

MALVERN BANCORP, INC.
Form 10-Q
February 12, 2014

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

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: December 31, 2013

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
(State or Other Jurisdiction of
Incorporation or Organization)

45-5307782
(I.R.S. Employer
Identification Number)

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

19301
(Zip Code)

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

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

YES NO

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

YES NO

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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 February 11, 2014, 6,558,473 shares of the Registrant's common stock were issued and outstanding.

MALVERN BANCORP, INC.

TABLE OF CONTENTS

	Page
PART I—FINANCIAL INFORMATION	
Item 1.	Financial Statements
	2
	<u>Consolidated Statements of Financial Condition as of December 31, 2013 and September 30, 2013 (Unaudited)</u>
	2
	<u>Consolidated Statements of Operations for the Three Months Ended December 31, 2013 and 2012 (Unaudited)</u>
	3
	<u>Consolidated Statements of Comprehensive (Loss) Income for the Three Months Ended December 31, 2013 and 2012 (Unaudited)</u>
	4
	<u>Consolidated Statements of Changes in Shareholders' Equity for the Three Months Ended December 31, 2013 and 2012 (Unaudited)</u>
	5
	<u>Consolidated Statements of Cash Flows for the Three Months Ended December 31, 2013 and 2012 (Unaudited)</u>
	6
	<u>Notes to Consolidated Financial Statements (Unaudited)</u>
	7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	40
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	51
<u>Item 4.</u>	<u>Controls and Procedures</u>
	51
<u>PART II—OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>
	52
<u>Item 1A.</u>	<u>Risk Factors</u>
	52
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	52
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>
	52
<u>Item 4.</u>	<u>Mine Safety Disclosure</u>
	52

<u>Item 5.</u>	<u>Other Information</u>	52
<u>Item 6.</u>	<u>Exhibits</u>	52
<u>SIGNATURES</u>		53

Table of ContentsMalvern Bancorp, Inc. and Subsidiaries
Consolidated Statements of Financial Condition (Unaudited)

	December 31, 2013	September 30, 2013
	(Dollars in thousands, except per share data)	
Assets		
Cash and due from depository institutions	\$ 1,126	\$ 1,251
Interest bearing deposits in depository institutions	21,544	22,436
Cash and Cash Equivalents	22,670	23,687
Investment securities available for sale, at fair value	123,826	124,667
Restricted stock, at cost	3,236	3,038
Loans held for sale	-	10,367
Loans receivable, net of allowance for loan losses of \$4,845 and \$5,090, respectively	407,306	401,857
Other real estate owned	2,472	3,962
Accrued interest receivable	1,438	1,404
Property and equipment, net	7,140	7,259
Deferred income taxes, net	2,510	2,464
Bank-owned life insurance	21,486	21,341
Other assets	1,957	1,508
Total Assets	\$ 594,041	\$ 601,554
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Deposits-noninterest-bearing	\$ 24,638	\$ 24,761
Deposits-interest-bearing	446,363	459,835
Total Deposits	471,001	484,596
FHLB advances	43,000	38,000
Advances from borrowers for taxes and insurance	2,911	1,118
Accrued interest payable	133	139
Other liabilities	2,383	2,295
Total Liabilities	519,428	526,148
Commitments and Contingencies	-	-
Shareholders' Equity	-	-

Edgar Filing: MALVERN BANCORP, INC. - Form 10-Q

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: 6,558,473	66	66
Additional paid-in capital	60,311	60,302
Retained earnings	19,857	19,793
Unearned Employee Stock Ownership Plan (ESOP) shares	(2,030)	(2,067)
Accumulated other comprehensive loss	(3,591)	(2,688)
Total Shareholders' Equity	74,613	75,406
Total Liabilities and Shareholders' Equity	\$ 594,041	\$ 601,554

See notes to unaudited consolidated financial statements.

Table of ContentsMalvern Bancorp, Inc. and Subsidiaries
Consolidated Statements of Operations (Unaudited)

	Three Months Ended December 31,	
	2013	2012
	(Dollars in thousands, except per share data)	
Interest and Dividend Income		
Loans, including fees	\$ 4,527	\$ 5,533
Investment securities, taxable	555	329
Investment securities, tax-exempt	54	52
Dividends, restricted stock	14	5
Interest-bearing cash accounts	15	31
Total Interest and Dividend Income	5,165	5,950
Interest Expense		
Deposits	1,067	1,517
Long-term borrowings	263	430
Total Interest Expense	1,330	1,947
Net Interest Income	3,835	4,003
Provision for Loan Losses	80	400
Net Interest Income after Provision for Loan Losses	3,755	3,603
Other Income		
Service charges and other fees	258	331
Rental income-other	64	63
Gain on sale of investments, net	14	27
Gain on sale of loans, net	27	164
Earnings on bank-owned life insurance	145	722
Total Other Income	508	1,307
Other Expense		
Salaries and employee benefits	2,067	1,848
Occupancy expense	516	482
Federal deposit insurance premium	191	217
Advertising	158	180
Data processing	330	319
Professional fees	485	364
Other real estate owned expense, net	13	425
Other operating expenses	436	458
Total Other Expenses	4,196	4,293
Income before income tax expense (benefit)	67	617
Income tax expense (benefit)	3	(54)
Net Income	\$ 64	\$ 671
Basic Earnings Per Share	\$ 0.01	\$ 0.11

See notes to unaudited consolidated financial statements.

3

Table of ContentsMalvern Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive (Loss) Income (Unaudited)

	Three Months Ended December 31,	
	2013	2012
	(In thousands)	
Net Income	\$ 64	\$ 671
Other Comprehensive (Loss) Income:		
Changes in net unrealized gains and losses on securities available for sale	(1,354)	5
Gains realized in net income(1)	(14)	(27)
	(1,368)	(22)
Deferred income tax effect	465	8
Total other comprehensive loss	(903)	(14)
Total comprehensive (loss) income	\$ (839)	\$ 657

(1) Amounts are included in net gains on sales of securities on the Consolidated Statements of Operations in total other income.

Related income tax expense in the amount of \$4 and \$9, respectively, are included in income tax expense (benefit).

See notes to unaudited consolidated financial statements.

Table of Contents

Malvern 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, 2012	\$62	\$25,846	\$38,596	\$(477)	\$(2,032)	\$ 641	\$ 62,636
Net Income	-	-	671	-	-	-	671
Other comprehensive loss	-	-	-	-	-	(14)	(14)
Cancellation of common stock	(62)	62	-	-	-	-	-
Cancellation of treasury stock	-	(477)	-	477	-	-	-
Additional ESOP shares converted at exchange rate of 1.0748 (18,040 shares at \$10/share)	-	180	-	-	(180)	-	-
Dissolution of mutual holding company	-	100	-	-	-	-	100
Proceeds from issuance of common stock, net of offering expenses of \$1.6 million	66	34,567	-	-	-	-	34,633
Committed to be released ESOP shares (3,351 shares)	-	8	-	-	36	-	44
Balance, December 31, 2012	\$66	\$60,286	\$39,267	\$-	\$(2,176)	\$ 627	\$ 98,070

Edgar Filing: MALVERN BANCORP, INC. - Form 10-Q

Balance, October 1, 2013	\$66	\$60,302	\$19,793	\$-	\$(2,067)	) \$ (2,688)	) \$ 75,406
Net Income	-	-	64	-	-	-	64
Other comprehensive loss	-	-	-	-	-	(903)	(903)
Committed to be released ESOP shares (3,600 shares)	-	9	-	-	37	-	46
Balance, December 31, 2013	\$66	\$60,311	\$19,857	\$-	\$(2,030)	) \$ (3,591)	) \$ 74,613

See notes to unaudited consolidated financial statements.

Table of ContentsMalvern Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended December 31,	
	2013	2012
	(In thousands)	
Cash Flows from Operating Activities		
Net income	\$ 64	\$ 671
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation expense	163	172
Provision for loan losses	80	400
Deferred income tax expense (benefit)	419	(100)
ESOP expense	46	44
Accretion of premiums and discounts on investment securities, net	(657)	(101)
Amortization of loan origination fees and costs	(87)	(569)
(Accretion) amortization of mortgage servicing rights	(2)	6
Net gain on sale of investment securities available for sale	(14)	(27)
Net gain on sale of loans	-	(164)
Net gain on sale of secondary market loans	(27)	-
Proceeds on sale of secondary market loans	2,007	-
Originations of secondary market loans	(1,980)	-
Gain on sale of other real estate owned	(6)	(96)
Write down of other real estate owned	11	505
(Increase) decrease in accrued interest receivable	(34)	81
Decrease in accrued interest payable	(6)	(28)
Increase (decrease) increase in other liabilities	88	(171)
Earnings on bank-owned life insurance	(145)	(722)
Increase in other assets	(434)	(292)
Decrease in prepaid FDIC assessment	-	208
Net Cash Used in Operating Activities	(514)	(183)
Cash Flows from Investing Activities		
Proceeds from maturities and principal collections:		
Investment securities available for sale	3,586	9,886
Proceeds from sales of investment securities available for sale	824	17
Purchases of investment securities available for sale	(4,266)	(14,496)
Proceeds from sale of loans	10,367	4,567
Loan buyback from sale of loans	(1,117)	-
Loan purchases	(6,747)	(4,371)
Loan originations and principal collections, net	2,411	10,865
Proceeds from sale of other real estate owned	1,496	399
Additions to mortgage servicing rights	(13)	(18)
Net (increase) decrease in restricted stock	(198)	493
Purchases of property and equipment	(44)	(68)

Edgar Filing: MALVERN BANCORP, INC. - Form 10-Q

Net Cash Provided by Investing Activities	6,299	7,274
Cash Flows from Financing Activities		
Net decrease in deposits	(13,595)	(5,912)
Proceeds for long-term borrowings	5,000	-
Repayment of long-term borrowings	-	(85)
Increase in advances from borrowers for taxes and insurance	1,793	3,657
Return of excess stock subscription funds	-	(20,841)
Cash from mutual holding company reorganization	-	100
Net Cash Used in Financing Activities	(6,802)	(23,081)
Net Decrease in Cash and Cash Equivalents	(1,017)	(15,990)
Cash and Cash Equivalents - Beginning	23,687	131,910
Cash and Cash Equivalents - Ending	\$22,670	\$115,920
Supplementary Cash Flows Information		
Interest paid	\$1,336	\$1,975
Income taxes paid	\$17	\$-
Non-cash transfer of loans to other real estate owned	\$11	\$2
Stock subscription funds transferred to shareholders' equity	\$-	\$34,633

See notes to unaudited consolidated financial statements.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 1 – Organizational Structure and Nature of Operations

Malvern Bancorp, Inc., a Pennsylvania company (the “Company” or “Malvern Bancorp”), is the holding company for the Malvern Federal Savings Bank (“Malvern Federal Savings” or the “Bank”) and owns all of the issued and outstanding shares of the common stock of Malvern Federal Savings Bank. In connection with the “second-step” conversion and reorganization which we completed in October 2012, 3,636,875 shares of common stock, par value \$0.01 per share, of the Malvern Bancorp 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, Malvern Federal Bancorp, Inc. (the “Mid-Tier Holding Company”), held by the “public” shareholders of the Mid-Tier Holding Company (all shareholders except Malvern Federal Mutual Holding Company). Each share of common stock of the Mid-Tier Holding Company was converted into the right to receive 1.0748 shares of common stock of the new Malvern Bancorp, Inc. in the conversion and reorganization.

The Bank was originally organized in 1887 and is headquartered in Paoli, Pennsylvania. The Bank operates eight full service financial center offices in Chester and Delaware Counties, Pennsylvania. The Bank is primarily engaged in attracting deposits from the general public through its branch offices and using such deposits primarily to (i) originate 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 and (ii) invest in securities issued by the U.S. Government and agencies thereof, municipal and corporate debt securities and mortgage-backed securities. The Bank derives its income principally from interest earned on loans, mortgage-backed securities and investments and, to a lesser extent, from fees received in connection with the origination of loans and for other services. The Bank’s primary expenses are interest expense on deposits and borrowings and general operating expenses.

The Bank, as a federally chartered savings association, is subject to federal regulation and oversight by the Office of the Comptroller of the Currency (the “OCC”) extending to all aspects of its operations. The Bank is also subject to regulation and examination by the Federal Deposit Insurance Corporation (“FDIC”), which insures its deposits to the maximum extent permitted by law, and requirements established by the Federal Reserve Board. As a registered savings and loan holding company, the Company is subject to examination and supervision by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board” or the “FRB”).

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Consolidation - The consolidated financial statements include the accounts of the Company and its subsidiaries, Malvern Federal Holdings, Inc., a Delaware company, and the Bank and the Bank’s subsidiaries, Strategic Asset Management Group, Inc. (“SAMG”) and Malvern Federal Investments, Inc., a Delaware company. SAMG owns 50% of Malvern Insurance Associates, LLC. Malvern Insurance Associates, LLC offers a full line of business and personal lines of insurance products.

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 (“GAAP”). 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. The results for the three months ended December 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2014, or any other period. All significant intercompany transactions and balances have been eliminated. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2013.

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, other real estate owned, the valuation of deferred tax assets, the evaluation of other-than-temporary impairment of investment securities and fair value measurements.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

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 December 31, 2013 and September 30, 2013, the Company had no investment securities classified as trading or held to maturity. 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 Receivable - The Company, through the Bank, grants mortgage, construction, 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.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

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 construction and development 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. 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 residential 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.

Loans Held-For-Sale - Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value on the consolidated balance sheet. Gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan. Servicing is retained at the Bank for loans sold in the secondary market and are placed as a mortgage servicing asset on the consolidated balance sheet (see "Loan Servicing" for more detail). There were no loans classified as held for sale as of December 31, 2013. As of September 30, 2013, there were \$10.4 million in loans classified as held for sale. The loans held for sale at September 30, 2013 were sold in a bulk transaction to one purchaser in October 2013, they were not sold in the secondary market for residential mortgage loans.

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 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.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

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, 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 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.”

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, five 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.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

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 Bank's 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. 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 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.

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 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. 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.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

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. 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.

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 non-interest expense in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

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 December 31, 2013 and September 30, 2013, restricted stock consisted solely of the common stock of the Federal Home Loan Bank of Pittsburgh (“FHLB”).

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 operations.

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

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.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

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.

Recent Accounting Pronouncements - In January 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-04, “Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.” The amendments are intended to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. These amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additional disclosures are required. The amendments are effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. We have not determined the effect that the adoption of this ASU will have on our financial position or results of operations.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

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 December 31, 2013 and for the three months ended December 31, 2013 and 2012 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.

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

	Three Months Ended December 31,	
	2013	2012
	(Dollars in thousands, except per share data)	
Net Income	\$ 64	\$ 671
Weighted average shares outstanding	6,558,473	6,503,954
Average unearned ESOP shares	(184,941)	(197,215)
Weighted average shares outstanding – basic	6,373,532	6,306,739
Earnings per share – basic	\$ 0.01	\$ 0.11

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 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 months ended December 31, 2013 and 2012, there were 3,600 and 3,351 shares, respectively, committed to be released. At December 31, 2013, there were 183,165 unallocated shares and 76,053 allocated shares held by the ESOP which had an aggregate fair value of approximately \$2.0 million.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 5 - Investment Securities

At December 31, 2013 and September 30, 2013, the Company's mortgage-backed securities consisted solely of securities backed by residential mortgage loans. The Company held no mortgage-backed securities backed by commercial mortgage loans at either date.

Investment securities available for sale at December 31, 2013 and September 30, 2013 consisted of the following:

	Amortized Cost	December 31, 2013		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
		(In thousands)		
U.S. government agencies	\$20,565	\$2	\$(918)	\$19,649
State and municipal obligations	11,568	3	(558)	11,013
Single issuer trust preferred security	1,000	-	(185)	815
Corporate debt securities	1,755	23	(3)	1,775
	34,888	28	(1,664)	33,252
Mortgage-backed securities:				
FNMA:				
Adjustable-rate	1,934	49	(2)	1,981
Fixed-rate	18,650	7	(1,215)	17,442
FHLMC:				
Adjustable-rate	5,927	9	(18)	5,918
Fixed-rate	13,148	-	(695)	12,453
CMO, fixed-rate	54,719	91	(2,030)	52,780
	94,378	156	(3,960)	90,574
	\$129,266	\$184	\$(5,624)	\$123,826

	Amortized Cost	September 30, 2013		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
		(In thousands)		
U.S. government agencies	\$20,108	\$7	\$(683)	\$19,432
State and municipal obligations	12,381	19	(462)	11,938
Single issuer trust preferred security	1,000	-	(190)	810
Corporate debt securities	1,756	28	(2)	1,782
	35,245	54	(1,337)	33,962
Mortgage-backed securities:				
FNMA:				

Edgar Filing: MALVERN BANCORP, INC. - Form 10-Q

Adjustable-rate	1,967	52	(5	)	2,014
Fixed-rate	18,967	6	(882	)	18,091
FHLMC:					
Adjustable-rate	5,032	11	(22	)	5,021
Fixed-rate	13,391	-	(541	)	12,850
CMO, fixed-rate	54,137	122	(1,530	)	52,729
	93,494	191	(2,980	)	90,705
	\$128,739	\$245	\$(4,317	)	\$124,667

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 5 - Investment Securities (Continued)

During the first quarter of fiscal 2014, proceeds from sales of securities available for sale were \$824,000. Gross gains of \$14,000 were realized on these sales. During the first quarter of fiscal 2013, a municipal security in a loss position of \$10,000 was sold for approximately \$17,000, which resulted in a gain of approximately \$27,000.

The following tables summarize the Company's aggregate investments at December 31, 2013 and September 30, 2013 that were in an unrealized loss position.

	Less than 12 Months		December 31, 2013 More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Investment Securities Available for Sale:						
U.S. government agencies	\$18,826	\$(918)	\$-	\$-	\$18,826	\$(918)
State and municipal obligations	8,941	(474)	1,702	(84)	10,643	(558)
Single issuer trust preferred security	-	-	815	(185)	815	(185)
Corporate securities	499	(3)	-	-	499	(3)
Mortgage-backed securities:						
FNMA:						
Adjustable-rate	961	(2)	-	-	961	(2)
Fixed-rate	17,343	(1,215)	-	-	17,343	(1,215)
FHLMC:						
Adjustable-rate	3,811	(18)	-	-	3,811	(18)
Fixed-rate	12,453	(695)	-	-	12,453	(695)
CMO, fixed-rate	41,989	(1,996)	904	(34)	42,893	(2,030)
	\$104,823	\$(5,321)	\$3,421	\$(303)	\$108,244	\$(5,624)

	Less than 12 Months		September 30, 2013 More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Investment Securities Available for Sale:						
U.S. government agencies	\$18,104	\$(683)	\$-	\$-	\$18,104	\$(683)
State and municipal obligations	10,748	(462)	-	-	10,748	(462)
Single issuer trust preferred security	-	-	810	(190)	810	(190)
Corporate securities	249	(2)	-	-	249	(2)

Mortgage-backed securities:

FNMA:

Adjustable-rate	966	(5	)	-	-	966	(5)
Fixed-rate	17,990	(882	)	-	-	17,990	(882)

FHLMC:

Adjustable-rate	4	(22	)	-	-	4	(22)	
Fixed-rate	12,850	(541	)	-	-	12,850	(541)	
CMO, fixed-rate	43,271	(1,530	)	-	-	43,271	(1,530)	
	\$104,182	\$(4,127)	\$810	\$(190)	\$104,992	\$(4,317)

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 5 - Investment Securities (Continued)

As of December 31, 2013, 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 December 31, 2013, the Company held 22 U.S. government agency securities, 30 tax-free municipal bonds, two corporate securities, 71 mortgage-backed securities and one single issuer trust preferred security which were in an unrealized loss position. The Company does not intend to sell and expects that it is not more likely than not that it will be required to sell these securities until such time as the value recovers or the securities mature. Management does not believe any individual unrealized loss as of December 31, 2013 represents other-than-temporary impairment.

During the quarter ended December 31, 2013, the gross unrealized loss of the single issuer trust preferred security improved by \$5,000 from an unrealized loss at September 30, 2013 of \$190,000 to an unrealized loss of \$185,000 as of December 31, 2013. Increases in long-term interest rate, specifically the 10-year U.S. Treasury bond during the period, caused the pricing of agency securities, mortgage-backed securities, and trust preferred securities to decrease. On a quarterly basis, management will continue to monitor the performance of this security and the markets to determine the true economic value of this security.

At December 31, 2013 and September 30, 2013 the Company had no securities pledged to secure public deposits.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2013 follows:

	Available For Sale	
	Amortized Cost	Fair Value
	(In thousands)	
Within 1 year	\$2,071	\$1,888
Over 1 year through 5 years	6,357	6,282
After 5 years through 10 years	24,992	23,697
Over 10 years	1,468	1,385
	34,888	33,252
Mortgage-backed securities	94,378	90,574
	\$129,266	\$123,826

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 6 - Loans Receivable and Related Allowance for Loan Losses

Loans receivable in the Company's portfolio (which does not include loans held for sale) consisted of the following at the dates indicated below:

	December 31, 2013	September 30, 2013
	(In thousands)	
Residential mortgage	\$ 246,139	\$ 239,900
Construction and Development:		
Residential and commercial	7,213	6,672
Land	2,148	2,439
Total Construction and Development	9,361	9,111
Commercial:		
Commercial real estate	70,511	70,571
Multi-family	2,051	1,971
Other	5,913	5,573
Total Commercial	78,475	78,115
Consumer:		
Home equity lines of credit	20,649	20,431
Second mortgages	52,532	54,532
Other	2,809	2,648
Total Consumer	75,990	77,611
 Total loans	 409,965	 404,737
Deferred loan costs, net	2,186	2,210
Allowance for loan losses	(4,845)	(5,090)
 Total loans receivable, net	 \$ 407,306	 \$ 401,857

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

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

The following tables summarize the primary classes of the allowance for loan losses (“ALLL”), segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2013 and September 30, 2013. Activity in the allowance is presented for the three months ended December 31, 2013 and 2012 and the year ended September 30, 2013, respectively.

	Three Months Ended December 31, 2013										
	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
Allowance for loan losses:	(In thousands)										
Beginning balance	\$1,414	\$164	\$56	\$1,726	\$40	\$59	\$137	\$1,393	\$22	\$79	\$5,090
Charge-offs	-	(37)	-	-	-	-	(14)	(320)	(2)	-	(373)
Recoveries	11	-	-	2	-	1	-	33	1	-	48
Provision	255	66	(3)	(295)	(14)	14	7	36	2	12	80
Ending Balance	\$1,680	\$193	\$53	\$1,433	\$26	\$74	\$130	\$1,142	\$23	\$91	\$4,845
Ending balance: individually evaluated for impairment	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Ending balance: collectively evaluated for impairment	\$1,680	\$193	\$53	\$1,433	\$26	\$74	\$130	\$1,142	\$23	\$91	\$4,845
Loans receivable:											
Ending balance	\$246,139	\$7,213	\$2,148	\$70,511	\$2,051	\$5,913	\$20,649	\$52,532	\$2,809		\$409,965

Ending balance: individually evaluated for impairment	\$1,821	\$993	\$237	\$-	\$-	\$900	\$20	\$583	\$-	\$4,554
Ending balance: collectively evaluated for impairment	\$244,318	\$6,220	\$1,911	\$70,511	\$2,051	\$5,013	\$20,629	\$51,949	\$2,809	\$405,411

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended December 31, 2012											
	Construction and Development			Commercial			Consumer					
	Residential		Land	Commercial		Other	Home Equity		Second Mortgages	Other	Unallocated	Total
	Residential Mortgage	and Commercial		Real Estate	Multi-family		Lines of Credit					
(In thousands)												
Allowance for loan losses:												
Beginning balance	\$1,487	\$724	\$11	\$3,493	\$10	\$226	\$160	\$1,389	\$16	\$65	\$7,581	
Charge-offs	(44)	(50)	-	(155)	-	-	-	(184)	(4)	-	(437)	
Recoveries	-	-	-	-	-	21	1	5	-	-	27	
Provision	42	528	(3)	(349)	92	(162)	8	275	-	(31)	400	
Ending Balance	\$1,485	\$1,202	\$8	\$2,989	\$102	\$85	\$169	\$1,485	\$12	\$34	\$7,571	
Ending balance: individually evaluated for impairment	\$-	\$-	\$-	\$335	\$-	\$-	\$-	\$-	\$-	\$-	\$335	
Ending balance: collectively evaluated for impairment	\$1,485	\$1,202	\$8	\$2,654	\$102	\$85	\$169	\$1,485	\$12	\$34	\$7,236	
Loans receivable:												
Ending balance	\$231,463	\$18,580	\$3,285	\$103,086	\$2,172	\$7,447	\$21,968	\$62,672	\$848		\$451,521	
Ending balance: individually evaluated for impairment	\$4,423	\$2,707	\$-	\$5,105	\$-	\$175	\$22	\$723	\$-		\$13,155	
Ending balance: collectively evaluated for impairment	\$227,040	\$15,873	\$3,285	\$97,981	\$2,172	\$7,272	\$21,946	\$61,949	\$848		\$438,366	

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

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

	Year Ended September 30, 2013											
	Construction and Development			Commercial			Consumer					
	Residential		Land	Commercial		Other	Home Equity		Second Mortgages	Other	Unallocated	Total
	Residential Mortgage	and Commercial		Real Estate	Multi-family		Lines of Credit					
												(In thousands)
Allowance for loan losses:												
Beginning balance	\$1,487	\$724	\$11	\$3,493	\$10	\$226	\$160	\$1,389	\$16	\$65	\$7,581	
Charge-offs	(994)	(5,768)	(99)	(6,315)	-	(94)	-	(1,042)	(9)	-	(14,321)	
Recoveries	199	-	-	117	-	23	17	235	4	-	595	
Provision	722	5,208	144	4,431	30	(96)	(40)	811	11	14	11,235	
Ending Balance	\$1,414	\$164	\$56	\$1,726	\$40	\$59	\$137	\$1,393	\$22	\$79	\$5,090	
Ending balance: individually evaluated for impairment	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	
Ending balance: collectively evaluated for impairment	\$1,414	\$164	\$56	\$1,726	\$40	\$59	\$137	\$1,393	\$22	\$79	\$5,090	
Loans receivable:												
Ending balance	\$239,900	\$6,672	\$2,439	\$70,571	\$1,971	\$5,573	\$20,431	\$54,532	\$2,648		\$404,737	
Ending balance: individually evaluated for impairment	\$1,295	\$209	\$237	\$-	\$-	\$900	\$34	\$572	\$-		\$3,247	
Ending balance: collectively evaluated for impairment	\$238,605	\$6,463	\$2,202	\$70,571	\$1,971	\$4,673	\$20,397	\$53,960	\$2,648		\$401,490	

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

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 December 31, 2013 and September 30, 2013.

	Impaired Loans With Specific Allowance		Impaired Loans With No Specific Allowance	Total Impaired Loans Unpaid	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Principal Balance
	(In thousands)				
December 31, 2013:					
Residential mortgage	\$-	\$-	\$1,821	\$1,821	\$2,046
Construction and Development:					
Residential and commercial	-	-	993	993	1,581
Land	-	-	237	237	337
Commercial:					
Other	-	-	900	900	900
Consumer:					
Home equity lines of credit	-	-	20	20	36
Second mortgages	-	-	583	583	988
Total impaired loans	\$-	\$-	\$4,554	\$4,554	\$5,888
September 30, 2013:					
Residential mortgage	\$-	\$-	\$1,295	\$1,295	\$1,510
Construction and Development:					
Residential and commercial	-	-	209	209	297
Land	-	-	237	237	337
Commercial:					
Other	-	-	900	900	900
Consumer:					
Home equity lines of credit	-	-	34	34	50
Second mortgages	-	-	572	572	1,101
Total impaired loans	\$-	\$-	\$3,247	\$3,247	\$4,195

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

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 for three months ended December 31, 2013 and 2012.

	Average Impaired Loans	Interest Income Recognized on Impaired Loans (In thousands)	Cash Basis Collection on Impaired Loans
Three Months Ended December 31, 2013:			
Residential mortgage	\$1,363	\$ 10	\$16
Construction and Development:			
Residential and commercial	411	3	899
Land	237	3	3
Commercial:			
Other	900	7	7
Consumer:			
Home equity lines of credit	21	-	-
Second mortgages	570	6	9
Total	\$3,502	\$ 29	\$934
Three Months Ended December 31, 2012:			
Residential mortgage	\$4,162	\$ 11	\$18
Construction and Development:			
Residential and commercial	3,566	-	152
Commercial:			
Commercial real estate	4,874	49	70
Multi-family	176	2	2
Consumer:			
Home equity lines of credit	22	-	1
Second mortgages	524	-	1
Total	\$13,324	\$ 62	\$244

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

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 December 31, 2013 and September 30, 2013.

	Pass	Special Mention	Substandard (In thousands)	Doubtful	Total
December 31, 2013:					
Residential mortgage	\$244,066	\$142	\$1,931	\$-	\$246,139
Construction and Development:					
Residential and commercial	5,880	-	1,333	-	7,213
Land	1,911	-	237	-	2,148
Commercial:					
Commercial real estate	67,001	2,241	1,269	-	70,511
Multi-family	2,051	-	-	-	2,051
Other	4,707	306	900	-	5,913
Consumer:					
Home equity lines of credit	20,629	-	20	-	20,649
Second mortgages	51,935	14	583	-	52,532
Other	2,790	19	-	-	2,809
Total	\$400,970	\$2,722	\$6,273	\$-	\$409,965
September 30, 2013:					
Residential mortgage	\$238,461	\$144	\$1,295	\$-	\$239,900
Construction and Development:					
Residential and commercial	5,564	159	949	-	6,672
Land	2,202	-	237	-	2,439
Commercial:					
Commercial real estate	67,028	3,166	377	-	70,571
Multi-family	1,971	-	-	-	1,971
Other	4,363	310	900	-	5,573
Consumer:					
Home equity lines of credit	20,397	-	34	-	20,431
Second mortgages	53,790	14	728	-	54,532
Other	2,625	23	-	-	2,648
Total	\$396,401	\$3,816	\$4,520	\$-	\$404,737

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

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

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

	December 31, 2013	September 30, 2013
	(In thousands)	
Non-accrual loans:		
Residential mortgage	\$ 1,821	\$ 1,295
Construction and Development:		
Residential and commercial	484	-
Consumer:		
Home equity lines of credit	20	34
Second mortgages	583	572
Total non-accrual loans	\$ 2,908	\$ 1,901

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 \$46,000 and \$171,000 for the three months ended December 31, 2013 and 2012, respectively. There were no loans past due 90 days or more and still accruing interest at December 31, 2013 or September 30, 2013.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

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

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by whether a loan payment is “current,” that is, it is received from a borrower by the scheduled due date, or the length of time a scheduled payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories as of December 31, 2013 and September 30, 2013.

	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Total Loans Receivable
(In thousands)						
December 31, 2013:						
Residential mortgage	\$242,194	\$1,822	\$302	\$1,821	\$3,945	\$246,139
Construction and Development:						
Residential and commercial	6,729	-	-	484	484	7,213
Land	2,148	-	-	-	-	2,148
Commercial:						
Commercial real estate	70,511	-	-	-	-	70,511
Multi-family	2,051	-	-	-	-	2,051
Other	5,913	-	-	-	-	5,913
Consumer:						
Home equity lines of credit	20,603	-	26	20	46	20,649
Second mortgages	50,694	1,132	123	583	1,838	52,532
Other	2,809	-	-	-	-	2,809
Total	\$403,652	\$2,954	\$451	\$2,908	\$6,313	\$409,965
September 30, 2013:						
Residential mortgage	\$237,584	\$820	\$201	\$1,295	\$2,316	\$239,900
Construction and Development:						
Residential and commercial	6,672	-	-	-	-	6,672
Land	2,439	-	-	-	-	2,439
Commercial:						
Commercial real estate	70,416	-	155	-	155	70,571
Multi-family	1,971	-	-	-	-	1,971
Other	5,573	-	-	-	-	5,573
Consumer:						
Home equity lines of credit	20,397	-	-	34	34	20,431
Second mortgages	52,698	1,022	240	572	1,834	54,532
Other	2,643	4	1	-	5	2,648
Total	\$400,393	\$1,846	\$597	\$1,901	\$4,344	\$404,737

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

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

Restructured loans deemed to be TDRs in accordance with ASC 310-10-35 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 nine and seven loans classified as TDRs with an outstanding balance of \$2.1 million and \$1.3 million at December 31, 2013 and September 30, 2013, respectively. Of the total TDR loans, seven loans deemed TDRs with an aggregate balance of \$1.6 million at December 31, 2013 were classified as impaired; however, they were performing prior to the restructure and continued to perform under their restructured terms through December 31, 2013, and, accordingly, were deemed to be performing loans at December 31, 2013 and we continued to accrue interest on such loans through such date. At December 31, 2013, two TDRs with an aggregate balance of \$484,000 were deemed non-accruing TDRs. The \$484,000 of TDRs deemed non-accruing TDRs, which were also deemed impaired at December 31, 2013, were comprised of two construction and development loans at December 31, 2013. At September 30, 2013, seven loans deemed TDRs with an aggregate balance of \$1.3 million were classified as impaired; however, they were performing prior to the restructure and continued to perform under their restructured terms as of September 30, 2013, and, accordingly, were deemed to be performing loans at September 30, 2013 and we continued to accrue interest on such loans through such date. At September 30, 2013, none of our TDRs were deemed non-accruing TDRs. 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.

The following table presents our TDR loans as of December 31, 2013 and September 30, 2013.

Total Troubled Debt Restructurings	Troubled Debt Restructured Loans That Have Defaulted on Modified Terms YTD	
	Number of Loans	Recorded Investment (Dollars in thousands)
	Number of Loans	Recorded Investment

At December 31, 2013:

Edgar Filing: MALVERN BANCORP, INC. - Form 10-Q

Construction and Development:				
Residential and commercial	7	\$993	2	\$ 484
Land	1	237	-	-
Commercial:				
Other	1	900	-	-
Total	9	\$2,130	2	\$ 484

At September 30, 2013:

Construction and Development:				
Residential and commercial	5	\$209	-	\$ -
Land	1	237	-	-
Commercial:				
Other	1	900	-	-
Total	7	\$1,346	-	\$ -

28

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

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

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

	December 31, 2013		September 30, 2013	
	Performing	Non-Performing	Performing	Non-Performing
	(In thousands)			
Construction and Development:				
Residential and commercial	\$ 509	\$ 484	\$ 209	\$ -
Land	237	-	237	-
Commercial:				
Other	900	-	900	-
Total	\$ 1,646	\$ 484	\$ 1,346	\$ -

There was no TDR activity for the three months ended December 31, 2012. The following table shows the TDR activity for the three months ended December 31, 2013.

		December 31, 2013		December 31, 2012	
		Pre-Modification	Post-Modifications	Pre-Modification	Post-Modifications
		Restructured During Period			
	Number	Outstanding	Outstanding	Outstanding	Outstanding
	of Loans	Recorded	Recorded	Recorded	Recorded
		Investments	Investments	Investments	Investments
(Dollars in thousands)					
Troubled Debt					
Restructurings:					
Construction and					
Development:					
Residential and commercial	2	\$ 484	\$ 484	-	\$ -
Total troubled debt					
restructurings	2	\$ 484	\$ 484	-	\$ -

Note 7 - Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt 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.

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

Management believes, as of December 31, 2013, that the Bank met all capital adequacy requirements to which it was subject including individual minimum capital ratios imposed by the Office of the Comptroller of the Currency of 8.5% Tier 1 capital to adjusted total assets, 10.5% Tier 1 risk-based capital to risk-weighted assets and 12.5% total risk-based capital to risk-weighted assets.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 7 - Regulatory Matters (Continued)

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

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2013:						
Tangible Capital (to tangible assets)	\$64,581	11.06	% \geq 8,762	\geq 1.50	%	N/A
Core Capital (to adjusted tangible assets)	64,581	11.06	\geq 23,364	\geq 4.00	\geq 29,205	\geq 5.00 %
Tier 1 Capital (to risk-weighted assets)	64,581	18.18	\geq 14,213	\geq 4.00	\geq 21,320	\geq 6.00
Total risk-based Capital (to risk-weighted assets)	69,028	19.43	\geq 28,426	\geq 8.00	\geq 35,533	\geq 10.00
As of September 30, 2013:						
Tangible Capital (to tangible assets)	\$64,524	10.91	% \geq 8,874	\geq 1.50	%	N/A
Core Capital (to adjusted tangible assets)	64,524	10.91	\geq 23,664	\geq 4.00	\geq 29,580	\geq 5.00 %
Tier 1 Capital (to risk-weighted assets)	64,524	17.72	\geq 14,566	\geq 4.00	\geq 21,849	\geq 6.00
Total risk-based Capital (to risk-weighted assets)	69,084	18.97	\geq 29,132	\geq 8.00	\geq 36,415	\geq 10.00

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements

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

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

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

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

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

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

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

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.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements (Continued)

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

	Total	December 31, 2013		Level 3
		Level 1	Level 2	
		(In thousands)		
Investment securities available for sale:				
Debt securities:				
U.S. government agencies	\$19,649	\$-	\$19,649	\$-
State and municipal obligations	11,013	-	11,013	-
Single issuer trust preferred security	815	-	815	-
Corporate debt securities	1,775	-	1,775	-
Total investment securities available for sale	33,252	-	33,252	-
Mortgage-backed securities available for sale:				
FNMA:				
Adjustable-rate	1,981	-	1,981	-
Fixed-rate	17,442	-	17,442	-
FHLMC:				
Adjustable-rate	5,918	-	5,918	-
Fixed-rate	12,453	-	12,453	-
CMO, fixed-rate	52,780	-	52,780	-
Total mortgage-backed securities available for sale	90,574	-	90,574	-
Total	\$123,826	\$-	\$123,826	\$-

	Total	September 30, 2013		Level 3
		Level 1	Level 2	
		(In thousands)		
Investment securities available for sale:				
Debt securities:				
U.S. government agencies	\$19,432	\$-	\$19,432	\$-
State and municipal obligations	11,938	-	11,938	-
Single issuer trust preferred security	810	-	810	-
Corporate debt securities	1,782	-	1,782	-
Total investment securities available for sale	33,962	-	33,962	-
Mortgage-backed securities available for sale:				
FNMA:				
Adjustable-rate	2,014	-	2,014	-

Edgar Filing: MALVERN BANCORP, INC. - Form 10-Q

Fixed-rate	18,091	-	18,091	-
FHLMC:				
Adjustable-rate	5,021	-	5,021	-
Fixed-rate	12,850	-	12,850	-
CMO, fixed-rate	52,729	-	52,729	-
Total mortgage-backed securities available for sale	90,705	-	90,705	-
Total	\$124,667	\$-	\$124,667	\$-

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 at December 31, 2013 and September 30, 2013.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements (Continued)

For assets measured at fair value on a nonrecurring basis 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 December 31, 2013 and September 30, 2013:

	Total	December 31, 2013		
		Level 1	Level 2	Level 3
(In thousands)				
Other real estate owned	\$995	\$-	\$-	\$995
Impaired loans	657	-	-	657
Mortgage servicing rights	370	-	370	-
Total	\$2,022	\$-	\$370	\$1,652

	Fair Value at December 31, 2013	Valuation Technique	December 31, 2013	
			Unobservable Input	Range/(Weighted Average)
(Dollars in thousands)				
Other real estate owned	\$ 995	Appraisal of collateral(1)	Collateral discounts(2)	0-6%/(1%)
Impaired loans(3)	657	Appraisal of collateral(1)	Collateral discounts(2)	3-72%/(44%)
Total	\$ 1,652			

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

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

(3) Includes assets directly charged-down to fair value during the year-to-date period.

	Total	September 30, 2013		
		Level 1	Level 2	Level 3
(In thousands)				
Loans held for sale	\$10,367	\$10,367	\$-	\$-
Other real estate owned	2,341	-	-	2,341
Impaired loans	1,047	-	-	1,047
Mortgage servicing rights	337	-	337	-

Edgar Filing: MALVERN BANCORP, INC. - Form 10-Q

Total \$14,092 \$10,367 \$337 \$3,388

September 30, 2013

	Fair Value at September 30, 2013	Valuation Technique	Unobservable Input (Dollars in thousands)	Range/(Weighted Average)
Other real estate owned	\$ 2,341	Appraisal of collateral(1)	Collateral discounts(2)	14-84%/(39)%
Impaired loans	1,047	Appraisal of collateral(1)	Collateral discounts(2)	1-73%/(28%)
Total	\$ 3,388			

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

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

(3) Includes assets directly charged-down to fair value during the year-to-date period.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements (Continued)

The following table shows quantitative information regarding significant techniques and inputs used at December 31, 2013 for assets measured using observable inputs (Level 2):

	Fair Value at December 31, 2013 (In thousands)	Valuation Technique	Observable Input	Method or Value as of December 31, 2013	
Servicing rights	\$370	Discounted rate	Discount rate	11.00%	Rate used through modeling period
			Loan prepayment speeds	13.30%	Weighted-average CPR
			Servicing fees	0.25%	Of loan balance
			Servicing costs	6.25%	Monthly servicing cost per account
				\$300-\$400	Additional monthly servicing cost per loan on loans more than 30 days delinquent

The following table shows quantitative information regarding significant techniques and inputs used at September 30, 2013 for assets measured using observable inputs (Level 2):

	Fair Value at September 30, 2013 (In thousands)	Valuation Technique	Observable Input	Method or Value as of September 30, 2013	
Servicing rights	\$337	Discounted rate	Discount rate	11.00%-12.00%	Rate used through modeling period
			Loan prepayment speeds	15.58%	Weighted-average CPR

Servicing fees	0.25%	Of loan balance
Servicing costs	6.25%	Monthly servicing cost per account
	\$150	Additional monthly servicing cost per loan on loans more than 30 days delinquent

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements (Continued)

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

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2013 and September 30, 2013. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since December 31, 2013 and September 30, 2013 and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

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

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

Investment Securities—Investment and mortgage-backed securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are measured at fair value on a recurring basis. Fair value measurements for these securities are typically obtained from independent pricing services that we have engaged for this purpose. When available, we, or our independent pricing service, use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, our independent pricing service's applications apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare evaluations. For each asset class, pricing applications and models are based on information from market sources and integrate relevant credit information. All of our securities available for sale are valued using either of the foregoing methodologies to determine fair value adjustments recorded to our financial statements. The Company had no Level 1 or Level 3 securities as of December 31, 2013 or September 30, 2013.

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.

Loans Held-For-Sale—The fair values of mortgage loans originated and intended for sale in the secondary market are based on current quoted market prices. There were no loans held for sale at December 31, 2013. The loans held for sale at September 30, 2013 were sold in a bulk transaction to one purchaser in October 2013, they were not sold in the secondary market for residential mortgage loans.

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.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements (Continued)

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.

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.

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. Mortgage servicing rights are carried at the lower of cost or fair value.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements (Continued)

The carrying amount and estimated fair value of the Company's financial instruments as of December 31, 2013 and September 30, 2013 are presented below:

	Carrying Amount	December 31, 2013			
		Fair Value	Level 1 (In thousands)	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	\$22,670	\$22,670	\$22,670	\$-	\$-
Investment securities available for sale	123,826	123,826	-	123,826	-
Loans receivable, net	407,306	408,519	-	-	408,519
Accrued interest receivable	1,438	1,438	-	1,438	-
Restricted stock	3,236	3,236	-	3,236	-
Mortgage servicing rights	286	370	-	370	-
Financial liabilities:					
Savings accounts	43,050	43,050	-	43,050	-
Checking and NOW accounts	113,335	113,335	-	113,335	-
Money market accounts	66,718	66,718	-	66,718	-
Certificates of deposit	247,898	253,509	-	253,509	-
FHLB advances	43,000	45,329	-	45,329	-
Accrued interest payable	133	133	-	133	-

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements (Continued)

	Carrying Amount	September 30, 2013			
		Fair Value	Level 1 (In thousands)	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	\$23,687	\$23,687	\$23,687	\$-	\$-
Investment securities available for sale	124,667	124,667	-	124,667	-
Loans receivable, net	401,857	405,802	-	-	405,802
Loans held for sale	10,367	10,367	10,367	-	-
Accrued interest receivable	1,404	1,404	-	1,404	-
Restricted stock	3,038	3,038	-	3,038	-
Mortgage servicing rights	271	337	-	337	-
Financial liabilities:					
Savings accounts	42,932	42,932	-	42,932	-
Checking and NOW accounts	112,338	112,338	-	112,338	-
Money market accounts	67,372	67,372	-	67,372	-
Certificates of deposit	261,954	267,181	-	267,181	-
FHLB advances	38,000	41,281	-	41,281	-
Accrued interest payable	139	139	-	139	-

Note 9 – Income Taxes

The following is reconciliation between the statutory federal income tax rate of 34% and the effective income tax rate on income before income taxes:

	Three Months Ended December 31,	
	2013	2012
	(In thousands)	
At federal statutory rate	\$ -	\$ 210
Adjustments resulting from:		
State tax, net of federal benefit	3	-
Tax-exempt interest	-	(18)
Earnings on bank-owned life insurance	-	(245)
Other	-	(1)
	\$ 3	\$ (54)
Effective tax rate	4.40	% (8.76 %)

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 9 – Income Taxes (Continued)

Deferred income taxes at December 31, 2013 and September 30, 2013 were as follows:

	December 31, 2013	September 30, 2013
	(In thousands)	
Deferred Tax Assets:		
Unrealized loss on investments available for sale	\$ 1,850	\$ 1,385
Allowance for loan losses	3,014	3,091
Non-accrual interest	172	87
Write-down of real estate owned	337	573
Alternative minimum tax (AMT) credit carryover	64	64
Low-income housing tax credit carryover	337	337
Supplement Employer Retirement Plan	448	435
Charitable contributions	18	202
Depreciation	177	150
State net operating loss	559	1,528
Federal net operating loss	7,276	7,046
Other	116	112
Total Deferred Tax Assets	14,368	15,010
Valuation allowance for DTA	(11,761)	(12,454)
Total Deferred Tax Assets, Net of Valuation Allowance	\$ 2,607	\$ 2,556
Deferred Tax Liabilities:		
Mortgage servicing rights	(97)	(92)
Total Deferred Tax Liabilities	(97)	(92)
Deferred Tax Assets, Net	\$ 2,510	\$ 2,464

Table of Contents

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward looking statements (as defined in the Securities Exchange Act of 1934, as amended, and the regulations thereunder). Forward looking statements are not historical facts but instead represent only the beliefs, expectations or opinions of Malvern Bancorp, Inc. and its management regarding future events, many of which, by their nature, are inherently uncertain. Forward looking statements may be identified by the use of such words as: “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” or words of similar meaning or future or conditional terms such as “will,” “would,” “should,” “could,” “may,” “likely,” “probably,” or “possibly.” Forward looking statements include, but are not limited to, financial projections and estimates and their underlying assumptions; statements regarding plans, objectives and expectations with respect to future operations, products and services; and statements regarding future performance. Such statements are subject to certain risks, uncertainties and assumptions, many of which are difficult to predict and generally are beyond the control of Malvern Bancorp, Inc. and its management, that could cause actual results to differ materially from those expressed in, or implied or projected by, forward looking statements. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward looking statements: (1) economic and competitive conditions which could affect the volume of loan originations, deposit flows and real estate values; (2) the levels of non-interest income and expense and the amount of loan losses; (3) competitive pressure among depository institutions increasing significantly; (4) changes in the interest rate environment causing reduced interest margins; (5) general economic conditions, either nationally or in the markets in which Malvern Bancorp, Inc. is or will be doing business, being less favorable than expected; (6) political and social unrest, including acts of war or terrorism; or (7) legislation or changes in regulatory requirements adversely affecting the business in which Malvern Bancorp, Inc. is or will be engaged. Malvern Bancorp, Inc. undertakes no obligation to update these forward looking statements to reflect events or circumstances that occur after the date on which such statements were made.

As used in this report, unless the context otherwise requires, the terms “we,” “our,” “us,” or the “Company” refer to Malvern Bancorp, Inc., a Pennsylvania chartered corporation, and the term the “Bank” refers to Malvern Federal Savings Bank, a federally chartered savings bank and wholly owned subsidiary of the Company. In addition, unless the context otherwise requires, references to the operations of the Company include the operations of the Bank.

General

Malvern Bancorp, Inc. (the “Company” or “Malvern Bancorp”) is a Pennsylvania corporation and registered savings and loan holding company. Malvern Federal Savings Bank (“the Bank” or “Malvern Federal Savings”) is a federally chartered savings bank and wholly owned subsidiary of the Company.

Critical Accounting Policies

In reviewing and understanding financial information for the Company, you are encouraged to read and understand the significant accounting policies used in preparing our consolidated financial statements. These policies are described in Note 2 of the notes to our consolidated financial statements included elsewhere. The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America (“GAAP”) and to general practices within the banking industry. Accordingly, the consolidated financial statements require certain estimates, judgments, and assumptions, which are believed to be reasonable, based upon the

information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the periods presented. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may affect our reported results and financial condition for the period or in future periods.

Table of Contents

Allowance for Loan Losses. The allowance for loan 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 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 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 loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. 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 including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, as adjusted for qualitative factors.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. Once all factor adjustments are applied, general reserve allocations for each segment are calculated, summarized and reported on the allowance for loan losses summary. Allowance for loan losses final schedules, calculations and the resulting evaluation process are reviewed quarterly by the Asset Classification Committee and the 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 previously have been available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the level of the allowance for loan losses at December 31, 2013 was appropriate under U.S. GAAP

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral

value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and industrial loans, commercial real estate loans and commercial construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

Table of Contents

The allowance is adjusted for other significant factors that affect the collectibility of the loan portfolio as of the evaluation date including changes in lending policy and procedures, loan volume and concentrations, seasoning of the portfolio, loss experience in particular segments of the portfolio, and bank regulatory examination results. Other factors include changes in economic and business conditions affecting our primary lending areas and credit quality trends. Loss factors are reevaluated each reporting period to ensure their relevance in the current economic environment. We review key ratios such as the allowance for loan losses to total loans receivable and as a percentage of non-performing loans; however, we do not try to maintain any specific target range for these ratios.

While management uses the best information available to make loan loss allowance evaluations, adjustments to the allowance may be necessary based on changes in economic and other conditions or changes in accounting guidance. In addition, the OCC, as an integral part of its examination processes, periodically reviews our allowance for loan losses. The OCC may require the recognition of adjustments to the allowance for loan losses based on their judgment of information available to them at the time of their examinations. To the extent that actual outcomes differ from management's estimates, additional provisions to the allowance for loan losses may be required that would adversely impact earnings in future periods.

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

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

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

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

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

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

Fair value measurements for assets where there exists limited or no observable market data and, therefore, are based primarily upon the Company's or other third-party's estimates, are often calculated based on the characteristics of the asset, the economic and competitive environment and other such factors. Therefore, the results cannot be determined

with precision and may not be realized in an actual sale or immediate settlement of the asset. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future valuations. At December 31, 2013, the Company had \$1.7 million 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 or all 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.

Table of Contents

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 the amount of 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 \$2.5 million at December 31, 2013 and September 30, 2013. In evaluating the need for a valuation allowance, we must estimate our taxable income in future years and viable tax planning strategies we could employ so that the asset would not go unused. Our total deferred tax assets decreased to \$14.4 million at December 31, 2013 compared to \$15.0 million at September 30, 2013. Our DTA valuation allowance amounted to \$11.8 million at December 31, 2013 compared to \$12.5 million at September 30, 2013. In the future, the DTA allowance may be reversed, depending on the Company's financial position and results of operations in the future, among other factors, and, in such event, may be available to increase future net income. There can be no assurance, however, as to when we could be in a position to recapture our DTA allowance.

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 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.

Comparison of Financial Condition at December 31, 2013 and September 30, 2013

Our total assets decreased \$7.5 million or 1.2% to \$594.0 million at December 31, 2013 compared to \$601.6 million at September 30, 2013. The decrease was due primary to a \$10.4 million decrease in loans held for sale, a decrease of \$1.0 million in cash and cash equivalents and \$1.5 million reduction in other real estate owned. The decrease was partially offset by a \$5.4 million increase in net loans receivable. The decrease in loans held for sale was due to the completion of our bulk sale of \$10.4 million of loans in October 2013. The loans sold were designated as held for sale at September 30, 2013 and were comprised of non-accruing loans, performing troubled debt restructurings (“TDRs”) and classified and other loans which had an aggregate book balance of \$20.4 million prior to an aggregate of \$10.2 million in charge-offs taken in the quarter ended September 30, 2013.

Our total liabilities at December 31, 2013, were \$519.4 million compared to \$526.1 million at September 30, 2013. The \$6.7 million, or 1.3% decrease in total liabilities was due primarily to a \$13.6 million decrease in total deposits. Our total deposits were \$471.0 million at December 31, 2013 compared to \$484.6 million at September 30, 2013. The decrease was partially offset by a \$5.0 million increase in FHLB advances and a \$1.8 million increase in advances for borrowers for taxes and insurance. The increase in FHLB advances was due to a \$5.0 million purchase of relatively lower costing advances during the first quarter of fiscal 2014.

Our shareholders' equity decreased by \$793,000 to \$74.6 million at December 31, 2013 compared to \$75.4 million at September 30, 2013. The decrease was due primarily to a \$903,000 decrease in accumulated other comprehensive income. Net income of \$64,000 during the first quarter of fiscal 2014 increased retained earnings to \$19.9 million at December 31, 2013. Our ratio of equity to assets was 12.56% at December 31, 2013.

Table of Contents

Asset Quality

The table below sets forth the amounts and categories of loans delinquent more than 30 days but less than 90 days at the dates indicated.

	December 31, 2013	September 30, 2013 (In thousands)	December 31, 2012
Loans 31-89 Days Delinquent:			
Residential mortgage	\$ 2,124	\$ 1,021	\$ 1,260
Construction and Development:			
Residential and commercial	-	-	8,433
Commercial:			
Commercial real estate	-	155	-
Consumer:			
Home equity lines of credit	26	-	300
Second mortgages	1,255	1,262	985
Other	-	5	6
Total	\$ 3,405	\$ 2,443	\$ 10,984

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

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

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

	December 31, 2013	September 30, 2013 (In thousands)	December 31, 2012
Classified assets:			
Substandard(1)	\$ 8,745	\$ 8,482	\$ 38,883
Doubtful	-	-	335

Edgar Filing: MALVERN BANCORP, INC. - Form 10-Q

Loss	-	-	-
Total classified assets	8,745	8,482	39,218
Special mention assets	2,722	3,816	7,556
Total classified and special mention assets	\$ 11,467	\$ 12,298	\$ 46,774

(1) Includes other real estate owned of \$2.5 million, \$4.0 million and \$3.8 million, at December 31, 2013, September 30, 2013

44

Table of Contents

The following table sets forth non-performing assets and performing troubled debt restructurings which are neither non-accruing nor more than 90 days past due and still accruing in our portfolio at the dates indicated. Loans are generally placed on non-accrual status when they are 90 days or more past due as to principal or interest or when the collection of principal and/or interest becomes doubtful. There were no loans past due 90 days or more and still accruing interest for the periods shown. Troubled debt restructurings (“TDR”) are loans which are modified in a manner constituting a concession to the borrower, such as forgiving a portion of interest or principal making loans at a rate materially less than that of market rates, when the borrower is experiencing financial difficulty.

	December 31, 2013	September 30, 2013 (Dollars in thousands)	December 31, 2012
Non-accruing loans:			
Residential mortgage	\$ 1,821	\$ 1,295	\$ 4,021
Construction or Development:			
Residential and commercial(1)	484	-	2,707
Commercial:			
Commercial real estate(2)	-	-	3,108
Other	-	-	201
Consumer:			
Home equity lines of credit	20	34	22
Second mortgages	583	572	1,128
Total non-accruing loans	2,908	1,901	11,187
Other real estate owned and other foreclosed assets:			
Residential mortgage	542	725	841
Construction or Development:			
Residential and commercial	-	675	-
Commercial:			
Commercial real estate	1,756	1,929	2,126
Multi-family	-	81	405
Other	174	174	-
Consumer:			
Second mortgages	-	378	416
Total REO	2,472	3,962	3,788
Total non-performing assets	5,380	5,863	14,975
Performing troubled debt restructurings:			
Residential mortgage	-	-	857
Construction or Development:			
Residential and commercial	509	209	-
Land	237	237	1,145
Commercial:			
Commercial real estate	-	-	4,591
Other	900	900	175
Total TDRs	1,646	1,346	6,768
	\$ 7,026	\$ 7,209	\$ 21,743

Total non-performing assets and performing troubled debt restructurings

Ratios:

Total non-accrual loans as a percent of gross loans	0.71	%	0.47	%	2.48	%
Total non-performing assets as a percent of total assets	0.91	%	0.97	%	2.18	%
Total non-performing assets and performing troubled debt restructurings as a percent of total assets	1.18	%	1.20	%	3.16	%

(1) Includes two loans classified as TDRs in the aggregate amount of \$484,000 at December 31, 2013 and \$1.3 million at December 31, 2012.

(2) At December 31, 2012, includes one loan classified as TDR in the amount of \$1.4 million.

Table of Contents

At December 31, 2013, our total non-performing assets amounted to \$5.4 million, a decrease of \$483,000 compared to total non-performing assets at September 30, 2013. At December 31, 2013, the Company's total non-accruing loans amounted to \$2.9 million, or 0.71% of total loans, compared to \$11.2 million of non-accruing loans, or 2.48% of total loans at December 31, 2012 and \$1.9 million of non-accruing loans, or 0.47% of total loans at September 30, 2013. The primary reason for the \$1.0 million increase in non-accruing loans at December 31, 2013 compared to September 30, 2013 was three single-family residential loans with an aggregate outstanding balance of \$645,000 becoming more than 90 days past due and being placed on non-accrual status at December 31, 2013. In addition, during November 2013 we were required to repurchase two non-accrual construction and development loans which had been included in our October 2013 bulk loan sale. The two non-accruing construction and development loans had an outstanding balance of \$484,000 at December 31, 2013.

For the three months ended December 31, 2013 and 2012, additional gross interest income which would have been recorded had all of our non-accruing loans been current in accordance with their original terms amounted to \$46,000 and \$171,000, respectively. The amount that was included in interest income on such loans was \$16,000 for the three months ended December 31, 2013.

Our non-performing assets include REO in addition to non-performing loans. At December 31, 2013, our total REO amounted to \$2.5 million, a decrease of \$1.5 million compared to total REO at September 30, 2013. The \$1.5 million decrease in REO at December 31, 2013 compared to September 30, 2013, was due primarily to \$1.5 million of sales of REO, at a net gain of \$6,000.

While not considered non-performing, our performing troubled debt restructurings are closely monitored as they consist of loans that have been modified where the borrower is experiencing financial difficulty. Troubled debt restructurings may be deemed to have a higher risk of loss than loans which have not been restructured. At December 31, 2013, our total performing troubled debt restructurings amounted to \$1.6 million compared to \$1.3 million of performing troubled debt restructurings at September 30, 2013. The increase in troubled debt restructurings at December 31, 2013 compared to September 30, 2013 was due primarily to a \$300,000 advance taken on a line of credit tied to one borrower with four relationships that are performing TDRs.

Comparison of Operating Results for the Three Months Ended December 31, 2013 and 2012

General. Our net income was \$64,000 for the three months ended December 31, 2013 compared to net income of \$671,000 for the three months ended December 31, 2012. On a per share basis, the net income was \$0.01 per share for the quarter ended December 31, 2013, compared to net income of \$0.11 per share for the quarter ended December 31, 2012. The primary reason for the \$607,000 reduction in our net income in the first quarter of fiscal 2014 compared to the first quarter in fiscal 2013 was a \$785,000 decrease in interest and dividend income. Our interest rate spread was 2.63% and our net interest margin was 2.76% for the three months ended December 31, 2013, compared to a net interest spread of 2.23% and a net interest margin of 2.44% for the three months ended December 31, 2012.

Table of Contents

Average Balances, Net Interest Income, and Yields Earned and Rates Paid. The following table shows for the periods indicated the total dollar amount of interest from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. Tax-exempt income and yields have not been adjusted to a tax-equivalent basis. All average balances are based on monthly balances. Management does not believe that the monthly averages differ significantly from what the daily averages would be.

	Three Months Ended December 31,							
	Average Balance	2013 Interest	Average Yield/Rate (Dollars in thousands)		Average Balance	2012 Interest	Average Yield/Rate	
Interest Earning Assets:								
Loans receivable(1)	\$403,781	\$4,527	4.48	%	\$460,882	\$5,533	4.80	%
Investment securities	126,600	609	1.92		85,422	381	1.78	
Deposits in other banks	22,531	15	0.27		106,916	31	0.12	
FHLB stock	3,063	14	1.83		3,787	5	0.53	
Total interest-earning assets	555,975	5,165	3.72		657,007	5,950	3.62	
Non-interest-earning assets	39,547				35,150			
Total assets	\$595,522				\$692,157			
Interest Bearing Liabilities:								
Demand and NOW accounts	\$86,592	22	0.10		\$87,221	40	0.18	
Money market accounts	66,704	45	0.27		69,172	72	0.42	
Savings accounts	42,756	6	0.06		42,115	7	0.07	
Time deposits	254,927	994	1.56		314,743	1,398	1.78	
Total deposits	450,979	1,067	0.95		513,251	1,517	1.18	
FHLB borrowings	38,841	263	2.71		48,014	430	3.58	
Total interest-bearing liabilities	489,820	1,330	1.09		561,265	1,947	1.39	
Non-interest-bearing liabilities	30,375				44,323			
Total liabilities	520,195				605,588			
Shareholders' equity	75,327				86,569			
Total liabilities and shareholders' equity	\$595,522				\$692,157			
Net interest-earning assets	\$66,155				\$95,742			
Net interest income; average interest rate spread		\$3,835	2.63	%		\$4,003	2.23	%
Net interest margin			2.76	%			2.44	%
Average interest-earning assets to average interest-bearing liabilities	113.51	%			117.06	%		

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

47

Table of Contents

Interest and Dividend Income. Our interest and dividend income decreased for the three months ended December 31, 2013 by \$785,000 or 13.2% over the comparable fiscal 2013 period to \$5.2 million. Interest income on loans decreased in the three months ended December 31, 2013 over the prior comparable period in fiscal 2013 by \$1.0 million, or 18.2%. The decrease in interest earned on loans in the first quarter of fiscal 2014 was due primarily to a \$57.1 million, or 12.4%, decrease in the average balance of our outstanding loans as well as a 32 basis point decrease in the average yield earned on our loan portfolio in the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013. Interest income on investment securities increased by \$228,000, or 59.8%, in the first quarter of fiscal 2014 compared to the comparable prior fiscal year period. The average yield on investment securities increased 14 basis points to 1.92% for the three months ended December 31, 2013 from 1.78% for the same period ended 2012.

Interest Expense. Our interest expense for the three month period ended December 31, 2013 was \$1.3 million, a decrease of \$617,000 from the three month period ended December 31, 2012. The reason for the decrease in interest expense in the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013 was a 23 basis point decrease in average rate paid on total deposits together with a decrease in the average balance of our total deposits of \$62.3 million, or 12.1%, in the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013 due primarily to a \$59.8 million decrease in the average balance of certificates of deposit. The average rate paid on total deposits decreased to 0.95% for fiscal 2014 from 1.18% for fiscal 2013. Our expense on borrowings amounted to \$263,000 in the first quarter of fiscal 2014 compared to \$430,000 in the first quarter of fiscal 2013. The average balance of our borrowings decreased by \$9.2 million in the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013, and the average cost of borrowed funds decreased to 2.71% in the first quarter of fiscal 2014 compared to 3.58% in the first quarter of fiscal 2013. The reduction in our total cost and average rate paid on borrowings in the first quarter of fiscal 2014 reflects, in large part, our determination to prepay higher rate FHLB advances in the fourth quarter of fiscal 2013.

Provision for Loan Losses. The provision for loan losses was \$80,000 for the three months ended December 31, 2013 compared to \$400,000 for the three months ended December 31, 2012. The \$320,000 difference in the provision for loan losses for the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013, among other things, reflected the overall improvement in the trend of our levels of delinquent, impaired and non-performing loans during the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013. Our net charge-offs for the quarter ended December 31, 2013 were \$325,000 compared to \$410,000 for the quarter ended December 31, 2012. Our ratio of net charge-offs to the total allowance for loan losses was 26.8% for the quarter ended December 31, 2013. As of December 31, 2013, the balance of the allowance for loan losses was \$4.8 million, or 1.18% of gross loans and 166.61% of non-accruing loans, compared to an allowance for loan losses of \$5.1 million or 1.26% of gross loans and 267.75% of non-accruing loans at September 30, 2013.

Table of Contents

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

	For the Three Months Ended December 31,		For the Year Ended September 30,		
	2013	2012	2013		
	(Dollars in thousands)				
Balance at beginning of period	\$5,090	\$7,581	\$ 7,581		
Provision for loan losses	80	400	11,235		
Charge-offs:					
Residential mortgage	-	44	994		
Construction and Development					
Residential and commercial	37	50	5,768		
Land	-	-	99		
Commercial:					
Commercial real estate	-	155	6,315		
Other	-	-	94		
Consumer:					
Home equity lines of credit	14	-	-		
Second mortgages	320	184	1,042		
Other	2	4	9		
Total charge-offs	373	437	14,321		
Recoveries:					
Residential mortgage	11	-	199		
Commercial:					
Commercial real estate	2	-	117		
Other	1	21	23		
Consumer:					
Home equity lines of credit	-	1	17		
Second mortgages	33	5	235		
Other	1	-	4		
Total recoveries	48	27	595		
Net charge-offs	325	410	13,726		
Balance at end of period	\$4,845	\$7,571	\$ 5,090		
Ratios:					
Ratio of allowance for loan losses to non-accrual loans	166.61	% 67.68	%	267.75	%
Ratio of net charge-offs to average loans outstanding, (annualized for the three-month periods ended December 31, 2013 and 2012)	0.32	% 0.36	%	3.12	%
Ratio of net charge-offs to total allowance for loan losses (annualized for the three-month periods ended December 31, 2013 and 2012)	26.84	% 21.68	%	269.67	%

Table of Contents

Other Income. Our other, or non-interest, income decreased by \$799,000, or 61.1%, to \$508,000 for the three months ended December 31, 2013 compared to \$1.3 million for the three months ended December 31, 2012. The decrease in other income during the first quarter of fiscal 2014 was due primarily to a decrease in earnings on bank-owned life insurance of \$577,000 due to a tax free death benefit of approximately \$596,000 received in the first quarter of 2013 and a \$137,000 decrease in gain on sale of loans due to decrease in the volume of loans sold.

Other Expenses. Our other, or non-interest, expenses decreased by \$97,000, or 2.3%, to \$4.2 million in the quarter ended December 31, 2013 compared to \$4.3 million for the three months ended December 31, 2012. The slight decrease in other operating expenses in the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013 was due primarily to a \$412,000 decrease in other real estate owned expense and a \$26,000 decrease in federal deposit insurance premiums. The decrease in other REO expense was due to the reduction of other real estate owned during the first quarter of fiscal 2014. These decreases were partially offset by a \$219,000 increase in salaries and employee benefits and \$121,000 increase in professional fees in the first quarter of fiscal 2014 when compared to the same period in fiscal 2013. The increase in salaries and employee benefits expense in the quarter ended December 31, 2013 primarily reflects an increase in the number of employees in our secondary market program as well as the increase in support staff in the Credit Review Department and Mortgage Loan Department, which primarily reflects our continuing efforts to strengthen our loan underwriting and credit administration policies and procedures.

Income Tax Expense. Our income tax expense was \$3,000 for the three months ended December 31, 2013 compared to income tax benefit of \$54,000 for the three months ended December 31, 2012. The income tax expense for the quarter ended December 31, 2013 primarily reflects the \$550,000 decrease in pre-tax income during the quarter ended December 31, 2013. Our effective Federal tax rate was 4.4% and (8.8%) for the three months ended December 31, 2013 and 2012, respectively. The reason for the 4.4% effective tax rate is primarily due to state taxes. The Company did not record any federal expense for the current quarter. We evaluate our tax obligations on a quarterly basis and do not expect to resume making provisions for Federal income tax expense until we have reported net income before taxes for several consecutive fiscal quarters.

Liquidity and Capital Resources

Our primary sources of funds are from deposits, FHLB borrowings, amortization of loans, loan prepayments and the maturity of loans, mortgage-backed securities and other investments, and other funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan prepayments can be greatly influenced by general interest rates, economic conditions and competition. We also maintain excess funds in short-term, interest-bearing assets that provide additional liquidity. At December 31, 2013, our cash and cash equivalents amounted to \$22.7 million. In addition, at such date our available for sale investment securities amounted to \$123.8 million.

In addition to cash flow from loan and securities payments and prepayments as well as from sales of available for sale securities, we have significant borrowing capacity available to fund liquidity needs. In recent years we have utilized borrowings as a cost efficient addition to deposits as a source of funds. Our borrowings consist primarily of advances from the Federal Home Loan Bank of Pittsburgh, of which we are a member. Under terms of the collateral agreement with the Federal Home Loan Bank, we pledge residential mortgage loans and mortgage-backed securities as well as our stock in the Federal Home Loan Bank as collateral for such advances.

We use our liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. At December 31, 2013, we had certificates of deposit maturing within the next 12 months amounting to \$108.9 million. For the three months ended December 31, 2013, the average balance of our outstanding FHLB advances was \$38.8 million. At December 31, 2013, we had \$43.0 million in outstanding long-term FHLB advances and we had \$168.5 million in potential FHLB advances available to us.

Table of Contents

The following table summarizes our contractual cash obligations at December 31, 2013.

	Payments Due by Period				Total
	To One Year	After One to Three Years	After Three to Five Years	After Five Years	
	(In thousands)				
Long-term debt obligations	\$-	\$15,000	\$-	\$28,000	\$43,000
Certificates of deposit	108,915	91,706	41,321	5,956	247,898
Operating lease obligations	279	430	429	4,334	5,472
Total contractual obligations	\$109,194	\$107,136	\$41,750	\$38,290	\$296,370

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

Impact of Inflation and Changing Prices

The financial statements, accompanying notes, and related financial data presented herein have been prepared in accordance with U.S. GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of operations. Most of our assets and liabilities are monetary in nature; therefore, the impact of interest rates has a greater impact on its performance than 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.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

For a discussion of the Company's asset and liability management policies as well as the methods used to manage its exposure to the risk of loss from adverse changes in market prices and rates market, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – How We Manage Market Risk" in the Company's Annual Report on Form 10-K for the year ended September 30, 2013. There has been no material change in the Company's asset and liability position since September 30, 2013.

Item 4. Controls and Procedures

Our management evaluated, with the participation of our Chief Financial Officer (who was also performing the duties as acting principal executive officer as of the date of filing this Quarterly Report on Form 10-Q) the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Financial Officer (who was also performing the duties as acting principal executive officer as of the date of filing this Quarterly Report on Form 10-Q) concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and are operating in an effective manner.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15(d)-15(f) under the Securities Exchange Act of 1934) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

51

Table of Contents

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

Not applicable.

Item 1A - Risk Factors

See Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended September 30, 2013. There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2013.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3 - Defaults Upon Senior Securities

There are no matters required to be reported under this item.

Item 4 - Mine Safety Disclosure

There are no matters required to be reported under this item.

Item 5 - Other Information

There are no matters required to be reported under this item.

Item 6 - Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Section Certification
31.2	Rule 13a-14(a)/15d-14(a) Section 302 Certification
32.1	Section 1350 Certification

101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.

Table of Contents

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.

February 12, 2014

By: /s/ Dennis Boyle
Dennis Boyle
Senior Vice President and Chief
Financial Officer
(Also authorized to sign this report as acting principal
executive officer at the time this Form 10-Q is filed.)