MALVERN FEDERAL BANCORP INC
Form 10-Q
August 12, 2011

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

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: June 30, 2011

or

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

Commission File Number: 001-34051

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

United States (State or Other Jurisdiction of Incorporation or Organization)	38-3783478 (I.R.S. Employer Identification Number)
42 E. Lancaster Avenue, Paoli, Pennsylvania (Address of Principal Executive Offices)	19301 (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date: As of August 12, 2011, 6,102,500 shares of the Registrant's common stock were issued and outstanding.

MALVERN FEDERAL BANCORP, INC.

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

	June 30, 2011	September 30, 2010
	(Dollars in thousands, except per share data)	
Assets		
Cash and due from depository institutions	$ 10,095	$ 15,045
Interest bearing deposits in depository institutions	18,504	66,350
Cash and Cash Equivalents	28,599	81,395
Investment securities available for sale, at fair value	76,769	40,719
Investment securities held to maturity (fair value of $4,020 and $4,925 respectively)	3,859	4,716
Restricted stock, at cost	5,630	6,567
Loans receivable, net of allowance for loan losses of $10,046 and $8,157, respectively	517,750	547,323
Other real estate owned	6,138	5,315
Accrued interest receivable	2,068	2,113
Property and equipment, net	8,348	8,765
Deferred income taxes, net	7,050	4,462
Bank-owned life insurance	14,626	14,213
Other assets	3,101	4,918
Total Assets	$ 673,938	$ 720,506
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Deposits-noninterest-bearing	$ 18,972	$ 18,503
Deposits-interest-bearing	539,677	578,355
Total Deposits	558,649	596,858
FHLB advances	49,349	55,334
Advances from borrowers for taxes and insurance	2,887	585
Accrued interest payable	233	267
Other liabilities	1,932	1,255
Total Liabilities	613,050	654,299
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:		

6,102,500	62	62
Additional paid-in capital	25,902	25,912
Retained earnings	37,670	42,830
Treasury stock—at cost, 50,000 shares	(477)	(477)
Unearned Employee Stock Ownership Plan (ESOP) shares	(2,214)	(2,299)
Accumulated other comprehensive income (loss)	(55)	179
Total Shareholders' Equity	60,888	66,207
Total Liabilities and Shareholders' Equity	$ 673,938	$ 720,506

See notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in thousands, except per share data)			
Interest and Dividend Income				
Loans, including fees	$7,034	$7,983	$21,398	$24,345
Investment securities, taxable	384	253	1,104	738
Investment securities, tax-exempt	6	6	21	27
Interest-bearing cash accounts	6	9	25	24
Total Interest and Dividend Income	7,430	8,251	22,548	25,134
Interest Expense				
Deposits	1,997	2,424	6,529	7,695
Short-term borrowings	-	-	-	8
Long-term borrowings	431	824	1,310	2,862
Total Interest Expense	2,428	3,248	7,839	10,565
Net Interest Income	5,002	5,003	14,709	14,569
Provision for Loan Losses	600	1,050	10,642	5,632
Net Interest Income after Provision for Loan Losses	4,402	3,953	4,067	8,937
Other Income				
Service charges and other fees	229	270	700	1,029
Rental income	66	63	196	191
Gain (loss) on sale of other real estate owned, net	3	(156)	(4)	(173)
Earnings on bank-owned life insurance	136	142	413	419
Total Other Income	434	319	1,305	1,466
Other Expense				
Salaries and employee benefits	1,633	1,647	4,790	4,780
Occupancy expense	538	432	1,647	1,372
Federal deposit insurance premium	313	226	1,016	1,094
Advertising	160	174	585	613
Data processing	279	389	841	1,165
Professional fees	433	243	1,277	761
Other real estate owned expense	656	234	1,889	1,027
Other operating expenses	464	563	1,389	1,395
Total Other Expenses	4,476	3,908	13,434	12,207
Income (Loss) before income tax (benefit) expense	360	364	(8,062)	(1,804)

Income tax (benefit) expense	(4)	77	(2,983)	(878)
Net Income (Loss)	$364	$287	$(5,079)	$(926)
Basic Earnings (Loss) Per Share	$0.06	$0.05	$(0.86)	$(0.16)
Dividends Declared Per Share	$0.00	$0.03	$0.03	$0.09

See notes to unaudited consolidated financial statements.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	(Dollars in thousands, except share and per share data)						
Balance, October 1, 2009	$62	$25,937	$46,286	$(19)	$(2,445)	$ 21	$ 69,842
Comprehensive Loss:							
Net Loss	-	-	(926)	-	-	-	(926)
Net change in unrealized gain on securities available for sale, net of taxes and reclassification adjustment and tax effect	-	-	-	-	-	125	125
Total Comprehensive Loss	-	-	-	-	-	-	(801)
Treasury stock purchased (48,000 shares)	-	-	-	(458)	-	-	(458)
Cash dividends declared ($0.09 per share)	-	-	(245)	-	-	-	(245)
Committed to be released ESOP shares (10,053 shares)	-	(15)	-	-	109	-	94
Balance, June 30, 2010	$62	$25,922	$45,115	$(477)	$(2,336)	$ 146	$ 68,432
Balance, October 1, 2010	$62	$25,912	$42,830	$(477)	$(2,299)	$ 179	$ 66,207
Comprehensive Loss:							
Net Loss	-	-	(5,079)	-	-	-	(5,079)
Net Change in unrealized loss on securities available for sale, net of taxes	-	-	-	-	-	(234)	(234)
Total Comprehensive	-	-	-	-	-	-	(5,313)

Loss							
Cash dividends declared ($0.03 per share)	-	-	(81)	-	-	-	(81)
Committed to be released ESOP shares (10,053 shares)	-	(10)	-	-	85	-	75
Balance, June 30, 2011	$62	$25,902	$37,670	$(477)	$(2,214)	$ (55)	$ 60,888

See notes to unaudited consolidated financial statements.

Malvern Federal Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended June 30, 2011	2010
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net loss	$(5,079)	$(926)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation expense	635	598
Provision for loan losses	10,642	5,632
Deferred income taxes benefit	(2,475)	(1,909)
ESOP expense	75	94
Amortization (accretion) of premiums and discounts on investments securities, net	(61)	(152)
Amortization (accretion) of mortgage servicing rights	(18)	155
Loss on sale of other real estate owned	4	173
Write down of other real estate owned	1,448	865
Amortization of loan origination fees and costs	(719)	(591)
Decrease in accrued interest receivable	45	132
Decrease in accrued interest payable	(34)	(365)
Increase (decrease) in other liabilities	677	(1,991)
Earnings on bank-owned life insurance	(413)	(419)
Decrease in other assets	863	288
Decrease (increase) in prepaid FDIC assessment	973	(2,372)
Net Cash Provided by (Used in) Operating Activities	6,563	(788)
Cash Flows from Investing Activities		
Proceeds from maturities and principal collections:		
Investment securities held to maturity	888	122
Investment securities available for sale	18,692	13,834
Purchases of investment securities available for sale	(55,060)	(15,578)
Loan purchases	(23,942)	(17,368)
Loan originations and principal collections, net	36,686	34,393
Proceeds from sale of other real estate owned	4,631	1,241
Net decrease in FHLB stock	937	-
Purchases of property and equipment	(218)	(390)
Net Cash (Used in) Provided by Investing Activities	(17,386)	16,254
Cash Flows from Financing Activities		
Net (decrease) increase in deposits	(38,209)	34,399
Proceeds from long-term borrowings	-	3,000
Repayment of long-term borrowings	(5,985)	(31,688)
Increase in advances from borrowers for taxes and insurance	2,302	1,749
Cash dividends paid	(81)	(245)
Treasury stock purchased	-	(458)
Net Cash (Used in) Provided by Financing Activities	(41,973)	6,757

Net (Decrease) Increase in Cash and Cash Equivalents	(52,796)	22,223
Cash and Cash Equivalents - Beginning	81,395	25,325
Cash and Cash Equivalents - Ending	$28,599	$47,548
Supplementary Cash Flows Information		
Interest paid	$7,874	$10,930
Income taxes paid	$7	$831
Non-cash transfer of loans to other real estate owned	$6,906	$2,327

See notes to unaudited consolidated financial statements.

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

Note 1 – Organizational Structure and Nature of Operations

Malvern Federal Bancorp, Inc. (the "Company") and its subsidiaries, Malvern Federal Holdings, Inc., a Delaware investment company, and Malvern Federal Savings Bank (the "Bank") and the Bank's subsidiaries, Strategic Asset Management Group, Inc. ("SAMG") and Malvern Federal Investments, Inc., a Delaware investment company, provide various banking services, primarily the accepting of deposits and the origination of residential and commercial mortgage loans and consumer loans and other loans through the Bank's eight full-service branches in Chester and Delaware Counties, Pennsylvania. SAMG owns 50% of Malvern Insurance Associates, LLC. Malvern Insurance Associates, LLC offers a full line of business and personal lines of insurance products. As of June 30, 2011 and September 30, 2010, SAMG's total assets were \$43,589 and \$34,709, respectively. The net income of SAMG for the three months and nine months ended June 30, 2011 was \$1,213 and \$7,696, respectively. There was no income reported for SAMG for the three and nine months ended June 30, 2010. The Company is subject to competition from various other financial institutions and financial services companies. The Company is also subject to the regulations of certain federal and state agencies and, therefore, undergoes periodic examinations by those regulatory agencies.

In accordance with the subsequent events topic of the FASB Accounting Standards Codification (the "Codification" or the "ASC"), the Company evaluates events and transactions that occur after the statement of financial condition date for potential recognition and disclosure in the consolidated financial statements. The effect of all subsequent events that provide additional evidence of conditions that existed at the balance sheet date are recognized in the unaudited consolidated financial statements as of June 30, 2011.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements at June 30, 2011, and September 30, 2010 and for the three and nine months ended June 30, 2011 and 2010 include the accounts of Malvern Federal Bancorp, Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all the information or footnotes necessary for a complete presentation of financial condition, operations, changes in shareholders' equity, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements have been included. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Malvern Federal Bancorp, Inc. and the accompanying notes thereto for the year ended September 30, 2010, which are included in the Company's Annual Report on Form 10-K for the year ended September 30, 2010. The results for the three and nine months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2011, or any other period.

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Significant Group Concentrations of Credit Risk

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

Cash and Cash Equivalents

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

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

Investment Securities

Debt securities held to maturity are securities that the Company has the positive intent and the ability to hold to maturity; these securities are reported at amortized cost and adjusted for unamortized premiums and discounts. Securities held for trading are securities that are bought and held principally for the purpose of selling in the near term; these securities are reported at fair value, with unrealized gains and losses reported in current earnings. At June 30, 2011 and September 30, 2010, 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. 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.

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Loans Receivable

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

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

The 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.

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

Note 2 – Summary of Significant Accounting Policies (Continued)

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. The reserve for unfunded lending commitments represents 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 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.

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, an allowance is established 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 and 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. The effect of external factors, such as competition and legal and regulatory requirements.

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.

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

Note 2 – Summary of Significant Accounting Policies (Continued)

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 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."

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 15 to 30 years. We also offer adjustable rate mortgage ("ARM") loans where the interest rate either adjusts on an annual basis or is fixed for the initial one, three or five years and then adjusts annually. However, due to local market conditions, we have not originated a significant amount of ARM loans in recent years.

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 Loans. During fiscal 2010, the Company generally ceased originating any new construction and development loans. Previously, we originated construction loans for residential and, to a lesser extent, commercial uses within our market area. We generally limited construction loans to builders and developers with whom we had an established relationship, or who were otherwise known to officers of the Bank. 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 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.

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Commercial Lending. During fiscal 2010, the Company generally ceased originating new commercial or multi-family real estate mortgage loans and we are no longer purchasing whole loans or participation interests in loans from other financial institutions. 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 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.

Consumer Lending Activities. 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 by the Bank's Asset Classification Committee and the Bank's Board of Directors.

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, which may not be currently available to management. 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.

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

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

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 on accrual status whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary elimination of principal payments, a reduction in interest rate or an extension of a loan's stated maturity date. 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 accrue interest on troubled debt restructurings which were performing prior to the restructure and continue to perform in accordance with their restructured terms.

Loan Servicing

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

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

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Other Real Estate Owned

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

Restricted Stock

Restricted stock represents required investments in the common stock of a correspondent bank and is carried at cost. As of June 30, 2011 and September 30, 2010, restricted stock consists solely of the common stock of the Federal Home Loan Bank of Pittsburgh ("FHLB"). In 2008, the FHLB notified member banks that it was suspending dividend payments and the repurchase of capital stock.

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

Property and Equipment

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

Transfers of Financial Assets

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

Bank-Owned Life Insurance

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

Advertising Costs

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

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Income Taxes

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

As required by ASC 740, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

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.

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

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2011	2010	2011	2010

	(Dollars in thousands)			
Unrealized holding gains (losses) on available for sale securities	$900	$142	$(347)	$189
Reclassification adjustment for gains included in operations	-	-	-	-
Net Unrealized Gains (Losses)	900	142	(347)	189
Income tax effect	(311)	(48)	113	(64)
Net of Tax Amount	$589	$94	$(234)	$125

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, "Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income," ("ASU 2011-05") which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. The adoption of ASU 2011-05 will not have an impact on the Company's statements of operations, financial condition or cash flows as it only requires a change in the format of the current presentation.

In May 2011 the FASB issued ASU No. 2011-04, "Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 represents the converged guidance of the FASB and the IASB (the "Boards") on fair value measurements. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value." The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and IFRS. The amendments in this ASU are required to be applied prospectively, and are effective for interim and annual periods beginning after December 15, 2011. The Company does not expect that the adoption of ASU 2011-04 will have a significant impact on the Company's statements of operations and financial condition.

In April 2011, the FASB issued ASU No. 2011-02, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring." The provisions of ASU No. 2011-02 provide additional guidance related to determining whether a creditor has granted a concession, include factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibit creditors from using the borrower's effective rate test to evaluate whether a concession has been granted to the borrower, and add factors for creditors to use in determining whether a borrower is experiencing financial difficulties. A provision in ASU No. 2011-02 also ends the FASB's deferral of the additional disclosures about troubled debt restructurings as required by ASU No. 2010-20. The provisions of ASU No. 2011-02 are effective for interim and annual periods beginning on or after June 15, 2011. The Company does not expect that the adoption of ASU No. 2011-02 will have a material impact on the Company's statements of operations and financial condition.

In January 2011, the FASB issued ASU 2011-01 "Receivables" (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructuring in Update in No. 2010-20." The amendment in this update temporarily delayed the effective date of the disclosures about troubled debt restructurings in update 2010-20.

In July 2010, the FASB issued ASU No. 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," which required the Company to provide a greater level of disaggregated information about the credit quality of the Company's loans and leases and the Allowance for Loan and Lease Losses (the "Allowance"). This ASU also requires the Company to disclose additional information related to credit quality indicators, past due information, and information related to loans modified in a troubled debt restructuring. The provisions of this ASU are effective for the Company's reporting period ending September 30, 2010. As this ASU amends only the disclosure requirements for loans and leases and the Allowance, the adoption had no impact on the Company's statements of operations and financial condition.

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

Note 2 – Summary of Significant Accounting Policies (Continued)

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements." ASU 2010-06 revised two disclosure requirements concerning fair value measurements and clarified two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It also required the presentation of purchases, sales, issuances, and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. The Company's disclosures about fair value measurements are presented in Note 10: Fair Value Measurements in the notes to the Company's audited financial statements included in Item 8 of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2010. These new disclosure requirements were effective for the period ended December 31, 2010, except for the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. There was no significant effect to the Company's financial statement disclosure upon adoption of this ASU.

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. As of June 30, 2011 and for the three and nine months ended June 30, 2011 and 2010 the Company had not issued and did not have any outstanding CSEs and at the present time, the Company's capital structure has no potential dilutive securities. For the three and nine months ended June 30, 2011 and 2010, basic earnings per share are shown below.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in thousands, except per share data)			
Net Income (Loss)	$364	$287	$(5,079)	$(926)
Average common shares outstanding	6,102,500	6,122,756	6,102,500	6,122,533
Average unearned ESOP shares	(201,510)	(214,921)	(204,876)	(218,282)
Weighted average shares outstanding – basic	5,900,990	5,907,835	5,897,624	5,904,251
Earnings (Loss) per share – basic	$0.06	$0.05	$(0.86)	$(0.16)

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

Note 4 – Employee Stock Ownership Plan

The Company established an employee stock ownership plan ("ESOP") for substantially all of its full-time employees. Certain senior officers of the Bank have been designated as Trustees of the ESOP. Shares of the Company's common stock purchased by the ESOP are held until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each such participant's base compensation to the total base compensation of all eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to additional paid-in capital. During the period from May 20, 2008 to September 30, 2008, the ESOP purchased 241,178 shares of the Company's common stock for approximately $2.6 million, an average price of $10.86 per share, which was funded by a loan from Malvern Federal Bancorp, Inc. The ESOP loan is being repaid principally from the Bank's contributions to the ESOP. The loan, which bears an interest rate of 5%, is being repaid in quarterly installments through 2026. Shares are released to participants proportionately as the loan is repaid. During the three and nine months ended June 30, 2011, there were 3,351 and 10,053 shares committed to be released, respectively. During the three and nine months ended June 30, 2010, there were 3,351 and 10,053 shares committed to be released, respectively. At June 30, 2011, there were 199,851 unallocated shares held by the ESOP which had an aggregate fair value of approximately $1.5 million.

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

Note 5 - Investment Securities

At June 30, 2011 and September 30, 2010, all of the Company's mortgage-backed securities consisted of securities backed by residential mortgage loans.

Investment securities available for sale at June 30, 2011 and September 30, 2010 consisted of the following:

	June 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. government obligations	$4,998	$7	$-	$5,005
U.S. government agencies	22,705	26	(225)	22,506
FHLB notes	13,995	4	(74)	13,925
State and municipal obligations	1,198	27	(18)	1,207
Single issuer trust preferred security	1,000	-	(177)	823
Corporate debt securities	2,189	26	-	2,215
	46,085	90	(494)	45,681
Mortgage-backed securities:				
FNMA:				
Adjustable-rate	2,628	138	-	2,766
Fixed-rate	1,059	55	-	1,114
FHLMC:				
Adjustable-rate	679	22	-	701
Fixed-rate	350	29	-	379
GNMA, adjustable-rate	153	4	-	157
CMO, fixed-rate	25,890	169	(88)	25,971
	30,759	417	(88)	31,088
	$76,844	$507	$(582)	$76,769

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

Note 5 - Investment Securities (Continued)

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. government obligations	$4,997	$-	$-	$4,997
U.S. government agencies	12,706	41	(2)	12,745
FHLB notes	2,999	10	-	3,009
State and municipal obligations	1,199	26	(18)	1,207
Single issuer trust preferred security	1,000	-	(241)	759
Corporate debt securities	1,451	25	(1)	1,475
	24,352	102	(262)	24,192
Mortgage-backed securities:				
FNMA:				
Adjustable-rate	3,330	158	-	3,488
Fixed-rate	1,478	60	-	1,538
FHLMC:				
Adjustable-rate	849	24	-	873
Fixed-rate	475	37	-	512
GNMA, adjustable-rate	165	4	-	169
CMO, fixed-rate	9,798	179	(30)	9,947
	16,095	462	(30)	16,527
	$40,447	$564	$(292)	$40,719

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

Note 5 - Investment Securities (Continued)

Investment securities held to maturity at June 30, 2011 and September 30, 2010 consisted of the following:

	June 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Mortgage-backed securities:				
GNMA, Adjustable-rate	$241	$9	$-	$250
GNMA, Fixed-rate	1	-	-	1
FNMA, Fixed-rate	3,617	152	-	3,769
	$3,859	$161	$-	$4,020

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Mortgage-backed securities:				
GNMA, Adjustable-rate	$265	$9	$-	$274
GNMA, Fixed-rate	1	-	-	1
FNMA, Fixed-rate	4,450	200	-	4,650
	$4,716	$209	$-	$4,925

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

Note 5 - Investment Securities (Continued)

The following tables summarize the aggregate investments at June 30, 2011 and September 30, 2010 that were in an unrealized loss position.

	June 30, 2011					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Investment Securities Available for Sale:						
U.S. government obligations and agencies	$13,460	$(225)	$-	$-	$13,460	$(225)
State and municipal obligations	-	-	27	(18)	27	(18)
FHLB notes	6,424	(74)	-	-	6,424	(74)
Single issuer trust preferred security	-	-	823	(177)	823	(177)
Mortgage-backed securities:						
CMO, fixed-rate	13,021	(88)	-	-	13,021	(88)
	$32,905	$(387)	$850	$(195)	$33,755	$(582)

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

Note 5 - Investment Securities (Continued)

	September 30, 2010					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Investment Securities Available for Sale:						
U.S. government agencies	$1,996	$(2)	$-	$-	$1,996	$(2)
State and municipal obligations	-	-	27	(18)	27	(18)
Single issuer trust preferred security	-	-	759	(241)	759	(241)
Corporate debt securities	499	(1)	-	-	499	(1)
Mortgage-backed securities:						
CMO, fixed-rate	967	(30)	-	-	967	(30)
	$3,462	$(33)	$786	$(259)	$4,248	$(292)

As of June 30, 2011, 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 June 30, 2011, the Company held 14 U.S. government agency securities, six FHLB notes, one tax-free municipal bond, 15 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 June 30, 2011 represents other-than-temporary impairment.

During the nine months ended June 30, 2011, the gross unrealized loss of the single issuer trust preferred security improved by $64,000 from an unrealized loss at September 30, 2010 of $241,000 to an unrealized loss of $177,000 as of June 30, 2011. The historic changes in the economy and interest rates have caused the pricing of agency securities, mortgage-backed securities, and trust preferred securities to widen dramatically over U.S. Treasury securities into the June 2011 quarter, but slight signs of improvement have recently occurred that have slightly stabilized the market. Management will continue to monitor the performance of this security and the markets to determine the true economic value of this security.

At June 30, 2011 and September 30, 2010 the Company had no securities pledged to secure public deposits.

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

Note 5 - Investment Securities (Continued)

The amortized cost and fair value of debt securities by contractual maturity at June 30, 2011 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Within 1 year	$21,342	$21,207	$-	$-
Over 1 year through 5 years	20,753	20,684	-	-
After 5 years through 10 years	-	(18)	-	-
Over 10 years	3,990	3,808		
	46,085	45,681	-	-
Mortgage-backed securities	30,759	31,088	3,859	4,020
	$76,844	$76,769	$3,859	$4,020

Note 6 - Loans Receivable and Related Allowance for Loan Losses

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

	June 30, 2011	September 30, 2010
	(Dollars in thousands)	
Residential mortgage	$ 227,015	$ 230,966
Construction and Development:		
Residential and commercial	26,593	30,429
Land	2,724	2,989
Total Construction and Development	29,317	33,418
Commercial:		
Commercial real estate	139,507	143,095
Multi-family	5,314	6,493
Other	11,157	11,398
Total Commercial	155,978	160,986
Consumer:		
Home equity lines of credit	21,441	19,927
Second mortgages	90,267	105,825
Other	778	1,086
Total Consumer	112,486	126,838
Total loans	524,796	552,208
Deferred loan costs, net	3,000	3,272

Allowance for loan losses		(10,046)		(8,157)
Total loan receivable, net	$	517,750	$	547,323

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

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

The following table summarizes the primary classes of the allowance for loan losses (“ALLL”), segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of June 30, 2011. Activity in the allowance is presented for the three and nine months ended June 30, 2011.

		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
	(Dollars in thousands)										
Three Months Ended June 30, 2011:											
Allowance for loan losses:											
Beginning balance	$1,187	$1,630	$64	$4,730	$ 36	$356	$241	$ 1,653	$17	$ 452	$10,366
Charge-offs	(48)	-	-	(203)	-	(278)	(40)	(386)	(1)	-	(956)
Recoveries	1	-	-	-	-	1	-	30	4	-	36
Provision	267	473	(15)	(283)	(1)	255	(24)	265	(4)	(333)	600
Ending Balance	$1,407	$2,103	$49	$4,244	$ 35	$334	$177	$ 1,562	$16	$ 119	$10,046

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

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

		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
	(Dollars in thousands)										
Nine Months Ended June 30, 2011:											
Allowance for loan losses:											
Beginning balance	$1,555	$689	$63	$2,741	$191	$303	$284	$2,264	$22	$45	$8,157
Charge-offs	(2,319)	(107)	-	(2,417)	(164)	(278)	(166)	(3,366)	(3)	-	(8,820)
Recoveries	1	-	-	1	1	2	3	50	9	-	67
Provision	2,170	1,521	(14)	3,919	7	307	56	2,614	(12)	74	10,642
Ending Balance	$1,407	$2,103	$49	$4,244	$35	$334	$177	$1,562	$16	$119	$10,046
Ending balance: individually evaluated for impairment	$233	$-	$-	$672	$-	$-	$11	$143	$-	$-	$1,059
Ending balance: collectively evaluated for impairment	$1,174	$2,103	$49	$3,572	$35	$334	$166	$1,419	$16	$119	$8,987
Loans receivable:											
	$227,015	$26,593	$2,724	$139,507	$5,314	$11,157	$21,441	$90,267	$778		$524,796

Ending balance										
Ending balance: individually evaluated for impairment	$1,631	$4,308	$-	$9,759	$-	$-	$24	$480	$-	$16,202
Ending balance: collectively evaluated for impairment	$225,384	$22,285	$2,724	$129,748	$5,314	$11,157	$21,417	$89,787	$778	$508,594

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

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

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of June 30, 2011 and September 30, 2010.

	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
			(Dollars in thousands)		
June 30, 2011:					
Residential mortgage	$ 1,631	$ 233	$ -	$ 1,631	$ 1,631
Construction and Development:					
Residential and commercial	2,951	509	1,357	4,308	4,308
Commercial:					
Commercial real estate	4,326	672	5,433	9,759	9,759
Consumer:					
Home equity lines of credit	24	11	-	24	24
Second mortgages	203	143	277	480	480
Total impaired loans	$ 9,135	$ 1,568	$ 7,067	$ 16,202	$ 16,202
September 30, 2010:					
Residential mortgage	$ 2,356	$ 865	$ -	$ 2,356	$ 2,356
Construction and Development:					
Residential and commercial	1,393	111	-	1,393	1,393
Commercial:					
Commercial real estate	6,392	650	1,213	7,605	7,605
Multi-family	1,093	164	-	1,093	