MALVERN FEDERAL BANCORP INC
Form 10-Q
August 06, 2010

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

(Mark One)
x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: June 30, 2010
or
o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ______ to ______

Commission File Number: 001-34051

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

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

MALVERN FEDERAL BANCORP, INC.

TABLE OF CONTENTS

Table of Contents

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

	June 30, 2010	September 30, 2009
Assets		
Cash and due from depository institutions	$ 11,062,043	$ 10,815,796
Interest bearing deposits in depository institutions	36,485,972	14,508,803
Cash and Cash Equivalents	47,548,015	25,324,599
Investment securities available for sale	29,154,674	27,097,590
Investment securities held to maturity (fair value of $4,958,673 and $4,942,102, respectively)	4,747,855	4,842,176
Restricted stock, at cost	6,566,973	6,566,973
Loans receivable, net of allowance for loan losses of $9,126,968 and $5,717,510, respectively	569,171,833	593,565,338
Other real estate owned	5,923,393	5,874,854
Accrued interest receivable	2,094,709	2,226,206
Property and equipment, net	8,173,351	8,381,962
Deferred income taxes, net	4,176,697	2,331,656
Bank-owned life insurance	14,068,551	13,649,585
Other assets	3,706,570	1,777,629
Total Assets	$ 695,332,621	$ 691,638,568
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Deposits-noninterest-bearing	$ 19,166,222	$ 19,314,263
Deposits-interest-bearing	531,743,732	497,196,415
Total Deposits	550,909,954	516,510,678
FHLB advances	70,933,298	99,621,045
Advances from borrowers for taxes and insurance	2,976,564	1,227,604
Accrued interest payable	341,639	706,895
Other liabilities	1,739,099	3,729,966
Total Liabilities	626,900,554	621,796,188
Commitments and Contingencies	-	-
Shareholders' Equity		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued	-	-
	61,525	61,525

Common stock, $0.01 par value, 40,000,000 shares authorized, issued and outstanding: 6,102,500 at June 30, 2010 and 6,150,500 at September 30, 2009		
Additional paid-in capital	25,922,149	25,937,027
Retained earnings	45,114,749	46,285,949
Treasury stock—at cost, 50,000 shares at June 30, 2010 and 2,000 shares at September 30, 2009	(476,920)	(19,000)
Unearned Employee Stock Ownership Plan (ESOP) shares	(2,335,418)	(2,444,565)
Accumulated other comprehensive income	145,982	21,444
Total Shareholders' Equity	68,432,067	69,842,380
Total Liabilities and Shareholders' Equity	$ 695,332,621	$ 691,638,568

See notes to unaudited consolidated financial statements.

Table of Contents

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Interest and Dividend Income				
Loans, including fees	$ 7,983,430	$ 8,343,350	$ 24,345,376	$ 25,265,115
Investment securities, taxable	253,090	214,116	738,333	630,204
Investment securities, tax-exempt	6,056	18,988	27,030	61,077
Interest-bearing cash accounts	8,834	15,514	23,778	40,471
Total Interest and Dividend Income	8,251,410	8,591,968	25,134,517	25,996,867
Interest Expense				
Deposits	2,423,691	3,406,534	7,695,105	10,318,468
Short-term borrowings	-	-	7,794	8,699
Long-term borrowings	824,327	1,293,693	2,862,260	3,905,962
Total Interest Expense	3,248,018	4,700,227	10,565,159	14,233,129
Net Interest Income	5,003,392	3,891,741	14,569,358	11,763,738
Provision for Loan Losses	1,050,000	310,000	5,632,000	1,217,423
Net Interest Income after Provision for Loan Losses	3,953,392	3,581,741	8,937,358	10,546,315
Other Income				
Service charges and other fees	269,846	376,536	1,029,280	1,006,144
Rental income	63,267	63,993	190,632	190,959
Gain on sale of investment securities available for sale, net	-	1,324	-	28,530
Gain on disposal of fixed assets	-	-	-	8,200
Loss on sale of other real estate owned, net	(156,112)	(17,715)	(173,160)	(17,715)
Earnings on bank-owned life insurance	141,684	137,951	418,967	374,111
Total Other Income	318,685	562,089	1,465,719	1,590,229
Other Expense				
Salaries and employee benefits	1,647,466	1,662,702	4,780,493	4,746,719
Occupancy expense	432,142	457,686	1,372,539	1,414,175
Federal deposit insurance premium	225,843	413,444	1,093,569	581,774
Advertising	173,666	189,879	612,518	552,141
Data processing	388,757	280,914	1,164,157	866,015
Professional fees	242,687	238,618	760,995	745,039

Other real estate owned expense	234,182	223,928	1,027,433	223,929
Other operating expenses	563,412	550,664	1,395,619	1,643,630
Total Other Expenses	3,908,155	4,017,835	12,207,323	10,773,424
Income (loss) before income tax (benefit) expense	363,922	125,995	(1,804,246)	1,363,122
Income tax (benefit) expense	77,038	(28,276)	(877,721)	321,461
Net Income (Loss)	$ 286,884	$ 154,271	$ (926,525)	$ 1,041,661
Basic Earnings (Loss) Per Share	$ 0.05	$ 0.03	$ (0.16)	$ 0.18
Dividends Declared Per Share	$ 0.03	$ 0.03	$ 0.09	$ 0.11

See notes to unaudited consolidated financial statements.

3

Table of Contents

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, October 1, 2008	$61,525	$25,959,169	$45,663,389	$-	$(2,571,028)	$(277,356)	$68,835,699
Comprehensive Income:							
Net Income	-	-	1,041,661	-	-	-	1,041,661
Net Change in unrealized loss on securities available for sale, net of taxes and reclassification adjustment	-	-	-	-	-	131,921	131,921
Total Comprehensive Income	-	-	-	-	-	-	1,173,582
Cash dividends declared ($0.08 per share)	-	-	(304,549)	-	-	-	(304,549)
Committed to be released ESOP shares (10,051 shares)	-	(17,971)	-	-	90,081	-	72,110
Balance, June 30, 2009	$61,525	$25,941,198	$46,400,501	$-	$(2,480,947)	$(145,435)	$49,776,842
Balance, October 1, 2009	$61,525	$25,937,027	$46,285,949	$(19,000)	$(2,444,565)	$21,444	$69,842,380

Comprehensive Income:							
Net Loss	-	-	(926,525)	-	-	-	(926,525)
Net Change in unrealized gain on securities available for sale, net of taxes	-	-	-	-	-	124,538	124,538
Total Comprehensive Loss	-	-	-	-	-	-	(801,987)
Treasury stock purchased (48,000 shares)	-	-	-	(457,920)	-	-	(457,920)
Cash dividends declared ($0.09 per share)	-	-	(244,675)	-	-	-	(244,675)
Committed to be released ESOP shares (10,053 shares)	-	(14,878)	-	-	109,147	-	94,269
Balance, June 30, 2010	$61,525	$25,922,149	$45,114,749	$(476,920)	$(2,335,418)	$ 145,982	$68,432,067

See notes to unaudited consolidated financial statements.

Table of Contents

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

	Nine Months Ended June 30, 2010	2009
Cash Flows from Operating Activities		
Net income (loss)	$(926,525)	$1,041,661
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation expense	598,230	704,834
Provision for loan losses	5,632,000	1,217,423
Deferred income taxes benefit	(1,909,367)	(351,201)
ESOP expense	94,269	72,110
Amortization (accretion) of premiums and discounts on investments securities, net	(151,796)	(93,550)
Amortization of mortgage servicing rights	155,397	86,582
Net gain on sale of investment securities available for sale	-	(28,530)
Net gain on disposal of fixed assets	-	(8,200)
Loss on sale of other real estate owned	173,160	-
Write down of other real estate owned	865,282	-
Decrease in accrued interest receivable	131,497	137,629
Decrease in accrued interest payable	(365,256)	(140,558)
(Decrease) increase in other liabilities	(1,990,867)	533,664
Earnings on bank-owned life insurance	(418,966)	(374,111)
Decrease (increase) in other assets	288,058	(878,599)
Increase in prepaid FDIC assessment	(2,372,396)	(186,679)
Amortization of loan origination fees and costs	(591,092)	(80,266)
Net Cash (Used in) Provided by Operating Activities	(788,372)	1,652,209
Cash Flows from Investing Activities		
Proceeds from maturities and principal collections:		
Investment securities held to maturity	121,965	371,509
Investment securities available for sale	13,834,357	8,513,425
Proceeds from sales, investment securities available for sale	-	1,149,754
Purchases of investment securities available for sale	(15,578,425)	(14,880,386)
Loan purchases	(17,368,288)	(35,661,199)
Loan originations and principal collections, net	34,393,431	1,788,394
Proceeds from sale of other real estate owned	1,240,473	-
Purchase of other real estate owned	-	(780,281)
Purchases of bank-owned life insurance	-	(5,000,000)
Net decrease in restricted stock	-	328,700
Purchases of property and equipment	(389,619)	(269,710)
Net Cash Provided by (Used in) Investing Activities	16,253,894	(44,439,794)

Cash Flows from Financing Activities		
Net increase in deposits	34,399,276	73,256,524
Net decrease in short-term borrowings	-	(8,500,000)
Proceeds from long-term borrowings	3,000,000	5,000,000
Repayment of long-term borrowings	(31,687,747)	(5,341,140)
Increase in advances from borrowers for taxes and insurance	1,748,960	2,059,262
Cash dividends paid	(244,675)	(332,235)
Treasury stock purchased	(457,920)	-
Net Cash Provided by Financing Activities	6,757,894	66,142,411
Net Increase in Cash and Cash Equivalents	22,223,416	23,354,826
Cash and Cash Equivalents - Beginning	25,324,599	12,922,297
Cash and Cash Equivalents - Ending	$47,548,015	$36,277,123
Supplementary Cash Flows Information		
Interest paid	$10,930,415	$14,373,687
Income taxes paid	$830,750	$455,300
Non-cash transfer of loans to other real estate owned	$2,327,454	$4,036,865

See notes to unaudited consolidated financial statements.

Table of Contents

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

Note 1 – Organizational Structure and Nature of Operations

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

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

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

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all the information or footnotes necessary for a complete presentation of financial condition, operations, changes in shareholders' equity, and cash flows in conformity with accounting principles generally accepted in the United States. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements have been included. These financial statements should be read in conjunction with the audited consolidated financial statements of Malvern Federal Bancorp, Inc. and the accompanying notes thereto for the year ended September 30, 2009, which are included in the Company's Annual Report on Form 10-K for the year ended September 30, 2009. The results for the three and nine months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2010, or any other period.

In accordance with the subsequent events topic of the FASB Accounting Standards Codification (the "Codification" or the "ASC"), the Company evaluates events and transactions that occur after the statement of financial condition date for potential recognition and disclosure in the financial statements. The effect of all subsequent events that provide additional evidence of conditions that existed at the balance sheet date are recognized in the unaudited consolidated financial statements as of June 30, 2010.

Table of Contents

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Significant Group Concentrations of Credit Risk

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

Cash and Cash Equivalents

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

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

Investment Securities

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

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.

Table of Contents

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Loans Receivable

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

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

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

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

Allowance for Loan Losses

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

Table of Contents

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

Note 2 – Summary of Significant Accounting Policies (Continued)

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

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

Troubled Debt Restructurings

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

Loan Servicing

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

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

9

Table of Contents

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Other Real Estate Owned

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

Restricted Stock

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

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

Property and Equipment

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

Transfers of Financial Assets

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

Bank-Owned Life Insurance

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

Employee Benefit Plans

The Bank's 401(k) plan allows eligible participants to set aside a certain percentage of their salaries before taxes. The Company may elect to match employee contributions up to a specified percentage of their respective salaries in an amount determined annually by the Board of Directors. The Company's matching contribution related to the plan resulted in expenses of $39,601 and $80,736 for the three and nine months ended June 30, 2010, respectively. The Company's matching contribution related to the plan resulted in expenses of $43,328 and $97,171 for the three and nine months ended June 30, 2009, respectively.

Table of Contents

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

Note 2 – Summary of Significant Accounting Policies (Continued)

The Company also maintains a Supplemental Executive and a Director Retirement Plan (the "Plans"). The accrued amount for the Plans included in other liabilities was $856,874 and $749,317 at June 30, 2010 and September 30, 2009, respectively. Distributions made for the nine months ended June 30, 2010 and 2009 were $17,921 and $6,675, respectively. The expense associated with the Plans for the three and nine months ended June 30, 2010 was $42,442 and $124,133, respectively. The expense associated with the Plans for the three and nine months ended June 30, 2009 was $45,060 and $119,665, respectively.

Advertising Costs

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

Income Taxes

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

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

Commitments and Contingencies

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

Segment Information

The Company has one reportable segment, "Community Banking." All of the Company's activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, lending is dependent upon the ability of the Company to fund itself with deposits and other borrowings and manage interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment or unit.

Comprehensive Income

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

Table of Contents

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

Note 2 – Summary of Significant Accounting Policies (Continued)

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

	For the Three Months Ended June 30,		For the Nine months Ended June 30,	
	2010	2009	2010	2009
Unrealized holding gains on available for sale securities	$ 141,928	$ 165,005	$ 188,864	$ 203,050
Reclassification adjustment for gains included in operations	-	1,325	-	28,530
Net Unrealized Gains	141,928	166,330	188,864	231,580
Income tax	48,256	61,606	64,326	99,659
Net of Tax Amount	$ 93,672	$ 104,724	$ 124,538	$ 131,921

Recent Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. ASU 2010-06 revises two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances, and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. The Company's disclosures about fair value measurements are presented in Note 3: Fair Value Measurements in the notes to the Company's audited financial statements included in Item 8 of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2009. These new disclosure requirements were effective for the period ended June 30, 2010, except for the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. There was no significant effect to the Company's financial statement disclosure upon adoption of this ASU.

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

12

Table of Contents

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

Note 3 – Earnings Per Share

Earnings Per Share

Basic earnings per common share is computed based on the weighted average number of shares outstanding reduced by unearned ESOP shares. Diluted earnings per share is computed based on the weighted average number of shares outstanding and common stock equivalents ("CSEs") that would arise from the exercise of dilutive securities reduced by unearned ESOP shares. As of June 30, 2010 and for the three and nine months ended June 30, 2010 and June 30, 2009 the Company had not issued and did not have any outstanding CSEs and at the present time, the Bank's capital structure has no potential dilutive securities. For the three and nine months ended June 30, 2010 and 2009, basic earnings per share is shown below

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

	Three Months Ended June 30,		Nine months Ended June 30,	
	2010	2009	2010	2009
Net Income (Loss)	$286,884	$154,271	$ (926,525)	$1,041,661
Average common shares outstanding	6,122,756	6,152,500	6,122,533	6,152,500
Average unearned ESOP shares	(214,921)	(228,318)	(218,282)	(231,690)
Weighted average shares outstanding – basic	5,907,835	5,924,182	5,904,251	5,920,810
Earnings (Loss) per share – basic	$0.05	$0.03	($0.16)	$0.18

Note 4 – Employee Stock Ownership Plan

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

3,351 and 10,053 shares committed to be released, respectively, and ESOP expense was $30,510 and $94,269, respectively. During the three and nine months ended June 30, 2009, there were 3,350 and 10,051 shares committed to be released, respectively, and ESOP expense was $9,790 and $72,110, respectively. At June 30, 2010, there were 213,255 unallocated shares held by the ESOP which had an aggregate fair value of approximately $1.8 million.

Table of Contents

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

Note 5 - Investment Securities

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

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

	June 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies	$7,197,237	$35,792	$-	$7,233,029
FHLB notes	3,498,037	22,208	-	3,520,245
State and municipal obligations	1,199,932	12,077	(18,000)	1,194,009
Single issuer trust preferred security	1,000,000	-	(212,860)	787,140
Corporate debt securities	1,962,123	36,610	(26,113)	1,972,620
	14,857,329	106,687	(256,973)	14,707,043
Mortgage-backed securities:				
FNMA:				
Adjustable	3,499,778	167,437	-	3,667,215
Fixed	1,626,736	52,343	-	1,679,079
Balloon	3,388	32	-	3,420
FHLMC:				
Adjustable	902,066	26,424	-	928,490
Fixed	513,672	42,794	-	556,466
GNMA, adjustable	171,909	2,974	-	174,883
CMO, fixed-rate	7,358,611	81,472	(2,005)	7,438,078
	14,076,160	373,476	(2,005)	14,447,631
	$28,933,489	$480,163	$(258,978)	$29,154,674

Table of Contents

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

Note 5 - Investment Securities (Continued)

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

Table of Contents

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

Note 5 - Investment Securities (Continued)

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

	June 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities:				
GNMA, adjustable	$272,361	$7,560	$-	$279,921
GNMA, fixed	1,595	135	-	1,730
FNMA, fixed	4,473,899	203,123	-	4,677,022
	$4,747,855	$210,818	$-	$4,958,673

	September 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities:				
GNMA, adjustable	$298,049	$7,025	$-	$305,074
GNMA, fixed	2,236	166	-	2,402
FNMA, fixed	4,541,891	92,735	-	4,634,626
	$4,842,176	$99,926	$-	$4,942,102

Table of Contents

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

Note 5 - Investment Securities (Continued)

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

	June 30, 2010					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment Securities Available for Sale						
State and municipal obligations	$-	$-	$27,000	$(18,000)	$27,000	$(18,000)
Single issuer trust preferred security	-	-	787,140	(212,860)	787,140	(212,860)
Corporate debt security	861,684	(26,113)	-	-	861,684	(26,113)
Mortgage-backed securities:						
CMO, fixed-rate	741,482	(2,005)	-	-	741,482	(2,005)
	$1,603,166	$(28,118)	$814,140	$(230,860)	$2,417,306	$(258,978)

Table of Contents

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

Note 5 - Investment Securities (Continued)

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

The Company held no securities classified as held to maturity which were in an unrealized loss position at June 30, 2010 and September 30, 2009.

As of June 30, 2010, the estimated fair value of the securities disclosed above is primarily dependent upon the movement in market interest rates particularly given the negligible inherent credit risk associated with these securities. These investment securities are comprised of securities that are rated investment grade by at least one bond credit rating service. Although the fair value will fluctuate as the market interest rates move, management believes that these fair values will recover as the underlying portfolios mature and are reinvested in market rate yielding investments. As of June 30, 2010, the Company held one tax-free municipal, three corporate debt securities, one agency mortgage-backed security and one single issuer trust preferred security which were in an unrealized loss position. The Company does not intend to sell and it is not more likely than not that it will be required to sell these securities until such time as the value recovers or the securities mature. Management does not believe any individual unrealized loss as of June 30, 2010 represents other-than-temporary impairment.

During the nine month ended June 30, 2010, the gross unrealized loss of the single issuer trust preferred security improved by $148,720 from an unrealized loss at September 30, 2009 of $361,580 to an unrealized loss of $212,860 as of June 30, 2010. The stability of the underlying credit and the financial markets has contributed to this improvement. The historic changes in the economy and interest rates have caused the pricing of agency, mortgage-backed securities, and trust preferred securities to widen dramatically over U.S. Treasury securities into the June 2010 quarter, but slight signs of improvement have recently occurred that has slightly stabilized the market. Management will continue to monitor the performance of this security and the markets to determine the true economic value of this security.

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

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

Note 5 - Investment Securities (Continued)

The amortized cost and fair value of debt securities by contractual maturity at June 30, 2010 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$2,298,600	$2,318,348	$-	$-
Over 1 year through 5 years	11,558,729	11,601,555	-	-
Over 10 years	1,000,000	787,140		
	14,857,329	14,707,043	-	-
Mortgage-backed securities	14,076,160	14,447,631	4,747,855	4,958,673
	$28,933,489	$29,154,674	$4,747,855	$4,958,673

Note 6 - Loans Receivable

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

	June 30, 2010	September 30, 2009
Mortgage Loans:		
One-to four-family	$242,331,654	$ 252,307,828
Multi-family	6,964,033	9,613,184
Construction or development	29,061,088	37,507,536
Land loans	3,209,894	3,236,550
Commercial real estate	148,969,875	142,863,313
Total Mortgage Loans	430,536,544	445,528,411
Commercial Loans	13,948,893	15,647,219
Consumer loans:		
Home equity lines of credit	19,787,169	19,149,135
Second mortgages	109,324,198	113,943,091
Other	1,150,076	1,142,967
Total Consumer Loans	130,261,443	134,235,193
Total Loans	574,746,880	595,410,823
Deferred loan costs, net	3,551,921	3,872,025
Allowance for loan losses	(9,126,968)	(5,717,510)

	$ 569,171,833	$ 593,565,338

19

Table of Contents

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

Note 6 - Loans Receivable (Continued)

Included in loans receivable are nonaccrual loans in the amount of $23,714,397 and $14,194,724 at June 30, 2010 and September 30, 2009, respectively. Interest income that would have been recognized on these nonaccrual loans had they been current in accordance with their original terms was $430,482 and $283,746 for the three months ended June 30, 2010 and 2009, respectively, and was $1.0 million and $492,851for the nine-months ended June 30, 2010 and 2009, respectively. There were no loans past due 90 days or more and still accruing interest at June 30, 2010 or September 30, 2009.

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

	Nine months Ended June 30, 2010	Nine months Ended June 30, 2009	Year Ended September 30, 2009
Balance at beginning of period	$ 5,717,510	$ 5,504,512	$ 5,504,512
Provision for loan losses	5,632,000	1,217,423	2,280,100
Charge-offs	(2,225,460)	(1,682,273)	(2,096,928)
Recoveries	2,918	3,695	29,826
Net Charge-offs	(2,222,542)	(1,678,578)	(2,067,102)
Balance at end of period	$ 9,126,968	$ 5,043,357	$ 5,717,510

At June 30, 2010 and September 30, 2009, 100% of impaired loan balances were measured for impairment based on the fair value of the loan's collateral. At June 30, 2010, of the $12.3 million of troubled debt restructurings, $3.1 million were considered impaired due to reduced collateral value of the properties securing the loans and a specific valuation allowance of $461,000 was established. The loans have been classified as performing troubled debt restructurings since we modified the payment terms from the original agreement and allowed the borrower to make interest only payments in order to relieve some of their overall cash flow burden.

	June 30, 2010	September 30, 2009
Impaired loans without an allocated valuation allowance	$ 1,739,079	$ 10,570,188
Impaired loans with an allocated valuation allowance	12,243,276	3,624,536
Total impaired loans	$ 13,982,355	$ 14,194,724
Valuation allowance allocated to impaired loans	$ 3,234,728	$ 2,057,318

	Nine months Ended June 30, 2010	Year Ended September 30, 2009
Average impaired loans	$ 12,242,940	$ 14,285,848
Interest income recognized on impaired loans	$ 260,827	$ 698,270

Cash basis collections on impaired loans	$	261,648	$	859,681

20

Table of Contents

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

Note 7 - Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible and core capital (as defined in the regulations) to total adjusted tangible assets (as defined) and of risk-based capital (as defined) to risk-weighted assets (as defined). Management believes, as of June 30, 2010, that the Bank met all capital adequacy requirements to which it was subject.

As of June 30, 2010, the most recent notification from the regulators categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum tangible, core, and risk-based ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's status of "well-capitalized."

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

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2010:						
Tangible Capital (to tangible assets)	$ 61,307,341	8.87 %	$ >10,362,886	>1.50 %	N/A	
Core Capital (to adjusted tangible assets)	61,307,341	8.87	>27,634,363	>4.00	$ >34,542,953	> 5.00 %
Tier 1 Capital (to risk-weighted assets)	61,307,341	11.77	>20,841,415	>4.00	>31,262,122	> 6.00
Total risk-based Capital (to risk-weighted assets)	67,199,581	12.90	>41,682,829	>8.00	>52,103,537	>10.00

As of September 30, 2009:						
Tangible Capital (to tangible assets)	$ 62,247,317	9.07 %	$ >10,297,204	>1.50 %	N/A	
Core Capital (to adjusted tangible assets)	62,247,317	9.07	>27,459,211	>4.00	$ >34,324,014	> 5.00 %
Tier 1 Capital (to risk-weighted assets)	62,247,317	11.96	>20,815,426	>4.00	>31,223,140	> 6.00
Total risk-based Capital (to risk-weighted assets)	65,907,510	12.67	>41,630,853	>8.00	>52,038,566	>10.00

Table of Contents

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

Note 8 - Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

Note 8 - Fair Value Measurements (Continued)

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

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

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

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

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

Impaired Loans—Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client's business. Impaired loans are reviewed and evaluated on a monthly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

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

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

Table of Contents

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

Note 8 - Fair Value Measurements (Continued)

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

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

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

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

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

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

Table of Contents

Malvern Federal Bancorp, Inc. and Subsidiaries
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:

	June 30, 2010			
	Total	Level 1	Level 2	Level 3
Investment securities available for sale:				
Debt securities:				
U.S. government agencies	$7,233,029	$-	$7,233,029	$-
FHLB notes	3,520,245	-	3,520,245	-
State and municipal obligations	1,194,009	-	1,194,009	-
Single issuer trust preferred security	787,140	-	787,140	-
Corporate debt securities	1,972,620	-	1,972,620	-
Total investment securities available for sale	14,707,043	-	14,707,043	-
Mortgage-backed securities available for sale:				
FNMA:				
Adjustable	3,667,215	-	3,667,215	-
Fixed	1,679,079	-	1,679,079	-
Balloon	3,420	-	3,420	-
FHLMC:				
Adjustable	928,490	-	928,490	-
Fixed	556,466	-	556,466	-
GNMA, adjustable	174,883	-	174,883	-
CMO, fixed-rate	7,438,078	-	7,438,078	-
Total mortgage-backed securities available for sale	14,447,631	-	14,447,631	-
Total	$29,154,674	$-	$29,154,674	$-

	September 30, 2009			
	Total	Level 1	Level 2	Level 3
Investment securities available for sale:				
Debt securities:				
U.S. government obligations	$1,010,937	$-	$1,010,937	$-
U.S. government agencies	5,474,002	-	5,474,002	-
FHLB notes	3,568,125	-	3,568,125	-
State and municipal obligations	1,759,244	-	1,759,244	-
Single issuer trust preferred security	638,420	-	638,420	-
Corporate debt securities	1,325,665	-	1,325,665	-
Total investment securities available for sale	13,776,393	-	13,776,393	-
Mortgage-backed securities available for sale:				
FNMA:				

Adjustable	4,696,533	-	4,696,533	-
Fixed	2,134,206	-	2,134,206	-
Balloon	436,842	-	436,842	-
FHLMC:				
Adjustable	1,115,565	-	1,115,565	-
Fixed	714,273	-	714,273	-
GNMA, adjustable	205,577	-	205,577	-
CMO, fixed-rate	4,018,201	-	4,018,201	-
Total mortgage-backed securities available for sale	13,321,197	-	13,321,197	-
Total	$27,097,590	$-	$27,097,590	$-

Table of Contents

Malvern Federal Bancorp, Inc. and Subsidiaries
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 June 30, 2010 and September 30, 2009:

	June 30, 2010			
	Total	Level 1	Level 2	Level 3
Other real estate owned	$3,588,113	$-	$-	$3,588,113
Impaired loans	9,008,548	-	-	9,008,548
Total	$12,596,661	$-	$-	$12,596,661

	September 30, 2009			
	Total	Level 1	Level 2	Level 3
Other real estate owned	$5,874,854	$-	$-	$5,874,854
Impaired loans	1,567,218	-	-	1,567,218
Total	$7,460,072	$-	$-	$7,460,072

The table below presents a summary of activity in our other real estate owned during the nine months ended June 30, 2010:

	Balance as of September 30, 2009	Additions	Sales, net	Write-downs	Balance as of June 30, 2010
One-to four-family	$ 1,567,600	$1,164,150	$540,244	$ 182,782	$2,008,724
Multi-family	-	146,981	-	-	146,981
Commercial real estate	4,006,291	-	592,041	682,500	2,731,750
Commercial	19,615	-	-	-	19,615
Second mortgages	85,008	-	85,008	-	-
Construction and development	196,340	1,016,323	196,340	-	1,016,323
Total	$ 5,874,854	$2,327,454	$1,413,633	$ 865,282	$5,923,393

Table of Contents

Malvern Federal Bancorp, Inc. and Subsidiaries
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 June 30, 2010 and September 30, 2009 are presented below:

	June 30, 2010		September 30, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$47,548,015	$47,548,015	$25,324,599	$25,324,599
Investment securities available for sale	29,154,674	29,154,674	27,097,590	27,097,590
Investment securities held to maturity	4,747,855	4,958,673	4,842,176	4,942,102
Loans receivable	569,171,833	578,667,287	593,565,338	597,729,181
Accrued interest receivable	2,094,709	2,094,709	2,226,206	2,226,206
Restricted stock	6,566,973	6,566,973	6,566,973	6,566,973
Mortgage servicing rights	136,586	136,586	291,983	291,983
Financial liabilities:				
Deposits	550,909,954	553,366,604	516,510,678	518,478,826
Long-term borrowings (FHLB advances)	70,933,298	73,974,536	99,621,045	100,713,237
Accrued interest payable	341,639	341,639	706,896	706,895

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:

	Nine months Ended June 30,	
	2010	2009
At federal statutory rate	$(613,444)	$463,462
Adjustments resulting from:		
State tax, net of federal benefit	(115,303)	38,552
Tax-exempt interest	(23,460)	(36,746)
Low-income housing credit	(30,676)	(30,677)
Earnings on bank-owned life insurance	(142,449)	(127,198)
Other	47,611	14,068
	$(877,721)	$321,461

The Company's effective tax rate was (48.65%), and 23.58% for the nine months ended June 30, 2010 and 2009, respectively.

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 and the regulations thereunder). Forward looking statements are not historical facts but instead represent only the beliefs, expectations or opinions of Malvern Federal 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 f or conditional terms such as "will", "would", "should", "could", "may", "likely", "probably", or "possibly." Forward 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 Federal 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 Federal 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 Federal Bancorp, Inc. is engaged. Malvern Federal 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 Malver Federal Bancorp, Inc., a Federal 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

In 2008, Malvern Federal Savings Bank ("Malvern Federal Savings" or the "Bank") completed its reorganization to the mutual holding company form of organization and formed Malvern Federal Bancorp, Inc. (the "Company") to serve as the stock holding company for the Bank. In connection with the reorganization, the Company sold 2,645,575 shares of its common stock to certain members of the Bank and the public at a purchase price of $10.00 per share. In addition, the Company issued 3,383,875 shares, or 55% of the outstanding shares, of its common stock to Malvern Federal Mutual Holding Company, a federally chartered mutual holding company (the "Mutual Holding Company"), and contributed 123,050 shares (with a value of $1.2 million), or 2.0% of the outstanding shares, to the Malvern Federal Charitable Foundation, a newly created Delaware charitable foundation.

The Company is a federally chartered corporation which owns all of the issued and outstanding shares of the Bank's common stock, the only shares of equity securities which the Bank has issued. Malvern Federal Bancorp does not own or lease any property, but instead uses the premises, equipment and furniture of the Bank. At the present time, the Company employs only persons who are officers of Malvern Federal Savings to serve as officers of the Company. The Company also uses the Bank's support staff from time to time. These persons are not separately compensated by Malvern Federal Bancorp.

Table of Contents

Malvern Federal Savings is a federally chartered community-oriented savings bank which was originally organized in 1887 and is headquartered in Paoli, Pennsylvania. The Bank currently conducts its business from its headquarters and seven additional financial centers, with an eighth full-service financial center, which will be located in Concordville, Pennsylvania, expected to open in the summer of 2010.

The Bank is primarily engaged in attracting deposits from the general public and using those funds to invest in loans and investment securities. The Bank's principal sources of funds are deposits, repayments of loans and investment securities, maturities of investments and interest-bearing deposits, other funds provided from operations and wholesale funds borrowed from outside sources such as the Federal Home Loan Bank of Pittsburgh (the "FHLB"). These funds are primarily used for the origination of various loan types including single-family residential mortgage loans, commercial real estate mortgage loans, construction and development loans, home equity loans and lines of credit and other consumer loans. The Bank derives its income principally from interest earned on loans, investment securities and, to a lesser extent, from fees received in connection with the origination of loans and for other services. Malvern Federal Savings' primary expenses are interest expense on deposits and borrowings and general operating expenses. Funds for activities are provided primarily by deposits, amortization of loans, loan prepayments and the maturity of loans, securities and other investments and other funds from operations.

As the result of a recently completed examination by the Office of Thrift Supervision (the "OTS"), in July 2010 the OTS issued a supervisory directive to the Bank and notified it that the Bank was deemed to be in troubled condition, as defined in OTS regulations. Pursuant to the supervisory directive, the Bank is, among other things, with certain limited exceptions, prohibited from making, investing in, refinancing, modifying or committing to, any commercial real estate loan or any commercial business loan unless it has received written non-objection of the OTS. The provisions of the supervisory directive restrict the ability of the Bank to make new commercial real estate loans or commercial business loans or to modify existing commercial real estate and commercial business loans. The supervisory directive also will impact our ability to work-out or modify the terms of existing commercial real estate loans or commercial business loans that are non-performing or troubled, unless we receive prior OTS non-objection, as we are permitted to refinance, modify or extend such loans without prior OTS approval only if refinancing by a third party is not reasonably feasible and no new funds are advanced by the Bank. As a result of such notification, the Bank now is also subject to certain additional restrictions, which are not expected to have any significant impact on our operations, including: limits on the amount of our asset growth in any quarter; a requirement that we notify the OTS prior to adding any director or senior executive officer or before we enter into, renew, extend or revise any compensation or benefits arrangement with any director or officer of the Bank; making any "golden parachute payment," as defined; making any capital distributions from the Bank, as defined, without prior OTS approval; entering into any transactions with affiliates; and accepting brokered deposits.

Critical Accounting Policies

In reviewing and understanding financial information for Malvern Federal Bancorp, Inc., 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 unaudited consolidated financial statements included elsewhere herein. The accounting and financial reporting policies of Malvern Federal Bancorp, Inc. conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and to general practices within the banking industry. Accordingly, the unaudited 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 unaudited 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 is increased by charges to the provision for loan losses and decreased by charge-offs (net of recoveries). The allowance is an amount that represents the amount of probable and reasonably estimable known and inherent losses in the loan portfolio, based on evaluations of the collectibility of loans. A management Asset Classification Committee meets on a quarterly basis to evaluate the adequacy of the allowance for loan losses. The evaluations take into consideration such factors as changes in the types and amount of loans in the loan portfolio, historical loss experience, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, estimated losses relating to specifically identified loans, and current economic conditions. This evaluation is inherently subjective as it requires material estimates including, among others, exposure at default, the amount and timing of expected future cash flows on impacted loans, value of collateral, estimated losses on our loan portfolio and general amounts for historical loss experience. All of these estimates may be susceptible to significant change.

The allowance consists of specific allowances for impaired loans, a general allowance, or in some cases a specific allowance, on all classified loans which are not impaired and a general allowance on the remainder of the portfolio. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio. An allowance for loan loss is created on certain impaired loans for the amount by which the discounted cash flows, observable market price or fair value of collateral, if the loan is collateral dependent, is lower than the carrying value of the loan. Fair value is generally based upon appraised value of the collateral or independent market prices. Once an evaluation identifies the possibility of impairment, current third party appraisals are obtained as soon as practicable. The third party appraisals with respect to impaired loans are updated at least every six months thereafter for the purpose of maintaining current collateral values. A loan is considered to be impaired when, based upon current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan. An insignificant delay or insignificant shortfall in amount of payments does not necessarily result in the loan being identified as impaired.

We segregate loans by category and create a general valuation allowance for each category on classified and criticized loans which are not impaired. The categories used by the Company include "special mention", "substandard" and "doubtful". For commercial real estate, construction or development, and consumer second mortgage loans, the determination of the category for each loan is based on qualitative periodic reviews of our lending officers and Asset Classification Committee, as well as an independent, third-party consultant. These reviews include consideration of such factors as payment performance, current financial data and cash flow projections, aggregated customer debt, collateral evaluations, geographic trends, and current economic and business conditions. A similar review is performed to determine the category for mortgage and consumer loans, including home equity line of credit loans. Each category carries a general rate for the allowance percentage to be assigned to the loans within that category. A loan is classified within a category based on identified weaknesses. Each category is assigned a general rate for the allowance percentage which is allocated to the loans within that category. The general allowance percentage is based on the inherent losses associated with each type of lending by considering our loss history with each type of loan, current trends in credit quality and collateral values, and an evaluation of current economic and business conditions. However, the actual allowance percentage assigned to each loan within a category is adjusted for the specific circumstances of each classified loan, including an evaluation of the appraised value of the specific collateral for the loan, and will often differ from the general rate for the category. It is expected that more of these classified loans will prove to be uncollectible compared to loans in the general portfolio, since they represent an above-average credit risk.

Table of Contents

A general allowance is created on non-classified loans to recognize the inherent losses associated with lending activities. Unlike classified loans, the allowance for non-classified loans is not established on a loan-by-loan basis. This general allowance is determined by segregating the loans by loan category and assigning allowance percentages to each category. The need to further segregate the loans within each category is determined after each category is further evaluated. Loans included in our residential loan portfolio typically have high credit scores and strong loan-to value ratios, generally 80% or below at origination. Loans in the home equity line of credit portfolio have a slightly higher risk than loans in the single family first mortgage residential loan portfolio due to the second lien position of the majority of those loans, however these loans generally have high credit scores and combined (including the first lien) loan-to-value ratios up to a maximum of 80% at the time of origination. These portfolios have been slightly impacted by the recent depreciation in housing prices but not significantly enough to increase our loss percentage assumptions. A further analysis is performed on our commercial real estate, construction or development, and consumer second mortgage loans in which we segregated the loans based on the purpose of the loan and the collateral securing the loan. Risk factors considered for each type of loan include trends in collateral value and credit quality, the impact of current economic and business conditions, as well as historical loss experience. Residential housing price estimates are determined using regional economic quarterly reporting and forecasts provided by the Federal Reserve Bank of Philadelphia and the Federal Housing Finance Agency. Commercial real estate pricing trends and forecasts are obtained by the Federal Reserve Bank of Philadelphia's economic and business forecast reports, as well as Robert Morris Associates' reports and publications on commercial real estate in the local market area. Prior to the last eight quarters, our charge-off history was relatively insignificant. We had been using a five year time frame to evaluate historical loss experience. However, due to the recent decline in the overall economy and business conditions in general, we now consider our loss history for the eight most recent quarters in analyzing our historical losses. As a result of this analysis, during the quarter ended March 31, 2010 we increased our historical loss factors for the commercial real estate and second mortgage loan portfolios, when compared to the five year time horizon that we previously used. Our analysis during the June 30, 2010 quarter determined that no changes were needed to the loss factors for the commercial real estate and second mortgage loan categories for the quarter. The loss factors used for our other loan categories in establishing our allowance for loan losses at June 30, 2010 remained relatively consistent with our analysis used in prior periods.

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. Historically, our estimates of the allowance for loan losses have not required significant adjustments from management's initial estimates. In addition, the OTS, as an integral part of its examination processes, periodically reviews our allowance for loan losses. The OTS 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.

Table of Contents

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, 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.

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.

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.

Table of Contents

Comparison of Financial Condition at June 30, 2010 and September 30, 2009

The Company's total assets amounted to $695.3 million at June 30, 2010 compared to $691.6 million at September 30, 2009. The primary reason for the $3.7 million increase in assets during first nine months of fiscal 2010 was an increase in cash and cash equivalents in the amount of $22.2 million, as well as an increase in the investment securities available for sale and held to maturity portfolios by an aggregate of $2.0 million, or 6.15%, at June 30, 2010 compared to September 30, 2009, and a $2.6 million increase in other assets at June 30, 2010 due to the prepayment of our deposit insurance assessment as mandated by the FDIC for all federally insured depository institutions. These increases were partially offset by a $20.7 million decrease in total gross loans. The decrease in loan demand from consumers as well as enhanced loan qualification requirements we have imposed for higher risk loan categories, such as commercial real estate, construction and development, multi-family and consumer second mortgage loans, have contributed to this reduction in the outstanding balance of our total loan portfolio. The Company's total other real estate owned ("REO") amounted to $5.9 million at June 30, 2010 and September 30, 2009. During the nine month-period ended June 30, 2010, activity in REO included $2.3 million in additions, $1.4 million in sales and an aggregate of $865,000 in write-downs in collateral value, which was reflected in other real estate owned expense for the first nine months of fiscal year 2010. One single-family residential property is scheduled to be sold and settled in the fourth quarter of fiscal 2010 with no expected loss.

Our total liabilities at June 30, 2010, amounted to $626.9 million compared to $621.8 million at September 30, 2009. The $5.1 million, or 0.82% increase in total liabilities was due primarily to an increase in total deposits of $34.4 million in the first nine months of fiscal 2010. Our total deposits amounted to $550.9 million at June 30, 2010 compared to $516.5 million at September 30, 2009. There was a $28.7 million decrease in our FHLB advances, which are long-term borrowings with a higher cost of funds compared to market interest rates at June 30, 2010 compared to September 30, 2009. There was also a $2.0 million decrease in other liabilities at June 30, 2010 compared to September 30, 2009, which was primarily due to a $2.3 million order to purchase certain investment securities which had not been settled as of September 30, 2009 and which settled in October 2009 upon delivery of the securities.

Shareholders' equity decreased by $1.4 million to $68.4 million at June 30, 2010 compared to $69.8 million at September 30, 2009 primarily due to a decrease in retained earnings and an aggregate of $458,000 in repurchases of stock during the first nine months of fiscal 2010. We repurchased a total of 50,000 shares under our share repurchase program from the time it was announced on May 7, 2009 until it expired on May 7, 2010. Retained earnings decreased by $1.2 million to $45.1 million at June 30, 2010 as a result of the $927,000 net loss and the payment of $245,000 in cash dividends during the first nine months of fiscal 2010.

Table of Contents

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.

	June 30, 2010	March 31, 2010	September 30, 2009
	(Dollars In thousands)		
Loans 31-89 days delinquent:			
One-to four-family	$2,061	$2,555	$5,166
Commercial real estate	-	638	1,939
Commercial	12	-	68
Home equity lines of credit	-	18	-
Second mortgages	2,966	1,461	1,323
Other	10	5	38
Total	$5,049	$4,677	$8,534

The table below sets forth non-performing assets and troubled debt restructurings which are neither non-accruing or 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 at June 30, 2010, March 31, 2010 or September 30, 2009. Troubled debt restructurings involve forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates when the borrower is experiencing financial difficulty.

Table of Contents

	June 30, 2010		March 31, 2010		September 30, 2009	
			(Dollars In thousands)			
Non-accruing loans:						
One-to four-family	$ 7,808		$ 9,125		$ 3,809	
Multi-family	1,537		1,982		-	
Commercial real estate	4,773		4,040		785	
Construction or development	5,115		6,286		7,086	
Commercial	916		944		35	
Home equity lines of credit	475		458		407	
Second mortgages	3,084		2,567		2,072	
Other	6		4		1	
Total non-accruing loans	23,714		25,406		14,195	
Other real estate owned and other foreclosed assets:						
One-to four-family	2,008		1,079		1,568	
Multi-family	147		-		-	
Commercial real estate	2,732		2,925		4,006	
Commercial	20		20		20	
Second mortgages	-		-		85	
Construction or development	1,016		-		196	
Total	5,923		4,024		5,875	
Total non-performing assets	29,637		29,430		20,070	
Performing troubled debt restructurings:						
One-to four-family	2,279		2,158		-	
Multi-family	612		612		-	
Commercial real estate	7,991		8,472		25	
Land loans	1,170		1,170		-	
Commercial	237		200		-	
Total	12,289		12,612		25	
Total non-performing assets and performing troubled debt restructurings	$ 41,926		$ 42,042		$ 20,095	
Ratios:						
Total non-accrual loans as a percent of gross loans	4.13	%	4.36	%	2.38	%
Total non-performing assets as a percent of total assets	4.26	%	4.23	%	2.90	%
Total non-performing assets and performing troubled debt restructurings as a percent of total assets	6.03	%	6.04	%	2.91	%

Table of Contents

The Company's total non-performing assets amounted to $29.6 million at June 30, 2010, a $207,000 increase compared to total non-performing assets at March 31, 2010 and a $9.6 million increase compared to total non-performing assets at September 30, 2009. The $9.6 million increase in non-performing assets at June 30, 2010 compared to September 30, 2009 was due primarily to an increase in non-accruing loans in the amount of $9.5 million, primarily as a result of increases in the amounts of non-accruing single-family residential mortgage loans, commercial real estate loans, multi-family residential mortgage loans and second mortgages. The increase in non-performing assets at June 30, 2010 when compared to March 31, 2010 was due to an increase in other real estate owned and other foreclosed assets in the amount of $1.9 million which was largely offset by a $1.7 million decrease in total non-accruing loans.

The primary reasons for the $9.6 million increase in non-performing loans at June 30, 2010 compared to September 30, 2009 are the following.

A $4.0 million increase in non-accruing single-family residential mortgage loans. At June 30, 2010, we had $7.8 million of non-accruing single-family residential mortgage loans, comprised of 17 loans, compared to 21 non-accruing single-family residential mortgage loans with an aggregate carrying value of $9.1 million at March 31, 2010 and 12 non-accruing single-family residential mortgage loans with an aggregate carrying value of $3.8 million at September 30, 2010. All of the Company's non-accruing single-family residential mortgage loans at June 30, 2010 were secured by properties located in our local market area. During the quarter ended June 30, 2010, two single-family residential mortgage loans, with an aggregate outstanding balance of $740,000 and which were previously on non-accrual status, were brought current by the borrowers and were returned to performing status and two other non-accruing single-family residential mortgage loans, with an aggregate carrying value of $564,000, were transferred to real estate owned.

A $4.0 million increase in non-accruing commercial real estate loans. At June 30, 2010, we had $4.8 million of non-accruing commercial real estate loans compared to $4.0 million and $785,000, respectively, at March 31, 2010 and September 30, 2009. The increase in non-accruing commercial real estate loans during the first nine months of fiscal 2010 was due primarily to the following two loan relationships.

Four loans to one borrower and affiliated entities with an aggregate outstanding balance of $3.1 million at June 30, 2010. The loans are collateralized by a first lien on a manufacturing building located in Mercersburg, Pennsylvania, a first and second mortgage and assignment of rents on a second manufacturing building and three vacant lots located in Mercersburg and a first mortgage and assignment of rents on a property in Center City, Philadelphia. The borrower, a woodworking company, has filed for liquidation under Chapter 7 of the bankruptcy code. The loans were put on non-accrual status in March 2010 and were also deemed to be impaired as of June 30, 2010. The aggregate appraised value of the collateral securing these loans was approximately $3.4 million and we have allocated $256,000 of our allowance for loan losses to these loans. At June 30, 2010, we also have two non-accruing commercial business loans to a related entity, which are described below.

Two loans to one borrower with an aggregate outstanding balance of $1.1 million at June 30, 2010. The loans, which are secured by first mortgages on a warehouse/office building and a retail/office building, both of which are in Philadelphia and have an aggregate appraised value of $1.3 million, were placed on non-accrual status during the quarter ended June 30, 2010 and are deemed to be impaired. In addition to these two loans, at June 30, 2010, this borrower was more than one year past due on a $960,000 loan which has been on non-accruing status since October 31, 2009, and which is secured by a residence in Melrose Park, Pennsylvania and a vacation home in Ventnor, New Jersey. In addition, we had another commercial real estate loan to this borrower which had an outstanding balance of $3.1 million at June 30, 2010 and which is secured by first liens on seven mixed-use buildings and apartment buildings in the greater Philadelphia area with an aggregate appraised value of $5.3 million as of May 2010. This

$3.1 million loan, which was 30 days past due at June 30, 2010, was restructured during the March 2010 quarter and was considered a performing troubled debt restructuring at June 30, 2010.

Table of Contents

An $881,000 increase in non-accruing commercial business loans to $916,000 at June 30, 2010 compared to $35,000 at September 30, 2009. The reason for the increase relates to two commercial loans to one borrower with an aggregate carrying value of $888,000 at June 30, 2010 which were placed on non-accrual status in the second quarter of fiscal 2010. These loans are secured by the equipment, inventory and accounts receivable for the woodworking business described above which is in bankruptcy and is the borrower on our $3.1 million non-accruing commercial real estate loan.

A $1.5 million increase in our non-accruing multi-family residential mortgage loans to $1.5 million at June 30, 2010 compared to zero at September 30, 2009. Our non-accruing multi-family residential mortgage loans at June 30, 2010 consist of one loan which was originated in 2006 and is secured by a 34-unit apartment building located in Delaware County, Pennsylvania. The loan was placed on non-accrual status in March 2010 and is also considered impaired. The property, which has been listed for sale, has experienced increased vacancy rates and reductions in cash flows. At June 30, 2010, this loan was more than 200 days past due.

A $1.0 million increase in non-accruing second mortgage loans to $3.1 million at June 30, 2010 compared to $2.6 million at March 31, 2010 and $2.1 million at September 30, 2009. At June 30, 2010, we had a total of 39 non-accruing second mortgage loans compared to 35 loans and 28 loans, respectively, at March 31, 2010 and September 30, 2009. All of our second mortgage loans are secured by liens which are subordinate to mortgages which have a priority interest over our interest and are secured primarily by properties located in southeastern Pennsylvania.

The increase in the amounts of the Company's non-accruing loans primarily reflects the continuing effects of the recession and a slow economic recovery in the Company's market area. The Company is continuing its efforts to resolve its non-performing assets without additional loss. As a local community bank, we continue to be committed to helping the local community and have been working diligently with customers to assist them during these difficult economic times and the financial difficulties they have incurred.

During the three months ended June 30, 2010 we added three loans in the amount of $396,000 to our troubled debt restructurings for two loan relationships. As a result, at June 30, 2010, we had $12.3 million of loans classified as performing (that is, they were not on non-accruing status and they were not more than 90 days past due and still accruing) troubled debt restructurings ("TDRs"). Our TDRs at June 30, 2010 include 31 loans in the aggregate comprised of $2.3 million of one-to four-family loans, $8.0 million of commercial real estate loans and $1.2 million of land loans.

The Company's total other real estate owned ("OREO") amounted to $5.9 million at June 30, 2010 compared to $4.0 million at March 31, 2010 and $5.9 million at September 30, 2009. During the nine months-ended June 30, 2010 the activity in OREO included $2.3 million in additions, $1.4 million in sales and $865,000 in write-downs in collateral value, which was reflected in other real estate owned expense for the first nine months of fiscal year 2010. The $2.3 million in additions to OREO during the first nine months of fiscal 2010 included one local single-family residence with a carrying value of $1.0 million at June 30, 2010, a two unit multi-family residential property located in Pottstown, Pennsylvania with a carrying value of $147,000 at June 30, 2010, and five local single-family residential properties located in Chester and Montgomery Counties totaling $1.2 million.

While the amount of our non-performing assets at June 30, 2010 increased compared to September 30, 2009, the amount of the Company's loans delinquent 31 to 89 days decreased to $5.0 million at June 30, 2010 from $8.5 million at September 30, 2009. The Company is attempting to work with its borrowers to bring all of its delinquent and non-performing loans current, but no assurance can be given that there may not be further increases in the Company's non-accruing loans in future periods.

Table of Contents

Comparison of Our Operating Results for the Three and Nine months Ended June 30, 2010 and 2009

General. Our net income was $287,000 for the three months ended June 30, 2010 compared to net income of $154,000 for the three months ended June 30, 2009. On a per share basis, net income was $0.05 per share for the quarter ended June 30, 2010, compared to net income of $0.03 per share for the quarter ended June 30, 2009. The primary reason for the $133,000, or 86.0% increase in our net income in the third quarter of fiscal 2010 compared to the third quarter in fiscal 2009 was an increase of $1.1 million in net interest income, partially offset by a $243,000 decrease in other income and an increase of $740,000 in the provision for loan losses. A decrease in other expenses of $110,000 and a $105,000 decrease in income taxes also contributed to the increase in net income during the third quarter. The decrease in other expenses primarily was the result of an $188,000 decrease in federal deposit insurance premium. Our interest rate spread of 2.89% and net interest margin of 3.06% for the three months ended June 30, 2010 improved when compared to a net interest spread of 2.04% and a net interest margin of 2.36% for the three months ended June 30, 2009.

Our net loss was $927,000 for the nine months ended June 30, 2010 compared to net income of $1.0 million for the nine months ended June 30, 2009. On a per share basis, the net loss was $0.16 per share for the nine months ended June 30, 2010, compared to net income of $0.18 per share for the nine months ended June 30, 2009. The primary reasons for the net loss reported for the first nine months of fiscal 2010 compared to the net income reported for the comparable period in fiscal 2009 were increases in the provision for loan losses of $4.4 million and $1.4 million in other expenses, which were partially offset by a $2.8 million increase in net interest income and a $1.2 million decrease in income taxes. The increase in other expenses in the fiscal 2010 period primarily was the result of a $512,000 increase in federal deposit insurance premium, an $804,000 increase in other real estate owned expense, along with a $298,000 increase in data processing costs. Our interest rate spread of 2.81% and net interest margin of 3.00% for the nine months ended June 30, 2010 reflected improvements when compared to a net interest spread of 2.12% and a net interest margin of 2.44% for the three months ended June 30, 2009.

Table of Contents

Average Balances, Net Interest Income, and Yields Earned and Rates Paid. The following tables show 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 June 30,					
	2010			2009		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
	(Dollars in Thousands)					
Interest Earning Assets:						
Loans receivable (1)	$580,124	$7,983	5.52 %	$600,090	$8,343	5.56 %
Investment securities	35,632	259	2.92	29,116	233	3.19
Deposits in other banks	33,708	9	0.11	22,753	16	0.30
FHLB stock	6,567	-	0.00	6,567	-	0.00
Total interest-earning assets	656,031	8,251	5.04	658,526	8,592	5.20
Non-interest-earning assets	41,100			34,978		
Total assets	$697,131			$693,504		
Interest Bearing Liabilities:						
Demand and NOW accounts	$84,530	170	0.81	$87,764	465	2.12
Money market accounts	65,161	167	1.03	57,170	197	1.36
Savings accounts	41,967	28	0.27	39,220	28	0.28
Time deposits	336,932	2,059	2.45	309,264	2,716	3.52
Total deposits	528,590	2,424	1.84	493,418	3,406	2.76
FHLB borrowings	76,477	824	4.32	104,980	1,294	4.92
Total interest-bearing liabilities	605,067	3,248	2.15	598,398	4,700	3.16
Non-interest-bearing liabilities	23,842			26,469		
Total liabilities	628,909			624,867		
Shareholders' Equity	68,222			68,637		
Total liabilities and shareholders' equity	$697,131			$693,504		
Net interest-earning assets	$50,964			$60,128		
Net interest income; average interest rate spread		$5,003	2.89 %		$3,892	2.04 %
Net interest margin (2)			3.06 %			2.36 %
Average interest-earning assets to average interest-bearing liabilities	108.42 %			110.05 %		

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

(2) Equals net interest income divided by average interest-earning assets.

Table of Contents

	Nine months Ended June 30,					
	2010			2009		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
	(Dollars in Thousands)					
Interest Earning Assets:						
Loans receivable (1)	$589,750	$24,345	5.52 %	$596,053	$25,265	5.65 %
Investment securities	32,942	765	3.10	26,983	691	3.41
Deposits in other banks	19,659	24	0.16	12,380	41	0.44
FHLB stock	6,567	-	0.00	6,495	-	0.00
Total interest-earning assets	648,918	25,134	5.18	641,911	25,997	5.40 %
Non-interest-earning assets	40,369			30,759		
Total assets	$689,287			$672,670		
Interest Bearing Liabilities:						
Demand and NOW accounts	$88,607	681	1.03	$69,010	903	1.74
Money market accounts	62,929	492	1.05	58,280	799	1.83
Savings accounts	40,523	85	0.28	38,421	107	0.37
Time deposits	318,135	6,437	2.71	306,115	8,509	3.71
Total deposits	510,194	7,695	2.02	471,826	10,318	2.92
FHLB borrowings	85,916	2,870	4.47	106,734	3,915	4.89
Total interest-bearing liabilities	596,110	10,565	2.37	578,560	14,233	3.28
Non-interest-bearing liabilities	23,937			25,132		
Total liabilities	620,047			603,692		
Shareholders' Equity	69,240			68,978		
Total liabilities and shareholders' equity	$689,287			$672,670		
Net interest-earning assets	$52,808			$63,351		
Net interest income; average interest rate spread		$14,569	2.81 %		$11,764	2.12 %
Net interest margin (2)			3.00 %			2.44 %
Average interest-earning assets to average interest-bearing liabilities	108.86 %			110.95 %		

(1) Includes non-accrual loans during the respective periods. Calculated net of deferred fees and discounts and allowance for loan losses.
(2) Equals net interest income divided by average interest-earning assets.

Interest and Dividend Income. The Company's interest and dividend income decreased for the three months ended June 30, 2010 by $341,000 or 4.0% over the comparable 2009 period to $8.3 million. Interest income decreased in the three months ended June 30, 2010 over the prior comparable period in fiscal 2009 due primarily to declining yields on loans and investment securities. During the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009, the average yield on the Company's loan portfolio decreased by four basis points to 5.52% from 5.56%. The average balance of loans receivable decreased by $20.0 million, or 3.3% in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009, as a result of a decline in general market demand as indicated in decreases in the Company's one-to four-family residential and multi-family mortgage loans and consumer second mortgage loans. The average yield on investment securities decreased to 2.92% for the three months ended June 30, 2010 from 3.19% for the same period ended 2009 while the average balance of investment securities increased by $6.5 million during the three months ended June 30, 2010 compared to the comparable prior fiscal year period.

The Company's interest and dividend income decreased for the nine months ended June 30, 2010 by $862,000, or 3.3% over the comparable 2009 period to $25.1 million. As with the results for the fiscal third quarter, interest income decreased in the first nine months of fiscal 2010 over the prior comparable period in fiscal 2009 due primarily to declining yields on loans and investment securities. During the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009, the average yield on the Company's loan portfolio decreased by 13 basis points to 5.52% from 5.65%. The average balance of loans receivable decreased by $6.3 million, or 1.1% in the first nine months of fiscal 2010 compared to the first nine month of fiscal 2009, due primarily as a result of decreases in the Company's one-to four-family residential and multi-family mortgage loans and consumer second mortgage loans. The average yield on investment securities decreased to 3.10% for the nine months ended June 30, 2010 from 3.41% for the same period ended 2009. The average balance of investment securities increased by $6.0 million during the nine months ended June 30, 2010 compared to the comparable prior fiscal year period.

Table of Contents

Interest Expense. The Company's interest expense for the three month period ended June 30, 2010 was \$3.2 million, a decrease of \$1.5 million from the three month period ended June 30, 2009. The Company had a \$983,000 decrease in interest expense on total deposits and a \$469,000 decrease in interest paid on FHLB borrowings during the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009. The average rate paid on total deposits decreased to 1.84% for the three months ended June 30, 2010 from 2.76% for the same period in fiscal 2009, and the average rate paid on borrowed funds decreased to 4.32% in the third quarter of fiscal 2010 compared to 4.92% in the third quarter of fiscal 2009 due primarily to the repayment of approximately \$10.0 million in relatively higher-costing long-term FHLB borrowings. During the remaining three months of fiscal 2010, an additional \$10.0 million of our FHLB advances, with a weighted average interest rate of 5.87%, are scheduled to mature.

The Company's interest expense for the nine month period ended June 30, 2010 was \$10.6 million, a decrease of \$3.7 million from the nine month period ended June 30, 2009. The Company had a \$2.6 million decrease in interest expense on total deposits and a \$1.0 million decrease in interest paid on FHLB borrowings during the first nine months of fiscal 2010 compared to the first nine of fiscal 2009. The average rate paid on deposits decreased to 2.02% for the nine months ended June 30, 2010 from 2.92% for the same period in fiscal 2009, and the average rate paid on borrowed funds decreased to 4.47% in the first nine of fiscal 2010 compared to 4.89% in the first nine of fiscal 2009 due primarily to the repayment of approximately \$30.0 million in relatively higher-costing long-term FHLB borrowings.

Provision for Loan Losses. We have identified the evaluation of the allowance for loan losses as a critical accounting policy where amounts are sensitive to material variation. This policy is significantly affected by our judgment and uncertainties and there is likelihood that materially different amounts would be reported under different, but reasonably plausible, conditions or assumptions. Our activity in the provision for loan losses is undertaken in order to maintain a level of total allowance for losses that management believes covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. Our evaluation process typically includes, among other things, an analysis of delinquency trends, non-performing loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of our loans, the value of collateral securing the loan, the borrower's ability to repay and repayment performance, the number of loans requiring heightened management oversight, local economic conditions and industry experience. The establishment of the allowance for loan losses is significantly affected by management judgment and uncertainties and there is likelihood that different amounts would be reported under different conditions or assumptions. Various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to make additional provisions for estimated loan losses based upon judgments different from those of management.

The provision for loan losses was \$1.1 million for the quarter ended June 30, 2010 and \$5.6 million for the nine months ended June 30, 2010. Our provision for loan losses amounted to \$310,000 for the three months ended June 30, 2009 and \$1.2 million for the nine months ended June 30, 2009. The \$740,000 increase in our provision for loan losses for the quarter ended June 30, 2010 compared to the third quarter in fiscal 2009 was due primarily to additional loans moving to classified and impaired status based on the Company's internal review and classification during the period. The Company's net charge-offs to the allowance for loan losses amounted to \$165,000 and \$2.2 million, respectively, for the three-months and nine-months ended June 30, 2010. During the quarter ended June 30, 2010, three multi-family loans in the amount of \$82,000 and three consumer second mortgage loans in the amount of \$83,000 accounted for the \$165,000 in charge-offs. At June 30, 2010, the Company's total non-accrual loans amounted to \$23.7 million, or 4.13% of total loans, compared to \$25.4 million of non-accrual loans, or 4.36%, at March 31, 2010. On a linked-quarter basis, total non-accruing loans decreased by \$1.7 million, or 6.6%, to \$23.7 million at June 30, 2010 compared to \$25.4 million at March 31, 2010, due primarily to a \$1.3 million decrease in non-accrual single-family residential mortgage loans and a \$1.2 million decrease in non-accrual construction and development loans, which was partially offset by a $733,000 increase in non-accrual commercial real estate loans and a $517,000 increase in non-accrual second mortgages loans.

Table of Contents

During the first nine months of fiscal 2010, the Company increased the coverage amounts for commercial real estate and consumer second mortgage loans based on a review of our loss experience and other factors with respect to the allowance for loan losses. We will continue to monitor and modify our allowances for loan losses as conditions dictate. No assurances can be given that our level of allowance for loan losses will cover all of the inherent losses on our loans or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the economic and other conditions used by management to determine the current level of the allowance for loan losses.

Table of Contents

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

	For the Nine months Ended June 30, 2010		For the Nine months Ended June 30, 2009		For the Year Ended September 30, 2009	
	(Dollars in Thousands)					
Balance at beginning of period	$5,718		$5,505		$ 5,505	
Provision for loan losses	5,632		1,217		2,280	
Charge-offs:						
Mortgage:						
One-to four-family	824		121		124	
Multi-family	82		-		-	
Commercial real estate	-		-		-	
Construction or development	960		-		-	
Land loans	-		-		-	
Commercial:						
Real estate	-		1,403		1,760	
Other	-		-		-	
Consumer:						
Home equity lines of credit	168		-		-	
Second mortgages	177		131		153	
Other	15		27		60	
Total charge-offs	2,226		1,682		2,097	
Recoveries:						
Mortgage:						
One-to four-family	-		-		-	
Multi-family	-		-		-	
Commercial real estate	-		-		25	
Construction or development	-		-		-	
Land loans	-		-		-	
Commercial	-		-		-	
Total recoveries	-		-		25	
Consumer:						
Home equity lines of credit	-		-		-	
Second mortgages	-		-		-	
Other	3		3		5	
Total recoveries	3		3		30	
Net charge-offs	2,223		1,679		2,067	
Balance at end of period	$9,127		$5,043		$ 5,718	
Ratios:						
Ratio of allowance for loan losses to non-accrual loans	38.49	%	48.03	%	40.28	%
Ratio of net charge-offs to average loans outstanding annualized	0.50	%	0.38	%	0.35	%
	32.47	%	44.39	%	36.15	%

Ratio of net charge-offs to total allowance for loan losses annualized

Table of Contents

Other Income. Our total other, or non-interest income, was $319,000 for the three months ended June 30, 2010 compared to $562,000 for the three months ended June 30, 2009. The decrease was due to a $107,000 decrease in transaction account service charges and other related deposit account fees and $156,000 in net loss reported on the sale of five single-family other real estate owned properties with an aggregate carrying value of $317,000, located in Norristown, Pennsylvania. These decreases were partially offset by a $4,000 increase in earnings “on” or “from” bank-owned life insurance.

Our total other, or non-interest income, was $1.5 million for the nine months ended June 30, 2010 compared to $1.6 million for the nine months ended June 30, 2009. The $125,000 decrease in other income was due primarily to the above-described $156,000 net loss on the sale of other real estate owned and a $37,000 decrease in the net gain on sale of investments and disposal of fixed assets. These decreases were partially offset by a $23,000 increase in service charges and other fees and a $45,000 increase in earnings on bank owned life insurance.

Other Expenses. Other, or non-interest, expenses of the Company decreased by $110,000 in the quarter ended June 30, 2010 from the comparable prior year period. The decrease in other operating expenses in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 was due primarily to an $187,000 decrease in federal deposit insurance premiums reflecting the impact of a special assessment by the FDIC on all insured institutions during the quarter ended June 30, 2009. This decrease were partially offset by a $107,000 increase in data processing costs, reflecting cost associated with change of the Company’s core processor in the month of April 2010, and a $27,000 combined increase in professional fees, other real estate owned expenses and other operating expenses.

Other, or non-interest, expenses of the Company increased by $1.4 million in the nine months ended June 30, 2010 over the comparable prior year period. The increases in other expenses in the nine months ended June 30, 2010 was due primarily to an $804,000 increase in other real estate owned expense, a $512,000 increase in federal deposit insurance fees as well as a $298,000 increase in data processing costs. The increase in federal deposit insurance premiums during the first nine months of fiscal 2010 primarily reflects the absence of a premium credit which was available during in the first nine months of fiscal 2009 and an increase in assessment rates implemented in February 2009.

Income Tax Expense. Our income tax expense was $77,000 for the three months ended June 30, 2010 compared to income tax benefit of $28,000 for the three months ended June 30, 2009. The increase in tax expense for the third quarter in fiscal 2010 was due to increased pre-tax net income for the three months ended June 30, 2010 compared to the three months ended June 30, 2009.

We reported an income tax benefit of $878,000 for the nine months ended June 30, 2010 compared to income tax expense of $321,000 for the nine months ended June 30, 2009. The tax benefit for the first nine months in fiscal 2010 was due the pre-tax loss in the current period along with the tax benefits from bank-owned life insurance income and interest income on tax free municipal securities.

Table of Contents

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 June 30, 2010, our cash and cash equivalents amounted to $47.5 million. In addition, at such date our available for sale investment securities amounted to $29.2 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 June 30, 2010, we had certificates of deposit maturing within the next 12 months amounting to $195.0 million. Based upon historical experience, we anticipate that a significant portion of the maturing certificates of deposit will be remaining with us. For the nine months ended June 30, 2010, the average balance of our outstanding FHLB advances was $85.9 million. At June 30, 2010, we had $70.9 million in outstanding long-term FHLB advances and we had $244.5 million in additional FHLB advances available to us. In addition, at June 30, 2010, we had $50.0 million available pursuant to an existing line of credit with the FHLB.

The following table summarizes our contractual cash obligations at June 30, 2010.

	Payments Due by Period				
	To One Year	After One to Three Years	After Three to Five Years	After Five Years	Total
			(In Thousands)		
Long-term debt obligations	$20,589	$2,344	$-	$48,000	$70,933
Certificates of deposit	194,963	105,503	12,960	26,200	339,626
Operating lease obligations	84	168	147	-	399
Total contractual obligations	$215,636	$108,015	$13,107	$74,200	$410,958

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 of the Company presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the 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 our 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.

45

Table of Contents

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, 2009. There has been no material change in the Company's asset and liability position since September 30, 2009.

Item 4. Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) 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 Executive Officer and Chief Financial Officer have 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.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

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

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, 2009. 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, 2009.

Table of Contents

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

(a) Not applicable

(b) Not applicable

(c) Purchases of Equity Securities

The Company's repurchase of its common stock made during the quarter are set forth in the following table:

Period	Total Number Of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Program	Maximum Number of Shares that May Yet be Purchased Under the or Program (1)
April 1 – April 30, 2010	-	$ -	-	88,000
May 1 – May 31, 2010	-	-	-	-
June 1 – June 30, 2010	-	-	-	-
Total	-	$ -	-	-

(1) On May 7, 2009, the Company announced that its Board of Directors approved the repurchase of up to 138,000 shares or approximately 5% of the Company's outstanding common stock held by shareholders other than Malvern Federal Mutual Holding Company. The repurchase program terminated as of May 7, 2010 in accordance with its terms.

Item 3 - Defaults Upon Senior Securities

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

Item 4 - (Removed and Reserved)

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) Certification of the Chief Executive Officer
31.2 Rule 13a-14(a)/15d-14(a) Section 302 Certification of the Chief Financial Officer
32.1 Section 1350 Certification

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 FEDERAL BANCORP, INC.
August 6, 2010	By: /s/ Ronald Anderson Ronald Anderson President and Chief Executive Officer
August 6, 2010	By: /s/Dennis Boyle Dennis Boyle Senior Vice President and Chief Financial Officer