Service charges and other fees	$992	$923	$ 69	7.36 %	$923	$989	$ (66)	(6.67)%
Rental income-other	227	211	16	7.58	211	249	(38)	(15.26)
Gain on sale of investments, net	463	565	(102)	(18.05)	565	515	50	9.71
Gain on sale of loans, net	154	116	38	32.76	116	102	14	13.73
Loss on disposal of fixed assets	—	1	(1)	(100.0)	1	—	1	100.0
Earnings on bank-owned life insurance	505	517	(12)	(2.32)	517	680	(163)	(23.97)
Total other income	$2,341	$2,333	$ 8	0.34 %	$2,333	$2,535	$ (202)	(7.97)%

For the year ended September 30, 2017, total other income increased $8,000 compared to fiscal 2016. This was primarily as a result of a $69,000 increase in service charges, a $16,000 increase in rental income, and an increase of $38,000 in net gain on sale of loans, partially offset by a decrease of $102,000 in net gains on sales of investment securities and a decrease in earnings on bank-owned insurance of $12,000.

Excluding net securities gains and losses, a non-GAAP measure, the Company recorded other income of $1.9 million for the twelve months ended September 30, 2017 compared to $1.8 million for the comparable period in fiscal 2016, an increase of $110,000, or 6.2 percent.

For fiscal 2016, total other income decreased $202,000 compared to fiscal 2015, primarily as a result of a $66,000 decrease in service charges, a $38,000 decrease in rental income, and a $163,000 decrease in earnings on bank-owned insurance, partially offset by an increase of $50,000 in net gains on sales of investment securities, an increase of $14,000 in net gain on sale of loans and an increase in gain on disposal of fixed assets of $1,000.

Excluding net securities gains and losses, a non-GAAP measure, the Company recorded other income of $1.8 million for the twelve months ended September 30, 2016 compared to $2.0 million for the comparable period in fiscal 2015, a decrease of $252,000, or 12.5 percent.

The Company’s other income is presented in the table below excluding net investment security gains.

	For the Year Ended September 30,		
	2017	2016	2015
	(In thousands)		
Other income (GAAP basis)	$ 2,341	$ 2,333	$ 2,535
Less: Net investment securities gains	463	565	515
Other income, excluding net investment securities gain (Non-GAAP)	$ 1,878	$ 1,768	$ 2,020

Other Expense

The following table presents the principal categories of other expense for each of the years in the three-year period ended September 30, 2017.

	Year Ended September 30,							
	2017	2016	Increase (Decrease)	% Change	2016	2015	Increase (Decrease)	% Change
	(Dollars in thousands)							
Salaries and employee benefits	$7,114	$6,290	$ 824	13.10 %	$6,290	$5,998	$ 292	4.87 %
Occupancy expense	2,084	1,820	264	14.51	1,820	1,715	105	6.12
Federal deposit insurance premium	244	579	(335)	(57.86)	579	784	(205)	(26.15)
Advertising	216	131	85	64.89	131	239	(108)	(45.19)
Data processing	1,195	1,128	67	5.94	1,128	1,236	(108)	(8.74)
Professional fees	1,894	1,683	211	12.54	1,683	1,571	112	7.13
Other operating expense	2,400	2,291	109	4.6	2,291	2,418	(127)	(5.25)
Total other expense	$15,147	$13,922	$ 1,225	8.8 %	$13,922	$13,961	$ (39)	(0.28)%

Total other expense increased $1.2 million, or 8.8 percent, in fiscal 2017 from fiscal 2016 as compared with a decrease of $39,000, or 0.3 percent, from fiscal 2015 to fiscal 2016. Increases in fiscal 2017 compared to fiscal 2016, primarily included a $824,000 increase in salaries and employee benefits, a $264,000 increase in occupancy expense, a $85,000 increase in advertising, a $67,000 increase in data processing expense, a $211,000 increase in professional fees and a $109,000 increase in other operating expenses. These increases were offset by a decrease in in federal deposit insurance of 335,000.

Prudent management of operating expenses has been and will continue to be a key objective of management in an effort to improve earnings performance. The Company’s ratio of other expenses to average assets decreased to 1.62 percent in fiscal 2017 compared to 1.85 percent in fiscal 2016 and 2.25 percent in fiscal 2015.

Salaries and employee benefits increased $824,000 or 13.1 percent in fiscal 2017 compared to fiscal 2016 and increased $292,000 or 4.9 percent from fiscal 2015 to fiscal 2016. These increases were primarily attributable to growth in the workforce. Salaries and employee benefits accounted for 47.0 percent of total non-interest expense in fiscal 2017, as compared to 45.2 percent and 43.0 percent in fiscal 2016 and fiscal 2015, respectively.

Occupancy expense for fiscal 2017 increased by $264,000 or 14.2 percent, over fiscal 2016. Occupancy expense for fiscal 2016 increased by $105,000 or 6.1 percent, compared to fiscal 2015. The increase from fiscal 2016 to fiscal 2017 is due primarily to continued growth of the Company during fiscal 2017. The increase during fiscal 2017 was primarily due to an increase in rent expense of $126,000, a $33,000 increase in utility expenses, a $99,000 increase in depreciation expense and a $20,000 increase in building and equipment maintenance expense. These increases were offset by a decrease of $6,000 in real estate taxes and a decrease of $4,000 in building insurance.

Federal deposit insurance premium for fiscal 2017 decreased $335,000, or 57.9 percent, compared to fiscal 2016. The decrease in the federal deposit insurance premium is due to the new regulatory calculation. For the year ended September 30, 2016, FDIC insurance expense decreased $205,000 compared to fiscal 2015. The decrease in the federal deposit insurance premium for fiscal 2016 is due to the termination on January 21, 2016 of the Formal Agreement with the Office of the Comptroller of the Currency ("OCC").

Advertising expense for fiscal 2017 increased $85,000, or 64.9 percent, compared to fiscal 2016. The increase for fiscal 2017 is due to increase in advertising retainers. For fiscal 2016, these expenses decreased $108,000 or 44.8 percent compared to fiscal 2015.

Data processing expense for fiscal 2017 increased $67,000, or 5.9 percent, compared to the fiscal 2016. For fiscal 2016, data processing expense decreased $108,000, or 8.7 percent, over fiscal 2015.

Professional fees for fiscal 2017 increased $211,000, or 12.5 percent, compared to fiscal 2016. The increase is due primarily to an $130,000 increase in legal fees and a $132,000 increase in fees associated with professional services. The increase was offset by $53,000 reduction in fees associated with audit and accounting services. Professional fees increased $112,000 in fiscal 2016 from fiscal 2015 primarily due to increase in legal fees and audit and accounting fees.

Other operating expense increased in fiscal 2017 by approximately $109,000, or 4.6 percent, compared to fiscal 2016. The increase during the year ended September 30, 2017 was primarily due to a $41,000 increase in business expenses related to entertainment and meals and auto expense, and a $37,000 increase in expenses associated with annual credit review such as appraisals. Other operating expense decreased in fiscal 2016 by approximately $127,000, or 5.2 percent, compared to fiscal 2015. The decrease during the year ended September 30, 2016 was primarily due to a $373,000 decrease in other operating expense related to $105,000 in reimbursement for an insurance claim paid in fiscal 2015. This decrease was partially offset by an increase of $135,000 in business expenses related to entertainment and meals and auto expense, a $65,000 increase in telephone expense

Provision for Income Taxes

The Company recorded $2.9 million in income tax expense in fiscal 2017, compared to $6.2 million in income tax benefit in fiscal 2016 and $970,000 income tax benefit in fiscal 2015, respectively. The effective tax rates for the Company for the years ended September 30, 2017, 2016 and 2015 were 33.4 percent, 103.3 percent and 26.2 percent, respectively. For a more detailed description of income taxes see Note 12 of the Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements

Please refer to the note on Recent Accounting Pronouncements in Note 2 to the consolidated financial statements in Item 8 for a detailed discussion of new accounting pronouncements.

Asset and Liability Management

Asset and Liability management encompasses an analysis of market risk, the control of interest rate risk (interest sensitivity management) and the ongoing maintenance and planning of liquidity and capital. The composition of the Company’s statement of condition is planned and monitored by the Asset and Liability Committee (“ALCO”). In general, management’s objective is to optimize net interest income and minimize market risk and interest rate risk by monitoring the components of the statement of condition and the interaction of interest rates.

Short-term interest rate exposure analysis is supplemented with an interest sensitivity gap model. The Company utilizes interest sensitivity analysis to measure the responsiveness of net interest income to changes in interest rate levels. Interest rate risk arises when an earning asset matures or when its interest rate changes in a time period different than that of a supporting interest-bearing liability, or when an interest-bearing liability matures or when its interest rate changes in a time period different than that of an earning asset that it supports. While the Company matches only a small portion of specific assets and liabilities, total earning assets and interest-bearing liabilities are grouped to determine the overall interest rate risk within a number of specific time frames. The difference between interest-sensitive assets and interest-sensitive liabilities is referred to as the interest sensitivity gap. At any given point in time, the Company may be in an asset-sensitive position, whereby its interest-sensitive assets exceed its interest-sensitive liabilities, or in a liability-sensitive position, whereby its interest-sensitive liabilities exceed its interest-sensitive assets, depending in part on management’s judgment as to projected interest rate trends.

The Company’s interest rate sensitivity position in each time frame may be expressed as assets less liabilities, as liabilities less assets, or as the ratio between rate sensitive assets (“RSA”) and rate sensitive liabilities (“RSL”). For example, a short-funded position (liabilities repricing before assets) would be expressed as a net negative position, when period gaps are computed by subtracting repricing liabilities from repricing assets. When using the ratio method, a RSA/RSL ratio of 1 indicates a balanced position, a ratio greater than 1 indicates an asset-sensitive position and a ratio less than 1 indicates a liability-sensitive position.

A negative gap and/or a rate sensitivity ratio less than 1 tends to expand net interest margins in a falling rate environment and reduce net interest margins in a rising rate environment. Conversely, when a positive gap occurs, generally margins expand in a rising rate environment and contract in a falling rate environment. From time to time, the Company may elect to deliberately mismatch liabilities and assets in a strategic gap position.

At September 30, 2017, the Company reflected a negative interest sensitivity gap with an interest sensitivity ratio of 0.23:1.00 at the cumulative one-year position. Based on management's perception of interest rates remaining low through 2017, emphasis has been, and is expected to continue to be, placed on controlling liability costs while extending the maturities of liabilities in our efforts to insulate the net interest spread from rising interest rates in the future. However, no assurance can be given that this objective will be met.

The following table sets forth the amounts of our interest-earning assets and interest-bearing liabilities outstanding at September 30, 2017, which we expect, based upon certain assumptions, to reprice or mature in each of the future time periods shown (the "GAP Table"). Except as stated below, the amount of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth approximation of the projected repricing of assets and liabilities at September 30, 2017, on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable-rate loans and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans.

	6 Months or Less	More than 6 Months to 1 Year	More than 1 Year to 3 Years	More than 3 Year to 5 Years	More than 5 Years	Total Amount
	(Dollars in thousands)					
Interest-earning assets[1]:						
Loans receivable[2]	$275,186	$44,754	$155,478	$184,634	$181,746	$841,798
Investment securities and restricted securities	5,291	3,955	19,228	4,684	22,147	55,305
Other interest-earning assets	115,521	-	-	-	-	115,521
Total interest-earning assets	395,998	48,709	174,706	189,318	203,893	1,012,624
Interest-bearing liabilities:						
Demand and NOW accounts	153,551	-	-	-	-	153,551
Money market accounts	262,892	-	-	-	-	262,892
Savings accounts	44,526	-	-	-	-	44,526
Certificate accounts	121,462	62,875	49,184	20,182	18,063	271,766
FHLB advances	40,000	-	83,000	24,303	-	147,303
Total interest-bearing liabilities	622,431	62,875	132,184	44,485	18,063	880,038
Interest-earning assets less interest-bearing liabilities	$(226,433)	$(14,166)	$42,522	$144,833	$185,830	$132,586
Cumulative interest-rate sensitivity gap[3]	$(226,433)	$(240,599)	$(198,077)	$(53,244)	$132,586	
Cumulative interest-rate gap as a percentage of total assets at September 30, 2017	(21.65)%	(23.00)%	(18.94)%	(5.09)%	12.68%	

Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities at September 30, 2017	63.62	%	64.89	%	75.77	%	93.82	%	115.07	%

(1) Interest-earning assets are included in the period in which the balances are expected to be redeployed and/or repriced as a result of anticipated prepayments, scheduled rate adjustments and contractual maturities.

(2) For purposes of the gap analysis, loans receivable includes non-performing loans gross of the allowance for loan losses, undisbursed loan funds, unamortized discounts and deferred loans fees.

(3) Interest-rate sensitivity gap represents the net cumulative difference between interest-earning assets and interest-bearing liabilities.

Net Portfolio Value and Net Interest Income Analysis. Our interest rate sensitivity also is monitored by management through the use of models which generate estimates of the change in its net portfolio value (“NPV”) and net interest income (“NII”) over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario.

The table below sets forth as of September 30, 2017 and 2016, the estimated changes in our net portfolio value that would result from designated instantaneous changes in the United States Treasury yield curve. Computations of prospective effects of hypothetical interest rates changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results.

Changes in Interest Rates (basis points)[1]	As of September 30, 2017			As of September 30, 2016		
	Amount	Dollar Change from Base	Percentage Change from Base	Amount	Dollar Change from Base	Percentage Change from Base
	(Dollars in thousands)					
+300	$110,780	$(20,923)	(16)%	$82,438	$(22,296)	(21)%
+200	119,631	(12,072)	(9)	91,344	(13,390)	(13)
+100	127,334	(4,369)	(3)	99,266	(5,468)	(5)
0	131,703	-	-	104,734	-	-
-100	134,634	2,931	2	106,608	1,874	2

(1) Assumes an instantaneous uniform change in interest rates. A basis point equals 0.01%.

In addition to modeling changes in NPV, we also analyze potential changes to NII for a twelve-month period under rising and falling interest rate scenarios. The following table shows our NII model as of September 30, 2017.

Changes in Interest Rates in Basis Points (Rate Shock)	Net Interest Income	$ Change	% Change
	(Dollars in thousands)		
200	$ 28,598	$ 2,532	9.71%
100	27,435	1,369	5.25
Static	26,066	-	-
(100)	25,231	(835)	(3.20)

As is the case with the GAP Table, certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV and NII require the making of certain assumptions which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the models presented assume that the composition of our interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the NPV measurements and net interest income models provide an indication of interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on net interest income and will differ from actual results.

Estimates of Fair Value

The estimation of fair value is significant to a number of the Company's assets, including investment securities available-for-sale. These are all recorded at either fair value or the lower of cost or fair value. Fair values are volatile and may be influenced by a number of factors. Circumstances that could cause estimates of the fair value of certain assets and liabilities to change include a change in prepayment speeds, discount rates, or market interest rates. Fair values for most available-for-sale investment securities are based on quoted market prices. If quoted market prices are not available, fair values are based on judgments regarding future expected loss experience, current economic condition risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Impact of Inflation and Changing Prices

The financial statements and notes thereto presented elsewhere herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of operations; unlike most industrial companies, nearly all of the Company's assets and liabilities are monetary. As a result, interest rates have a greater impact on performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Liquidity

The liquidity position of the Company is dependent primarily on successful management of the Bank's assets and liabilities so as to meet the needs of both deposit and credit customers. Liquidity needs arise principally to accommodate possible deposit outflows and to meet customers' requests for loans. Scheduled principal loan repayments, maturing investments, short-term liquid assets and deposit inflows, can satisfy such needs. The objective of liquidity management is to enable the Company to maintain sufficient liquidity to meet its obligations in a timely and cost-effective manner.

Management monitors current and projected cash flows, and adjusts positions as necessary to maintain adequate levels of liquidity. Under its liquidity risk management program, the Company regularly monitors correspondent bank funding exposure and credit exposure in accordance with guidelines issued by the banking regulatory authorities. Management uses a variety of potential funding sources and staggering maturities to reduce the risk of potential funding pressure. Management also maintains a detailed contingency funding plan designed to respond adequately to situations which could lead to stresses on liquidity. Management believes that the Company has the funding capacity to meet the liquidity needs arising from potential events. The Company maintains borrowing capacity through the Federal Home Loan Bank of Pittsburgh secured with loans and marketable securities.

The Company's primary sources of short-term liquidity consist of cash and cash equivalents and investment securities available-for-sale.

At September 30, 2017, the Company had $117.1 million in cash and cash equivalents compared to $96.8 million at September 30, 2016. In addition, our investment securities available-for-sale amounted to $14.6 million at September 30, 2017 and $66.4 million at September 30, 2016.

Deposits

Total deposits increased to $790.4 million at September 30, 2017 from $602.0 million at September 30, 2016. Total interest-bearing deposits increased from $567.5 million at September 30, 2016 to $748.3 million at September 30, 2017, an increase of $180.8 million or 31.9 percent. Interest-bearing demand, savings, money market and time deposits under $100,000 increased $157.3 million to a total of $557.7 million at September 30, 2017 as compared to $400.4 million at September 30, 2016. Time deposits $100,000 and over increased $23.5 million at September 30, 2017 as compared to September 30, 2016. Time deposits $100,000 and over represented 24.1 percent of total deposits at September 30, 2017 compared to 27.8 percent at September 30, 2016. We had brokered deposits totaling $78.2 million at September 30, 2017 compared to $58.8 million at September 30, 2016.

The Company derives a significant proportion of its liquidity from its core deposit base. Total demand deposits, savings and money market accounts of $518.6 million at September 30, 2017 increased by $166.8 million, or 47.4 percent, from September 30, 2016. Total demand deposits, savings and money market accounts were 65.6 percent of total deposits at September 30, 2017 and 58.6 percent at September 30, 2016. Alternatively, the Company uses a more stringent calculation for the management of its liquidity positions internally, which calculation consists of total demand, savings accounts and money market accounts (excluding money market accounts and certificates of deposit greater than $100,000) as a percentage of total deposits. This number increased by $65.7 million, or 19.5 percent, from $272.0 million at September 30, 2016 to $337.7 million at September 30, 2017 and represented 42.7 percent of total deposits at September 30, 2017 as compared with 45.2 percent at September 30, 2016.

The Company continues to place the main focus of its deposit gathering efforts in the maintenance, development, and expansion of its core deposit base. Management believes that the emphasis on serving the needs of our communities will provide a long term relationship base that will allow the Company to efficiently compete for business in its market. The success of this strategy is reflected in the growth of the demand, savings and money market balances during fiscal 2017.

The following table depicts the Company's core deposit mix at September 30, 2017 and 2016 based on the Company's alternative calculation:

	September 30,				
	2017		2016		Net Change
	Amount	Percentage	Amount	Percentage	2017 vs. 2016
	(Dollars in thousands)				
Non interest-bearing demand	$42,121	12.5 %	$34,547	12.7 %	$ 7,574
Interest-bearing demand	155,579	46.1	95,041	35.0	60,538
Savings	44,526	13.2	44,714	16.4	(188)
Money market deposits under $100,000	14,299	4.2	14,543	5.3	(244)
Certificates of deposit under $100,000	81,166	24.0	83,110	30.6	(1,944)
Total core deposits	$337,691	100.0 %	$271,955	100.0 %	$ 65,736
Total deposits	$790,396		$602,046		$ 188,350
Core deposits to total deposits		42.7 %		45.2 %	

At September 30, 2017, our certificates of deposit and other time deposits with a balance of $100,000 or more amounted to $190.6 million, of which $138.5 million are scheduled to mature within twelve months. At September 30, 2017, the weighted average remaining maturity of our certificate of deposit accounts was 15.3 months. The following table presents the maturity of our certificates of deposit and other time deposits with balances of $100,000 or more.

	Amount
	(In thousands)
Maturity Period:	
Three months or less	$ 75,276
Over three months through six months	19,349
Over six months through twelve months	43,916
Over twelve months	52,058
Total	$ 190,599

Borrowings

Borrowings from the Federal Home Loan Bank ("FHLB") of Pittsburgh are available to supplement the Company's liquidity position and, to the extent that maturing deposits do not remain with the Company, management may replace such funds with advances. As of September 30, 2017 and 2016, the Company's outstanding balance of FHLB advance, totaled $118.0 million and $118.0 million, respectively. Of the $118.0 million in advances, $28.0 million represent long-term, fixed-rate advances maturing in 2020 that have terms enabling the FHLB to call the borrowing at their option prior to maturity. The remaining balance of long-term, fixed rate advances totaled $55.0 million, representing five separate advances maturing during fiscal year 2019. At September 30, 2017, there were two short-term FHLB advances totaling $35.0 million of fixed-rate borrowing with rollover of 90 days.

During fiscal 2017 the Company had purchased securities sold under agreements to repurchase as a short-term funding source. At September 30, 2017, the Company had $5.0 million in securities sold under agreements to repurchase at a rate of 1.46%. The Company had no securities sold under agreements to repurchase at September 30, 2016.

Cash Flows

The Consolidated Statements of Cash Flows present the changes in cash and cash equivalents resulting from the Company’s operating, investing and financing activities. During the year ended September 30, 2017, cash and cash equivalents increased by $20.4 million over the balance at September 30, 2016. Net cash of $9.8 million was provided by operating activities in fiscal 2017, primarily, net income as adjusted to net cash. Net income of $5.8 million in fiscal 2017 was adjusted principally by net gains on sales of investment securities of $463,000, amortization of premiums and accretion of discounts on investment securities net of $814,000, an increase in other assets of $1.1 million and an increase in other liabilities of $563,000. Net cash used by investing activities amounted to approximately $207.0 million in fiscal 2017, primarily reflecting a net decrease in investment securities of $57.4 million. Net cash of $217.5 million was provided by financing activities in fiscal 2017, primarily from the increase in deposits of $188.4 million and an increase of $5.0 million in other borrowed money.

Payments Due Under Contractual Obligations

The following table presents information relating to the Company's payments due under contractual obligations as of September 30, 2017.

	Payments Due by Period				
	Less than One Year	One to Three Years	Three to Five Years	More than Five Years	Total
	(In thousands)				
Long-term debt obligations[1]	$35,041	$ 86,082	$ —	$ —	$121,123
Certificates of deposit[1]	186,775	49,919	20,566	18,433	275,693
Operating lease obligations	495	933	978	1,756	4,162
Total contractual obligations	$222,311	$ 136,934	$ 21,544	$ 20,189	$400,978

[1] Includes interest payments.

Off-Balance Sheet Arrangements

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with U.S. GAAP, are not recorded in its financial statements. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, lines of credit and letters of credit.

The contractual amounts of commitments to extend credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer defaults and the value of any existing collateral becomes worthless. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments. Financial instruments whose contract amounts represent credit risk at September 30, 2017 and 2016 were as follows:

	September 30,	
	2017	2016
	(In thousands)	

Commitments to extend credit:[1]		
Future loan commitments	$80,273	$97,566
Undisbursed construction loans	37,064	33,135
Undisbursed home equity lines of credit	26,440	25,270
Undisbursed Commercial lines of credit	55,346	48,667
Overdraft protection lines	1,339	850
Standby letters of credit	4,650	1,927
Total commitments	$205,112	$207,415

(1) Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments may require payment of a fee and generally have fixed expiration dates or other termination clauses.

We anticipate that we will continue to have sufficient funds and alternative funding sources to meet our current commitments.

Shareholders’ Equity

Total shareholders’ equity amounted to $102.5 million, or 9.8 percent of total assets, at September 30, 2017, compared to $96.2 million or 11.7 percent of total assets at September 30, 2016. Book value per common share was $15.60 at September 30, 2017, compared to $14.66 at September 30, 2016.

Capital

At September 30, 2017, the Bank’s common equity tier 1 ratio was 14.75 percent, tier 1 leverage ratio was 12.02 percent, tier 1 risk-based capital ratio was 14.75 percent and the total risk-based capital ratio was 15.78 percent. At September 30, 2016, the Bank’s common equity tier 1 ratio was 14.50 percent, tier 1 leverage ratio was 10.98 percent, tier 1 risk-based capital ratio was 14.50 percent and the total risk-based capital ratio was 15.42 percent. At September 30, 2017, the Bank was in compliance with all applicable regulatory capital requirements.

Looking Forward

One of the Company’s primary objectives is to achieve balanced asset and revenue growth, and at the same time expand market presence and diversify its financial products. However, it is recognized that objectives, no matter how focused, are subject to factors beyond the control of the Company, which can impede its ability to achieve these goals. The following factors should be considered when evaluating the Company’s ability to achieve its objectives:

The financial market place is rapidly changing. Banks are no longer the only place to obtain loans, nor the only place to keep financial assets. The banking industry has lost market share to other financial service providers. The future is predicated on the Company’s ability to adapt its products, provide superior customer service and compete in an ever-changing marketplace. Net interest income, the primary source of earnings, is impacted favorably or unfavorably by changes in interest rates. Although the impact of interest rate fluctuations is mitigated by ALCO strategies, significant changes in interest rates can have a material adverse impact on profitability.

The ability of customers to repay their obligations is often impacted by changes in the regional and local economy. Although the Company sets aside loan loss provisions toward the allowance for loan losses when management determines such action to be appropriate, significant unfavorable changes in the economy could impact the assumptions used in the determination of the adequacy of the allowance.

Technological changes will have a material impact on how financial service companies compete for and deliver services. It is recognized that these changes will have a direct impact on how the marketplace is approached and ultimately on profitability. The Company has taken steps to improve its traditional delivery channels. However, continued success will likely be measured by the Company's ability to anticipate and react to future technological changes.

This ''Looking Forward'' discussion constitutes a forward-looking statement under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected in the Company's forward-looking statements due to numerous known and unknown risks and uncertainties, including the factors referred to above, on page 1 of this Annual Report on Form 10-K and in other sections of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations – Asset and Liability Management" in Item 7 hereof is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

Malvern Bancorp, Inc. and Subsidiaries

Paoli, Pennsylvania

We have audited the accompanying consolidated statements of financial condition of Malvern Bancorp, Inc. and its subsidiaries (collectively the "Company") as of September 30, 2017 and 2016 and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended September 30, 2017. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Malvern Bancorp, Inc. and its subsidiaries at September 30, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2017**,** in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Malvern Bancorp, Inc.'s internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria) and our report dated December 29, 2017, expressed an adverse opinion thereon.

/s/ BDO USA, LLP

Philadelphia, Pennsylvania
December 29, 2017

-51-

Malvern Bancorp, Inc. and Subsidiaries
Consolidated Statements of Financial Condition

	September 30, 2017	2016
	(Dollars in thousands, except per share data)	
Assets		
Cash and due from depository institutions	$ 1,615	$ 1,297
Interest bearing deposits in depository institutions	115,521	95,465
Cash and Cash Equivalents	117,136	96,762
Investment securities available for sale, at fair value	14,587	66,387
Investment securities held to maturity, at cost (fair value of $34,566 and $40,817, respectively)	34,915	40,551
Restricted stock, at cost	5,559	5,424
Loans receivable, net of allowance for loan losses of $8,405 and $5,434, respectively	834,331	574,160
Accrued interest receivable	3,139	2,558
Property and equipment, net	7,507	6,637
Deferred income taxes, net	6,671	8,827
Bank-owned life insurance	18,923	18,418
Other assets	3,244	1,548
Total Assets	$ 1,046,012	$ 821,272
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Deposits-noninterest-bearing	$ 42,121	$ 34,547
Deposits-interest-bearing	748,275	567,499
Total Deposits	790,396	602,046
FHLB advances	118,000	118,000
Other short-term borrowings	5,000	-
Subordinated debt	24,303	-
Advances from borrowers for taxes and insurance	1,553	1,659
Accrued interest payable	694	427
Other liabilities	3,546	2,983
Total Liabilities	943,492	725,115
Commitments and Contingencies	-	-
Shareholders' Equity		
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: 6,572,684 shares at September 30, 2017 and 6,560,403 shares at September 30, 2016	66	66

Additional paid-in-capital	60,736	60,461
Retained earnings	43,139	37,322
Unearned Employee Stock Ownership Plan (ESOP) shares	(1,483)	(1,629)
Accumulated other comprehensive income (loss)	62	(63)
Total Shareholders’ Equity	102,520	96,157
Total Liabilities and Shareholders’ Equity	$ 1,046,012	$ 821,272

See notes to consolidated financial statements.

Malvern Bancorp, Inc. and Subsidiaries
Consolidated Statements of Operations

	Year Ended September 30,		
	2017	2016	2015
	(Dollars in thousands, except per share data)		
Interest and Dividend Income			
Loans, including fees	$ 30,841	$ 21,206	$ 16,484
Investment securities, taxable	1,561	2,824	3,073
Investment securities, tax-exempt	492	751	522
Dividends, restricted stock	257	250	311
Interest-bearing cash accounts	631	213	72
Total Interest and Dividend Income	33,782	25,244	20,462
Interest Expense			
Deposits	6,236	4,537	3,431
Short-term borrowings	34	-	-
Long-term borrowings	2,176	2,195	1,817
Subordinated debt	1,000	-	-
Total Interest Expense	9,446	6,732	5,248
Net Interest Income	24,336	18,512	15,214
Provision for Loan Losses	2,791	947	90
Net Interest Income after Provision for Loan Losses	21,545	17,565	15,124
Other Income			
Service charges and other fees	992	923	989
Rental income-other	227	211	249
Gain on sale of investments, net	463	565	515
Gain on disposal of fixed assets	-	1	-
Gain on sale of loans, net	154	116	102
Earnings on bank-owned life insurance	505	517	680
Total Other Income	2,341	2,333	2,535
Other Expense			
Salaries and employee benefits	7,114	6,290	5,998
Occupancy expense	2,084	1,820	1,715
Federal deposit insurance premium	244	579	784
Advertising	216	131	239
Data processing	1,195	1,128	1,236
Professional fees	1,894	1,683	1,571
Other real estate owned (income) expense, net	(172)	27	(46)
Other operating expenses	2,572	2,264	2,464
Total Other Expenses	15,147	13,922	13,961
Income before income tax expense (benefit)	8,739	5,976	3,698
Income tax expense (benefit)	2,922	(6,174)	(970)
Net Income	$ 5,817	$ 12,150	$ 4,668

Earnings Per Common Share:

Basic	$ 0.90	$ 1.90	$ 0.73
Diluted	$ 0.90	$ 1.90	n/a
Weighted Average Common Shares Outstanding			
Basic	6,431,445	6,409,265	6,393,330
Diluted	6,432,137	6,409,325	n/a
Dividends Declared Per Share	$ 0.00	$ 0.00	$ 0.00

See notes to consolidated financial statements.

Malvern Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income

	Year Ended September 30,		
(In thousands)	2017	2016	2015
Net Income	$5,817	$12,150	$4,668
Other Comprehensive Income, Net of Tax:			
Unrealized holding gains (losses) on available-for-sale securities	(275)	2,128	2,120
Tax effect	94	(723)	(721)
Net of tax amount	(181)	1,405	1,399
Reclassification adjustment for net gains arising during the period[1]	(463)	(565)	(515)
Tax effect	157	192	175
Net of tax amount	(306)	(373)	(340)
Accretion of unrealized holding losses on securities transferred from available-for-sale to held-to-maturity[2]	9	9	5
Tax effect	(3)	(3)	(2)
Net of tax amount	6	6	3
Fair value adjustment on derivatives	918	(194)	(348)
Tax effect	(312)	172	12
Net of tax amount	606	(22)	(336)
Total other comprehensive income	125	1,016	726
Total comprehensive income	$5,942	$13,166	$5,394

(1) Amounts are included in net gain on sales of securities on the Consolidated Statements of Operations in total other income.
(2) Amounts are included in interest and dividends on investment securities on the Consolidated Statements of Operations.

See notes to consolidated financial statements.

Malvern Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Years Ended September 30, 2017, 2016, and 2015

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	(in thousands, except share data)					
Balance, October 1, 2014	$66	$60,317	$20,504	$(1,922)	$(1,805)	$77,160
Net Income	—	—	4,668	—	—	4,668
Other comprehensive income	—	—	—	—	726	726
Committed to be released ESOP shares (14,400 shares)	—	48	—	147	—	195
Balance, September 30, 2015	$66	$60,365	$25,172	$(1,775)	$(1,079)	$82,749
Net Income	—	—	12,150	—	—	12,150
Other comprehensive income	—	—	—	—	1,016	1,016
Committed to be released ESOP shares (14,400 shares)	—	96	—	146	—	242
Balance, September 30, 2016	$66	$60,461	$37,322	$(1,629)	$(63)	$96,157
Net Income	—	—	5,817	—	—	5,817
Other comprehensive income	—	—	—	—	125	125
Committed to be released ESOP shares (14,400 shares)	—	165	—	146	—	311
Stock based compensation	—	110	—	—	—	110
Balance, September 30, 2017	$66	$60,736	$43,139	$(1,483)	$62	$102,520

See notes to consolidated financial statements.

Malvern Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended September 30,		
	2017	2016	2015
	(In thousands)		
Cash Flows from Operating Activities			
Net income	$5,817	$12,150	$4,668
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	724	650	646
Provision for loan losses	2,791	947	90
Deferred income taxes expense (benefit)	2,092	(6,316)	(1,035)
ESOP expense	311	242	195
Stock based compensation	110	—	—
Amortization of premiums and discounts on investment securities, net	814	1,243	849
(Accretion) amortization of loan origination fees and costs	(924)	748	296
Amortization of mortgage service rights	60	73	82
Amortization of subordinated debt issuance costs	39	—	—
Net gain on sale of investment securities available for sale	(463)	(565)	(515)
Net gain on disposal of fixed assets	—	(1)	—
Net gain on sale of secondary market loans	(154)	(116)	(102)
Proceeds on sale of secondary market loans	9,270	6,390	4,090
Originations of secondary market loans	(9,116)	(6,274)	(3,988)
Gain on sale of other real estate owned	—	(19)	(124)
Write down of other real estate owned	—	20	54
Earnings on bank-owned life insurance	(505)	(517)	(680)
Increase in accrued interest receivable	(581)	(74)	(1,162)
Increase in accrued interest payable	267	31	247
Increase in other liabilities	563	766	349
Increase in other assets	(1,058)	(44)	(714)
Increase in income tax receivable	(225)	—	—
Net Cash Provided by Operating Activities	9,832	9,334	3,246
Cash Flows from Investing Activities			
Investment securities available-for-sale:			
Purchases	(250)	(2,116)	(160,103)
Sales	51,119	62,818	70,413
Maturities, calls and principal repayments	583	2,437	6,032
Investment securities held-to-maturity:			
Purchases	—	—	(4,152)
Maturities, calls and principal repayments	5,350	16,391	4,454
(Loan originations) and principal collections, net	(262,039)	(184,548)	(5,927)
Proceeds from sale of other real estate owned	—	1,167	1,174
Additions to mortgage servicing rights	—	—	(30)
Proceeds from death benefit of bank-owned life insurance	—	1,049	—
Net increase in restricted stock	(135)	(659)	(1,262)
Proceeds from sale of property and equipment	—	1	—

Purchases of property and equipment	(1,594)	(752)	(358)
Net Cash Used in Investing Activities	(206,966)	(104,212)	(89,759)
Cash Flows from Financing Activities			
Net increase in deposits	188,350	136,524	52,569
Proceeds for long-term borrowings	140,000	121,000	93,000
Repayment of long-term borrowings	(140,000)	(106,000)	(38,000)
Increase in other borrowed money	10,000	—	—
Repayment of other borrowed money	(5,000)	—	—
Increase (decrease) in advances from borrowers for taxes and insurance	(106)	(147)	20
Net proceeds from issuance of subordinated debt	24,264	—	—
Net Cash Provided by Financing Activities	217,508	151,377	107,589
Net Increase in Cash and Cash Equivalents	20,374	56,499	21,076
Cash and Cash Equivalent - Beginning	96,762	40,263	19,187
Cash and Cash Equivalent - Ending	$117,136	$96,762	$40,263
Supplementary Cash Flows Information			
Interest paid	$9,179	$6,701	$5,001
Income taxes paid	$130	$—	$—
Non-cash transfer of loans to other real estate owned	$—	$—	$308
Transfer from investment securities available-for-sale to investment securities held-to-maturity	$—	$—	$57,523
Non-cash proceeds from death benefit on BOLI	$—	$—	$1,039

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Organizational Structure and Nature of Operations

On May 19, 2008, Malvern Federal Savings Bank ("Malvern Federal Savings" or the "Bank") completed its reorganization to the mutual holding company form of organization and formed Malvern Federal Bancorp, Inc. (the "Mid-Tier Holding Company") to serve as the “mid-tier” stock holding company for the Bank. An Employee Stock Ownership Plan (“ESOP”) was established which borrowed approximately $2.6 million from Malvern Federal Bancorp, Inc. to purchase 241,178 shares of common stock. Principal and interest payments of the loan are being made quarterly over a term of 18 years at a fixed interest rate of 5.0%.

On October 11, 2012, Malvern Bancorp, Inc. (the “Company” or “Malvern Bancorp”) completed the “second-step” conversion 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 Federal Mutual Holding Company (the “Mutual Holding Company”) and the Mid-Tier Holding Company ceased to exist. Malvern Bancorp, Inc., a Pennsylvania company, became the holding company for the Bank and owns all of the issued and outstanding shares of the common stock of Malvern Federal Savings Bank. In connection with the conversion and reorganization, 3,636,875 shares of common stock, par value $0.01 per share, of Malvern Bancorp, Inc., 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 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 new Malvern Bancorp, Inc. in the conversion and reorganization. The total shares outstanding upon completion of the stock offering and the exchange were approximately 6,558,473.

The Company is a Pennsylvania chartered corporation which, since October 11, 2012, has owned all of the issued and outstanding shares of the Bank’s common stock, the only shares of equity securities which the Bank has issued. 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 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 Company.

Malvern Federal Savings Bank is a federally chartered, FDIC-insured savings bank that was originally organized in 1887. The Bank conducts business from its headquarters in Paoli, Pennsylvania, a suburb of Philadelphia, as well as eight full service financial center offices in Chester and Delaware Counties, Pennsylvania and a Private Banking Loan Production headquarters office in Morristown, New Jersey. 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 of Pittsburgh (the "FHLB"). These funds are primarily used for the origination of various loan types including single-family residential mortgage loans, commercial real estate mortgage loans, construction and development loans, home equity loans and lines of credit and other consumer loans. The Bank derives its income principally from interest earned on loans, investment securities and, to a lesser extent, from fees received in connection with the origination of loans and for other services. Malvern Federal Savings' primary expenses are interest expense on deposits and borrowings and general operating expenses. Funds for activities are provided primarily by deposits, amortization of loans, loan prepayments and the maturity of loans, securities and other investments and other funds from operations.

The banking industry is highly regulated. The Bank is supervised by the Office of the Comptroller of the Currency (the "OCC") and the Company is supervised by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board" or the "FRB").

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Organizational Structure and Nature of Operations (Continued)

In October 2017, the Bank filed an application with the OCC to convert from a federal savings bank to a national bank, with the name Malvern Bank, National Association. In connection with the charter conversion of the Bank, also in October 2017, the Company filed an application with the FRB to convert to a bank holding company from a savings and loan holding company.

The conversion remains subject to the receipt of all required regulatory approvals. The Company and the Bank filed the conversion application in order to better match the Bank's regulatory charter to its current and planned business activity.

The Company and the Bank and the Bank's subsidiary, Strategic Asset Management Group, Inc. ("SAMG"), provide various banking services, primarily accepting deposits and originating residential and commercial mortgage loans, consumer loans and other loans through the Bank's headquarters and eight full-service branches in Chester and Delaware Counties, Pennsylvania. SAMG owned 100% of Malvern Insurance Associates, LLC. Malvern Insurance Associates, LLC offers a full line of business and personal lines of insurance products. As of September 30, 2017 and 2016, SAMG's total assets were approximately $57,000 and $62,000, respectively. The net loss of SAMG for the years ended September 30, 2017 and 2016, was approximately $4,000 and $6,000, respectively and for the year ended September 30, 2015 the net income was approximately $2,000. 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 agencies and, therefore, undergoes periodic examinations by those regulatory agencies. Effective in December 2017 SAMG merged into and with Malvern Insurance Associates, LLC.

In accordance with the subsequent events topic of the Financial Accounting Standards Board ("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 consolidated financial statements. The effect of all subsequent events that provide additional evidence of conditions that existed at the statement of financial condition date are recognized in the audited consolidated financial statements as of September 30, 2017.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements at and for the years ended September 30, 2017, 2016 and 2015 include the accounts of Malvern Bancorp, Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of consolidated 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 consolidated 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 and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the Company’s activities are with customers located within Chester County, Pennsylvania. In addition to Chester County, our lending efforts are focused in neighboring Bucks County, Montgomery County and Delaware County, which are also in southeastern Pennsylvania, New Jersey and the New York metropolitan marketplace. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

The Company is required to maintain average reserve balances in vault cash with the Federal Reserve Bank based upon outstanding balances of deposit transaction accounts. Based upon the Company's outstanding transaction deposit balances, the Bank maintained a deposit account with the Federal Reserve Bank of Philadelphia in the amount of zero and $4.8 million at September 30, 2017 and 2016, respectively.

Investment Securities

Held-to-maturity ("HTM") are securities that includes debt 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 September 30, 2017 and 2016, 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.

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 Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value or fair value under the fair value option accounting guidance for financial instruments. For loans carried at the lower of cost or estimated fair value, gains and losses on loan sales (sale proceeds minus carrying value) are recorded in other income and direct loan origination costs and fees are deferred at origination of the loan and are recognized in other income upon sale of the loan.

Loans Receivable

The Company, through the Bank, grants mortgage, construction, commercial and consumer loans to customers. Substantially all of our loans are to individuals, businesses and real estate developers in Chester County, Pennsylvania and neighboring areas in southern Pennsylvania, New Jersey and the New York metropolitan marketplace. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

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 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.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collection 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, including impaired loans, generally is either applied against principal or reported as interest income, according to management’s judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

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. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

Allowance for Loan Losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the consolidated statement of financial condition date and is recorded as a reduction to loans. Reserves for unfunded lending commitments represent management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated statement of financial condition. The allowance for loan losses ("ALLL") is increased by the provision for loan losses and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment or collateral recovery of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than when they become 120 days past due on a contractual basis or earlier in the event of the borrower's bankruptcy or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for credit losses is maintained at a level considered adequate to provide for losses that can be reasonably estimated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, the composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, a charge-off is recognized when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class that are not considered impaired.

These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these classes of loans, as adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. The nature and volume of the loan portfolio and terms of loans.
4. The experience, ability, and depth of lending management and staff.
5. The volume and severity of past due, classified and nonaccrual loans as well as any other loan modifications.
6. The quality of the Company’s loan review system, and the degree of oversight by the Company’s Board of Directors.
7. The existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. Value of underlying collateral.

The qualitative factors are applied to the historical loss rates for each class of loan. In addition, while not reported as a separate factor, changes in the value of underlying collateral (for regional property values) for collateral dependent loans is considered and addressed within the economic trends factor. A quarterly calculation is made adjusting the reserve allocation for each factor within a risk weighted range as it relates to each particular loan type, collateral type and risk rating within each segment. Data is gathered and evaluated through internal, regulatory, and government sources quarterly for each factor.

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.

In addition, the allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include categories of "pass," "special mention," "substandard" and "doubtful." Assets classified as "Pass" are those protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. Assets which do not currently expose the insured institution to sufficient risk to warrant classification as substandard or doubtful but possess certain identified weaknesses are required to be designated "special mention." If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. 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."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

Residential Lending. Residential mortgage originations are secured primarily by properties located in the Company's primary market area and surrounding areas. 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 seven years and then adjusts annually.

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.

In underwriting one-to four-family residential mortgage loans, the Company evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan. Most properties securing real estate loans made by the Company are appraised by independent fee appraisers approved by the Board of Directors. The Company generally requires borrowers to obtain an attorney's title opinion or title insurance, and fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. Real estate loans originated by the Company generally contain a "due on sale" clause allowing the Company to declare the unpaid principal balance due and payable upon the sale of the security property. The Company has not engaged in sub-prime residential mortgage loan originations. Our single-family residential mortgage loans generally are underwritten on terms and documentation conforming to guidelines issued by Freddie Mac and Fannie Mae.

Construction and Development Lending. We originate construction loans for residential and, to a lesser extent, commercial uses within our market area. We generally limit construction loans to builders and developers with whom we have an established relationship, or who are otherwise known to officers of the Bank. 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.

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. 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 in 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.

Commercial Lending. 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, or 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.

Most of the Company's commercial business loans have been extended to finance local and regional businesses and include short-term loans to finance machinery and equipment purchases, inventory and accounts receivable. The commercial business loans which we originate 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

Generally, equipment, machinery, real property or other corporate assets secure such loans. Personal guarantees from the business principals are generally obtained as additional collateral.

Consumer Lending. The Company currently originates most of its consumer loans in its primary market area and surrounding areas. The Company originates consumer loans on both a direct and indirect basis. Consumer loans generally have higher interest rates and shorter terms than residential mortgage loans; however, they have additional credit risk due to the type of collateral securing the loan or in some case the absence of collateral. As a result of the 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.

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

Once all factor adjustments are applied, general reserve allocations for each segment are calculated, summarized and reported on the ALLL summary. ALLL final schedules, calculations and the resulting evaluation process are reviewed quarterly.

In addition, Federal bank regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

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.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Troubled Debt Restructurings

Loans 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 may be modified by means of extending the maturity date of the loan, reducing the interest rate on the loan to a rate which is below market, a combination of rate adjustments and maturity extensions, or by other means including covenant modifications, forbearances or other concessions. However, the Company generally only restructures loans by modifying the payment structure to interest only or by reducing the actual interest rate.

We do not accrue interest on loans that were non-accrual prior to the troubled debt restructuring until they have performed in accordance with their restructured terms for a period of at least six months. We continue to accrue interest on troubled debt restructurings which were performing in accordance with their terms prior to the restructure and continue to perform in accordance with their restructured terms. Management evaluates the ALLL with respect to TDRs under the same policy and guidelines as all other performing loans are evaluated with respect to the ALLL.

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 other 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. The Company also sells loans in the secondary market with servicing released.

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 September 30, 2017 and 2016, restricted stock consists of the common stock of the Federal Home Loan Bank of Pittsburgh (“FHLB”) and Atlantic Community Bankers Bank (“ACBB”).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

During the years ended September 30, 2017 and 2016, there were net repurchases of restricted stock of $135,000 and $659,000, respectively. Also as of September 30, 2017 and 2016 the number of FHLB shares was 54,787 and 53,441, respectively. There were approximately $257,000, $250,000 and $311,000 of dividends on FHLB stock received or recognized in income for fiscal years 2017, 2016 and 2015, respectively.

Property and Equipment

Property and equipment is 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 operations.

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 $115,000, $90,000, and $64,000, for fiscal 2017, 2016, and 2015, respectively. There were no bonus matching contributions for fiscal years 2017, 2016 or 2015.

The Company also maintains an unfunded Supplemental Executive and a Director Retirement Plan (the “Plans”). The accrued amount for the Plans included in other liabilities was $1.1 million and $1.1 million at September 30, 2017 and 2016, respectively. Distributions made to directors for the fiscal year 2017 and 2016 were approximately $25,000 and $4,000, respectively. The expense/(benefit) associated with the Plans for the years ended September 30, 2017, 2016, and 2015 was $30,000, $11,000, and $(24,000), respectively. At fiscal 2015, the benefit associated with the Plans was due to the Plan being frozen at September 30, 2014 and the Company had to credit fiscal 2015 accruals for the first quarter of fiscal 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

Derivatives and Hedging

The Company records cash flow hedges at the inception of the derivative contract based on the Company's intentions and belief as to likely effectiveness as a hedge. The Company documents the strategy for entering into the transactions and the method of assessing ongoing effectiveness. Cash flow hedges represent a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. The changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged. To determine fair value, the Company uses third party pricing models that incorporate assumptions about market conditions and risks that are current at the reporting date. The Company does not use derivative instruments for speculative purposes.

The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was $216,000, $131,000 and $239,000 in 2017, 2016 and 2015, respectively.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. These calculations are based on many complex factors including estimates of the timing of reversals of temporary differences, the interpretation of federal income tax laws and a determination of the differences between the tax and the financial reporting basis of assets and liabilities. Actual results could differ significantly from the estimates and interpretations used in determining the current and deferred income tax assets and liabilities.

A valuation allowance is required to be recognized if it is “more likely than not” that a portion of the deferred tax assets will not be realized. The Company’s policy is to evaluate the deferred tax asset on a quarterly basis and record a valuation allowance for our deferred tax asset if we do not have sufficient positive evidence indicating that it is more likely than not that some or all of the deferred tax asset will be realized. The Company’s policy is to account for interest and penalties as components of income tax expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

For securities transferred from available for sale to held to maturity, the Company records the amortization and/or accretion of unrealized holding losses on such investment securities, in accumulated other comprehensive income.

The Company also records changes in the fair value of interest rate derivatives used in its cash flow hedging activities, net of deferred income tax, in accumulated other comprehensive income.

Reclassifications

Certain reclassifications have been made to the previous years' consolidated financial statements to conform to the current year's presentation. These reclassifications had no effect on the Company's results of operations.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. ASU No. 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers using a five-step model that requires entities to exercise judgment when considering the terms of the contracts. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. This amendment defers the effective date of ASU 2014-09 by one year. In March 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations (Reporting Gross versus Net), which amends the principal versus agent guidance and clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. In addition, the FASB issued ASU Nos. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers and 2016-12, Narrow-Scope Improvements and Practical Expedients, both of which provide additional clarification of certain provisions in Topic 606. These ASC updates are effective for public business entities in annual and interim reporting periods in fiscal years beginning after December 15, 2017. Early application is permitted for all entities, but not before annual reporting periods beginning after December 15, 2016. The standard permits the use of either the retrospective or retrospectively with the cumulative effect transition method. The Company will adopt the standard on October 1, 2018. The Company is currently evaluating the effect the standard will have on its consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory". The ASU requires an entity to recognize the income tax consequences of intra-entity transfers of assets other than inventory at the time that the transfer occurs. Current guidance does not require recognition of tax consequences until the asset is eventually sold to a third party. ASU 2016-16 is effective for fiscal years, and interim periods within, beginning after December 15, 2017, with early adoption permitted as of the first interim period presented in a year. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230)". The ASU is intended to reduce the diversity in practice around how certain transactions are classified within the statement of cash flows. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2017. The

Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2019. The Company has not yet determined the impact the adoption of ASU 2016-13 will have on the consolidated financial statements and related disclosures.

In May 2016, the FASB issued ASU No. 2016-12 “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients.” The guidance is intended to clarify the guidance previously issued in May 2014 related to the recognition of revenue from contracts with customers. The updated guidance includes narrow-scope improvements intended to address implementation issues and to provide additional practical expedients in the guidance. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2016. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statement.

In April 2016, the FASB issued ASU No. 2016-10 “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing.” The guidance is intended to clarify the guidance previously issued in May 2014 related to the recognition of revenue from contracts with customers. The updated guidance is intended to reduce the cost and complexity of applying the guidance on identifying promised goods or services in a contract and to improve the operability and understandability of the implementation guidance regarding the licensing of intellectual property. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2016. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” The guidance in this update supersedes the current lease accounting guidance for both the lessees and lessors under ASC 840, Leases. The new guidance requires lessees to evaluate whether a lease is a finance lease using criteria that are similar to what lessees use today to determine whether they have a capital lease. Leases not classified as finance leases are classified as operating leases. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. The lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to today's guidance for operating leases. The new guidance will require lessors to account for leases using an approach that is substantially similar to the existing guidance for sales-type, direct financing leases and operating leases. This new guidance will be effective for the Company for the first reporting period beginning after December 15, 2018, with earlier adoption permitted. Adoption of the amendment must be applied on a modified retrospective approach. The Company is currently evaluating the effect that the standard will have on its consolidated financial statements and related disclosures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

In November 2015, the FASB issued ASU No. 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.” The FASB is issuing the amendments in this Update as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (“GAAP”) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. To simplify the presentation of deferred income taxes, the amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update apply to all entities that present a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this Update. ASU No. 2015-17 is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon the issuance of this Update. The Company is currently evaluating the effect of the standard will have on its consolidated financial statements and related disclosures.

In August 2017, the FASB issued ASU No. 2017-12 “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.” The guidance is intended to update and better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The updated guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company is currently evaluating the effect of the standard will have on its consolidated financial statements and related disclosures.

In May 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-09, “Scope of Modification Accounting”, to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all the following are met: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this update. For public business entities, the amendments in this update become effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. An entity should apply the amendments in this update prospectively to an award modified on or after the adoption date. The Company is currently evaluating the impact of adopting the new guidance on the Consolidated Financial Statements, but it is not expected to have a material impact.

In March 2017, the FASB issued ASU No. 2017-08, “Premium Amortization on Purchased Callable Debt Securities.” This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. Today, entities generally amortize the premium over the contractual life of the security. The new guidance does not change the accounting for purchased callable debt securities held at a discount; the discount continues to be amortized to maturity. ASU No. 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. The guidance calls for a modified retrospective transition approach under which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently evaluating the provisions of ASU No. 2017-08 to determine the potential impact the new standard will have on the Company’s Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

In March 2017, the FASB issued ASU No. 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” The new guidance requires that the service cost component of net benefit costs of pension and postretirement benefit plans be reported in the same line item as other compensation costs in the Consolidated Statements of Income. The other components of net benefit cost will be required to be presented in a separate line item. The guidance also specifies that only the service cost component will be eligible for capitalization. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting the new guidance on the Consolidated Financial Statements, but is not expected to have a material impact.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230) Restricted Cash”. The new guidance requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of period total amounts shown on the statement of cash flows. If restricted cash is presented separately from cash and cash equivalents on the balance sheet, companies will be required to reconcile the amounts presented on the statement of cash flows to the amounts on the balance sheet. Companies will also need to disclose information about the nature of the restrictions. The amendments in this update do not provide a definition of restricted cash or restricted cash equivalents. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting the new guidance on the Consolidated Financial Statements.

Note 3 – 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. For the fiscal year ended September 30, 2017, the Company issued stock options to purchase 7,000 shares of common stock, as well as 12,522 restricted shares, which are considered CSEs. For the fiscal year ended September 30, 2016, the Company issued stock options to purchase 5,000 shares of common stock, as well as 1,930 restricted shares. For the fiscal year ended September 30, 2015, the Company did not issue and did not have any outstanding CSEs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 – Earnings Per Share (Continued)

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

	Year Ended September 30,		
(In thousands, except for share data)	2017	2016	2015
Net Income	$5,817	$12,150	$4,668
Weighted average shares outstanding	6,567,788	6,560,012	6,558,473
Average unearned ESOP shares	(136,343)	(150,747)	(165,143)
Basic weighted average shares outstanding	6,431,445	6,409,265	6,393,330
Plus: effect of dilutive options and restricted stock	692	60	-
Diluted weighted average common shares outstanding	6,432,137	6,409,325	6,393,330
Earnings per share:			
Basic	$0.90	$1.90	$0.73
Diluted	$0.90	1.90	n/a

Note 4 – Employee Stock Ownership Plan

The Company established an employee stock ownership plan (“ESOP”) for substantially all of its full-time employees. As of September 30, 2017, the current ESOP trustee is Pentegra. Shares of the Company’s common stock purchased by the ESOP are held until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each such participant’s base compensation to the total base compensation of all eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to additional paid-in capital. During the period from May 20, 2008 to September 30, 2008, the ESOP purchased 241,178 shares of the common stock for approximately $2.6 million, an average price of $10.86 per share, which was funded by a loan from Malvern Federal Bancorp, Inc. (the Company’s predecessor). The ESOP loan is being repaid principally from the Bank’s contributions to the ESOP. The loan, which bears an interest rate of 5%, is being repaid in quarterly installments through 2026. Shares are released to participants proportionately as the loan is repaid. During years ended September 30, 2017, 2016 and 2015, there were 14,400, 14,400 and 14,400 shares, respectively, committed to be released. At September 30, 2017, there were 129,165 unallocated shares and 130,053 allocated shares held by the ESOP. The unallocated shares had an aggregate fair value of approximately $3.5 million at September 30, 2017.

Note 5 - Investment Securities

The Company's investment securities are classified as available-for-sale or held-to-maturity at September 30, 2017 and 2016. Investment securities available-for-sale are reported at fair value with unrealized gains or losses included in equity, net of tax. Accordingly, the carrying value of such securities reflects their fair value at the balance sheet date. Fair value is based upon either quoted market prices, or in certain cases where there is limited activity in the market for a particular instrument, assumptions are made to determine their fair value.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Investment Securities (Continued)

The following tables present information related to the Company's investment securities at September 30, 2017 and 2016.

	September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Investment Securities Available-for-Sale:				
State and municipal obligations	$6,992	$ 39	$ (2)	$7,029
Single issuer trust preferred security	1,000	—	(66)	934
Corporate debt securities	6,627	—	(253)	6,374
Mutual fund	250	—	—	250
Total	14,869	39	(321)	14,587
Investment Securities Held-to-Maturity:				
U.S. government agencies	$1,999	$ —	$ (8)	$1,991
State and municipal obligations	9,574	89	—	9,663
Corporate debt securities	3,818	26	—	3,844
Mortgage-backed securities:				
Collateralized mortgage obligations, fixed-rate	19,524	1	(457)	19,068
Total	$34,915	$ 116	$ (465)	$34,566
Total investment securities	$49,784	$ 155	$ (786)	$49,153

	September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Investment Securities Available-for-Sale:				
State and municipal obligations	$24,751	$ 557	$ (1)	$25,307
Single issuer trust preferred security	1,000	—	(122)	878
Corporate debt securities	40,189	347	(334)	40,202
Total	$65,940	904	(457)	66,387
Investment Securities Held-to-Maturity:				
U.S. government agencies	$2,999	$ 16	$ —	$3,015

State and municipal obligations	9,826	167	(1)	9,992
Corporate debt securities	3,916	77	—	3,993
Mortgage-backed securities:				
Collateralized mortgage obligations, fixed-rate	23,810	102	(95)	23,817
Total	$40,551	$ 362	$ (96)	$40,817
Total investment securities	$106,491	$ 1,266	$ (553)	$107,204

During the year ended September 30, 2015, the Company transferred at fair value approximately $57.5 million in available-for-sale investment securities to the held-to-maturity category. The net unrealized loss at date of transfer amounted to $115,000. This will be amortized over the remaining life of the securities as an adjustment of yield, offsetting the related amortization of the premium or accretion of the discount on the transferred securities. No gains or losses were recognized at the time of transfer. Management considers the held-to-maturity classification of these investment securities to be appropriate as the Company has the positive intent and ability to hold these securities to maturity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Investment Securities (Continued)

For fiscal 2017, proceeds of available-for-sale investment securities sold amounted to approximately $51.1 million. Gross realized gains on investment securities sold amounted to approximately $464,000, while gross realized losses amounted to approximately $1,000 for the period. For fiscal 2016, proceeds of available-for-sale investment securities sold amounted to approximately $62.8 million. Gross realized gains on investment securities sold amounted to approximately $595,000, while gross realized losses amounted to approximately $30,000 for the period. For fiscal 2015, proceeds of available-for-sale investment securities sold amounted to approximately $70.4 million. Gross realized gains on investment securities sold amounted to approximately $610,000, while gross realized losses amounted to approximately $95,000 for the period.

The varying amount of sales from the available-for-sale portfolio over the past few years, reflect the significant volatility present in the market. Given the historic low interest rates prevalent in the market, it is necessary for the Company to protect itself from interest rate exposure. Securities that once appeared to be sound investments can, after changes in the market, become securities that the Company has the flexibility to sell to avoid losses and mismatches of interest-earning assets and interest-bearing liabilities at a later time.

The following tables indicate gross unrealized losses not recognized in income and fair value, aggregated by investment category and the length of time individual securities have been in a continuous unrealized loss position at September 30, 2017 and 2016.

	September 30, 2017					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair value	Unrealized Losses
	(In thousands)					
Investment Securities Available-for-Sale:						
State and municipal obligations	$—	$ —	$ 500	$ (2)	$500	$ (2)
Single issuer trust preferred security	—	—	934	(66)	934	(66)
Corporate debt securities	—	—	6,375	(253)	6,375	(253)
Total	$—	$ —	$ 7,809	$ (321)	$7,809	$ (321)
Investment Securities Held-to-Maturity:						
U.S. government agencies	—	—	1,991	(8)	1,991	(8)
State and municipal obligations	—	—	—	—	—	—

Mortgage-backed securities:						
CMO, fixed-rate	—	—	18,902	(457)	18,902	(457)
Total	—	—	20,893	(465)	20,893	(465)
Total investment securities	$—	$ —	$ 28,702	$ (786)	$28,702	$ (786)

-73-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Investment Securities (Continued)

	September 30, 2016					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair value	Unrealized Losses
	(In thousands)					
Investment Securities Available-for-Sale:						
State and municipal obligations	501	(1)	—	—	501	(1)
Single issuer trust preferred security	—	—	878	(122)	878	(122)
Corporate debt securities	984	(9)	10,614	(325)	11,598	(334)
Total	$1,485	$ (10)	$ 11,492	$ (447)	$12,977	$ (457)
Investment Securities Held-to-Maturity:						
State and municipal obligations	1,193	(1)	—	—	1,193	(1)
Mortgage-backed securities:						
CMO, fixed-rate	4,342	(17)	6,283	(78)	10,625	(95)
Total	5,535	(18)	6,283	(78)	11,818	(96)
Total investment securities	$7,020	$ (28)	$ 17,775	$ (525)	$24,795	$ (553)

As of September 30, 2017, the estimated fair value of the securities disclosed above was 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 September 30, 2017, the Company held two municipal bonds, three corporate securities, 36 mortgage-backed securities, two U.S. government agency securities and one single issuer trust preferred security which were in an unrealized loss position. As of September 30, 2016, the Company held 2 municipal bonds, nine corporate securities, 15 mortgage-backed securities and one single issuer trust preferred security which were in an unrealized loss position.

Investment securities having a carrying value of approximately $9.6 million and $552,000 at September 30, 2017 and September 30, 2016 were pledged to secure deposits. In addition, investment securities having a carrying value of $6.2 million were pledged to secure short-term borrowings at September 30, 2017. There were no investments pledged to secure short-term borrowings at September 30, 2016.

The following table presents information for investment securities at September 30, 2017, based on scheduled maturities. Actual maturities can be expected to differ from scheduled maturities due to prepayment or early call options of the issuer.

	September 30, 2017	
	Amortized Cost	Fair Value
	(In thousands)	
Investment Securities Available-for-Sale:		
Due in one year or less	$ —	$ —
Due after one year through five years	2,831	2,842
Due after five years through ten years	10,583	10,356
Due after ten years	1,455	1,389
Total	$ 14,869	$ 14,587
Investment Securities Held-to-Maturity:		
Due after one year through five years	$ 1,999	$ 1,991
Due after five years through ten years	5,817	5,900
Due after ten years	27,099	26,675
Total	$ 34,915	$ 34,566
Total investment securities	$ 49,784	$ 49,153

-74-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses

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

	September 30,	
	2017	2016
	(In thousands)	
Residential mortgage	$192,500	$209,186
Construction and Development:		
Residential and commercial	35,622	18,579
Land	18,377	10,013
Total Construction and Development	53,999	28,592
Commercial:		
Commercial real estate	437,760	231,439
Farmland	1,723	-
Multi-family	39,768	19,515
Other	74,837	38,779
Total Commercial	554,088	289,733
Consumer:		
Home equity lines of credit	16,509	19,757
Second mortgages	22,480	29,204
Other	2,570	1,914
Total Consumer	41,559	50,875
Total loans	842,146	578,386
Deferred loan fees and cost, net	590	1,208
Allowance for loan losses	(8,405)	(5,434)
Total loans receivable, net	$834,331	$574,160

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses (Continued)

The following table summarizes the primary classes of the allowance for loan losses, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of and for the years ended September 30, 2017, 2016 and 2015.

Year Ended September 30, 2017

		Construction and Development		**Commercial**				Consumer			
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Farmland	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocat
		(in thousands)									
Allowance for loan losses:											
Beginning balance	$1,201	$199	$97	$1,874	$-	$109	$158	$116	$467	$34	$1,179
Charge-offs	-	-	-	-	-	-	-	-	(218)	(5)	-
Recoveries	2	90	-	40	-	-	9	18	232	12	-
Provisions	(199)	234	35	1,667	9	115	374	(44)	(79)	(14)	693
Ending Balance	$1,004	$523	$132	$3,581	$9	$224	$541	$90	$402	$27	$1,872
Ending balance: individually evaluated for impairment	$-	$-	$-	$-	$-	$-	$109	$-	$128	$-	$-
Ending balance: collectively evaluated for impairment	$1,004	$523	$132	$3,581	$9	$224	$432	$90	$274	$27	$1,872
Loans receivable:											
	$192,500	$35,622	$18,377	$437,760	$1,723	$39,768	$74,837	$16,509	$22,480	$2,570	

Ending balance											
Ending balance: individually evaluated for impairment	$2,262	$-	$94	$555	$-	$-	$243	$10	$356	$-	$
Ending balance: collectively evaluated for impairment	$190,238	$35,622	$18,283	$437,205	$1,723	$39,768	$74,594	$16,499	$22,124	$2,570	$

-76-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses (Continued)

	Year Ended September 30, 2016										
		Construction and Development		Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
	(In thousands)										
Allowance for loan losses:											
Beginning balance	$1,486	$30	$35	$1,235	$104	$108	$139	$761	$24	$745	$4,667
Charge-offs	(9)	(91)	-	(99)	-	-	-	(291)	(70)	-	(560
Recoveries	17	243	-	3	-	3	1	100	13	-	380
Provision	(293)	17	62	735	5	47	(24)	(103)	67	434	947
Ending Balance	$1,201	$199	$97	$1,874	$109	$158	$116	$467	$34	$1,179	$5,434
Ending balance: individually evaluated for impairment	$-	$-	$-	$-	$-	$-	$-	$23	$-	$-	$23
Ending balance: collectively evaluated for impairment	$1,201	$199	$97	$1,874	$109	$158	$116	$444	$34	$1,179	$5,411
Loans receivable:											
Ending balance	$209,186	$18,579	$10,013	$231,439	$19,515	$38,779	$19,757	$29,204	$1,914		$578,386
Ending balance: individually evaluated	$1,159	$109	$-	$2,039	$-	$-	$74	$277	$-		$3,658

for impairment											
Ending balance: collectively evaluated for impairment	$208,027	$18,470	$10,013	$229,400	$19,515	$38,779	$19,683	$28,927	$1,914		$574,728

-77-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses (Continued)

	Year Ended September 30, 2015										
		Construction and Development		Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
	(In thousands)										
Allowance for loan losses:											
Beginning balance	$1,672	$291	$13	$1,248	$29	$50	$168	$1,033	$23	$62	$4,589
Charge-offs	-	(1)	-	(48)	-	-	-	(138)	(34)	-	(221)
Recoveries	17	98	-	9	-	3	2	69	11	-	209
Provision	(203)	(358)	22	26	75	55	(31)	(203)	24	683	90
Ending Balance	$1,486	$30	$35	$1,235	$104	$108	$139	$761	$24	$745	$4,667
Ending balance: individually evaluated for impairment	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-
Ending balance: collectively evaluated for impairment	$1,486	$30	$35	$1,235	$104	$108	$139	$761	$24	$745	$4,667
Loans receivable:											
Ending balance	$214,958	$5,677	$2,142	$87,686	$7,444	$13,380	$22,919	$37,633	$2,359		$394,198
Ending balance: individually	$599	$121	$-	$1,571	$-	$-	$20	$179	$-		$2,490

evaluated for impairment											
Ending balance: collectively evaluated for impairment	$214,359	$5,556	$2,142	$86,115	$7,444	$13,380	$22,899	$37,454	$2,359		$391,708

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses (Continued)

The following table presents impaired loans in portfolio by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of September 30, 2017 and 2016.

	Impaired Loans With Specific Allowance		Impaired Loans With No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	(In thousands)				
September 30, 2017:					
Residential mortgage	$—	$ —	$ 2,262	$ 2,262	$ 2,379
Construction and Development:					
Residential and commercial	—	—	—	—	—
Land	—	—	94	94	94
Commercial:					
Commercial real estate	—	—	555	555	555
Other	243	109	—	243	243
Consumer:					
Home equity lines of credit	—	—	10	10	11
Second mortgages	131	128	225	356	385
Total impaired loans	$374	$ 237	$ 3,146	$ 3,520	$ 3,667
September 30, 2016:					
Residential mortgage	$—	$ —	$ 1,159	$ 1,159	$ 1,225
Construction and Development:					
Residential and commercial	—	—	109	109	109
Commercial:					
Commercial real estate	—	—	2,039	2,039	2,039
Consumer:					
Home equity lines of credit	—	—	74	74	90
Second mortgages	31	23	246	277	451
Total impaired loans	$31	$ 23	$ 3,627	$ 3,658	$ 3,914

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses (Continued)

The following table presents the average recorded investment in impaired loans in portfolio and related interest income recognized year ended September 30, 2017, 2016 and 2015.

	Average Impaired Loans	Interest Income Recognized on Impaired Loans
	(In thousands)	
Year Ended September 30, 2017:		
Residential mortgages	$ 2,076	$ 52
Construction and Development:		
Residential and commercial	80	4
Land	24	1
Commercial:		
Commercial real estate	932	18
Other	144	2
Consumer:		
Home equity lines of credit	38	—
Second mortgages	209	3
Total	$ 3,503	$ 80
Year Ended September 30, 2016:		
Residential mortgages	$ 707	$ —
Construction and Development:		
Residential and commercial	150	4
Commercial:		
Commercial real estate	1,646	69
Consumer:		
Home equity lines of credit	24	—
Second mortgages	214	—
Total	$ 2,741	$ 73
Year Ended September 30, 2015:		
Residential mortgages	$ 729	$ —
Construction and Development:		
Residential and commercial	144	5
Commercial:		
Commercial real estate	690	4

Other	340	12
Consumer:		
Home equity lines of credit	23	—
Second mortgages	537	—
Total	$ 2,463	$ 21

No additional funds are committed to be advanced in connection with impaired loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses (Continued)

The following table presents the classes of the loan portfolio summarized by loans considered to be rated as pass and the categories of special mention, substandard and doubtful within the Company's internal risk rating system as of September 30, 2017 and 2016.

	September 30, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
	(In thousands)				
Residential mortgage	$189,925	$ 114	$ 2,461	$ —	$192,500
Construction and Development:					
Residential and commercial	35,622	—	—	—	35,622
Land	13,207	—	5,170	—	18,377
Commercial:					
Commercial real estate	431,336	4,456	1,968	—	437,760
Farmland	1,723	—	—	—	1,723
Multi-family	39,410	358	—	—	39,768
Other	73,935	—	902	—	74,837
Consumer:					
Home equity lines of credit	16,399	—	110	—	16,509
Second mortgages	21,611	112	757	—	22,480
Other	2,563	6	1	—	2,570
Total	$825,731	$ 5,046	$ 11,369	$ —	$842,146

	September 30, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
	(In thousands)				
Residential mortgage	$207,880	$ 122	$ 1,184	$ —	$209,186
Construction and Development:					
Residential and commercial	18,470	—	109	—	18,579
Land	10,013	—	—	—	10,013
Commercial:					
Commercial real estate	221,742	4,990	4,707	—	231,439
Multi-family	19,303	212	—	—	19,515
Other	37,848	259	672	—	38,779
Consumer:					

Home equity lines of credit	19,584	—	173	—	19,757
Second mortgages	27,843	119	1,242	—	29,204
Other	1,903	11	—	—	1,914
Total	$564,586	$ 5,713	$ 8,087	$ —	$578,386

-81-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses (Continued)

The following table presents loans on which we are no longer accruing interest by portfolio class at the dates indicated.

	September 30,	
	2017	2016
	(In thousands)	
Residential mortgage	$826	$1,072
Construction and Development:		
Residential and commercial	—	—
Commercial:		
Commercial real estate	—	193
Consumer:		
Home equity lines of credit	10	74
Second mortgages	202	278
Total non-accrual loans	$1,038	$1,617

Under the Bank's loan policy, once a loan has been placed on non-accrual status, we do not resume interest accruals until the loan has been brought current and has maintained a current payment status for not less than six consecutive months. Interest income that would have been recognized on nonaccrual loans had they been current in accordance with their original terms was $32,000, $48,000 and $84,000 for fiscal 2017, 2016 and 2015, respectively. At September 30, 2017 and 2016 there were approximately $173,000 and $696,000, respectively, loans past due 90 days or more and still accruing interest.

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by whether a loan payment is "current," that is, it is received from a borrower by the scheduled due date, or the length of time a scheduled payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories as of September 30, 2017 and 2016.

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More	Total Past Due	Total Loans Receivable	Accruing 90 Days or More

				Past Due			Past Due
	(in thousands)						
September 30, 2017:							
Residential mortgage	$189,272	$1,442	$1,145	$641	$3,228	$192,500	$31
Construction and Development:							
Residential and commercial	35,622	—	—	—	—	35,622	—
Land	18,377	—	—	—	—	18,377	—
Commercial:							
Commercial real estate	436,804	160	796	—	956	437,760	—
Farmland	1,723	—	—	—	—	1,723	—
Multi-family	39,768	—	—	—	—	39,768	—
Other	74,837	—	—	—	—	74,837	—
Consumer:							
Home equity lines of credit	16,122	350	37	—	387	16,509	—
Second mortgages	21,183	844	182	271	1,297	22,480	141
Other	2,561	7	1	1	9	2,570	1
Total	$836,269	$2,803	$2,161	$913	$5,877	$842,146	$173

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses (Continued)

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans Receivable	Accruing 90 Days or More Past Due
	(in thousands)						
September 30, 2016:							
Residential mortgage	$204,816	$1,750	$1,345	$1,275	$4,370	$ 209,186	$ 509
Construction and Development:							
Residential and commercial	18,579	—	—	—	—	18,579	—
Land	10,013	—	—	—	—	10,013	—
Commercial:							
Commercial real estate	231,059	—	—	380	380	231,439	187
Multi-family	19,515	—	—	—	—	19,515	—
Other	38,433	346	—	—	346	38,779	—
Consumer:							
Home equity lines of credit	19,513	170	43	31	244	19,757	—
Second mortgages	27,933	473	566	232	1,271	29,204	—
Other	1,913	1	—	—	1	1,914	—
Total	$571,774	$2,740	$1,954	$1,918	$6,612	$ 578,386	$ 696

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

The Company had 12 and seven loans classified as TDRs with an aggregate outstanding balance of $2.3 million and $2.2 million at September 30, 2017 and 2016, respectively. At September 30, 2017, these loans were also classified as impaired. Eleven of the TDR loans continue to perform under the restructured terms through September 30, 2017 and we continued to accrue interest on such loan through such date.

The increase in TDRs at September 30, 2017 compared to September 30, 2016 was primarily due to four residential mortgage loans with an aggregate outstanding balance of $1.2 million and two second mortgage loans with an outstanding balance of approximately $126,000 being classified as performing TDRs during fiscal 2017. In addition, one second mortgage loan with an outstanding balance of approximately $22,000 was classified as non-performing TDR during fiscal 2017. The increase was offset by two commercial loans, with an aggregate outstanding balance of approximately $1.3 million being paid off during fiscal 2017. All of such loans have been classified as TDRs since we modified the payment terms and in some cases interest rate from the original agreements and allowed the borrowers, who were experiencing financial difficulty, to make interest only payments for a period of time in order to relieve some of their overall cash flow burden. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and result in potential incremental losses. These potential incremental losses have been factored into our overall estimate of the allowance for loan losses. The level of any defaults will likely be affected by future economic conditions. A default on a troubled debt restructured loan for purposes of this disclosure occurs when the borrower is 90 days past due or a foreclosure or repossession of the applicable collateral has occurred.

TDRs may arise in which, due to financial difficulties experienced by the borrower, the Company obtains through physical possession one or more collateral assets in satisfaction of all or part of an existing credit. Once possession is obtained, the Company reclassifies the appropriate portion of the remaining balance of the credit from loans to OREO, which is included within other assets in the Consolidated Statements of Condition. For any residential real estate property collateralizing a consumer mortgage loan, the Company is considered to possess the related collateral only if legal title is obtained upon completion of foreclosure, or the borrower conveys all interest in the residential real estate property to the Company through completion of a deed in lieu of foreclosure or similar legal agreement. Excluding OREO, the Company had $252,000 and $141,000 of residential real estate properties in the process of foreclosure at September 30, 2017 and 2016, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses (Continued)

	Total Troubled Debt Restructurings		Troubled Debt Restructured Loans That Have Defaulted on Modified Terms Within The Past 12 Months	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(Dollars in thousands)			
At September 30, 2017:				
Residential mortgage	6	$ 1,464	—	$ —
Construction and Development:				
Residential and commercial	-	-	—	—
Land	1	94		
Commercial:				
Commercial real estate	2	554	—	—
Consumer				
Second mortgages	3	148	1	22
Total	12	$ 2,260	1	$ 22
At September 30, 2016:				
Residential mortgage	2	$ 224	1	$ 139
Construction and Development:				
Residential and commercial	1	109	—	—
Commercial:				
Commercial real estate	4	1,845	—	—
Total	7	$ 2,178	1	$ 139

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

	September 30, 2017		2016	
	Performing	Non-Performing	Performing	Non-Performing
	(In thousands)			
Residential mortgage	$1,464	$ —	$85	$ 139
Construction and Development:				

Residential and commercial	—	—	109	—
Land	94	—	—	—
Commercial:				
Commercial real estate	554	—	—	—
Consumer				
Second mortgages	126	22	1,845	—
Total	$2,238	$ 22	$2,039	$ 139

-84-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses (Continued)

The following table shows the new TDR's for the twelve months ended September 30, 2017 and 2016.

	September 30, 2017			2016		
	Restructured During Period					
	Number of Loans	Pre-Modifications Outstanding Recorded Investments	Post-Modifications Outstanding Recorded Investments	Number of Loans	Pre-Modifications Outstanding Recorded Investments	**Post-Modifications Outstanding Recorded Investments**
	(In thousands)					
Troubled Debt Restructurings:						
Residential mortgage	4	$ 1,236	$ 1,236	2	$ 245	$ 245
Commercial:						
Commercial real estate	—	—	—	1	386	386
Consumer:						
Second mortgages	3	153	153	—	—	—
Total	7	$ 1,389	$ 1,389	3	$ 631	$ 631

The following table sets forth the aggregate dollar amount of loans to principal officers, directors and their affiliates in the normal course of business of the Company.

	Year Ended September 30,	
(In thousands)	2017	2016
Balance at beginning of year	$ 7,992	$ 5,635
New loans	7,231	12,249
Repayments	(2,888)	(9,892)
Balance at end of year	$ 12,335	$ 7,992

At September 30, 2017, 2016 and 2015, the Company was servicing loans for the benefit of others in the amounts of $36.1 million, $45.4 million and $54.1 million, respectively. A summary of mortgage servicing rights included in other assets and the activity therein follows for the periods indicated:

	September 30,		
	2017	2016	2015
	(In thousands)		
Balance at beginning of year	$328	$401	$453
Amortization	(60)	(73)	(82)
Addition	—	—	30
Balance at end of year	$268	$328	$401

For the fiscal year ended September 30, 2017, 2016 and 2015, the fair value of servicing rights was determined using a base discount rate between 11% and 12%. The fair market value is evaluated by a third party vendor on a quarterly basis for impairment purposes only. For the fiscal year ended September 30, 2017, we sold $9.3 million of long-term, fixed-rate residential mortgage loans with servicing released. This transaction resulted in a gain of $154,000. For the year ended September 30, 2017, the Company only sold loans with servicing released. For the fiscal year ended September 30, 2016, we sold $6.4 million of long-term, fixed-rate residential mortgage loans with servicing released. This transaction resulted in a gain of $116,000. For the year ended September 30, 2016, the Company only sold loans with servicing released. For the fiscal year ended September 30, 2015, we sold $4.1 million of long-term, fixed-rate residential mortgage loans with the servicing retained. This transaction resulted in a gain of $102,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses (Continued)

No valuation allowance on servicing rights has been recorded at September 30, 2017, 2016, or 2015.

Note 7 - Property and Equipment

Property and equipment, net consisted of the following at September 30, 2017 and 2016:

		September 30,	
	Estimated Useful Life (years)	2017	2016
		(In thousands)	
Land	-	$711	$711
Building and improvements	10-39	12,465	11,400
Construction in process	-	109	222
Furniture, fixtures and equipment	3-7	5,366	4,722
		18,651	17,055
Accumulated depreciation		(11,144)	(10,418)
		$7,507	$6,637

Depreciation expense was approximately $724,000, $650,000 and $646,000 for the years ended September 30, 2017, 2016 and 2015, respectively.

Note 8 - Deposits

Deposits classified by interest rates with percentages to total deposits at September 30, 2017 and 2016 consisted of the following:

September 30,

	2017			2016		
	Amount	Percent of Total Deposits		Amount	Percent of Total Deposits	
	(Dollars in thousands)					
Balances by types of deposit:						
Savings	$44,526	5.63	%	$44,714	7.43	%
Money market accounts	276,404	34.97		177,486	29.48	
Interest bearing demand	155,579	19.69		95,041	15.78	
Non-interest bearing demand	42,121	5.33		34,547	5.74	
	518,630	65.62		351,788	58.43	
Certificates of deposit	271,766	34.38		250,258	41.57	
Total	$790,396	100.00	%	$602,046	100.00	%

The total amount of certificates of deposit of $250,000 and greater at September 30, 2017 and 2016 was $21.8 million and $13.7 million, respectively. We had brokered deposits totaling $103.7 million and $58.8 million at September 30, 2017 and 2016, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 - Deposits (Continued)

Interest expense on deposits consisted of the following for the years:

	September 30,		
	2017	2016	2015
	(In thousands)		
Savings accounts	$37	$33	$29
Money market accounts	1,985	874	271
Interest bearing demand	353	139	83
Certificates of deposit	3,861	3,491	3,048
Total deposits	$6,236	$4,537	$3,431

The following is a schedule of certificates of deposit maturities.

	September 30, 2017
	(In thousands)
Maturing in the Fiscal Year Ending September 30,	
2018	$ 184,337
2019	30,678
2020	18,506
2021	16,934
2022	3,248
Thereafter	18,063
	$ 271,766

Deposits from related parties held by the Company at September 30, 2017 and 2016 amounted to $11.4 million and $6.4 million, respectively.

Note 9 - Borrowings

Under terms of its collateral agreement with the Federal Home Loan Bank of Pittsburgh ("FHLB"), the Company maintains otherwise unencumbered qualifying assets in an amount at least equal to its borrowings.

Under an agreement with the FHLB, the Company has a line of credit available in the amount of $150.0 million and $127.8 million, respectively, of which none was outstanding at September 30, 2017 or 2016. The interest rate on the line of credit at September 30, 2017 and 2016 was 1.27% and 0.46%, respectively.

The summary of long-term borrowings as of September 30, 2017 and 2016 are as follows:

	September 30,					
	2017			2016		
	Amount	Weighted Average Rate		Amount	Weighted Average Rate	
	(Dollars in thousands)					
Due by September 30:						
2017	$-	-	%	$35,000	0.22	%
2018	35,000	0.45		-	-	
2019	55,000	1.62		55,000	1.62	
2020	28,000	2.82		28,000	2.83	
2021	-	-		-	-	
Total FHLB Advances	$118,000	1.51	%	$118,000	1.65	%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 - Borrowings (Continued)

At September 30, 2017, the Company had $118.0 million in outstanding long-term fixed rate FHLB advances and $230.1 million in potential FHLB advances available to us, which is based on the amount of FHLB stock held or levels of other assets, including U.S. government securities, and certain mortgage loans which are available for collateral.

During fiscal 2017 the Company had purchased securities sold under agreements to repurchase as a short-term funding source. At September 30, 2017, the Company had $5.0 million in securities sold under agreements to repurchase at a rate of 1.46%. The Company had no securities sold under agreements to repurchase at September 30, 2016.

Note 10 - Derivatives

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

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. At September 30, 2017, such derivatives were used to hedge the variable cash flows associated with FHLB advances. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. The Company's derivatives did not have any hedge ineffectiveness recognized in earnings during fiscal 2017, 2016 and 2015.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next twelve months, the Company estimates approximately $15,000 to be reclassified to earnings in interest expense. The Company is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of twenty months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 - Derivatives (Continued)

The table below presents the fair value of the Company’s derivative financial instruments as well as their classification on the Balance Sheet as of September 30, 2017 and 2016:

	September 30, 2017			
	Notional Amount	Fair Value	Balance Sheet Location	Expiration Date
	(dollars in thousand)			
Derivatives designated as hedging instruments				
Interest rate swaps by effective date:				
August 3, 2015	$15,000	$ 9	Other assets	August 3, 2020
February 5, 2016	20,000	367	Other assets	February 1, 2021

	September 30, 2016			
	Notional Amount	Fair Value	Balance Sheet Location	Expiration Date
	(dollars in thousand)			
Derivatives designated as hedging instruments				
Interest rate swaps by effective date:				
August 3, 2015	$15,000	$ 394	Other liabilities	August 3, 2020
February 5, 2016	20,000	148	Other liabilities	February 1, 2021

Interest expense recorded on these swaps transactions totaled approximately $159,000, $272,000 and $36,000 for the years ended September 30, 2017, 2016 and 2015, respectively, and is reported as a component of interest expense on FHLB Advances.

Cash Flow Hedge

The following table presents the net gains (losses) recorded in accumulated other comprehensive income and the Consolidated Statements of Income relating to the cash flow derivative instruments for the year ended September 30:

	For the Year Ended September 30, 2017		
	Amount of Gain (Loss) Recognized in OCI (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI to Interest Expense	Amount of Gain (Loss) Recognized in Other Non-Interest Income (Ineffective Portion)
	(in thousands)		
August 3, 2015	$ 293	$ (111)	$ —
February 5, 2016	466	(48)	—

	For the Year Ended September 30, 2016		
	Amount of Gain (Loss) Recognized in OCI (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI to Interest Expense	Amount of Gain (Loss) Recognized in Other Non-Interest Income (Ineffective Portion)
	(in thousands)		
August 3, 2015	$ (270)	$ (188)	$ —
February 5, 2016	(231)	(84)	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 - Derivatives (Continued)

	For the Year Ended September 30, 2015		
	Amount of Gain (Loss) Recognized in OCI (Effective Portion) (in thousands)	Amount of Gain (Loss) Reclassified from OCI to Interest Expense	Amount of Gain (Loss) Recognized in Other Non-Interest Income (Ineffective Portion)
Interest Rate Contracts	$ 348	$ (36)	$ —

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

At September 30, 2017, the fair value of derivatives was in a net asset position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was zero. At September 30, 2016, the fair value of derivatives was in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $586,000. As of September 30, 2017 and 2016, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of zero and $800,000, respectively, against its obligations under these agreements. If the Company had breached any of these provisions at September 30, 2017, it could have been required to settle its obligations under the agreements at the termination value and would have been required to pay any additional amounts due in excess of amounts previously posted as collateral with the respective counterparty.

Note 11 - Fair Value Measurements

The Company follows FASB ASC Topic 820 “Fair Value Measurement,” to record fair value adjustments to certain assets and to determine fair value disclosures for the Company’s financial instruments. Investment and mortgage-backed securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans, real estate owned and certain other assets. These nonrecurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or write-downs of individual assets.

The Company groups its assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

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

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

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

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

Fair value measurements for assets where there exists limited or no observable market data and, therefore, are based primarily upon the Company's or other third-party's estimates, are often calculated based on the characteristics of the asset, the economic and competitive environment and other factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 - Fair Value Measurements (Continued)

Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future valuations.

FASB ASC Topic 825 "Financial Instruments" 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 Company monitors and evaluates available data to perform fair value measurements on an ongoing basis and recognizes transfers among the levels of the fair value hierarchy as of the date event or a change in circumstances that affects the valuation method chosen. There were no changes in valuation technique or transfers between levels as of and for the years ended September 30, 2017 and 2016.

The tables below present the balances of assets measured at fair value on a recurring basis at September 30, 2017 and 2016:

	September 30, 2017			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Assets:				
Investment securities available-for-sale:				
Debt securities:				
State and municipal obligations	$7,029	$ —	$7,029	$ —
Single issuer trust preferred security	934	—	934	—
Corporate debt securities	6,374	—	6,374	
Mutual funds	250	—	—	250
Total investment securities available-for-sale	14,587	—	14,337	250
Derivative instruments	$376	$ —	$376	$ —

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Assets:				
Investment securities available-for-sale:				
Debt securities:				
State and municipal obligations	$25,307	$ —	$25,307	$ —
Single issuer trust preferred security	878	—	878	—
Corporate debt securities	40,202	—	40,202	—
Total investment securities available-for-sale	66,387	—	66,387	—
Liabilities:				
Derivative instruments	$542	$ —	$542	$ —

For assets measured at fair value on a nonrecurring basis in fiscal 2017 and fiscal 2016 that were still held at the end of the period, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at September 30, 2017 and 2016:

	September 30, 2017			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Impaired loans(1)	$137	$ —	$ —	$ 137
Total	$137	$ —	$ —	$ 137

-91-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 - Fair Value Measurements (Continued)

	September 30, 2017			
	Fair Value at September 30, 2017	Valuation Technique	Unobservable Input	Range/(Weighted Average)
	(dollars in thousands)			
Impaired loans(1)	$137	Appraisal of collateral(2)	Collateral discounts(3)	0%/(0%)
Total	$137			

(1) At September 30, 2017, consisted of five loans with an aggregate balance of $374,000 and with $237,000 in specific loan loss allowance.

(2) Fair value is generally determined through independent appraisals of the underlying collateral primarily using comparable sales.

(3) Appraisals may be adjusted by management for qualitative factors such as time, changes in economic conditions and estimated liquidation expense.

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Impaired loans(1)	$ 8	$ —	$ —	$ 8
Total	$ 8	$ —	$ —	$ 8

	September 30, 2016			
	Fair Value at September 30, 2017	Valuation Technique	Unobservable Input	Range/(Weighted Average)
	(dollars in thousands)			
Impaired loans(1)	$8	Appraisal of collateral(2)	Collateral discounts(3)	0%/(0%)
Total	$8			

(1) At September 30, 2016, consisted of one loan with an aggregate balance of $31,000 and with $23,000 in specific loan loss allowance.
(2) Fair value is generally determined through independent appraisals of the underlying collateral primarily using comparable sales.
(3) Appraisals may be adjusted by management for qualitative factors such as time, changes in economic conditions and estimated liquidation expense.

For the year ended September 30, 2017 and 2016, the Company did not have any additions to our mortgage servicing assets.

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

The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2017 and 2016. 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 September 30, 2017 and 2016 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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 - Fair Value Measurements (Continued)

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 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 fair value of the Level 3 security was $250,000 as of September 30, 2017 and zero as of September 30, 2016. The Company had no Level 1 securities as of September 30, 2017 or 2016.

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 - Fair Value Measurements (Continued)

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 - Fair Value Measurements (Continued)

The carrying amount and estimated fair value of the Company’s financial instruments as of September 30, 2017 and 2016 were as follows:

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
September 30, 2017:					
Financial assets:					
Cash and cash equivalents	$117,136	$117,136	$117,136	$—	$—
Investment securities available-for-sale	14,587	14,587	—	14,337	250
Investment securities held-to-maturity	34,915	34,566	—	34,566	—
Loans receivable, net (including impaired loans)	834,331	839,242	—	—	839,242
Accrued interest receivable	3,139	3,139	—	3,139	—
Restricted stock	5,559	5,559	—	5,559	—
Mortgage servicing rights (included in Other Assets)	268	271	—	271	—
Derivatives	376	376		376	
Financial liabilities:					
Savings accounts	44,526	44,526	—	44,526	—
Checking and NOW accounts	197,700	197,700	—	197,700	—
Money market accounts	276,404	276,404	—	276,404	—
Certificates of deposit	271,766	273,723	—	273,723	—
Borrowings(excluding sub debt)	123,000	123,658	—	123,658	—
Subordinated debt	24,303	24,303		24,303	
Accrued interest payable	694	694	—	694	—
September 30, 2016:					
Financial assets:					
Cash and cash equivalents	$96,762	$96,762	$96,762	$—	$—
Investment securities available-for-sale	66,387	66,387	—	66,387	—
Investment securities held-to-maturity	40,551	40,817	—	40,817	—
Loans receivable, net (including impaired loans)	574,160	589,844	—	—	589,844
Accrued interest receivable	2,558	2,558	—	2,558	—
Restricted stock	5,424	5,424	—	5,424	—
Mortgage servicing rights (included in Other)	328	308	—	308	—
Financial liabilities:					
Savings accounts	44,714	44,714	—	44,714	—
Checking and NOW accounts	129,588	129,588	—	129,588	—

Money market accounts	177,486	177,486	—	177,486	—
Certificates of deposit	250,258	252,232	—	252,232	—
FHLB advances	118,000	119,946	—	119,946	—
Derivatives (included in Other Liabilities)	542	542	—	542	—
Accrued interest payable	427	427	—	427	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 - Income Taxes

In accordance with ASC Topic 740, the Company evaluates on a quarterly basis, all evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance for DTAs is needed. In conducting this evaluation, management explores all possible sources of taxable income available under existing tax laws to realize the net deferred tax asset beginning with the most objectively verifiable evidence first, including available carry back claims and viable tax planning strategies. If needed, management will look to future taxable income as a potential source. Management reviews the Company’s current financial position and its results of operations for the current and preceding years. That historical information is supplemented by all currently available information about future years. The Company understands that projections about future performance are subjective.

Deferred income taxes at September 30, 2017 and 2016 were as follows:

	September 30,	
	2017	2016
	(In thousands)	
Deferred Tax Assets:		
Allowance for loan losses	4,279	3,299
Non-accrual interest	16	56
Alternative minimum tax (AMT) credit carryover	526	287
Low-income housing tax credit carryover	217	217
Supplement Employer Retirement Plan	386	412
Charitable contributions	—	61
Depreciation	146	60
Federal net operating loss	935	4,344
Unrealized loss on investments available-for-sale	96	—
Other	388	651
Total Deferred Tax Assets	6,989	9,387
Valuation allowance for DTA	—	(61)
Total Deferred Tax Assets, Net of Valuation Allowance	$6,989	$9,326
Deferred Tax Liabilities:		
Unrealized gain on investments available-for-sale	—	(152)
Mortgage servicing rights	(89)	(112)
Other	(229)	(235)
Total Deferred Tax Liabilities	(318)	(499)
Deferred Tax Assets, Net	$6,671	$8,827

Of these DTA, the carryforward periods for certain tax attributes are as follows:

- Gross federal net operating loss carryforwards of $2.9 million (net DTA of $1.0 million) to expire in the fiscal year ending September 30, 2031;
- Low income housing credit carryforwards of $217,000 to expire in the fiscal years ending September 30, 2030 and 2031;
- AMT credit carryforward has no expiration date; and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – Income Taxes (Continued)

Income tax expense (benefit) for the years ended September 30, 2017, 2016 and 2015 was comprised of the following:

	September 30,		
	2017	2016	2015
	(In thousands)		
Federal:			
Current	$404	$142	$65
Deferred	2,092	(6,316)	(1,035)
	2,496	(6,174)	(970)
State, current:	426	-	-
	$2,922	$(6,174)	$(970)

The following reconciliation between federal income tax at the statutory rate of 34% and the actual income tax expense (benefit) recorded on income before income taxes for the years ended September 30, 2017, 2016 and 2015:

	September 30,		
	2017	2016	2015
	(Dollars in thousands)		
At federal statutory rate at 34%	$2,971	$2,032	$1,257
Adjustments resulting from:			
State tax, net of federal benefit	281	-	-
Tax-exempt interest	(161)	(265)	(186)
Earnings on bank-owned life insurance	(172)	(176)	(231)
DTA valuation allowance	-	(8,007)	(2,031)
Other	3	242	221
	$2,922	$(6,174)	$(970)
Effective tax rate	33.4 %	(103.3)%	(26.2)%

It is the Company’s policy to provide for uncertain tax positions and the related interest and penalties based upon management’s assessment of whether a tax benefit is more like than not to be sustained upon examination by tax authorities. As of September 30, 2017 and 2016, there were no material uncertain tax positions related to federal and state income tax matters. The Company is currently open to audit under the statute of limitation by the Internal

Revenue Service and state taxing authorities for the years ended September 30, 2014 to September 30, 2017.

The Small Business Job Protection Act of 1996 provides for the repeal of the tax bad debt deduction computed under the percentage-of-taxable-income method. Upon repeal, the Company was required to recapture into income, over a six-year period, the portion of its tax bad debt reserves that exceeds its base year reserves (i.e., tax reserves for tax years beginning before 1988). The base year tax reserves, which may be subject to recapture if the Company ceases to qualify as a bank for federal income tax purposes, are restricted with respect to certain distributions and have been treated as a permanent tax difference.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”) was signed into law. We are in the process of analyzing the Act and its possible effects on the Company and the Bank. The Act reduces the corporate tax rate to 21 percent from 35 percent, among other things. It could also require us to write down our deferred tax assets, which would reduce our net income during the first quarter of fiscal 2018. We cannot determine at this time the amount of any such write down, or the full effects of the Act on our business and financial results.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 - Leases

Pursuant to the terms of non-cancelable operating lease agreements, pertaining to Company property, future minimum rent commitments are (In thousands):

Years ending September 30:	
2018	$495
2019	465
2020	468
2021	499
2022	479
Thereafter	1,756
	$4,162

The Company receives rents from the lease of office and residential space owned by the Company. Future minimum rental commitments under these leases are (In thousands):

Years ending September 30:	
2018	$159
2019	80
2020	37
2021	38
2022	29
	$343

Note 14 - Commitments and Contingencies

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit, and interest rate risk in excess of the amount recognized in the statements of financial condition.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Letters of credit are conditional commitments issued by the Company guaranteeing payments of drafts in accordance with the terms of the letter of credit agreements. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Collateral may be required to support letters of credit based upon management's evaluation of the creditworthiness of each customer. The credit risk involved in issuing letters of credit is substantially the same as that involved in extending loan facilities to customers. Most letters of credit expire within one year. At September 30, 2017 and 2016, the uncollateralized portion of the letters of credit extended by the Company was approximately $4.7 million and $1.9 million, respectively. The current amount of the liability for guarantees under letters of credit was not material as of September 30, 2017 or 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 – Commitments and Contingencies (Continued)

At September 30, 2017 and 2016, the following financial instruments were outstanding whose contract amounts represent credit risk:

	September 30,	
	2017	2016
	(In thousands)	
Commitments to extend credit:		
Future loan commitments	$80,273	$97,566
Undisbursed construction loans	37,064	33,135
Undisbursed home equity lines of credit	26,440	25,270
Undisbursed commercial lines of credit	34,311	22,272
Undisbursed commercial unsecured lines of credit	21,035	26,395
Overdraft protection lines	1,339	850
Standby letters of credit	4,650	1,927
Total Commitments	$205,112	$207,415

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer’s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management’s credit evaluation. Collateral held varies but generally includes personal or commercial real estate.

Unfunded commitments under commercial lines of credit are collateralized except for the overdraft protection lines of credit and commercial unsecured lines of credit. The amount of collateral obtained is based on management’s credit evaluation, and generally includes personal or commercial real estate.

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company’s consolidated financial statements.

Note 15 - Regulatory Matters

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

In July of 2013, the respective U.S. federal banking agencies issued final rules implementing Basel III and the Dodd-Frank Act capital requirements to be fully phased in on a global basis on January 1, 2019. The new regulations establish a new tangible common equity capital requirement, increase the minimum requirement for the current Tier 1 risk-weighted asset ("RWA") ratio, phase out certain kinds of intangibles treated as capital and certain types of instruments and change the risk weightings of certain assets used to determine required capital ratios. The new common equity Tier 1 capital component requires capital of the highest quality – predominantly composed of retained earnings and common stock instruments. For community banks such as Malvern Federal Savings Bank, a common equity Tier 1 capital ratio of 4.5% became effective on January 1, 2015. The new capital rules also increased the minimum Tier 1 capital ratio from 4.0% to 6.0% beginning on January 1, 2015. The rules also establish a capital conservation buffer of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and would result in the following minimum ratios: (1) a common equity Tier 1 capital ratio of 7.0%, (2) a Tier 1 capital ratio of 8.5%, and (3) a total capital ratio of 10.5%. The new capital conservation buffer requirement was phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase by that amount each year until fully implemented in January 2019. An institution is also subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 - Regulatory Matters – (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible and core capital (as defined in the regulations) to total adjusted tangible assets (as defined) and of risk-based capital (as defined) to risk-weighted assets (as defined).

As of September 30, 2017, the Company's and the Bank's current capital levels exceed the required capital amounts to be considered "well capitalized" and we believe they also meet the fully-phased in minimum capital requirements, including the related capital conservation buffers, as required by the Basel III capital rules.

The following table summarizes the Company's compliance with applicable regulatory capital requirements as of September 30, 2017:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
As of September 30, 2017:						
Tier 1 Leverage (Core) Capital (to average assets)	$100,779	10.00%	$ 40,315	4.00 %	$50,394	5.00 %
Common Equity Tier 1 Capital (to risk weighted assets)	100,779	12.28%	36,945	4.50 %	53,364	6.50 %
Tier 1 Capital (to risk weighted assets)	100,779	12.28%	49,260	6.00 %	65,679	8.00 %
Total Risk Based Capital (to risk weighted assets)	133,549	16.27%	65,679	8.00 %	82,099	10.00 %
As of September 30, 2016:						
Tier 1 Leverage (Core) Capital (to average assets)	$91,876	11.64%	$ 31,561	4.00 %	$39,452	5.00 %
Common Equity Tier 1 Capital (to risk weighted assets)	91,876	15.37%	26,894	4.50 %	38,847	6.50 %
Tier 1 Capital (to risk weighted assets)	91,876	15.37%	35,859	6.00 %	47,812	8.00 %

Total Risk Based Capital (to risk weighted assets)	97,372	16.29 %	47,812	8.00 %	59,765	10.00 %

-100-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 - Regulatory Matters – (Continued)

The following table summarizes the Bank's compliance with applicable regulatory capital requirements as of September 30, 2017 and 2016:

(Dollars in thousands)	Actual Capital Amount	Ratio	For Capital Adequacy Purposes Capital Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Capital Amount	Ratio
As of September 30, 2017:						
Tier 1 Leverage (to average assets)	$120,902	12.02%	$ 40,234	4.00 %	$50,292	5.00 %
Common Equity Tier 1 Capital (to risk weighted assets)	120,902	14.75%	36,894	4.50 %	53,292	6.50 %
Tier 1 Capital (to risk weighted assets)	120,902	14.75%	49,192	6.00 %	65,590	8.00 %
Total Capital (to risk weighted assets)	129,369	15.78%	65,590	8.00 %	81,987	10.00 %
As of September 30, 2016:						
Tier 1 Leverage (to average assets)	$86,596	10.98%	$ 31,533	4.00 %	$39,417	5.00 %
Common Equity Tier 1 Capital (to risk weighted assets)	86,596	14.50%	26,875	4.50 %	38,820	6.50 %
Tier 1 Capital (to risk weighted assets)	86,596	14.50%	35,834	6.00 %	47,779	8.00 %
Total Capital (to risk weighted assets)	92,092	15.42%	47,779	8.00 %	59,723	10.00 %

The following table presents a reconciliation of the Bank's equity determined using accounting principles generally accepted in the United States of America ("US GAAP") and its regulatory capital amounts as of September 30, 2017 and 2016:

	September 30, 2017	2016
	(In thousands)	

Bank GAAP equity	$122,643	$90,877
Disallowed portion of deferred tax asset	(1,679)	(4,344)
Net unrealized loss (gain) on securities available for sale, net of income taxes	186	(294)
Net unrealized loss (gain) on derivatives, net of income taxes	(248)	357
Tangible Capital, Core Capital and Tier 1 Capital	120,902	86,596
Allowance for loan losses	8,467	5,496
Total Risk-Based Capital	$129,369	$92,092

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 – Comprehensive Income (Loss)

The components of accumulated other comprehensive (loss) included in shareholders' equity are as follows:

	September 30,		
	2017	2016	2015
	(In thousands)		
Net unrealized holding gains (losses) on available-for-sale securities	$(282)	$447	$(1,011)
Tax effect	96	(152)	344
Net of tax amount	(186)	295	(667)
Net unrealized holding losses on securities available-for-sale transferred to held-to-maturity	—	—	(115)
Tax effect	—	—	39
Net of tax amount	—	—	(76)
Fair value adjustment on derivatives	376	(542)	(348)
Tax effect	(128)	184	12
Net of tax amount	248	(358)	(336)
Total accumulated other comprehensive loss	$62	$(63)	$(1,079)

Other comprehensive income and related tax effects are presented in the following table:

	Year Ended September 30,		
	2017	2016	2015
	(In thousands)		
Net unrealized holding gains (losses) on available-for-sale securities	$(275)	$2,128	$2,120
Net realized gain on securities available-for-sale	(463)	(565)	(515)
Amortization of unrealized holding losses on securities available-for-sale transferred to held-to-maturity	9	9	5
Fair value adjustment on derivatives	918	(194)	(348)
Other comprehensive income before taxes	189	1,378	1,262

Tax effect	(64)	(362)	(536)
Total comprehensive income	$ 125	$ 1,016	$ 726

Note 17 – Equity Based Incentive Compensation Plan

The Company maintains the Malvern Bancorp, Inc. 2014 Long-Term Incentive Compensation Plan (the “2014 Plan”), which permits the grant of long-term incentive and other stock and cash awards. The purpose of the 2014 Plan is to promote the success of the Company and the Bank by providing incentives to officers, employees and directors of the Company and the Bank that will link their personal interests to the financial success of the Company and to growth in shareholder value. The maximum total number of shares of the Company’s common stock available for grants under the 2014 Plan is 400,000. As of September 30, 2017, there were 374,789 remaining shares available for future grants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17 - Equity Based Incentive Compensation Plan – (Continued)

Restricted stock and option awards granted during fiscal 2017 vest in 20% increments beginning on the one year anniversary of the grant date, and accelerate upon a change in control of the Company. The options generally expire ten years from the date of grant. All issuances are subject to forfeiture if the recipient leaves or is terminated prior to the awards vesting. Shares of restricted stock have the same dividend and voting rights as common stock while options do not.

All awards are issued at fair value of the underlying shares at the grant date. The Company expenses the cost of the awards, which is determined to be the fair market value of the awards at the date of grant.

During fiscal 2017 and 2016 stock options covering a total 7,000 and 5,000 shares of common stock, respectively, were granted. No options were granted in fiscal 2015. Total compensation expense related to options granted under the 2014 Plan was $10,000 for fiscal 2017 and $3,000 for fiscal 2016 and zero for fiscal 2015, respectively.

During fiscal 2017, 12,522 shares of restricted stock were awarded and 241 of those shares were forfeited. During fiscal 2016, 2,240 shares of restricted stock were awarded and 310 of those shares were forfeited. During fiscal 2015 no shares of restricted stock were awarded. The compensation expense related to restricted stock awards was approximately $100,000 for fiscal 2017 and $5,000 in fiscal 2016 and zero in fiscal 2015, respectively.

Stock-based compensation expense for the cost of the awards granted is based on the grant-date fair value. For stock option awards, the fair value is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Accordingly, while management believes that the Black-Scholes option-pricing model provides a reasonable estimate of fair value, the model does not necessarily provide the best single measure of fair value for the Company’s employee stock options.

The assumptions used in determining the fair value of stock option grants for the year ended September 30, 2017 are as follows:

Weighted average fair value of awards	$6.99	
Risk-free rate	2.17	%
Dividend yield	-	%
Volatility	28.23	%
Expected life	6.5 years	

The assumptions used in determining the fair value of stock option grants for the year ended September 30, 2016 are as follows:

Weighted average fair value of awards	$5.15	
Risk-free rate	1.45	%
Dividend yield	-	%
Volatility	28.88	%
Expected life	6.5 years	

-103-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17 - Equity Based Incentive Compensation Plan – (Continued)

The following is a summary of currently outstanding options at September 30, 2017:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Outstanding, beginning of year	5,000	16.02		1,900
Granted	7,000	$ 21.00		—
Exercised	—	—		—
Forfeited/cancelled/expired	(1,000)	16.02		4,780
Outstanding, end of year	11,000	$ 19.19	9.129	$ 83,170
Exercisable at end of year	800	16.02	8.498	8,584
Nonvested at end of year	10,200	$ 19.44	9.184	$ 74,586

The table below summarizes the activity for the Company’s restricted stock outstanding at September 30, 2017:

	Shares	Weighted Average Fair Value
Outstanding, beginning of year	1,930	17.40
Granted	12,522	$ 20.79
Vested	(3,500)	20.46
Forfeited/cancelled/expired	(241)	17.40
Outstanding, end of year	10,711	$ 20.36

As of September 30, 2017, there was $191,000 of total unrecognized compensation cost related to nonvested shares of restricted stock granted under the Plan. The cost is expected to be recognized over a weighted average period of 4.30 years. As of September 30, 2017, there was $58,000 of total unrecognized compensation cost related to nonvested options to purchase 11,000 shares of common stock under the Plan. The cost is expected to be recognized over a weighted average period of 4.24 years.

Note 18 – Subordinated Debt

On February 7, 2017, the Company issued $25.0 million in aggregate principal amount of its 6.125% fixed-to-floating rate subordinated notes due 2027 (the "Notes"). The Notes have a stated maturity of February 15, 2027, are redeemable, in whole or in part, on or after February 15, 2022, and at any time upon the occurrences of certain events. The Notes bear interest at a fixed rate of 6.125% per year, from and including February 7, 2017 to, but excluding February 15, 2022. From and including February 15, 2022 to the maturity date or earlier redemption date, the interest rate will reset quarterly at a variable rate equal to the then current 3-month LIBOR plus 414.5 basis points. The Notes were structured to qualify as Tier 2 capital for regulatory purposes. The Company's net subordinated debt totaled $24.3 million (reported net of $737,000 in debt issuance costs) at September 30, 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18 - Subordinated Debt – (continued)

The Company may not redeem the Notes prior to February 15, 2022, except that the Company may redeem the Notes at any time, at its option, in whole but not in part, subject to obtaining any required regulatory approvals, if (i) a change or prospective change in law occurs that could prevent the Company from deducting interest payable on the Notes for U.S. federal income tax purposes, (ii) a subsequent event occurs that precludes the Notes from being recognized as Tier 2 capital for regulatory capital purposes, or (iii) the Company is required to register as an investment company under the Investment Company Act of 1940, as amended, in each case, at a redemption price equal to 100% of the principal amount of the Notes plus any accrued and unpaid interest through, but excluding, the redemption date.

Note 19 – Condensed Financial Information - Parent Company Only

Condensed Statements of Financial Condition

	September 30,	
	2017	2016
	(In thousands)	
Assets		
Cash and Cash Equivalents	$7,157	$3,192
Investment in subsidiaries	122,643	90,877
Loans receivable, net	1,568	1,709
Other assets	689	418
Total Assets	$132,057	$96,196
Liabilities		
Subordinated debt	$24,303	$-
Other borrowings	5,000	-
Accrued interest payable	204	-
Accounts payable	30	39
Shareholders' Equity	102,520	96,157
Total Liabilities and Shareholders' Equity	$132,057	$96,196

Condensed Statements of Operations

	Year Ended September 30,		
	2017	2016	2015
	(In thousands)		
Income			
Interest income	$81	$116	$196
Total Interest Income	81	116	196
Expense			
Long-term borrowings	1,021	—	-
Total Interest Expense	1,021	-	-
Other operating expenses	272	189	251
Total Other Expenses	272	189	251
Total Expense	1,293	189	251
Loss before Equity in Undistributed Net Income of Subsidiaries and Income Tax Expense	(1,212)	(73)	(55)
Equity in Undistributed Net Income of Subsidiaries	6,792	12,334	4,723
Income tax (benefit) expense	(237)	111	-
Net Income	$5,817	$12,150	$4,668

-105-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19 – Condensed Financial Information - Parent Company Only (Continued)

Condensed Statements of Comprehensive Income

(In thousands)	Year Ended September 30, 2017	2016	2015
Net Income	$5,817	$12,150	$4,668
Other Comprehensive Income (Loss), Net of Tax:			
Unrealized holding gains (losses) on available-for-sale securities	(275)	2,128	2,120
Tax effect	94	(723)	(721)
Net of tax amount	(181)	1,405	1,399
Reclassification adjustment for net gains arising during the period[1]	(463)	(565)	(515)
Tax effect	157	192	175
Net of tax amount	(306)	(373)	(340)
Accretion of unrealized holding losses on securities transferred from available-for-sale to held-to-maturity[2]	9	9	5
Tax effect	(3)	(3)	(2)
Net of tax amount	6	6	3
Fair value adjustment on derivatives	918	(194)	(348)
Tax effect	(312)	172	12
Net of tax amount	606	(22)	(336)
Total other comprehensive income	125	1,016	726
Total comprehensive income	$5,942	$13,166	$5,394

[1] Amounts are included in net gain on sales of securities on the Consolidated Statements of Operations in total other income.

[2] Amounts are included in interest and dividends on investment securities on the Consolidated Statements of Operations.

-106-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19 – Condensed Financial Information - Parent Company Only (Continued)

Condensed Statements of Cash Flows

	Year Ended September 30,		
	2017	2016	2015
	(In thousands)		
Cash Flows from Operating Activities			
Net income	$5,817	$12,150	$4,668
Undistributed net income of subsidiaries	(6,792)	(12,334)	(4,722)
Deferred income taxes, net	-	-	84
ESOP shares committed to be released	311	242	195
Stock based compensation	110	-	-
Amortization of subordinated debt issuance cost	39	-	-
(Increase) decrease in other assets	(620)	(2,629)	239
Increase (decrease) in other liabilities	196	18	(27)
Net Cash (Used in) Provided by Operating Activities	(939)	(2,553)	437
Cash Flows from Investing Activities			
Proceeds from maturities and principal collection on investments held to maturity	-	287	511
Calls, sales of investment securities	-	-	1,812
Loan originations and principal collections, net	140	133	127
Net Cash Provided by Investing Activities	140	420	2,450
Cash Flows from Financing Activities			
Net proceeds from issuance of subordinated debt	24,264	-	-
Capitalization from Bancorp to Malvern Federal Savings Bank	(24,500)	-	-
Proceeds from other borrowings	10,000	-	-
Repayment of borrowings	(5,000)	-	-
Net Cash Provided by Financing Activities	4,764	-	-
Net (Decrease) Increase in Cash and Cash Equivalents	3,965	(2,133)	2,887
Cash and Cash Equivalents - Beginning	3,192	5,325	2,438
Cash and Cash Equivalents - Ending	$7,157	$3,192	$5,325
Supplementary Cash Flows Information			
Non-cash transfer of investment securities from Parent Company to Bank	$-	$5,475	$-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20 – Quarterly Financial Information of Malvern Bancorp Inc. (Unaudited)

The following tables are a summary of certain quarterly financial data for the fiscal years ended September 30, 2017 and 2016.

	2017			
	4th Quarter	**3rd Quarter**	**2nd Quarter**	**1st Quarter**
	(Dollars in thousands, except per share data)			
Total Interest and Dividend Income	9,529	$8,973	$8,175	$7,105
Total Interest Expense	2,822	2,574	2,184	1,866
Net Interest Income	6,707	6,399	5,991	5,239
Provision for Loan Losses	489	645	997	660
Total Other Income	532	814	542	453
Total Other Expenses	3,813	3,986	3,778	3,570
Income before income tax expense	2,937	2,582	1,758	1,462
Income tax expense	982	863	588	489
Net Income	$1,955	$1,719	$1,170	$973
Earnings Per Common Share:				
Basic	$0.30	$0.27	$0.18	$0.15
Diluted	$0.30	$0.27	$0.18	0.15
Weighted Average Common Shares Outstanding				
Basic	6,441,731	6,443,515	6,427,309	6,418,583
Diluted	6,445,151	6,445,288	6,427,932	6,419,012

	2016			
	4th Quarter	**3rd Quarter**	**2nd Quarter**	**1st Quarter**
	(Dollars in thousands, except per share data)			
Total Interest and Dividend Income	6,817	$6,530	$6,210	$5,687
Total Interest Expense	1,796	1,750	1,710	1,476
Net Interest Income	5,021	4,780	4,500	4,211
Provision for Loan Losses	100	472	375	—
Total Other Income	615	659	501	558
Total Other Expenses	3,759	3,378	3,360	3,425
Income before income tax benefit	1,777	1,589	1,266	1,344

Income tax benefit	(6,174)	—	—	—
Net Income	$7,951	$1,589	$1,266	$1,344
Earnings Per Common Share:				
Basic	$1.24	$0.25	$0.20	$0.21
Diluted	1.24	$0.25	$0.20	n/a
Weighted Average Common Shares Outstanding				
Basic	6,415,049	6,411,766	6,408,167	6,402,332
Diluted	6,415,207	6,411,804	6,408,167	n/a

Note 21 – Subsequent Event

On December 27, 2017, the Company sold its branch location in Exton, Pennsylvania to an unrelated third party. The Company intends to lease the branch location for a period of time while the Company relocates the office within Exton, Pennsylvania. We are in the process of assessing the accounting for this transaction.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not Applicable.

Item 9A. Controls and Procedures.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of September 30, 2017. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of September 30, 2017, because of the material weakness described below.

Management's Annual Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Securities and Exchange Act of 1934 Rules 13(a)-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. An adequate system of internal control encompasses the processes and procedures that have been established by management to, among other things:

- Maintain records that accurately reflect the Company's transactions;

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- Prepare financial statements and footnote disclosures in accordance with GAAP that can be relied upon by external users;

- Prevent and detect unauthorized acquisition, use or disposition of the Company's assets that could have a material effect of the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, the application of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that compliance with the policies or procedures may deteriorate.

As we previously disclosed, in November 21, 2017, we were advised by BDO USA, LLP ("BDO"), our independent registered public accounting firm, that BDO had concluded that a material weakness in our internal controls over financial reporting existed, and that BDO's report on the effectiveness of the Company's internal control over financial reporting as of September 30, 2016 in Item 9A of the Company's fiscal 2016 10-K that the Company' internal control over financial reporting was effective as of September 30, 2016, should no longer be relied upon. BDO also informed us at that time that BDO's audit report on the Company's consolidated financial statements as of September 30, 2016 and 2015, and for each of the years in the two year period ended September 30, 2016, and BDO's completed interim reviews of the Company's consolidated interim financial statements as of and for the periods ended December 31, 2016, March 31, 2017 and June 30, 2017 (collectively, the "Specified Financial Statements"), should no longer be relied upon. We have restated the Specified Financial Statements, which were included in amendments to the Company's fiscal 2016 10-K and 10-Qs for the first three quarters of fiscal 2017 that we have filed with the SEC.

The matters described above related to our income tax account balances. Management has implemented a more formal review and documentation process around the accounting for income tax which management believes will strengthen the Company's overall internal control over financial reporting.

Management, including the Chief Executive Officer and Chief Financial Officer, conducted a review, evaluation and testing of the effectiveness of the Company’s controls over financial reporting based on the 2013 framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Management concluded that because of the matter described above, the Company’s internal control over financial reporting was not effective as of September 30, 2017. Management believes that the material weakness described above has been remediated as of the filing of this Annual Report on Form 10-K.

The effectiveness of our internal control over financial reporting as of September 30, 2017, has been audited by BDO, our independent registered public accounting firm as stated in their report which appears herein.

Changes in Internal Control Over Financial Reporting

Other than as described above, there have been no changes in our internal control over financial reporting during the fourth quarter of fiscal 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

Malvern Bancorp, Inc. and Subsidiaries

Paoli, Pennsylvania

We have audited Malvern Bancorp, Inc. and subsidiaries (the “Company”) internal control over financial reporting as of September 30, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Malvern Bancorp, Inc.’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, “Management’s Annual Report on Internal Control over Financial Reporting”. Our responsibility is to express an opinion on the company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness regarding accounting for income taxes has been identified and described in management's assessment. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2017 financial statements, and this report does not affect our report dated December 29, 2017, on those consolidated financial statements.

In our opinion, Malvern Bancorp, Inc. and subsidiaries did not maintain, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on the COSO criteria. We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions to be taken by the Company after the date of management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of Malvern Bancorp, Inc. as of September 30, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended September 30, 2017 and our report dated December 29, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Philadelphia, Pennsylvania

December 29, 2017

Item 9B. Other Information.

Not applicable.

PART III.

Item 10. Directors, Executive Officers and Corporate Governance.

The information required herein is incorporated by reference from the information contained in the sections captioned "Information with Respect to Nominees for Director, Continuing Directors and Executive Officers" and "Beneficial Ownership of Common Stock by Certain Beneficial Owners and Management – Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive proxy statement for the Annual Meeting of Shareholders to be held in February 2018 (the "Proxy Statement").

The Company has adopted a Code of Conduct and Ethics that applies to its principal executive officer and principal financial officer, as well as other officers and employees of the Company and the Bank. A copy of the Code of Ethics is available on the Company's website at *www.malvernfederal.com*.

Item 11. Executive Compensation.

The information required herein is incorporated by reference from the information contained in the sections captioned "Management Compensation" in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.

Equity Compensation Plan Information. The following table provides information about the Company's common stock that may be issued upon the exercise of stock options under our 2014 Long-Term Incentive Compensation Plan (the "2014 Plan") as of September 30, 2017. The 2014 Plan permits the grant of equity awards and other awards, including stock options and restricted stock.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	11,000	$ 19.19	374,789
Equity compensation plans not approved by security holders	-	-	-
Total	11,000	$ 19.19	374,789

The remaining information required herein is incorporated by reference from the information contained in the section captioned "Beneficial Ownership of Common Stock by Certain Beneficial Owners and Management" in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required herein is incorporated by reference from the information contained in the sections captioned “Management Compensation – Related Party Transactions” and “Information with Respect to Nominees for Director, Continuing Directors and Executive Officers” in the Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required herein is incorporated by reference from the information contained in the section captioned “Ratification of Appointment of Independent Registered Public Accounting Firm Proposal– Audit Fees” in the Proxy Statement.

PART IV.

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) The following financial statements are incorporated by reference from Item 8 hereof:

Report of Independent Registered Public Accounting Firm
Consolidated Statements of Financial Condition
Consolidated Statements of Operations
Consolidated Statements of Comprehensive Income (Loss)
Consolidated Statements of Changes in Shareholders’ Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

(2) All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits

The following exhibits are filed as part of this Form 10-K and this list includes the Exhibit Index.

No.	Description	Location
3.1	Amended and Restated Articles of Incorporation of Malvern Bancorp, Inc.	(1)
3.2	Amended and Restated Bylaws of Malvern Bancorp, Inc.	(2)
4.1	Form of Stock Certificate of Malvern Bancorp, Inc.	(3)
4.2	Indenture, dated February 7, 2017, by and between Malvern Bancorp, Inc. and U.S. Bank National Association, as trustee	(4)
4.3	Forms of 6.125% Subordinated Note due 2027 (included as Exhibit A-1 and Exhibit A-2 to the Indenture referenced above)	
10.1	Malvern Bancorp 2014 Long Term Incentive Plan*	(5)
10.2	Employment Agreement, dated June 23, 2016, with Anthony C. Weagley*	(6)
10.3	Change of Control Agreement, dated May 23, 2016, with Joseph D. Gangemi*	(7)
10.4	Change of Control Agreement, dated May 23, 2016, with William Woolworth*	(8)
10.5	Change of Control Agreement with William Boylan*	(9)
10.6	Amended and Restated Employment Agreement, dated May 25, 2017, among Malvern Bancorp, Inc., Malvern Federal Savings Bank and Anthony C. Weagley*	(10)
10.7	Amendment to Change in Control Agreement, dated May 25, 2017, between Joseph Gangemi and Malvern Federal Savings Bank, including his Non-Competition, Non-Solicitation, Confidentiality and Cooperation Agreement*	(11)
10.8	Employment Agreement, dated May 25, 2017, among Malvern Bancorp, Inc., Malvern Federal Savings Bank and William J. Boylan, including his Non-Competition, Non-Solicitation, Confidentiality and Cooperation Agreement*	(12)
21.1	Subsidiaries of the Registrant	Filed herewith
23.0	Consent of BDO USA, LLP	Filed herewith
31.1	Rule 13(a)-14(a) Certification of the Chief Executive Officer	Filed herewith
31.2	Rule 13(a)-14(a) Certification of the Chief Financial Officer	Filed herewith
32.0	Section 1350 Certification	Filed herewith
101.INS	XBRL Instance Document. **	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document.**	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.**	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.**	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.**	

		Filed herewith
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.**	Filed herewith

* Denotes a management contract or compensatory plan or arrangement.

** Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statement of Financial Condition at September 30, 2017 and 2016, (ii) the Consolidated Statement of Operations for the years ended September 30, 2017, 2016 and 2015, (iii) the Consolidated Statement of Comprehensive Income (Loss) for the years ended September 30, 2017, 2016 and 2015, (iv) the Consolidated Statement of Changes in Shareholders' Equity for the years ended September 30, 2017, 2016 and 2015, (v) the Consolidated Statement of Cash Flows for the years ended September 30, 2017, 2016 and 2015 and (vi) the Notes to Condensed Consolidated Financial Statements, tagged as detailed footnote tagging.

(1) Incorporated by reference from Exhibit 3.1 to the Current Report on Form 8-K of Malvern Bancorp, Inc. filed with the SEC on February 17, 2017.

(2) Incorporated by reference from Exhibit 3.2 to the Current Report on Form 8-K of Malvern Bancorp, Inc. filed with the SEC on February 17, 2017.

(3) Incorporated by reference from Exhibit 4.0 to Malvern Bancorp, Inc.'s Registration Statement Form S-1, filed May 31, 2012 (SEC File No. 333-181798).

(4) Incorporated by reference from Exhibit 10.1 to Malvern Bancorp, Inc.'s Current Report on Form 8-K, filed on February 8, 2017.

(5) Incorporated by reference from Appendix A of the definitive proxy statement filed by Malvern Bancorp, Inc. with the SEC on January 2, 2015.

(6) Incorporated by reference from Exhibit 10.1 to Malvern Bancorp, Inc.'s Current Report on Form 8-K, filed on May 20, 2015.

(7) Incorporated by reference from Exhibit 10.1 to Malvern Bancorp, Inc.'s Current Report on Form 8-K, filed on May 27, 2016.

(8) Incorporated by reference from Exhibit 10.2 to Malvern Bancorp, Inc.'s Current Report on Form 8-K, dated as of May 15, 2015, and filed on May 27, 2016.

(9) Incorporated by reference from Exhibit 10.1 to Malvern Bancorp, Inc.'s Current Report on Form 8-K, filed on May 20, 2015.

(10) Incorporated by reference from Exhibit 10.1 to Malvern Bancorp, Inc.'s Current Report on Form 8-K, filed on June 1, 2017.

(11) Incorporated by reference from Exhibit 10.2 to Malvern Bancorp, Inc.'s Current Report on Form 8-K, filed on June 1, 2017.

(12) Incorporated by reference from Exhibit 10.3 to Malvern Bancorp, Inc.'s Current Report on Form 8-K, filed on June 1, 2017.

Item 16. Form 10-K Summary.

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	MALVERN BANCORP, INC.
December 29, 2017 By:	/s/ Anthony C. Weagley Anthony C. Weagley President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities described below on December 29, 2017, have signed this report below.

/s/ Anthony C. Weagley Anthony C. Weagley	Director, President and Chief Executive Officer (principal executive officer)
/s/ Howard Kent Howard Kent	Chairman of the Board
/s/ Therese Woodman Therese Woodman	Vice Chairman of the Board
/s/ Cynthia Felzer Leitzell Cynthia Felzer Leitzell	Director
/s/ Norman Feinstein Norman Feinstein	Director
/s/Andrew Fish Andrew Fish	Director
/s/ Stephen P. Scartozzi Stephen P. Scartozzi	Director
/s/ George E. Steinmetz George E. Steinmetz	Director
/s/ Joseph D. Gangemi	Senior Vice President and Chief Financial Officer

Joseph D. Gangemi (principal financial and accounting officer)