MALVERN BANCORP, INC.
Form 10-K
December 19, 2013

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

x	Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended: September 30, 2013
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: 000-54835

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

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

Registrant's telephone number, including area code: (610) 644-9400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value per share	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES o NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES o NO x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

The aggregate market value of the 6,066,365 shares of the common stock of Malvern Bancorp, Inc. held by non-affiliates, based upon the closing price of $12.19 for the common stock on March 31, 2013, reported by the NASDAQ Stock Market, was approximately $73.9 million. For the purpose of this calculation, shares held by the following persons who may be deemed affiliates have been excluded: directors and executive officers of the registrant (12 persons), 46,705 shares; the registrant's employee stock ownership plan ("ESOP"), 258,217 shares; the Malvern Federal Savings Bank Employees' Savings and Profit Sharing Plan, 75,139 shares; and the Malvern Federal Charitable Foundation, 112,047 shares. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the Issuer's common stock, par value $0.01 per share, outstanding as of December 18, 2013 was 6,558,473.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2014 Annual Meeting of Shareholders are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

MALVERN BANCORP, INC.
2013 ANNUAL REPORT ON FORM 10-K

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Forward-Looking Statements

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

PART I.

Item 1. Business.

General

On October 11, 2012, Malvern Bancorp, Inc. (the “Company” or “Malvern Bancorp”) completed the “second-step” conversion from the mutual holding company structure to the stock holding company structure pursuant to a Plan of Conversion and Reorganization. Upon completion of the conversion and reorganization, Malvern Federal Mutual Holding Company (the “Mutual Holding Company”) and Malvern Federal Bancorp, Inc. (the “Mid-Tier Holding Company”) ceased to exist. Malvern Bancorp, Inc., a Pennsylvania company, became the holding company for the Bank and owner of all of the issued and outstanding shares of the common stock of Malvern Federal Saving Bank (the “Bank” or “Malvern Federal Savings”). In connection with the conversion and reorganization, 3,636,875 shares of common stock, par value $0.01 per share, of the Malvern Bancorp, Inc., were sold in a subscription offering to certain depositors of the Bank and other investors for $10 per share, or $36.4 million in the aggregate, and 2,921,598 shares of common stock were issued in exchange for the outstanding shares of common stock of the former Mid-Tier Holding Company held by the “public” shareholders of the Mid-Tier Holding Company (all shareholders except Malvern Federal Mutual Holding Company). Each share of common stock of the Mid-Tier Holding Company was converted into the right to receive 1.0748 shares of common stock of the new Malvern Bancorp, Inc. in the conversion and reorganization. The total shares outstanding upon completion of the stock offering and the exchange were approximately 6,558,473. Treasury stock of the former Mid-Tier Holding Company was cancelled.

The Company is a Pennsylvania 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. While the Company is authorized to pursue all activities permitted by applicable laws and regulations for savings and loan holding companies, the Company's only business activity to date has been holding all of the outstanding common stock of Malvern Federal Savings. The Company does not own or lease any property, but instead uses the premises, equipment and furniture of the Bank. At the present time, the Company employs only persons who also 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 the Company.

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The Company is the successor to the Mid-Tier Holding Company and references to Malvern Bancorp or the Company include reference to the Mid-Tier Holding Company where applicable.

Malvern Federal Savings Bank is a federally chartered stock savings bank which was originally organized in 1887 and operates out of its headquarters in Paoli, Pennsylvania and eight full service financial center offices in Chester and Delaware Counties, Pennsylvania. 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. The Bank's primary expenses are interest expense on deposits and borrowings, provisions for loan losses 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.

Prior to July 2011, the Bank, the Mid-Tier Holding Company and the Mutual Holding Company were regulated by the Office of Thrift Supervision (the "OTS"). As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the OTS was eliminated and, as of July 21, 2011, the regulatory oversight functions and authority of the OTS related to the Bank were transferred to the Office of the Comptroller of the Currency (the "OCC") and the regulatory oversight functions and authority of the OTS related to savings and loan holding companies, such as the Company and, previously, the Mid-Tier Holding Company, were transferred to the Board of Governors of the Federal Reserve System (the "Federal Reserve Board" or the "FRB"). See "–Regulation - General" and "–Regulation - Recently Enact Regulatory Reform."

The Bank is an active originator of residential home mortgage loans in our market area. Historically, Malvern Federal Savings was a traditional thrift institution which emphasized the origination of loans secured by one-to four-family, or "single-family" residential real estate located in its market area. Over five years ago, we decided to focus on increasing our originations of loans secured by non-residential or commercial real estate loans as well as construction and development loans and home equity loans and lines of credit. Such loans are deemed attractive due to their generally higher yields and shorter anticipated lives compared to single-family residential mortgage loans. However, commercial real estate loans, construction and development loans and home equity loans and lines of credit are all deemed to have a higher risk of default than single-family residential mortgage loans.

In October 2010, the Bank, the Mid-Tier Holding Company and the Mutual Holding Company entered into Supervisory Agreements (the "Supervisory Agreement(s)") with the OTS. As discussed above, the regulatory functions of the OTS have been transferred to the OCC, in the case of the Bank, and the FRB in the case of the Company. Among other things, the terms of the Supervisory Agreements:

- required us to develop a plan to reduce our problem assets;
- required us to develop enhanced policies and procedures for identifying, monitoring and controlling the risk associated with concentrations of commercial real estate loans; and

required that an independent third party undertake reviews of our commercial real estate loans, construction and development loans, multi-family residential mortgage loans and commercial loans not less than once every six months.

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In addition, as a result of the Supervisory Agreements, Malvern Federal Savings is subject to certain additional restrictions, including the following:

- the Bank is required to provide the OCC (and, previously, the OTS) with prior notice of any new director or senior executive officer; and

- the Bank may not enter into, renew, extend or revise any contractual arrangements related to compensation or benefits with any director or officer without receiving prior written non-objection from the OCC (and, previously, the OTS).

Initially, the Supervisory Agreement also prohibited us from making any new commercial real estate loans and/or commercial and industrial loans and required the Bank to limit its growth in any quarter to an amount not exceeding the interest credited on deposits, in each case without the prior written non-objection of the OCC. In April 2013, we were advised that we were no longer subject to such restrictions on commercial real estate lending and commercial and industrial lending and on asset growth, provided that the level of loan growth remains consistent with our business plan filed with the OCC and meets the requirements of the Supervisory Agreement. For additional information, see "-Regulation – The Supervisory Agreements."

In October 2013, we announced the sale of a substantial portion of our problem loans in a bulk transaction to a single investor. The loans had an aggregate book balance of $20.4 million and were sold on October 4, 2013 at a loss of approximately $10.1 million. The subject loans were classified as held for sale at September 30, 2013, after taking charge-offs of $10.2 million in the aggregate to reflect the anticipated sale price of such loans. As a result, our consolidated statement of financial condition at September 30, 2013 includes such $10.4 million in loans as held for sale. Such loans are not considered to be included in our loan portfolio at September 30, 2013. The aggregate book balance of the loans held for sale at September 30, 2013 included approximately $11.2 million of non-accruing loans, $3.4 million of performing troubled debt restructurings ("TDRs") and $5.8 million of classified and other loans. As a result of the loan sale, the Company has significantly improved its credit quality metrics.

The Bank also prepaid $20.0 million in advances from the Federal Home Loan Bank (the "FHLB") of Pittsburgh during the month of September 2013 and incurred a $1.5 million prepayment penalty, which also is reflected in the results for the quarter and fiscal year ended September 30, 2013. The Company determined to prepay the FHLB advances, which had an average cost of 3.84% and maturity dates in mid- to late – 2018, in order to reduce its average cost of funds and improve its net interest spread and net interest margin in future periods. During the fourth quarter of fiscal 2013 we acquired $10.0 million in new FHLB advances with an average cost of 1.06% and maturities of two-to-three years. The prepayment was funded with cash and equivalents currently yielding 0.25%.

Our headquarters is located at 42 East Lancaster Avenue, Paoli, Pennsylvania, and our telephone number is (610) 644-9400. We maintain a website at www.malvernfederal.com and we provide our customers with on-line banking and telephone banking services. The Company's annual reports on Form 10-K, quarterly reports on Form10-Q, current reports on Form 8-K and other documents filed by the Company with the Securities and Exchange Commission ("SEC") are available free of charge on the Company's website under the Investor Relations menu. Such documents are available on the Company's website as soon as reasonably practicable after they have been filed electronically with the SEC. The information presented on our website, currently and in the future, is not considered to be part of this document, or any document, incorporated by reference in this document.

Market Area and Competition

We conduct business from our corporate headquarters in Paoli, Pennsylvania, seven financial center offices located in Chester County, Pennsylvania and one financial center office in Delaware County, Pennsylvania. Our headquarters office is in Paoli, Pennsylvania, approximately 25 miles west of the City of Philadelphia. In addition to Chester County, our lending efforts are focused in neighboring Montgomery County and Delaware County, both of which are also in southeastern Pennsylvania. To a lesser extent, we provide services to other areas in the greater Philadelphia market area.

We face significant competition in originating loans and attracting deposits. This competition stems primarily from commercial banks, other savings banks and savings associations and mortgage-banking companies. Within our market area, we estimate that more than 79 other banks, credit unions and savings institutions are operating. There are several larger commercial banks which have a significant presence in our market area including Wells Fargo Bank, PNC Financial, TD Bank and Susquehanna Bank. We face additional competition for deposits from short-term money market funds and other corporate and government securities funds, mutual funds and from other non-depository financial institutions such as brokerage firms and insurance companies.

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Lending Activities

General. At September 30, 2013, our net loan portfolio totaled $401.9 million or 66.8% of total assets. Historically, our principal lending activity has been the origination of loans collateralized by one- to four-family, also known as "single-family," residential real estate loans located in our market area. In light of the increased levels of our non-performing and problem assets in recent fiscal years, we have taken certain actions to strengthen and enhance our loan underwriting policies and procedures and our loan administration and oversight policies and procedures. We have revised both our consumer loan policy and our commercial loan policy to strengthen certain of our minimum loan-to-value ("LTV") ratios, maximum gross debt ratios and minimum debt coverage ratio policy requirements. We have invested in and implemented software which facilitates our ability to internally review and grade loans in our portfolio and to monitor loan performance. During the fiscal year ended September 30, 2011, we established a Credit Review Department. Initially, the primary focus of the Credit Review Department was the resolution of our non-performing and other problem assets. During the fiscal year ended September 30, 2012, the Credit Review Department was expanded to also serve as an integral component in the loan approval process with the implementation of improved controls for the loan underwriting and annual review processes, primarily for commercial lending. Our Chief Credit Officer, who heads the Credit Review Department, also is the Chairman of the Malvern Federal Savings Bank Loan Committee. In addition, during the September 2013 quarter, the Bank hired an experienced commercial credit loan manager, who is responsible for the implementation, monitoring and control of the approval processes and controls with an emphasis on commercial lending. An additional commercial credit analyst was also hired in July 2013 as added support for commercial lending.

The types of loans that we originate are subject to federal and state law and regulations. Interest rates charged by us on loans are affected principally by the demand for such loans and the supply of money available for lending purposes and the rates offered by our competitors. These factors are, in turn, affected by general and economic conditions, the monetary policy of the federal government, including the Federal Reserve Board, legislative tax policies and governmental budgetary matters.

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Loan Portfolio Composition. The following table shows the composition of our loan portfolio by type of loan at the dates indicated. In addition to total loans in portfolio, which amounted to $404.7 million at September 30, 2013, we held $10.4 million of loans held for sale at such date.

	September 30,									
	2013		2012		2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percen
	(Dollars in thousands)									
Residential mortgage	$239,900	59.3 %	$231,803	50.2 %	$229,330	44.7 %	$230,966	41.8 %	$252,308	42.4
Construction and Development:										
Residential and commercial	6,672	1.6	20,500	4.4	26,005	5.0	30,429	5.5	37,508	6.3
Land loans	2,439	0.6	632	0.1	2,722	0.6	2,989	0.6	3,237	0.6
Total construction and development loans	9,111	2.2	21,132	4.5	28,727	5.6	33,418	6.1	40,745	6.9
Commercial:										
Commercial real estate	70,571	17.4	112,199	24.3	131,225	25.5	143,095	25.9	142,863	24.0
Multi-family	1,971	0.5	2,087	0.5	5,507	1.1	6,493	1.2	9,613	1.6
Other	5,573	1.4	7,517	1.6	10,992	2.1	11,398	2.1	15,647	2.6
Total commercial loans	78,115	19.3	121,803	26.4	147,724	28.7	160,986	29.2	168,123	28.2
Consumer:										
Home equity lines of credit	20,431	5.0	20,959	4.5	20,735	4.0	19,927	3.6	19,149	3.2
Second mortgages	54,532	13.5	65,703	14.2	85,881	16.8	105,825	19.1	113,943	19.1
Other	2,648	0.7	762	0.2	788	0.2	1,086	0.2	1,143	0.2
Total consumer loans	77,611	19.2	87,424	18.9	107,404	21.0	126,838	22.9	134,235	22.5
Total loans	404,737	100.0%	462,162	100.0%	513,185	100.0%	552,208	100.0%	595,411	100.0
Deferred loan costs net	2,210		2,420		2,935		3,272		3,872	
Allowance for loan losses	(5,090)		(7,581)		(10,101)		(8,157)		(5,718)	
Loans receivable, net	$401,857		$457,001		$506,019		$547,323		$593,565	

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The following table shows the composition of our loan portfolio by fixed- and adjustable-rate at the dates indicated.

	September 30,									
	2013		2012		2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Fixed-Rate Loans:										
Residential mortgage	$229,466	56.7 %	$215,599	46.7 %	$211,405	41.2 %	$201,285	36.4 %	$227,712	38.2 %
Construction and Development:										
Residential and commercial	--	--	3,245	0.7	4,250	0.8	968	0.2	5,382	0.9
Land loans	--	--	--	--	1,376	0.3	1,312	0.3	1,558	0.3
Total fixed-rate construction and development loans	--	--	3,245	0.7	5,626	1.1	2,280	0.5	6,940	1.2
Commercial:										
Commercial real estate	27,731	6.9	38,041	8.2	40,231	7.8	40,833	7.4	56,126	9.4
Multi-family	1,634	0.4	1,671	0.4	932	0.2	950	0.2	3,519	0.6
Other	1,334	0.3	1,442	0.3	1,643	0.3	1,733	0.3	3,798	0.6
Total fixed-rate commercial loans	30,699	7.6	41,154	8.9	42,806	8.3	43,516	7.9	63,443	10.6
Consumer:										
Home equity lines of credit	--	--	--	--	--	--	--	--	--	--
Second mortgages	54,532	13.5	65,671	14.2	85,881	16.8	105,825	19.1	113,943	19.1
Other	481	0.1	470	0.1	552	0.1	822	0.1	867	0.2
Total fixed-rate consumer loans	55,013	13.6	66,141	14.3	86,433	16.9	106,647	19.2	114,810	19.3
Total fixed-rate loans	$315,178	77.9	$326,139	70.6	$346,270	67.5	$353,728	64.0	$412,905	69.3
Adjustable-Rate Loans:										
Residential mortgage	$10,434	2.6 %	$16,204	3.5 %	$17,925	3.5 %	$29,681	5.4 %	$24,596	4.1 %
Construction and Development:										

Residential and commercial	6,672	1.6	17,255	3.7	21,755	4.2	29,461	5.3	32,126	5.4
Land loans	2,439	0.6	632	0.1	1,346	0.3	1,677	0.3	1,679	0.3
Total adjustable-rate construction and development loans	9,111	2.2	17,887	3.8	23,101	4.5	31,138	5.6	33,805	5.7
Commercial:										
Commercial real estate	42,840	10.5	74,158	16.1	90,994	17.7	102,262	18.5	86,737	14.6
Multi-family	337	0.1	416	0.1	4,575	0.9	5,543	1.0	6,094	1.0
Other	4,239	1.1	6,075	1.3	9,349	1.8	9,665	1.8	11,849	2.0
Total adjustable-rate commercial loans	47,416	11.7	80,649	17.5	104,918	20.4	117,470	21.3	104,680	17.6
Consumer:										
Home equity lines of credit	20,431	5.0	20,959	4.5	20,735	4.0	19,927	3.6	19,149	3.2
Second mortgages	--	--	32	--	--	--	--	--	--	--
Other	2,167	0.6	292	0.1	236	0.1	264	0.1	276	0.1
Total adjustable-rate consumer loans	22,598	5.6	21,283	4.6	20,971	4.1	20,191	3.7	19,425	3.3
Total adjustable-rate loans	$89,559	22.1 %	$136,023	29.4 %	$166,915	32.5 %	$198,480	36.0 %	$182,506	30.7 %
Total loans	$404,737	100.0%	$462,162	100.0%	$513,185	100.0%	$552,208	100.0%	$595,411	100.0%

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Loan Maturity. The following table presents the contractual maturity of our loans held in portfolio at September 30, 2013. The table does not include the effect of prepayments or scheduled principal amortization. Loans having no stated repayment schedule or maturity and overdraft loans are reported as being due in one year or less. This table also does not include loans held for sale.

		Construction and Development		Commercial			Consumer			
	Residential Mortgage	Residential and Commercial	Land Loans	Commercial Real Estate	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Total
					(In thousands)					
Amounts due in:										
One year or less	$41	$ 5,272	$ 237	$3,563	$-	$897	$-	$ 82	$27	$10,119
After one year through two years	297	1,400	2,202	5,469	891	73	-	145	57	10,534
After two years through three years	1,230	-	-	4,503	31	58	44	344	94	6,304
After three years through five years	6,510	-	-	16,646	76	485	-	1,146	2,047	26,910
After five years through ten years	26,055	-	-	34,015	742	1,779	-	15,593	47	78,231
After ten years through fifteen years	55,075	-	-	4,085	51	1,231	3,796	20,416	4	84,658
Beyond fifteen years	150,692	-	-	2,290	180	1,050	16,591	16,806	372	187,981
Total	$239,900	$ 6,672	$ 2,439	$70,571	$1,971	$5,573	$20,431	$ 54,532	$2,648	$404,737
Interest rate terms on amounts due after one year:										
Fixed rate	$229,425	$ -	$ -	$26,551	$1,634	$1,237	$-	$ 54,450	$456	$313,753
Adjustable rate	10,434	1,400	2,202	40,457	337	3,439	20,431	-	2,165	80,865
Total	$239,859	$ 1,400	$ 2,202	$67,008	$1,971	$4,676	$20,431	$ 54,450	$2,621	$394,618

Loan Originations, Purchases and Sales. Our lending activities are subject to underwriting standards and loan origination procedures established by our board of directors and management. Loan originations are obtained through a variety of sources, primarily using our four loan originators and new customers obtained from referrals as well as local advertising and promotional efforts. In addition, we rely on a network of approximately eight mortgage brokers with respect to production of new single-family residential mortgage loans, second mortgage loans and home equity lines of credit. We receive applications from such brokers on standardized documents meeting Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") and Federal National Mortgage Association ("FNMA" or "Fannie Mae") guidelines and, if we determine to acquire loans from such brokers, they are underwritten and approved pursuant to the policies and procedures of Malvern Federal Savings Bank. Depending upon our arrangements with the particular broker, loans obtained from our broker network are classified either as "purchased," when the broker provides the loan funds at closing and closes the loan in its name, or as "originated," when Malvern Federal Savings Bank disburses the loan funds at closing and the documents reflect the Bank as the lender. Single-family residential mortgage loan applications and consumer loan applications are taken at any Malvern Federal Savings Bank branch office. We also accept internet applications submitted to our website. Applications for other loans typically are taken personally by our loan officers or business development officers, although they may be received by a branch office initially and then referred to one of our loan officers or business development officers. All loan applications are processed and underwritten centrally at our main office.

All of our single-family residential mortgage loans are written on standardized documents used by Freddie Mac and Fannie Mae. We also utilize an automated loan processing and underwriting software system for our new single-family residential mortgage loans. Property valuations of loans secured by real estate are undertaken by an independent third-party appraiser approved by our board of directors. We do not originate, and at September 30, 2013, we had no sub-prime loans in our portfolio.

In addition to originating loans, we may consider purchasing participation interests in larger balance loans, typically commercial real estate or construction and development loans, from other financial institutions in our market area. Such participations are reviewed for compliance with our underwriting criteria before they are purchased. We actively monitor the performance of such loans through the receipt of regular reports from the lead lender regarding the loan's performance, physically inspecting the loan security property on a periodic basis, discussing the loan with the lead lender on a regular basis and receiving copies of updated financial statements from the borrower. At September 30, 2013, the largest loan participation interests from other institutions were comprised of loans to four borrowers and their affiliates, which had an aggregate outstanding balance of approximately $1.8 million at such date.

We occasionally sell whole loans or participation interests in loans we originate. We generally have sold participation interests in loans only when a loan would exceed our loans-to-one borrower limits. Our loans-to-one borrower limit, with certain exceptions, generally is 15% of the Bank's unimpaired capital and surplus or $10.4 million at September 30, 2013. At September 30, 2013, our five largest outstanding loans to one borrower and related entities amounted to $4.2 million, $3.4 million, $3.2 million, $3.1 million and $2.3 million, respectively, and all of such loans were performing in accordance with their terms and complied with our loan-to-one borrower limit. In addition, in an effort to improve our interest rate risk exposure, on occasion, we sell long-term (15, 20 or 30 year term) fixed-rate single family residential mortgage loans to Freddie Mac, Fannie Mae and the Federal Home Loan Bank Mortgage Partnership Finance Program, while retaining the loan servicing rights for such loans. We receive a fee for continuing to service such loans when they are sold, and such fees are recorded as non-interest income. As previously indicated, in order to improve our credit quality, we undertook a bulk sale of problem loans in October 2013. The loans designated for sale had an aggregate book balance of $20.4 million at September 30, 2013. Charge-offs of $10.2 million in the aggregate were taken to reflect the anticipated sales price of such loans, and we transferred the loans to held for sale status with an aggregate carrying value of $10.4 million at September 30, 3013. The loans classified as

held for sale are not considered to be in our "portfolio" of loans at September 30, 2013. The bulk loan sale was completed on October 4, 2013 (although $2.5 million of the purchase price was held in escrow for a 30 day period to address unknown items or loans which the purchaser had the ability to return to us during the escrow period. Subsequent to September 30, 2013, the purchaser of the loans in the bulk sale transaction exercised its right to return one loan to us, a participation interest in a non-accruing commercial construction loan which had a $1.1 million book balance at September 30, 2013. This loan will be returned to portfolio as of December 31, 2013 at no additional loss. Due to a $596,000 principal payment received on the returned loan subsequent to September 30, 2013, the current book balance of the loan is approximately $484,000. The bulk sale of the loans has been completed and no additional loans are expected to be returned to us as the time period for any returns of additional loans or any other adjustments from the amount held back has now expired.

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The following table shows our loan origination, purchase and repayment activities for the periods indicated.

	Year Ended September 30,		
	2013	2012	2011
		(In thousands)	
Total gross loans at beginning of period	$462,162	$513,185	$552,208
Transfer to loans held for sale(1)	(10,367)	-	-
Originations by type:			
Residential mortgage	85,427	39,213	35,378
Construction and Development(2):			
Residential and commercial	5,549	4,961	3,890
Land loans	2,202	-	36
Commercial:			
Commercial real estate	723	3,831	3,146
Multi-family	335	221	494
Other	952	1,322	3,426
Consumer:			
Home equity lines of credit(2)	10,451	10,813	11,289
Second mortgages	6,846	1,426	6,719
Other	2,559	684	608
Total originations	115,044	62,471	64,986
Principal Repayments:			
Residential mortgage	66,416	49,872	54,691
Construction and Development:			
Residential and commercial	14,052	10,425	7,750
Land loans	394	1,923	235
Commercial:			
Commercial real estate	32,141	21,112	7,387
Multi-family	400	3,146	1,335
Other	2,460	4,779	3,542
Consumer:			
Home equity lines of credit	10,571	10,917	10,034
Second mortgages	18,659	25,653	28,848
Other	655	709	882
Total principal repayments	145,748	128,536	114,704
Net loan originations and principal repayments	(30,704)	(66,065)	(49,718)
Purchases:			
Residential mortgage(3)	27,724	25,914	27,683
Construction and Development:			
Residential and commercial	312	-	125
Commercial:			
Commercial real estate	618	-	-
Consumer:			
Home equity lines of credit	113	361	-
Second mortgages	2,293	4,626	4,560
Total purchased	31,060	30,901	32,368
Sales:			

Residential mortgage	(27,763)	(10,671)	-
Construction and Development:			
Residential and commercial	(1,707)		
Other adjustments, net(4)	(17,944)	(5,188)	(21,673)
Net increase (decrease)	(57,425)	(51,023)	(39,023)
Total gross loans in portfolio at end of period	$404,737	$462,162	$513,185

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(1) Reflects fair market value of loans transferred to held for sale status at September 30, 2013 in connection with our bulk sale of loans.

(2) Origination amounts for construction and development loans and line of credit loans reflect disbursements of loan proceeds during the period, although loans may have been originated in a prior period.

(3) Includes purchases of loans from our network of loan brokers.

(4) Reflects non-cash items related to transfers of loans to other real estate owned, recoveries and charge-offs.

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The loans receivable portfolio is segmented into residential loans, construction and development loans, commercial loans and consumer loans. The residential loan segment has one class, one- to four-family first lien residential mortgage loans. The construction and development loan segment consists of the following classes: residential and commercial and land loans. Residential construction loans are made for the acquisition of and/or construction on a lot or lots on which a residential dwelling is to be built. Commercial construction loans are made for the purpose of acquiring, developing and constructing a commercial use structure. The commercial loan segment consists of the following classes: commercial real estate loans, multi-family real estate loans, and other commercial loans, which are also generally known as commercial and industrial loans or commercial business loans. The consumer loan segment consists of the following classes: home equity lines of credit, second mortgage loans and other consumer loans, primarily unsecured consumer lines of credit.

Residential Lending. Residential mortgage originations are secured primarily by properties located in the Company's primary market area and surrounding areas. At September 30, 2013, $239.9 million, or 59.3%, of our total loans in portfolio consisted of single-family residential mortgage loans.

Our single-family residential mortgage loans generally are underwritten on terms and documentation conforming to guidelines issued by Freddie Mac and Fannie Mae. Applications for one- to four-family residential mortgage loans are taken by our loan origination officers and are accepted at any of our banking offices and are then referred to the lending department at our main office in order to process the loan, which consists primarily of obtaining all documents required by Freddie Mac and Fannie Mae underwriting standards, and completing the underwriting, which includes making a determination whether the loan meets our underwriting standards such that the Bank can extend a loan commitment to the customer. We generally have retained for portfolio a substantial portion of the single-family residential mortgage loans that we originate. We currently originate fixed-rate, fully amortizing mortgage loans with maturities of 10 to 30 years. We also offer adjustable rate mortgage ("ARM") loans where the interest rate either adjusts on an annual basis or is fixed for the initial one, three or five years and then adjusts annually. However, due to local market conditions, we have not originated a significant amount of ARM loans in recent years. At September 30, 2013, $10.4 million, or 4.4%, of our one- to four-family residential loans consisted of ARM loans. Occasionally, we also offer "balloon" loans which are amortized on a 30 year schedule but become due at the fifth or seventh anniversary, bi-weekly mortgage loans and, until August 2008, for borrowers with credit scores exceeding 700, no income/no asset ("NINA") loans. Our NINA loans amounted to $1.4 million in the aggregate at September 30, 2013. None of our NINA loan were impaired or on non-accrual status at September 30, 2013.

We underwrite one- to four-family residential mortgage loans with loan-to-value ratios of up to 95%, provided that the borrower obtains private mortgage insurance on loans that exceed 80% of the appraised value or sales price, whichever is less, of the secured property. We also require that title insurance, hazard insurance and, if appropriate, flood insurance be maintained on all properties securing real estate loans. We require that a licensed appraiser from our list of approved appraisers perform and submit to us an appraisal on all properties secured by a first mortgage on one- to four-family first mortgage loans. Our mortgage loans generally include due-on-sale clauses which provide us with the contractual right to deem the loan immediately due and payable in the event the borrower transfers ownership of the property. Due-on-sale clauses are an important means of adjusting the yields of fixed-rate mortgage loans in portfolio and we generally exercise our rights under these clauses.

Construction and Development Loans. The amount of our outstanding construction and development loans in portfolio decreased to $9.1 million or 2.2% of total loans at September 30, 2013 from $21.1 million or 4.5% of total loans as of September 30, 2012. In addition to normal amortization and payoffs, the reduction of the outstanding balance of our construction loans in portfolio at September 30, 2013 compared to September 30, 2012 primarily reflects the net transfer of $4.3 million, after charge-offs of $4.1 million, of construction loans to held for sale status at September 30,

2013. In October 2009, we ceased originating any new construction and development loans, with certain limited exceptions. However, during fiscal 2014, we expect to resume originating construction loans to builders and developers in our market area, on a relatively modest basis consistent with our business plan filed with the OCC. Our only new construction loans which we have made since we entered into the Supervisory Agreements in October 2010 have consisted of single-family residential construction loans which, by their terms, convert to permanent, long-term mortgage loans upon completion of construction ("construction/perm." loans). We had 12 of such construction/perm loans in portfolio with an aggregate outstanding balance of $3.6 million at September 30, 2013. During the initial or construction phase, these construction/perm loans require payment of interest only, which generally is tied to prime rate, as the home is being constructed. Upon the earlier of the completion of construction or one year, these loans automatically convert to long-term (generally 30 years), amortizing, fixed-rate single-family mortgage loans. We generally limit construction loans to builders and developers with whom we had an established relationship, or who were otherwise known to officers of the Bank.

Our construction and development loans currently in the portfolio typically have variable rates of interest tied to the prime rate which improves the interest rate sensitivity of our loan portfolio. At September 30, 2013, all of our construction loans had variable rates of interest and 69.3% of such loans had two years or less in their remaining terms to maturity at such date.

Our current portfolio of construction loans generally have a maximum term to maturity of one year (for individual, owner-occupied dwellings), and loan-to-value ratios less than 80%. Residential construction loans to developers are made on either a pre-sold or speculative (unsold) basis. Limits are placed on the number of units that can be built on a speculative basis based upon the reputation and financial position of the builder, his/her present obligations, the location of the property and prior sales in the development and the surrounding area. Generally, a limit of two unsold homes (one model home and one speculative home) is placed per project.

Prior to committing to a construction loan, we require that an independent appraiser prepare an appraisal of the property. Each project also is reviewed and inspected at its inception and prior to every disbursement of loan proceeds. Disbursements are made after inspections based upon a percentage of project completion and monthly payment of interest is required on all construction loans.

Our construction loans also include loans for the acquisition and development of land for sale (i.e. roads, sewer and water lines). We typically made these loans only in conjunction with a commitment for a construction loan for the units to be built on the site. These loans are secured by a lien on the property and were limited to a loan-to-value ratio not exceeding 75% of the appraised value at the time of origination. The loans have a variable rate of interest and require monthly payments of interest. The principal of the loan is repaid as units are sold and released. We limited loans of this type to our market area and to developers with whom we had established relationships. In most cases, we also obtained personal guarantees from the borrowers.

Our loan portfolio included three loans secured by unimproved real estate and lots (“land loan”), with an outstanding balance of $2.4 million, constituting 0.6% of total loans, at September 30, 2013.

Construction and development loans generally are considered to involve a higher level of risk than one-to four-family residential lending, due to the concentration of principal in a limited number of loans and borrowers and the effect of economic conditions on developers, builders and projects. At September 30, 2013, the amounts outstanding on our five largest residential construction loans in portfolio were approximately $641,000, $539,000, $532,000, $480,000 and $471,000, respectively. At September 30, 2013, we only had one commercial construction or development loan in portfolio for approximately $1.5 million. The average size of our construction loans was approximately $380,000 at September 30, 2013. Additional risk is also associated with construction lending because of the inherent difficulty in estimating both a property’s value at completion and the estimated cost (including interest) to complete a project. The nature of these loans is such that they are more difficult to evaluate and monitor. In addition, speculative construction loans to a builder are not pre-sold and thus pose a greater potential risk than construction loans to individuals on their personal residences.

In order to mitigate some of the risks inherent to construction lending, we inspect properties under construction, review construction progress prior to advancing funds, work with builders with whom we have established relationships, require annual updating of tax returns and other financial data of developers and obtain personal guarantees from the principals. At September 30, 2013, $220,000, or 4.3%, of our allowance for loan losses was attributed to construction and development loans. We had no non-performing construction and development loans in portfolio at September 30, 2013 compared to $3.8 million at September 30, 2012. During the fiscal year ended September 30, 2013, we charged off a total of $5.9 million in construction and development loans of which $4.1

million is related to the transfer of $4.3 million to held for sale status at September 30, 2013. See “Asset Quality – Non-Performing Loans and Real Estate Owned.” In addition to our non-performing construction and development loans, at September 30, 2013 and 2012, we had $446,000 and $1.1 million, respectively, in construction and development loans that were performing troubled debt restructurings.

Commercial Lending. In August 2010, the Company generally ceased originating or acquiring new commercial real estate, multi-family real estate mortgage loans, or commercial business loans. The Supervisory Agreement, which became effective in October 2010, prohibited the Bank from originating or purchasing any new commercial real estate loans or commercial and industrial loans except for refinancing, extending or modifying existing loans where no new funds are advanced and except with the prior written non-objection of the OCC.

As a result of the OCC's determination in April 2013 to remove the restrictions on commercial lending as well as enhancements made to our commercial loan policies, approval and underwriting processes, as well as the addition of experienced personnel in the Credit Review department, we intend to resume commercial real estate and business lending during fiscal 2014, subject to the levels of growth reflected in our business plan submitted to the OCC.

At September 30, 2013, our loans in portfolio secured by commercial real estate amounted to $70.6 million and constituted 17.4% of our total loans at such date. During the year ended September 30, 2013, the commercial real estate loan portfolio decreased by an aggregate of $41.6 million, or 37.1% due primarily to our ceasing, with certain exceptions, originations of new commercial real estate loans and the sale of commercial real estate problem loans. In addition to loan payoffs and normal amortization, the reduction of our commercial loan portfolio during fiscal 2013 reflects aggregate charge-offs of $6.3 million of commercial real estate loans, the transfer of $10.5 million (after charge-offs) of commercial real estate loans to held for sale status and the transfer of $1.1 million in commercial real estate loans to other real estate owned ("REO") during the fiscal year ended September 30, 2013.

Our commercial real estate loan portfolio consists primarily of loans secured by office buildings, retail and industrial use buildings, strip shopping centers, mixed-use and other properties used for commercial purposes located in its market area. Loans in our commercial real estate portfolio tend to be in an amount less than $3.0 million, but some exceed that amount. At September 30, 2013, the average amount outstanding on our commercial real estate loans in portfolio was $183,000. The five largest commercial real estate loans in portfolio outstanding were $4.2 million, $3.2 million, $3.1 million, $3.1 million and $1.9 million at September 30, 2013. During the year ended September 30, 2013, the average yield on our commercial real estate loans was 5.0% compared to 4.1% for our single-family residential mortgage loans. Commercial real estate loans are much more likely to have adjustable interest rates than single-family residential mortgage loans, which adds to the interest rate sensitivity of commercial real estate loans and makes them attractive. At September 30, 2013, approximately 60.7% of our commercial real estate loans in portfolio had adjustable interest rates compared to 4.4% of our single-family residential mortgage loans with adjustable rates at such date.

Although terms for commercial real estate and multi-family loans vary, our underwriting standards generally allow for terms up to 10 years with the interest rate being reset in the fifth year and with monthly amortization not greater than 25 years and loan-to-value ratios of not more than 75%. Interest rates are either fixed or adjustable, based upon the prime rate plus a margin, and fees ranging from 0.5% to 1.50% are charged to the borrower at the origination of the loan. Prepayment fees are charged on most loans in the event of early repayment. Generally, we obtain personal guarantees of the principals as additional collateral for commercial real estate and multi-family real estate loans.

At September 30, 2013, our loan portfolio included six loans with an aggregate book value of $2.0 million secured by multi-family (more than four units) properties, constituting 0.5% of our total loans at such date. These loans are for properties located in Chester County and Delaware County, Pennsylvania, respectively. As of September 30, 2013, we had no non-accruing multi-family loans.

Commercial and multi-family real estate loans generally present a higher level of risk than loans secured by one- to four-family residences. This greater risk is due to several factors, including the concentration of principal in a limited

number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial and multi-family real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed, a bankruptcy court modifies a lease term, or a major tenant is unable to fulfill its lease obligations), the borrower's ability to repay the loan may be impaired. As of September 30, 2013, none of our commercial real estate mortgage loans held in portfolio were on non-accrual status but an aggregate of $377,000 of our commercial real estate loans at such date were classified for regulatory reporting purposes as substandard. See "Asset Quality – Asset Classification." As of September 30, 2013, $1.7 million, or 33.9% of our allowance for loan losses was allocated to commercial real estate mortgage loans. In addition, at September 30, 2013 we held $1.9 million of real estate owned which was acquired from foreclosures on, or our acceptance of a deed-in-lieu of foreclosure, on commercial real estate loans. See "Asset Quality – Non-Performing Assets and Real Estate Owned." None of our commercial real estate loans held in portfolio were deemed performing troubled debt restructurings at September 30, 2013 as compared to $6.0 million at September 30, 2012.

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At September 30, 2013, we had $5.6 million in commercial business loans (1.4% of gross loans outstanding) in portfolio. Our commercial business loans generally have been made to small to mid-sized businesses located in our market area. The commercial business loans in our portfolio assist us in our asset/liability management since they generally provide shorter maturities and/or adjustable rates of interest in addition to generally having higher rates of return which are designed to compensate for the additional credit risk associated with these loans. The commercial business loans which we have originated may be either a revolving line of credit or for a fixed term of generally 10 years or less. Interest rates are adjustable, indexed to a published prime rate of interest, or fixed. Generally, equipment, machinery, real property or other corporate assets secure such loans. Personal guarantees from the business principals are generally obtained as additional collateral. At September 30, 2013, the average balance of our commercial business loans was $70,000.

Generally, commercial business loans are characterized as having higher risks associated with them than single-family residential mortgage loans. As of September 30, 2013, we had no non-accruing commercial business loans in portfolio. At such date, $59,000 or 1.2% of the allowance for loan losses was allocated to commercial business loans.

In our underwriting procedures, consideration is given to the stability of the property's cash flow history, future operating projections, current and projected occupancy levels, location and physical condition. Generally, our practice in recent periods is to impose a debt service ratio (the ratio of net cash flows from operations before the payment of debt service to debt service) of not less than 125%. We also evaluate the credit and financial condition of the borrower, and if applicable, the guarantor. Appraisal reports prepared by independent appraisers are obtained on each loan to substantiate the property's market value, and are reviewed by us prior to the closing of the loan.

Consumer Lending. In our efforts to provide a full range of financial services to our customers, we offer various types of consumer loans. Our consumer loans amounted to $77.6 million or 19.2% of our total loan portfolio at September 30, 2013. The largest components of our consumer loans are loans secured by second mortgages, consisting primarily of home equity loans, which amounted to $54.5 million at September 30, 2013, and home equity lines of credit, which amounted to $20.4 million at such date. Our consumer loans also include automobile loans, unsecured personal loans and loans secured by deposits. Consumer loans are originated primarily through existing and walk-in customers and direct advertising and, with respect to second mortgages and home equity lines of credit, through our broker network.

Our home equity lines of credit are variable rate loans tied to the prime rate. Our second mortgages may have fixed or variable rates, although they generally have had fixed rates in recent periods. Our second mortgages have a maximum term to maturity of 20 years. Both our second mortgages and our home equity lines of credit generally are secured by the borrower's primary residence. However, our security generally consists of a second lien on the property. Our lending policy provides that our home equity loans have loan-to-value ratios of 85% or less when combined with any Malvern Federal Savings Bank's first mortgage. Our lending policy also provides that our home equity loans have loan-to-value ratios of 75% or less when combined with any first mortgage with any other financial institution. The maximum loan-to-value ratio on our home equity lines of credit is 75%, when Malvern Federal Savings has the first mortgage. However, the maximum loan-to-value ratio on our home equity lines of credit is reduced to 70%, when the Bank does not have the first mortgage. At September 30, 2013, the unused portion of our home equity lines of credit was $13.9 million.

Consumer loans generally have higher interest rates and shorter terms than residential loans; however, they have additional credit risk due to the type of collateral securing the loan or in some case the absence of collateral. In the year ended September 30, 2013, we charged-off $1.1 million of consumer loans. We are continuing to evaluate and monitor the credit conditions of our consumer loan borrowers and the real estate values of the properties securing our second mortgage loans as part of our on-going efforts to assess the overall credit quality of the portfolio in connection

with our review of the allowance for loan losses. As of September 30, 2013, we had an aggregate of $606,000 of non-accruing second mortgage loans and home equity lines of credit, representing an improvement of $156,000 over the amount of non-accruing second mortgage loans and home equity lines of credit at September 30, 2012. At September 30, 2013, $762,000 of our consumer loans were classified as substandard and we had no doubtful consumer loans. At September 30, 2013, an aggregate of $1.6 million of our allowance for loan losses was allocated to second mortgages and home equity lines of credit.

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Loan Approval Procedures and Authority. Our board of directors establishes the Bank's lending policies and procedures. Our Lending Policy Manual is reviewed on at least an annual basis by our management team in order to propose modifications as a result of market conditions, regulatory changes and other factors. All loan modifications must be approved by our board of directors.

All loans in excess of $417,000 and all loans which are approved as an exception to our standard loan underwriting policies and procedures must be approved by the Bank's Board of Directors after such loans are recommended for approval by the Property and Loan Committee of the Board of Directors. Our Chief Lending Officer is authorized to approve residential mortgage loans up to $417,000. Commercial loans in amounts up to $200,000 must be approved by the Director of Commercial Banking, plus the Senior Commercial Loan Portfolio Manager. Commercial loans in excess of $200,000 must be approved by two designated officers plus the Chief Lending Officer and the Commercial Loan Committee. The consumer loans in excess of $100,000 but not exceeding $200,000 must be approved by a designated consumer loan officer and our Chief Lending Officer. Consumer loans under $100,000 can be approved by one designated loan officer.

Asset Quality

General. One of our key goals in fiscal 2013 was to continue to improve asset quality. Accordingly, as previously discussed we entered into the previously described agreement to sell a substantial portion of our problem loans in a bulk sale transaction. As a result of the bulk sale transaction, which was completed in October 2013, we transferred non-accruing loans with an aggregate book balance of $11.2 million (before charge-offs of $5.5 million) and performing TDRs with an aggregate book balance of $3.4 million (before charge-offs of $1.4 million) to held for sale status as of September 30, 2013.

When a borrower fails to make a scheduled payment, we attempt to cure the deficiency by making personal contact with the borrower. Initial contacts are made as soon as five days after the date the payment is due, and late notices are sent approximately 16 days after the date the payment is due. In most cases, deficiencies are promptly resolved. If the delinquency continues, late charges are assessed and additional efforts are made to collect the deficiency. All loans which are delinquent 30 days or more are reported to the board of directors of Malvern Federal Savings on a monthly basis.

On loans where the collection of principal or interest payments is doubtful, the accrual of interest income ceases ("non-accrual" loans). It is our policy to discontinue accruing additional interest and reverse any interest accrued on any loan which is 90 days or more past due. On occasion, this action may be taken earlier if the financial condition of the borrower raises significant concern with regard to his/her ability to service the debt in accordance with the terms of the loan agreement. Interest income is not accrued on these loans until the borrower's financial condition and payment record demonstrate an ability to service the debt.

Real estate which is acquired as a result of foreclosure is classified as real estate owned until sold. Real estate owned is recorded at the lower of cost or fair value less estimated selling costs. Costs associated with acquiring and improving a foreclosed property is usually capitalized to the extent that the carrying value does not exceed fair value less estimated selling costs. Holding costs are charged to expense. Gains and losses on the sale of real estate owned are charged to operations, as incurred.

We account for our impaired loans under accounting principles generally accepted in the United States of America ("U.S. GAAP"). An impaired loan generally is one for which it is probable, based on current information, that the lender will not collect all the amounts due under the contractual terms of the loan. Large groups of smaller balance,

homogeneous loans are collectively evaluated for impairment. Loans collectively evaluated for impairment include smaller balance residential real estate loans and consumer loans. These loans are evaluated as a group because they have similar characteristics and performance experience. Larger commercial and construction loans are individually evaluated for impairment. Our impaired loans in portfolio amounted to $3.2 million and $13.2 million at September 30, 2013 and 2012, respectively.

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

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

When an insured institution classifies one or more assets, or portions thereof, as "substandard" or "doubtful," it is required that a general valuation allowance for loan losses be established for loan losses in an amount deemed prudent by management. General valuation allowances represent loss allowances which have been established to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies one or more assets, or portions thereof, as "loss," it is required either to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge off such amount.

A savings institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by Federal bank regulators which can order the establishment of additional general or specific loss allowances. The Federal banking agencies, have adopted an interagency policy statement on the allowance for loan and lease losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that institutions have effective systems and controls to identify, monitor and address asset quality problems; that management analyze all significant factors that affect the collectibility of the portfolio in a reasonable manner; and that management establish acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Our management believes that, based on information currently available, the Company's allowance for loan losses is maintained at a level which covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. However, actual losses are dependent upon future events and, as such; further additions to the level of allowances for loan losses may become necessary.

We review and classify assets on a monthly basis and the board of directors is provided with monthly reports on our classified assets. We classify assets in accordance with the management guidelines described above. Assets in our portfolio classified as "substandard" amounted to $8.5 million, including $4.0 million of other real estate owned, at September 30, 2013 compared to $40.2 million, in the aggregate, including $4.6 million of other real estate owned, at September 30, 2012. We had no assets classified doubtful at September 30, 2013 compared to $351,000 at September 30, 2012. Assets designated as ?special mention? totaled $3.8 million at September 30, 2013 compared to $7.7 million at September 30, 2012. We attribute the improvement in the aggregate amount of our classified assets and assets designated special mention primarily to $14.3 million in charge-offs and the transfer of classified and criticized loans with an aggregate book balance of $19.6 million (before charge-offs) to held-for-sale as well as our enhanced loan

monitoring, collection and charge-off efforts combined with the reductions in the size of our loan portfolio and our holdings of other real estate owned. We had no loans classified as loss at September 30, 2013 or 2012.

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Delinquent Loans. The following table shows the delinquencies in our loan portfolio as of the dates indicated. The table does not include loans held for sale at September 30, 2013.

	At September 30, 2013 Loans Delinquent For:												
	31-89 Days				90 Days and Over				Total Delinquent Loans				
	Number	Amount	Percent of Total Delinquent Loans 31-89 Days		Number	Amount	Percent of Total Delinquent Loans 90 Day and Over		Number	Amount	Percent of Total Delinquent Loans Greater Than 30 Days		
	(Dollars in thousands)												
Residential mortgage	8	$1,021	41.8	%	11	$1,295	68.1	%	19	$2,316	53.3	%	
Commercial:													
Commercial real estate	2	155	6.3		-	-	-		2	155	3.6		
Consumer:													
Home equity lines of credit	-	-	-		2	34	1.8		2	34	0.8		
Second mortgages	18	1,262	51.7		12	572	30.1		30	1,834	42.2		
Other	3	5	0.2		-	-	-		3	5	0.1		
Total	31	$2,443	100.0	%	25	$1,901	100.0	%	56	$4,344	100.0	%	

	At September 30, 2012 Loans Delinquent For:											
	31-89 Days				90 Days and Over				Total Delinquent Loans			
	Number	Amount	Percent of Total Delinquent Loans 31-89 Days		Number	Amount	Percent of Total Delinquent Loans 90 Day and Over		Number	Amount	Percent of Total Delinquent Loans Greater Than 30 Days	
	(Dollars in thousands)											
Residential mortgage	7	$1,402	30.9	%	14	$3,540	36.3	%	21	$4,942	34.6	%
Construction and Development:												
Residential and commercial	-	-	-		7	3,788	38.8		7	3,788	26.5	
Commercial:												
Commercial real estate	2	1,778	39.1		2	1,458	15.0		4	3,236	22.6	
Other	-	-	-		1	201	2.1		1	201	1.4	
Consumer:												
Home equity lines of credit	2	220	4.8		1	23	0.2		3	243	1.7	
Second mortgages	17	1,140	25.1		9	739	7.6		26	1,879	13.2	
Other	4	4	0.1		-	-	-		4	4	-	
Total	32	$4,544	100.0	%	34	$9,749	100.0	%	66	$14,293	100.0	%

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The table below sets forth information on our classified assets and assets designated special mention held in portfolio at the dates indicated. The table does not include loans held for sale at September 30, 2013.

	September 30,		
	2013	2012	2011
	(In thousands)		
Classified assets:			
Substandard(1)	$8,482	$40,226	$39,860
Doubtful	-	351	1,095
Loss	-	-	-
Total classified assets	8,482	40,577	40,955
Special mention assets	3,816	7,657	12,685
Total classified and special mention assets	$12,298	$48,234	$53,640

(1) Includes other real estate owned of $4.0 million, $4.6 million and $8.3 million, at September 30, 2013, 2012 and 2011, respectively.

Our total classified assets plus assets designated as special mention (assets designated special mention are assets which do not currently expose the institution to risk sufficient to warrant classification as substandard, doubtful or loss but which are deemed to have certain weaknesses) held in portfolio amounted to $12.3 million at September 30, 2013 compared to $48.2 million at September 30, 2012. Our total classified assets were $8.5 million at September 30, 2013 compared to $40.6 million at September 30, 2012. This substantial decrease was primarily driven by the transfer of certain loans to held for sale status at September 30, 2013. Other items included in the decrease are short sales, charge-offs and transfer of loans to REO which subsequently have been sold during fiscal-end 2013. The bulk loan sale included $9.8 million (after charge-offs of $9.2 in the aggregate) of loans classified substandard and $265,000 (after charge-offs of $313,000 in the aggregate) of loans deemed to be special mention.

Non-Performing Loans and Real Estate Owned. The following table sets forth non-performing assets and performing troubled debt restructurings held in our portfolio which are neither non-accruing nor more than 90 days past due and still accruing in our portfolio at the dates indicated. Loans are generally placed on non-accrual status when they are 90 days or more past due as to principal or interest or when the collection of principal and/or interest becomes doubtful. There were no loans past due 90 days or more and still accruing interest for the periods shown. Troubled debt restructurings are loans which are modified in a manner constituting a concession to the borrower, such as forgiving a portion of interest or principal making loans at a rate materially less than that of market rates, when the borrower is experiencing financial difficulty. The table does not include loans held for sale at September 30, 2013. At September 30, 2013, our loans held for sale included $11.2 million in non-accruing loans and $3.4 million in performing TDRs.

	September 30,				
	2013	2012	2011	2010	2009
	(Dollars in thousands)				
Non-accruing loans:					
Residential mortgage	$1,295	$3,540	$2,866	$8,354	$3,809
Construction and Development:					
Residential and commercial	-	3,788	6,617	1,393	7,086
Commercial:					
Commercial real estate	-	1,458	1,765	4,476	785
Multi-family	-	-	-	1,093	-
Other	-	201	229	-	35
Consumer:					
Home equity lines of credit	34	23	61	457	407
Second mortgages	572	739	1,377	4,085	2,072
Other	-	-	-	3	1
Total non-accruing loans	1,901	9,749	12,915	19,861	14,195
Accruing loans delinquent more than 90 days past due	-	-	-	-	-
Real estate owned and other foreclosed assets:					
Residential mortgage	725	1,262	3,872	1,538	1,568
Construction and Development:					
Residential and commercial	675	-	-	1,085	196
Commercial:					
Commercial real estate	1,929	2,405	4,415	2,602	4,006
Multi-family	81	486	-	70	-
Other	174	-	34	20	20
Consumer:					
Second mortgages	378	441	-	-	85
Total	3,962	4,594	8,321	5,315	5,875
Total non-performing assets	$5,863	$14,343	$21,236	$25,176	$20,070
Performing troubled debt-restructurings:					
Residential mortgage	-	864	1,049	2,277	-
Construction and Development:					
Residential and commercial	209				
Land loans	237	1,148	1,160	1,170	-

Commercial:										
Commercial real estate	-		6,000		7,919		7,742		25	
Multi-family	-		-		-		612		-	
Other	900		175		175		175		-	
Consumer:										
Home equity lines of credit	-		-		37		-		-	
Total performing troubled debt restructurings	1,346		8,187		10,340		11,976		25	
Total non-performing assets and performing troubled debt restructurings	$7,209		$22,530		$31,576		$37,152		$20,095	
Ratios:										
Total non-accrual loans as a percent of gross loans	0.47	%	2.11	%	2.52	%	3.60	%	2.38	%
Total non-performing assets as a percent of total assets	0.97	%	2.01	%	3.19	%	3.49	%	2.90	%
Total non-performing assets and performing troubled debt restructurings as a percent of total assets	1.20	%	3.17	%	4.74	%	5.16	%	2.91	%

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At September 30, 2013, our total non-performing assets in our portfolio amounted to $5.9 million, a reduction of $8.4 million, or 59.1% compared to our total non-performing assets at September 30, 2012. This substantial decrease was primarily driven by the transfer of $11.2 million of non-performing loans to available for sale at September 30, 2013 and $5.5 million in aggregate charge-offs with respect to such loans held for sale. The bulk sale included non-performing loans in the amount of $11.2 million and $3.4 million of performing troubled debt restructurings. At September 30, 2013, the Company's total non-accruing loans in portfolio amounted to $1.9 million, or 0.47% of total loans, compared to $9.7 million of non-accruing loans, or 2.11% of total loans, at September 30, 2012. Included in our non-accrual loans in portfolio at September 30, 2013 were 11 non-accruing single-family residential mortgage loans with an aggregate outstanding balance of $1.3 million at such date, and 14 non-accruing second mortgage loans and home equity loans, with an aggregate outstanding balance of $606,000.

For the year ended September 30, 2013, additional gross interest income which would have been recorded had all of our non-accruing loans been current in accordance with their original terms amounted to $131,000. The amount that was included in interest income on such loans was $35,000 for the year ended September 30, 2013.

Our non-performing assets include REO in addition to non-performing loans. At September 30, 2013, our total REO amounted to $4.0 million, a decrease of $632,000 compared to total REO at September 30, 2012. The $632,000 decrease in REO at September 30, 2013 compared to September 30, 2012, was due to $4.6 million of loans transferred to REO, $3.6 million of sales of REO, at a net gain of $331,000, and $1.6 million in reductions to REO fair values which are reflected in other REO expense during fiscal 2013. Our REO at September 30, 2013 included the following significant items.

Two commercial mixed-use (retail space and apartments) properties located in Pottstown, Pennsylvania were acquired as REO in July 2012. Once the properties were acquired, we retained a property management company to manage the properties. We recorded $44,000 in write-downs during fiscal 2012. As a result of updated appraisals received during fiscal 2013, as well as a result of an agreement of sale, we recorded an aggregate of $472,000 in write-downs during fiscal 2013. The carrying amount of these properties was $788,000 at September 30, 2013. In November 2013, these properties were sold at no additional loss.

One commercial property (retail and office rental space) located in Drexel Hill, Pennsylvania which previously secured three commercial construction and development loans to one borrower with an aggregate carrying value of $801,000 at the time of being transferred to REO in June 2013 (which was net of $663,000 in charge-offs to the allowance for loan losses taken on the loans prior to being transferred to REO). In addition, we recorded $126,000 in additional write-downs during fiscal 2013. The aggregate carrying value of this property was $675,000 at September 30, 2013. This property was sold in November 2013 at a slight gain of $25,000.

Three commercial real estate mixed use properties (light industrial and warehouse/office space) located in Delaware County, Pennsylvania. The aggregate carrying value of these properties at the time of being acquired as REO in September 30, 2013 was $857,000. This was net of $329,000 in charge-offs to the allowance for loan losses taken on the loans, in addition to a $314,000 principal repayment, during fiscal year 2013. These properties are currently being marketed for sale.

While not considered non-performing, our performing troubled debt restructurings are closely monitored as they consist of loans that have been modified where the borrower is experiencing financial difficulty. Troubled debt restructurings may be deemed to have a higher risk of loss than loans which have not been restructured. At September 30, 2013 our total performing troubled debt restructurings in portfolio amounted to $1.3 million compared to $8.2 million of performing troubled debt restructurings at September 30, 2012. Our bulk loan sale included $3.4 million

($2.0 million after charge-offs) in performing troubled debt restructurings, which was the primary reason for the decrease at September 30, 2013 compared to September 30, 2012.

A significant portion of our performing troubled debt restructurings at September 30, 2013 included four loans to one borrower with a carrying value of $1.1 million for the development of two residential building lots and one commercial building lot located in Chester County, Pennsylvania. The borrower has always made payments in a timely manner, however, the relationship has been classified as a performing troubled-debt restructure due to the most recent two year extension which requires interest only payments and a significant period of deferred principal payments. Due to the sufficient collateral position of the project, no reserve for impairment was required as of September 30, 2013 and no additional loss is expected from this relationship.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses. We maintain the allowance at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio that are both probable and reasonable to estimate at each reporting date. Management reviews the allowance for loan losses on no less than a quarterly basis in order to identify those inherent losses and to assess the overall collection probability for the loan portfolio. Our evaluation process 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. Such risk ratings are periodically reviewed by management and revised as deemed appropriate. The establishment of the allowance for loan losses is significantly affected by management's judgment and uncertainties and it is likely 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.

Our provision for loan losses was $11.2 million for the fiscal year ended September 30, 2013 compared to $810,000 in the year ended September 30, 2012. The substantial increase in the provision was due primarily by the bulk sale of problem loans in October 2013. The sale included non-performing loans in the amount of $11.2 million and $3.4 million of performing troubled debt restructurings and $5.8 million of classified and other loans. As a result, $10.2 million in charge-offs were taken on loans designated for sale at September 30, 2013 in order to reflect their fair value. During the fiscal year ended September 30, 2013, our total net charge-offs to the allowance for loan losses amounted to $13.7 million compared to $3.3 million during fiscal year ended September 30, 2012.

We will continue to monitor and modify our allowance 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.

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

	September 30,				
	2013	2012	2011	2010	2009
	(Dollars in thousands)				
Balance at beginning of period	$7,581	$10,101	$8,157	$5,718	$5,505
Provision for loan losses	11,235	810	12,392	9,367	2,280
Charge-offs:					
Residential mortgage	994	1,367	2,478	824	124
Construction and Development:					
Residential and commercial	5,768	826	1,307	4,133	-
Land	99	-	-	-	-
Commercial:					
Commercial real estate	6,315	951	2,460	927	1,760
Multi-family	-	113	164	525	-
Other	94	88	278	-	-
Consumer:					
Home equity lines of credit	-	72	166	168	-
Second mortgages	1,042	1,184	3,691	334	153
Other	9	22	6	22	60
Total charge-offs	14,321	4,623	10,550	6,933	2,097
Recoveries:					
Residential mortgage	199	-	1	-	-
Construction and Development:					
Residential and commercial	-	1,139	-	-	25
Commercial:					
Commercial real estate	117	5	1	-	-
Multi-family	-	-	1	1	-
Other	23	2	5	-	-
Consumer:					
Home equity lines of credit	17	2	3	-	-
Second mortgages	235	141	82	-	-
Other	4	4	9	4	5
Total recoveries	595	1,293	102	5	30
Net charge-offs	13,726	3,330	10,448	6,928	2,067
Balance at end of period	$5,090	$7,581	$10,101	$8,157	$5,718
Ratios:					
Ratio of allowance for loan losses to non-accrual loans in portfolio	267.75%	77.76%	78.21%	41.07%	40.28%
Ratio of net charge-offs to average loans outstanding in portfolio	3.12%	0.70%	1.97%	1.19%	0.35%
Ratio of net charge-offs to total allowance for loan losses	269.67%	43.93%	103.43%	84.93%	36.15%

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The following table shows how our allowance for loan losses is allocated by type of loan at each of the dates indicated.

	2013			2012			2011			20	
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans	Amount	Perc of Allow to Tot Allow
							(Dollars in thousands)				
Residential mortgage	$1,414	27.8 %	59.3 %	$1,487	19.6 %	50.2 %	$1,458	14.4 %	44.7 %	$1,555	19.
Construction and Development:											
Residential and commercial	164	3.2	1.6	724	9.6	4.4	1,627	16.1	4.9	689	8.4
Land loans	56	1.1	0.6	11	0.2	0.1	49	0.5	0.6	63	0.8
Commercial:											
Commercial real estate	1,726	33.9	17.4	3,493	46.1	24.3	4,176	41.4	25.7	2,741	33.
Multi-family	40	0.8	0.5	10	0.1	0.5	49	0.5	1.1	191	2.3
Other	59	1.2	1.4	226	3.0	1.6	317	3.1	2.1	303	3.7
Consumer:											
Home equity lines of credit	137	2.7	5.0	160	2.1	4.5	220	2.2	4.0	284	3.4
Second mortgages	1,393	27.4	13.5	1,389	18.3	14.2	2,154	21.3	16.7	2,264	27.
Other	22	0.4	0.7	16	0.1	0.2	16	0.2	0.2	22	0.3
Total allocated	5,011	98.5	100.0	7,516	99.1	100.0	10,066	99.7	100.0	8,112	99.
Unallocated	79	1.5	-	65	0.9	-	35	0.3	-	45	0.6
Balance at end of period	$5,090	100.0%	100.0%	$7,581	100.0%	100.0%	$10,101	100.0%	100.0%	$8,157	100

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The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Investment Activities

General. We invest in securities pursuant to our Investment Policy, which has been approved by our board of directors. The Board's Asset Liability Committee ("ALCO") monitors our investment activity and ensures that the Bank's investments are consistent with the Investment Policy. The board of directors of Malvern Federal Savings reviews all investment activity on a monthly basis.

Our Investment Policy is designed primarily to manage the interest rate sensitivity of our assets and liabilities, to generate a favorable return without incurring undue interest rate risk or credit risk, to complement our lending activities and to provide and maintain liquidity.

At September 30, 2013, our investment and mortgage-backed securities amounted to $124.7 million in the aggregate or 20.7% of total assets at such date. Our securities portfolio is comprised of mortgage-backed pass-through securities, as well as collateralized mortgage obligations, which amounted to $90.7 million in the aggregate or 72.8% of the securities portfolio at September 30, 2013. Our agency debt securities often have call provisions which provide the agency with the ability to call the securities at specified dates. We typically invest in securities with relatively short terms to maturity (less than 10 years). At September 30, 2013, $11.5 million of our investment securities had contractual maturities of one year or less and the estimated duration of our mortgage-backed securities portfolio was 5.2 years at such date.

At September 30, 2013, we had an aggregate of $4.3 million in gross unrealized losses on our investment securities portfolio available for sale. Securities are evaluated on a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is 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. For equity securities, the full amount of the other-than-temporary impairment is recognized in earnings. Available for sale securities can be sold at any time based upon needs or market conditions. Available for sale securities are accounted for at fair value, with unrealized gains and losses on these securities, net of income tax, reflected in shareholders' equity as accumulated other comprehensive income. At September 30, 2013, all of our securities were classified as available for sale.

We do not purchase mortgage-backed derivative instruments that would be characterized “high-risk” under Federal banking regulations at the time of purchase, nor do we purchase corporate obligations which are not rated investment grade or better.

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Our mortgage-backed securities consist primarily of mortgage pass-through certificates and collateralized mortgage obligations issued by the Government National Mortgage Association ("GNMA" or "Ginnie Mae"), Fannie Mae or Freddie Mac. At September 30, 2013, all of our mortgage-backed securities and collateralized mortgage obligations were issued by GNMA, FNMA or FHLMC, and we held no mortgage-backed securities from private issuers. We do not purchase mortgage-backed derivative instruments that would be characterized "high-risk" under Federal banking regulations at the time of purchase.

Investments in mortgage-backed securities involve a risk that actual prepayments will be greater than estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments thereby changing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or in the event such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates.

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. 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 September 30, 2013 represents other-than-temporary impairment.

At September 30, 2013, we owned one single issuer trust preferred security, which had an unrealized loss of $190,000 at such date, compared to $236,000 at September 30, 2012. The Company has continued to receive contractual payments in a timely manner and management expects to continue to receive timely payments in the future based on the credit rating and performance of the issuer. On a quarterly basis, management reviews the credit rating and performance of the issuer, as well as the impact that the overall economy is expected to have on those measurements and the fair value of this security. Management does not believe any unrealized loss as of September 30, 2013 represents other-than-temporary impairment.

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Investment Securities Portfolio, Maturities and Yields. The following table sets forth the scheduled maturities, amortized cost and weighted average yields for our investment portfolio, at September 30, 2013. Due to repayments of the underlying loans, the average life maturities of mortgage-backed and asset-backed securities generally are substantially less than the final maturities.

The composition and maturities of the investment securities portfolio are indicated in the following table.

	One year or less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
Available for Sale Securities:											
U.S. government agencies and obligations(1)	$2,321	1.40%	$2,499	1.11%	$15,288	1.63%	$-	- %	$20,108	$19,432	1.54%
State and municipal obligations	602	2.42	568	2.30	9,743	1.73	1,468	2.47	12,381	11,938	1.88
Mortgage-backed securities	7,346	2.16	28,003	1.86	50,763	1.96	7,382	2.39	93,494	90,705	1.98
Single issuer trust preferred security	1,000	0.89	-	-	-	-	-	-	1,000	810	0.89
Corporate debt securities	250	1.14	1,506	1.84	-	-	-	-	1,756	1,782	1.74
Total debt securities	$11,519	1.89	$32,576	1.81	$75,794	1.87	$8,850	2.41	$128,739	$124,667	1.89

(1) Includes FHLB notes

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The following table sets forth the composition of the Company’s investment portfolio at the dates indicated.

	At September 30,					
	2013		2012		2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Securities available for sale:						
U.S. government obligations	$-	$-	$-	$-	$4,998	$5,010
U.S. government agencies(1)	20,108	19,432	24,369	24,617	28,372	28,442
State and municipal obligations	12,381	11,938	9,217	9,387	952	963
Single issuer trust preferred security	1,000	810	1,000	764	1,000	790
Corporate debt securities	1,756	1,782	2,006	2,057	2,185	2,214
Mortgage-backed securities:						
Federal National Mortgage Association	20,934	20,105	1,791	1,925	3,397	3,589
Federal Home Loan Mortgage Corporation	18,423	17,871	248	261	968	1,016
Government National Mortgage Association	-	-	1	1	147	151
Collateralized mortgage obligations	54,137	52,729	40,904	41,496	31,838	32,214
Total available for sale	128,739	124,667	79,536	80,508	73,857	74,389
Securities held to maturity:						
Mortgage-backed securities:						
Government National Mortgage Association	-	-	-	-	232	241
Federal National Mortgage Association	-	-	-	-	3,565	3,783
Total held to maturity	-	-	-	-	3,797	4,024
Total investment securities	$128,739	$124,667	$79,536	$80,508	$77,654	$78,413

(1) Includes FHLB notes.

Sources of Funds

General. Deposits, loan repayments and prepayments, proceeds from sales of loans, cash flows generated from operations and Federal Home Loan Bank advances are the primary sources of our funds for use in lending, investing and for other general purposes.

Deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposits consist of checking, both interest-bearing and non-interest-bearing, money market, savings and certificate of deposit accounts. At September 30, 2013, 45.9% of the funds deposited with Malvern Federal Savings Bank were in core deposits, which are deposits other than certificates of deposit.

The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. Our deposits are obtained predominantly from the areas where our branch offices are located. We have historically relied primarily on customer service and long-standing relationships with customers to attract and retain these deposits; however, market interest rates and rates offered by competing financial institutions significantly affect our ability to attract and retain deposits.

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Malvern Federal Savings uses traditional means of advertising its deposit products, including broadcast and print media and we generally do not solicit deposits from outside our market area. In recent years, we have emphasized the origination of core deposits. While we have not engaged in the use of brokered deposits as a source of funds, as a result of the Supervisory Agreement, we are prohibited from using brokered deposits in the future without the prior written non-objection of the OCC.

The following table sets forth the distribution of total deposits by account type, at the dates indicated.

	At September 30,					
	2013		2012		2011	
	Amount	Percent of Total Deposits	Amount	Percent of Total Deposits	Amount	Percent of Total Deposits
	(Dollars in thousands)					
Deposit Types:						
Savings	$42,932	8.8 %	$41,712	7.7 %	$45,067	8.1 %
Money market	67,372	13.9	70,955	13.1	86,315	15.6
Interest bearing demand	87,676	18.1	87,116	16.1	88,722	16.0
Non-interest bearing demand	24,662	5.1	23,062	4.3	19,833	3.6
Total core deposits	222,642	45.9	222,845	41.2	239,937	43.3
Time deposits with original maturities of:						
Three months or less	497	0.1	815	0.1	834	0.1
Over three months to six months	11,987	2.5	6,888	1.3	7,513	1.4
Over six months to twelve months	18,562	3.8	22,019	4.1	8,688	1.6
Over twelve months	230,908	47.7	288,421	53.3	297,483	53.6
Total time deposits	261,954	54.1	318,143	58.8	314,518	56.7
Total deposits	$484,596	100.0 %	$540,988	100.0 %	$554,455	100.0 %

At September 30, 2013, our certificates of deposit and other time deposits with a balance of $100,000 or more amounted to $137.4 million, of which $62.1 million are scheduled to mature within twelve months. At September 30, 2013, the weighted average remaining maturity of our certificate of deposit accounts was 22.1 months. The following table presents the maturity of our certificates of deposit and other time deposits with balances of $100,000 or more.

Maturity Period	Amount (In thousands)
Three months or less	$ 15,719
Over three months through six months	15,000
Over six months through 12 months	31,410
Over twelve months	75,250
Total	$ 137,379

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The following table presents our time deposit accounts categorized by interest rates which mature during each of the periods set forth below and the amounts of such time deposits by interest rate at each of the periods indicated.

	Period to Maturity from September 30, 2013				At September 30,		
	One Year or Less	More than One Year to Two Years	More than Two Years to Three Years	More than Three Years	2013	2012	2011
	(In thousands)						
Interest Rate Range:							
0.99% and below	$76,727	$26,305	$8,934	$1,176	$113,142	$94,189	$39,591
1.00% to 1.99%	9,596	13,450	12,956	13,004	49,006	82,483	93,216
2.00% to 2.99%	18,853	14,173	2,952	23,621	59,599	99,210	130,983
3.00% to 3.99%	2,692	9,931	7,475	16,311	36,409	36,879	41,656
4.00% to 4.99%	1,476	2,322	-	-	3,798	5,042	7,934
5.00% to 5.99%	-	-	-	-	-	340	1,138
Total	$109,344	$66,181	$32,317	$54,112	$261,954	$318,143	$314,518

The following table sets forth our savings flows during the periods indicated.

	Year Ended September 30,		
	2013	2012	2011
	(Dollars in thousands)		
Opening balance	$540,988	$554,455	$596,858
Deposits	1,041,236	955,037	992,692
Withdrawals	1,095,001	973,480	$1,040,942
Interest credited	(2,627)	4,976	5,847
Ending balance	$484,596	$540,988	$554,455
Net (decrease) increase	$(56,392)	$(13,467)	$(42,403)
Percent (decrease) increase	(10.42)%	(2.43)%	(7.10)%

Borrowings. We utilize advances from the FHLB of Pittsburgh as an alternative to retail deposits to fund operations as part of our operating strategy. These FHLB advances are collateralized primarily by certain of our mortgage loans and mortgage-backed securities and secondarily by our investment in capital stock of the FHLB of Pittsburgh. FHLB advances are made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. The maximum amount that the FHLB of Pittsburgh will advance to member institutions, including Malvern Federal Savings, fluctuates from time to time in accordance with the policies of the FHLB. At September 30, 2013, we had $38.0 million in outstanding long-term FHLB advances and $169.1 million of additional FHLB advances and other borrowings available, which includes a $50.0 million line of credit we have established with the FHLB, none of which was outstanding at September 30, 2013. All amounts drawn on our FHLB line of credit are considered short-term borrowings. The Company prepaid $20.0 million in advances from the FHLB during fiscal 2013, and incurred a $1.5 million prepayment penalty which was reflected in the Company’s results for the fiscal year ended September 30, 2013. The Company determined to prepay the FHLB advances, which had an average cost of

3.84% and maturity dates in mid- to-late 2018, in order to reduce its average cost of funds and improve its net interest spread and net interest margin in future periods. During the fourth quarter of fiscal 2013 we acquired $10.0 million in new FHLB advances with an average cost of 1.06% and maturities of two-to-three years.

At September 30, 2013, we had no FHLB advances that were short-term (maturities of one year or less). In addition, at September 30, 2013, we had nothing outstanding on our line of credit with the FHLB, which is payable on demand.

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Subsidiaries

In addition to the Bank, Malvern Bancorp, Inc. has one subsidiary, Malvern Federal Holdings, Inc., a Delaware corporation organized to hold and manage certain investment securities. The Bank has two subsidiaries, Malvern Federal Investments, Inc., a Delaware corporation organized as an operating subsidiary of the Bank to hold and manage certain investment securities, and Strategic Asset Management Group, Inc. ("SAMG"), a Pennsylvania corporation and insurance brokerage engaged in sales of property and casualty insurance, commercial insurance and life and health insurance.

Employees

At September 30, 2013, we had 106 full-time and 5 part-time employees. No employees are represented by a collective bargaining group, and we believe that its relationship with its employees is excellent.

REGULATION

Set forth below is a brief description of the material regulatory requirements that are applicable to Malvern Bancorp and Malvern Federal Savings Bank. This description is limited to certain material aspects of applicable laws and regulations and is qualified in its entirety by reference to applicable laws and regulations.

General

Malvern Federal Savings Bank, as a federally chartered savings association, is subject to federal regulation and oversight by the OCC extending to all aspects of its operations. Malvern Federal Savings Bank also is subject to regulation and examination by the Federal Deposit Insurance Corporation ("FDIC"), which insures its deposits to the maximum extent permitted by law, and requirements established by the Federal Reserve Board. Federal law provides the federal banking regulators, including the OCC and FDIC, with substantial enforcement powers. Any change in such regulations, whether by the FDIC, OCC or Congress, could have a material adverse impact on Malvern Bancorp and Malvern Federal Savings Bank and our operations.

The Supervisory Agreements

In October 2010, Malvern Federal Savings Bank entered into a Supervisory Agreement with the OTS. The agreement provided, among other things, that within specified time frames:

we were required to submit an updated, comprehensive business plan to the OTS that, among other things, addressed Malvern Federal Savings Bank's strategy to improve core earnings, maintain appropriate levels of liquidity and achieve profitability on a consistent basis. We must submit quarterly reports to the OCC (and, previously, the OTS) regarding Malvern Federal Savings Bank's compliance with the plan;

Malvern Federal Savings Bank must ensure that its financial reports to the OCC (and, previously, the OTS) are accurately prepared and timely filed in accordance with applicable law, regulations and regulatory guidance;

we were required to submit a written internal asset review and classification program to the OTS that, among other things, ensures the accurate and timely identification and classification of Malvern Federal Savings Bank's classified and criticized assets, and requires asset reviews for commercial real estate, construction and land development,

multi-family and commercial loans by an independent third-party loan review consultant not less than every six months;

we were required to submit to the OTS a detailed, written plan with targeted levels of Malvern Federal Savings Bank's problem assets (as defined), describing our strategies to reduce the levels of our problem assets to the targeted levels and the development of specific workout plans for problem assets in the amount of $500,000 or more and we must submit quarterly asset reports to the OCC (and,previously, the OTS) regarding, among other things, Malvern Federal Savings Bank's compliance with such plans;

we were required to revise Malvern Federal Savings Bank's policies, procedures and methodologies relating to the allowance for loan and lease losses ("ALLL") to be in compliance with all applicable laws, regulations and regulatory guidance, and we must provide for a quarterly independent third-party review and validation of Malvern Federal Savings Bank's ALLL;

we were required to submit to the OTS a written program of its policies and procedures for identifying, monitoring and controlling risks associated with concentrations of commercial real estate credit which, among other things, establishes comprehensive concentration limits, provides for specific review procedures and reporting requirements to identify, monitor and control risks associated with concentrations of credit and contain a written action plan, with specific time frames, for bringing Malvern Federal Savings Bank into compliance with its concentration of credit limits;

Malvern Federal Savings Bank was required to develop and implement an information technology policy;

Malvern Federal Bancorp and Malvern Federal Mutual Holding Company was prohibited from declaring or paying dividends or making any other capital distributions (as defined) without receiving the prior written approval of the FRB (and, previously, the OTS); and

Malvern Federal Bancorp and Malvern Federal Mutual Holding Company was required to ensure Malvern Federal Savings Bank's compliance with its Supervisory Agreement.

Initially, the Supervisory Agreement also prohibited us from making any new commercial real estate loans and/or commercial and industrial loans and limited our growth in any quarter to the amount of net interest credited on our deposits, in each case without the prior written non-objection of the OCC. In April 2013, we were advised that we were no longer subject to such restrictions on commercial real estate lending, commercial and industrial lending and asset growth, provided that the level of loan growth remains consistent with our business plan filed with the OCC and meets the requirements of the Supervisory Agreement.

While the OCC has noted some instances in which we may not have fully addressed all aspects of the Supervisory Agreements, we believe that we have complied in all material respects with the applicable terms of the Supervisory Agreements. We are continuing to review our compliance efforts with respect to the Supervisory Agreements in an effort to fully address the matters noted by the OCC.

As a result of the Supervisory Agreement with Malvern Federal Savings Bank, which continues to be in force and effect, it is subject to certain additional restrictions pursuant to Federal banking regulations, including the following:

Malvern Federal Savings Bank is required to provide the OCC (and, previously, the OTS) with prior notice of any new director or senior executive officer;

Malvern Federal Savings Bank is restricted from making any "golden parachute payments," as defined;

Malvern Federal Savings Bank may not enter into, renew, extend or revise any contractual arrangements related to compensation or benefits with any director or officer without receiving prior written non-objection from the OCC (and, previously, the OTS);

Malvern Federal Savings Bank may not declare or pay any dividends or make other capital distributions, such as repurchases of common stock, without the prior written approval of the OCC (and, previously, the OTS);

Malvern Federal Savings Bank’s ability to engage in transactions with affiliates, as defined, is restricted; and

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Malvern Federal Savings Bank may not engage in the use of brokered deposits without the prior written non-objection of the OCC (and, previously, the OTS).

In October 2010, the Mid-Tier Holding Company and Malvern Federal Mutual Holding Company entered into a separate Supervisory Agreement with the OTS as holding companies for the Bank. Among other things, that agreement prohibited such holding companies from declaring or paying dividends or making other capital distributions without prior regulatory approval. The FRB recently informed the Company that such agreements with the Mid-Tier Holding Company and Malvern Federal Mutual Holding Company, by their terms, were not applicable to the Company. However, in December 2013, the Company's board of directors adopted a resolution, as recommended by the Federal Reserve Bank of Philadelphia (the "Reserve Bank") which, among other things, requires the Company to serve as a source of strength to the Bank and ensure that the Bank complies with the Supervisory Agreement, prohibits the Company from declaring or paying dividends unless it receives the prior written approval of the Reserve Bank, prohibits the Company from receiving any dividends from the Bank without the prior written approval of the Reserve Bank, and requires the Company to provide various reports and a plan to strengthen oversight.

Dodd-Frank Act

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act enacted in 2010, the powers of the Office of Thrift Supervision regarding Malvern Federal Savings Bank, Malvern Federal Bancorp and Malvern Federal Mutual Holding Company transferred to other federal financial institution regulatory agencies on July 21, 2011. As of the transfer date, all of the regulatory functions related to Malvern Federal Savings Bank that were under the jurisdiction of the Office of Thrift Supervision transferred to the OCC. In addition, as of that same date, all of the regulatory functions related to Malvern Federal Bancorp and Malvern Federal Mutual Holding Company, as savings and loan holding companies, that were under the jurisdiction of the OTS, transferred to the Federal Reserve Board.

The following aspects of the financial reform and consumer protection act are related to the operations of the Bank:

The Office of Thrift Supervision has been merged into the OCC and the authority of the other remaining bank regulatory agencies restructured. The federal thrift charter has been preserved under the jurisdiction of the OCC.

A new independent consumer financial protection bureau was established within the Federal Reserve Board, empowered to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws. Smaller financial institutions, like the Bank, are subject to the supervision and enforcement of their primary federal banking regulator with respect to the federal consumer financial protection laws.

Tier 1 capital treatment for "hybrid" capital items like trust preferred securities was eliminated subject to various grandfathering and transition rules.

The prohibition on payment of interest on demand deposits was repealed, effective July 21, 2011.

State consumer financial law is preempted only if it would have a discriminatory effect on a federal savings association, prevents or significantly interferes with the exercise by a federal savings association of its powers or is preempted by any other federal law. The OCC must make a preemption determination on a case-by-case basis with respect to a particular state law or other state law with substantively equivalent terms.

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

Deposit insurance assessment base calculation equals the depository institution's total assets minus the sum of its average tangible equity during the assessment period.

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The minimum reserve ratio of the Deposit Insurance Fund increased to 1.35 percent of estimated annual insured deposits or assessment base; however, the FDIC was directed to "offset the effect" of the increased reserve ratio for insured depository institutions with total consolidated assets of less than $10 billion.

The following aspects of the financial reform and consumer protection act are related to the operations of the Company:

Authority over savings and loan holding companies transferred to the Federal Reserve Board on July 21, 2011.

The Home Owners' Loan Act was amended to provide that leverage capital requirements and risk based capital requirements applicable to depository institutions and bank holding companies will be extended to thrift holding companies.

The Federal Deposit Insurance Act was amended to direct federal regulators to require depository institution holding companies to serve as a source of strength for their depository institution subsidiaries.

Public companies are required to provide their shareholders with a non-binding vote: (i) at least once every three years on the compensation paid to executive officers, and (ii) at least once every six years on whether they should have a "say on pay" vote every one, two or three years (however, smaller reporting companies have temporarily been exempted from this requirement until January 21, 2013).

A separate, non-binding shareholder vote is required regarding golden parachutes for named executive officers when a shareholder vote takes place on mergers, acquisitions, dispositions or other transactions that would trigger the parachute payments.

Securities exchanges are required to prohibit brokers from using their own discretion to vote shares not beneficially owned by them for certain "significant" matters, which include votes on the election of directors, executive compensation matters, and any other matter determined to be significant.

Stock exchanges, which includes the Nasdaq, will be prohibited from listing the securities of any issuer that does not have a policy providing for (i) disclosure of its policy on incentive compensation payable on the basis of financial information reportable under the securities laws, and (ii) the recovery from current or former executive officers, following an accounting restatement triggered by material noncompliance with securities law reporting requirements, of any incentive compensation paid erroneously during the three-year period preceding the date on which the restatement was required that exceeds the amount that would have been paid on the basis of the restated financial information.

Disclosure in annual proxy materials will be required concerning the relationship between the executive compensation paid and the financial performance of the issuer.

Item 402 of Regulation S-K will be amended to require companies to disclose the ratio of the Chief Executive Officer's annual total compensation to the median annual total compensation of all other employees.

Smaller reporting companies are exempt from complying with the internal control auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act.

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Regulation of Malvern Bancorp, Inc.

Holding Company Acquisitions. Malvern Bancorp is a savings and loan holding company under the Home Owners' Loan Act, as amended, and is subject to examination and supervision by the Federal Reserve Board. Federal law generally prohibits a savings and loan holding company, without prior FRB approval, from acquiring the ownership or control of any other savings institution or savings and loan holding company, or all, or substantially all, of the assets or more than 5.0% of the voting shares of the savings institution or savings and loan holding company. These provisions also prohibit, among other things, any director or officer of a savings and loan holding company, or any individual who owns or controls more than 25.0% of the voting shares of such holding company, from acquiring control of any savings institution not a subsidiary of such savings and loan holding company, unless the acquisition is approved by the FRB.

The FRB may not approve any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (1) the approval of interstate supervisory acquisitions by savings and loan holding companies; and (2) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Holding Company Activities. Malvern Bancorp operates as a unitary savings and loan holding company and is permitted to engage only in the activities permitted for financial institution holding companies or for multiple savings and loan holding companies. Multiple savings and loan holding companies are permitted to engage in the following activities: (i) activities permitted for a bank holding company under section 4(c) of the Bank Holding Company Act (unless the Federal Reserve Board prohibits or limits such 4(c) activities); (ii) furnishing or performing management services for a subsidiary savings association; (iii) conducting any insurance agency or escrow business; (iv) holding, managing, or liquidating assets owned by or acquired from a subsidiary savings association; (v) holding or managing properties used or occupied by a subsidiary savings association; (vi) acting as trustee under deeds of trust; or (vii) activities authorized by regulation as of March 5, 1987, to be engaged in by multiple savings and loan holding companies. Under the recently enacted legislation, savings and loan holding companies became subject to statutory capital requirements. While there are no specific restrictions on the payment of dividends or other capital distributions for savings and loan holding companies, federal regulations do prescribe such restrictions on subsidiary savings institutions, as described below. Malvern Federal Savings Bank is required to notify the Federal Reserve Board 30 days before declaring any dividend. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the Federal Reserve Board and the agency has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of the institution.

All savings associations subsidiaries of savings and loan holding companies are required to meet a qualified thrift lender, or QTL, test to avoid certain restrictions on their operations. If the subsidiary savings institution fails to meet the QTL, as discussed below, then the savings and loan holding company must register with the Federal Reserve Board as a bank holding company, unless the savings institution requalifies as a QTL within one year thereafter.

Federal Securities Laws. As the successor to Malvern Federal Bancorp, Inc., Malvern Bancorp has registered its common stock with the Securities and Exchange Commission under Section 12(b) of the Securities Exchange Act of 1934. Malvern Bancorp is subject to the proxy and tender offer rules, insider trading reporting requirements and restrictions, and certain other requirements under the Securities Exchange Act of 1934. Pursuant to the FRB regulations and our Plan of Conversion and Reorganization, we have agreed to maintain such registration for a minimum of three years following completion of the second-step conversion.

The Sarbanes-Oxley Act. As a public company, Malvern Bancorp is subject to the Sarbanes-Oxley Act of 2002 which addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our principal executive officer and principal financial officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the Securities and Exchange Commission under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

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Regulation of Malvern Federal Savings Bank

General. Malvern Federal Savings Bank is subject to the regulation of the OCC, as its primary federal regulator and the FDIC, as the insurer of its deposit accounts, and, to a limited extent, the Federal Reserve Board. As the primary federal regulator of Malvern Federal Savings Bank, the OCC has extensive authority over the operations of federally chartered savings institutions. As part of this authority, Malvern Federal Savings Bank is required to file periodic reports with the OCC and is subject to periodic examinations by the OCC and the FDIC. The investment and lending authorities of savings institutions are prescribed by federal laws and regulations, and such institutions are prohibited from engaging in any activities not permitted by such laws and regulations. Such regulation and supervision is primarily intended for the protection of depositors and the Deposit Insurance Fund, administered by the FDIC.

The OCC's enforcement authority over all savings institutions includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OCC. As previously indicated, the OTS previously entered into Supervisory Agreement with each of the Bank, the Mid-Tier Holding Company and the Mutual Holding Company. The OCC is now the successor in interest to the OTS with respect to the application of the provisions of the Supervisory Agreement to the Bank.

Insurance of Accounts. The deposits of Malvern Federal Savings Bank are insured to the maximum extent permitted by the Deposit Insurance Fund and are backed by the full faith and credit of the U.S. Government. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the FDIC. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the OCC an opportunity to take such action.

The Federal Deposit Insurance Corporation's risk-based premium system provides for quarterly assessments. Each insured institution is placed in one of four risk categories depending on supervisory and capital considerations. Within its risk category, an institution is assigned to an initial base assessment rate which is then adjusted to determine its final assessment rate based on its brokered deposits, secured liabilities and unsecured debt. The Federal Deposit Insurance Corporation recently amended its deposit insurance regulations (1) to change the assessment base for insurance from domestic deposits to average assets minus average tangible equity and (2) to lower overall assessment rates. The revised assessments rates are between 2.5 to 9 basis points for banks in the lowest risk category and between 30 to 45 basis points for banks in the highest risk category. The amendments became effective for the quarter beginning April 1, 2011 with the new assessment methodology being reflected in the premium invoices due September 30, 2011.

In addition, all institutions with deposits insured by the Federal Deposit Insurance Corporation are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize the predecessor to the Deposit Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2019.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is not aware of any existing circumstances which could result in termination of the Bank's deposit insurance.

Regulatory Capital Requirements. Federally insured savings institutions are required to maintain minimum levels of regulatory capital. The OCC has established capital standards consisting of a "tangible capital requirement," a "leverage capital requirement" and "a risk-based capital requirement." The OCC also is authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis. As described below, the OCC has imposed such individual minimum capital ratios ("IMCR") on the Bank.

Current OCC capital standards require savings institutions to satisfy the following capital requirements:

tangible capital requirement – "tangible" capital equal to at least 1.5% of adjusted total assets;

leverage capital requirement – "core" capital equal to at least 3.0% of adjusted total assets for the most highly rated institutions;

an additional "cushion" of at least 100 basis points of core capital for all but the most highly rated savings associations effectively increasing their minimum Tier 1 leverage ratio to 4.0% or more; and

risk-based capital requirement – "total" capital (a combination of core and "supplementary" capital) equal to at least 8.0% of "risk-weighted" assets.

Core capital generally consists of common stockholders' equity (including retained earnings). Tangible capital generally equals core capital minus intangible assets, with only a limited exception for purchased mortgage servicing rights. Malvern Federal Savings Bank had no intangible assets at September 30, 2013. Both core and tangible capital are further reduced by an amount equal to a savings institution's debt and equity investments in subsidiaries engaged in activities not permissible to national banks (other than subsidiaries engaged in activities undertaken as agent for customers or in mortgage banking activities and subsidiary depository institutions or their holding companies). These adjustments do not affect Malvern Federal Savings Bank's regulatory capital.

In determining compliance with the risk-based capital requirement, a savings institution is allowed to include both core capital and supplementary capital in its total capital, provided that the amount of supplementary capital included does not exceed the savings institution's core capital. Supplementary capital generally consists of general allowances for loan losses up to a maximum of 1.25% of risk-weighted assets, together with certain other items. In determining the required amount of risk-based capital, total assets, including certain off-balance sheet items, are multiplied by a risk weight based on the risks inherent in the type of assets. The risk weights range from 0% for cash and securities

issued by the U.S. Government or unconditionally backed by the full faith and credit of the U.S. Government to 100% for loans (other than qualifying residential loans weighted at 80%) and repossessed assets.

Savings institutions must value securities available for sale at amortized cost for regulatory capital purposes. This means that in computing regulatory capital, savings institutions should add back any unrealized losses and deduct any unrealized gains, net of income taxes, on debt securities reported as a separate component of GAAP capital.

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The OCC has imposed IMCRs on the Bank which require it to maintain regulatory capital of not less than the following:

- tier 1 capital of 8.5% or adjusted total assets;
- tier 1 risk-based capital to risk-weighted assets of 10.5%; and
- total risk-based capital to risk-weighted assets of 12.5%.

At September 30, 2013, Malvern Federal Savings Bank exceeded all of its regulatory capital requirements. At such date, the Bank's tier 1 capital, tier 1 risked-based capital and total risk-based capital ratios were 10.91%, 17.72% and 18.97%, respectively.

Any savings institution that fails any of the capital requirements is subject to possible enforcement actions by the OCC or the FDIC. Such actions could include a capital directive, a cease and desist order, civil money penalties, the establishment of restrictions on the institution's operations, termination of federal deposit insurance and the appointment of a conservator or receiver. The OCC's capital regulation provides that such actions, through enforcement proceedings or otherwise, could require one or more of a variety of corrective actions.

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

Prompt Corrective Action. The following table shows the amount of capital associated with the different capital categories set forth in the prompt corrective action regulations.

Capital Category	Total Risk-Based Capital	Tier 1 Risk-Based Capital	Tier 1 Leverage Capital
Well capitalized	10% or more	6% or more	5% or more
Adequately capitalized	8% or more	4% or more	4% or more
Undercapitalized	Less than 8%	Less than 4%	Less than 4%
Significantly undercapitalized	Less than 6%	Less than 3%	Less than 3%

In addition, an institution is "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Under specified circumstances, a federal banking agency may reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized institution as critically undercapitalized).

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An institution generally must file a written capital restoration plan which meets specified requirements within 45 days of the date that the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. A federal banking agency must provide the institution with written notice of approval or disapproval within 60 days after receiving a capital restoration plan, subject to extensions by the agency. An institution which is required to submit a capital restoration plan must concurrently submit a performance guaranty by each company that controls the institution. In addition, undercapitalized institutions are subject to various regulatory restrictions, and the appropriate federal banking agency also may take any number of discretionary supervisory actions.

At September 30, 2013, Malvern Federal Savings Bank was not subject to the above mentioned restrictions.

The table below sets forth Malvern Federal Savings Bank's capital position relative to the OCC's regulatory capital requirements at September 30, 2013.

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions		Excess Over Well-Capitalized Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)							
Tier 1 leverage capital (to adjusted tangible assets)	$64,524	10.91%	$23,664	4.00 %	$29,580	5.00 %	$34,944	5.91 %
Tier 1 risk-based capital (to risk-weighted assets)	$64,524	17.72	$14,566	4.00	$21,849	6.00	$42,675	11.72
Total risk-based capital (to risk-weighted assets)	$69,084	18.97	$29,132	8.00	$36,415	10.00	$32,668	8.97

Capital Distributions. OCC regulations govern capital distributions by savings institutions, which include cash dividends, stock repurchases and other transactions charged to the capital account of a savings institution to make capital distributions. A savings institution must file an application for OCC approval of the capital distribution if either (1) the total capital distributions for the applicable calendar year exceed the sum of the institution's net income for that year to date plus the institution's retained net income for the preceding two years, (2) the institution would not be at least adequately capitalized following the distribution, (3) the distribution would violate any applicable statute, regulation, agreement or OCC-imposed condition, or (4) the institution is not eligible for expedited treatment of its filings. If an application is not required to be filed, savings institutions which are a subsidiary of a savings and loan holding company (as well as certain other institutions) must still file a notice with the OCC at least 30 days before the board of directors declares a dividend or approves a capital distribution if either (1) the institution would not be well capitalized following the distribution; (2) the proposed distribution would reduce the amount or retire any part of our common or preferred stock or (3) the savings institution is a subsidiary of a savings and loan holding company and the proposed dividend is not a cash dividend. If a savings institution, such as Malvern Federal Savings Bank, that is the subsidiary of a savings and loan holding company, has filed a notice with the Federal Reserve Board for a cash dividend and is not required to file an application or notice with the OCC for any of the reasons described above, then the savings institution is only required to provide an informational copy to the OCC of the notice filed with the Federal Reserve Board.

The Supervisory Agreement prohibits Malvern Federal Savings from making any capital distributions without the prior written approval of the OCC. In addition, the Company adopted a resolution in December 2013 that provides, among other things, that the Company will not receive any dividends from the Bank without the prior written approval of the Federal Reserve Bank of Philadelphia.

An institution that either before or after a proposed capital distribution fails to meet its then applicable minimum capital requirement or that has been notified that it needs more than normal supervision may not make any capital distributions without the prior written approval of the OCC. In addition, the OCC may prohibit a proposed capital distribution, which would otherwise be permitted by OCC regulations, if the OCC determines that such distribution would constitute an unsafe or unsound practice.

Under federal rules, an insured depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it is already undercapitalized. In addition, federal regulators have the authority to restrict or prohibit the payment of dividends for safety and soundness reasons. The FDIC also prohibits an insured depository institution from paying dividends on its capital stock or interest on its capital notes or debentures (if such interest is required to be paid only out of net profits) or distributing any of its capital assets while it remains in default in the payment of any assessment due the FDIC. Malvern Federal Savings Bank is currently not in default in any assessment payment to the FDIC.

Qualified Thrift Lender Test. All savings institutions are required to meet a qualified thrift lender, or QTL, test to avoid certain restrictions on their operations. A savings institution can comply with the QTL test by either qualifying as a domestic building and loan association as defined in the Internal Revenue Code or meeting the QTL test of the OCC.

Currently, the OCC's QTL test requires that 65% of an institution's "portfolio assets" (as defined) consist of certain housing and consumer-related assets on a monthly average basis in nine out of every 12 months. To be a qualified thrift lender under the IRS test, the savings institution must meet a "business operations test" and a "60 percent assets test," each defined in the Internal Revenue Code.

If the savings institution fails to maintain its QTL status, the holding company's activities are restricted. In addition, it must discontinue any non-permissible business within three years. Nonetheless, any company that controls a savings institution that is not a qualified thrift lender must register as a bank holding company within one year of the savings institution's failure to meet the QTL test.

Statutory penalty provisions prohibit an institution that fails to remain a QTL from the following:

Making any new investments or engaging in any new activity not allowed for both a national bank and a savings association;

Establishing any new branch office unless allowable for a national bank; and

Paying dividends unless allowable for a national bank.

Three years from the date a savings association should have become or ceases to be a QTL, by failing to meet either QTL test, the institution must comply with the following restriction:

Dispose of any investment or not engage in any activity unless the investment or activity is allowed for both a national bank and a savings association.

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, a savings institution not in compliance with the QTL test is also prohibited from paying dividends unless it meets certain conditions and is also subject to an enforcement action for violation of the Home Owners' Loan Act, as amended.

At September 30, 2013, Malvern Federal Savings Bank met the requirements to be deemed a QTL.

Limitations on Transactions with Affiliates. Transactions between savings associations and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act as made applicable to savings associations by Section 11 of the Home Owners' Loan Act. An affiliate of a savings association includes any company or entity which controls the

savings institution or that is controlled by a company that controls the savings association. In a holding company context, the holding company of a savings association (such as Malvern Bancorp) and any companies which are controlled by such holding company are affiliates of the savings association. Generally, Section 23A limits the extent to which the savings association or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such association's capital stock and surplus, and contains an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus. Section 23B applies to "covered transactions" as well as certain other transactions and requires that all transactions be on terms substantially the same, or at least as favorable, to the savings association as those provided to a non-affiliate. The term "covered transaction" includes the making of loans to, purchase of assets from and issuance of a guarantee to an affiliate and similar transactions. Section 23B transactions also include the provision of services and the sale of assets by a savings association to an affiliate. In addition to the restrictions imposed by Sections 23A and 23B, Section 11 of the Home Owners' Loan Act prohibits a savings association from (i) making a loan or other extension of credit to an affiliate, except for any affiliate which engages only in certain activities which are permissible for bank holding companies, or (ii) purchasing or investing in any stocks, bonds, debentures, notes or similar obligations of any affiliate, except for affiliates which are subsidiaries of the savings association.

In addition, Sections 22(g) and (h) of the Federal Reserve Act as made applicable to savings associations by Section 11 of the Home Owners' Loan Act, place restrictions on loans to executive officers, directors and principal shareholders of the savings association and its affiliates. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% shareholder of a savings association, and certain affiliated interests of either, may not exceed, together with all other outstanding loans to such person and affiliated interests, the savings association's loans to one borrower limit (generally equal to 15% of the association's unimpaired capital and surplus). Section 22(h) also requires that loans to directors, executive officers and principal shareholders be made on terms substantially the same as offered in comparable transactions to other persons unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the association and (ii) does not give preference to any director, executive officer or principal shareholder, or certain affiliated interests of either, over other employees of the savings association. Section 22(h) also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a savings association to all insiders cannot exceed the association's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers. Malvern Federal Savings Bank currently is subject to Sections 22(g) and (h) of the Federal Reserve Act and at September 30, 2013, was in compliance with the above restrictions.

Community Reinvestment Act. All federal savings associations have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. An institution's failure to comply with the provisions of the Community Reinvestment Act could result in restrictions on its activities. Malvern Federal Savings Bank received a "satisfactory" Community Reinvestment Act rating in its most recently completed examination.

Anti-Money Laundering. On October 26, 2001, in response to the events of September 11, 2001, the President of the United States signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (referred to as the USA PATRIOT Act). The USA PATRIOT Act significantly expands the responsibilities of financial institutions, including savings and loan associations, in preventing the use of the U.S. financial system to fund terrorist activities. Title III of the USA PATRIOT Act provides for a significant overhaul of the U.S. anti-money laundering regime. Among other provisions, it requires financial institutions operating in the United States to develop new anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such compliance programs are intended to supplement existing compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control Regulations. Malvern Federal Savings Bank has established policies and procedures to ensure compliance with the USA PATRIOT Act's provisions, and the impact of the USA PATRIOT Act on our operations has not been material.

Federal Home Loan Bank System. Malvern Federal Savings Bank is a member of the Federal Home Loan Bank of Pittsburgh, which is one of 12 regional Federal Home Loan Banks that administers the home financing credit function of savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the FHLB. At September 30, 2013, Malvern Federal Savings Bank had $38.0 million of FHLB advances and nothing outstanding on its line of credit with the FHLB.

As a member, Malvern Federal Savings Bank is required to purchase and maintain stock in the FHLB of Pittsburgh in an amount equal to at least 1.0% of its aggregate unpaid residential mortgage loans or similar obligations at the beginning of each year. At September 30, 2013, Malvern Federal Savings Bank had $3.0 million in FHLB stock, which was in compliance with this requirement.

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The Federal Home Loan Banks are required to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. The FHLB has communicated that it believes the calculation of risk-based capital under the current rules of the FHFA significantly overstates the market risk of the FHLB's private-label mortgage-backed securities in the current market environment and that it has enough capital to cover the risks reflected in the FHLB's balance sheet. As a result, an "other than temporary impairment" has not been recorded for the Bank's investment in FHLB stock. However, continued deterioration in the FHLB's financial position may result in impairment in the value of those securities. Management will continue to monitor the financial condition of the FHLB as it relates to, among other things, the recoverability of the Bank's investment.

Federal Reserve System. The Federal Reserve Board requires all depository institutions to maintain reserves against their transaction accounts (primarily NOW and Super NOW checking accounts) and non-personal time deposits. Because required reserves must be maintained in the form of vault cash or a noninterest-bearing account at a Federal Reserve Bank, the effect of this reserve requirement is to reduce an institution's earning assets. At September 30, 2013, Malvern Federal Savings Bank had met its reserve requirement.

TAXATION

Federal Taxation

General. The Company and Malvern Federal Savings Bank are subject to federal income taxation in the same general manner as other corporations with some exceptions listed below. The following discussion of federal, state and local income taxation is only intended to summarize certain pertinent income tax matters and is not a comprehensive description of the applicable tax rules. The Company files a consolidated federal income tax return with Malvern Federal Savings. Malvern Bancorp's federal and state income tax returns for taxable years through September 30, 2009 have been closed for purposes of examination by the Internal Revenue Service or the Pennsylvania Department of Revenue.

Method of Accounting. For federal income tax purposes, we report income and expenses on the accrual method of accounting and file our federal income tax return on a fiscal year basis.

Bad Debt Reserves. The Small Business Job Protection Act of 1996 eliminated the use of the reserve method of accounting for bad debt reserves by savings institutions, effective for taxable years beginning after 1995. As a result of the Small Business Job Protection Act of 1996, savings associations must use the specific charge-off method in computing their bad debt deduction beginning with their 1996 federal tax return.

Taxable Distributions and Recapture. Prior to the Small Business Job Protection Act of 1996, bad debt reserves created prior to January 1, 1988 were subject to recapture into taxable income if Malvern Federal Savings Bank failed to meet certain thrift asset and definitional tests. New federal legislation eliminated these savings association related recapture rules. However, under current law, pre-1988 reserves remain subject to recapture should Malvern Federal Savings Bank make certain non-dividend distributions or cease to maintain a bank charter.

At September 30, 2013, the total federal pre-1988 reserve was approximately $1.6 million. The reserve reflects the cumulative effects of federal tax deductions by Malvern Federal Savings for which no federal income tax provisions have been made.

Alternative Minimum Tax. The Internal Revenue Code imposes a tentative minimum tax at a rate of 20% of the corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income consists of a base of regular taxable income plus certain tax preferences. The alternative minimum tax is payable to the extent such tentative minimum tax is in excess of the regular income tax. Net operating losses, of which Malvern Bancorp has none, can offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. The Company has been subject to the alternative minimum tax and has amounts available as credits for carryover, which do not expire.

Corporate Dividends-Received Deduction. The Company may exclude from its income 100% of dividends received from Malvern Federal Savings Bank as a member of the same affiliated group of corporations. The corporate dividends received deduction is 80% in the case of dividends received from corporations which a corporate recipient owns less than 80%, but at least 20% of the distribution corporation. Corporations which own less than 20% of the stock of a corporation distributing a dividend may deduct only 70% of dividends received.

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State and Local Taxation

Pennsylvania Taxation. The Company is subject to the Pennsylvania Corporate Net Income Tax, Capital Stock and Franchise Tax. The Corporate Net Income Tax rate for 2013 is 9.99% and is imposed on unconsolidated taxable income for federal purposes with certain adjustments. In general, the Capital Stock and Franchise Tax is a tax imposed on a corporation's capital stock value at a statutorily defined rate, such value being determined in accordance with a fixed formula based upon average net income and net worth.

Malvern Federal Savings Bank is subject to tax under the Pennsylvania Mutual Thrift Institutions Tax Act, as amended to include thrift institutions having capital stock. Pursuant to the Mutual Thrift Institutions Tax, the tax rate is 11.5%. The Mutual Thrift Institutions Tax exempts Malvern Federal Savings Bank from other taxes imposed by the Commonwealth of Pennsylvania for state income tax purposes and from all local taxation imposed by political subdivisions, except taxes on real estate and real estate transfers. The Mutual Thrift Institutions Tax is a tax upon net earnings, determined in accordance with GAAP with certain adjustments. The Mutual Thrift Institutions Tax, in computing income according to GAAP, allows for the deduction of interest earned on state, federal and local obligations, while disallowing a percentage of a thrift's interest expense deduction in the proportion of interest income on those securities to the overall interest income of Malvern Federal Savings Bank. Net operating losses, if any, thereafter can be carried forward three years for Mutual Thrift Institutions Tax purposes.

Item 1A. Risk Factors.

In analyzing whether to make or to continue an investment in our securities, investors should consider, among other factors, the following risk factors.

We Have Incurred Losses in Recent Years. There Can Be No Assurance That We Will Return to Profitability on a Sustained Basis

For the fiscal years ended September 30, 2013 and 2011, we reported net losses of $18.8 million and $6.1 million, respectively, while we reported net income of $2.0 million for the fiscal year ended September 30, 2012. Our net loss for fiscal 2013 was primarily due to the $10.1 million loss recognized on sale of a substantial portion of our problem loans in a bulk transaction on October 4, 2013, the $1.5 million penalty recognized on the prepayment of $20.0 million in FHLB advances and the $6.0 million charge made in connection with the deferred tax asset ("DTA") allowance.

Our Portfolio of Loans Continues to Include Loans with a Higher Risk of Loss

Commercial real estate loans, construction and development loans and second mortgages (home equity loans) have a higher risk of default and loss than single-family residential mortgage loans. The aggregate amount of our commercial real estate loans, construction and development loans and second mortgages (home equity loans) amounted to $134.2 million, or 33.2% of our total loan portfolio at September 30, 2013. Commercial real estate and construction and development loans generally are considered to involve a higher degree of risk due to a variety of factors, including generally larger loan balances and loan terms which often do not require full amortization of the loan over its term and, instead, provide for a balloon payment at the stated maturity date. Repayment of commercial real estate loans generally is dependent on income being generated by the rental property or underlying business in amounts sufficient to cover operating expenses and debt service. Repayment of construction and development loans generally is dependent on the successful completion of the project and the ability of the borrower to repay the loan from the sale of the property or obtaining permanent financing. Our second mortgage loans generally are considered

to involve a higher degree of risk than single-family residential mortgage loans due to the generally higher loan-to-value ratios and their secondary position in the collateral to the existing first mortgage.

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Our Provisions to Our Allowance for Loan Losses and Our Net Charge-Offs to Our Allowance for Loan Losses Have Adversely Affected, and May Continue to Adversely Affect, Our Results of Operations

Our customers may not repay their loans according to the original terms, and the collateral securing the payment of those loans may be insufficient to pay any remaining loan balance. While we maintain an allowance for loan losses to provide for loan defaults and non-performance, losses may exceed the value of the collateral securing the loans and the allowance may not fully cover any excess loss.

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. Our allowance for loan losses is based on these judgments, as well as historical loss experience and an evaluation of the other risks associated with our loan portfolio, including but not limited to, the size and composition of the loan portfolio, current economic conditions and geographic concentrations within the portfolio. Federal regulatory agencies, as part of their examination process, review our loans and allowance for loan losses. If our assumptions or judgments used to determine the allowance prove to be incorrect, if the value of the collateral securing the loans decreases substantially or if our regulators disagree with our judgments, we may need to increase the allowance in amounts that exceed our expectations. Additions to the allowance adversely affect our results of operations and financial condition. We recorded an $11.2 million provision for loan losses during the year ended September 30, 2013, compared to provisions of $810,000 and $12.4 million for the years ended September 30, 2012 and 2011, respectively. The $11.2 million provision recorded in 2013 was primarily driven by $10.2 million of charge-offs taken in relation to the bulk sale of loans.

The Supervisory Agreement Imposes Restrictions Which May Adversely Affect Our Results of Operations And the Market Value of Our Common Stock

In October 2010, the Bank, entered into the Supervisory Agreement. See Item 1, "Business – Regulation – The Supervisory Agreements" in this Annual Report on Form 10-K. The Supervisory Agreement imposes a number of operating restrictions and requirements that the Bank revise and/or implement and monitor various identified policies, procedures and reports. Until April 2013, the Supervisory Agreement also prohibited us from originating any new commercial loans and limited the growth in our assets in any quarter to an amount not exceeding net interest credited on our deposits without prior OCC approval. The restrictions in the Supervisory Agreement has had an adverse impact on the average yield earned on our loan portfolio and has contributed to a reduction in the average balance of our loan portfolio, both of which have reduced our interest income. In addition, compliance efforts related to the Supervisory Agreement has increased our non-interest expense. While we plan to request relief from the Supervisory Agreement during fiscal 2014, no assurance can be given whether any relief will be granted.

Higher Interest Rates Would Hurt Our Profitability

Management is unable to predict fluctuations of market interest rates, which are affected by many factors, including inflation, recession, unemployment, monetary policy, domestic and international disorder and instability in domestic and foreign financial markets, and investor and consumer demand.

Our primary source of income is net interest income, which is the difference between the interest income generated by our interest-earning assets (consisting primarily of single-family residential loans) and the interest expense generated by our interest-bearing liabilities (consisting primarily of deposits). The level of net interest income is primarily a function of the average balance of our interest-earning assets, the average balance of our interest-bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both

the pricing and mix of our interest-earning assets and our interest-bearing liabilities which, in turn, are impacted by such external factors as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve Board of Governors (the "FOMC"), and market interest rates.

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A sustained increase in market interest rates would adversely affect our earnings. A significant portion of our loans have fixed interest rates and longer terms than our deposits and borrowings and our net interest income could be adversely affected if the rates we pay on deposits and borrowings increase more rapidly than the rates we earn on loans. In addition, the market value of our fixed-rate assets would decline if interest rates increase. For example, we estimate that as of September 30, 2013, a 300 basis point increase in interest rates would have resulted in our net portfolio value declining by approximately $35.9 million or 46%. Net portfolio value is the difference between incoming and outgoing discounted cash flows from assets, liabilities and off-balance sheet contracts. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – How We Manage Market Risk."

Our Deferred Tax Asset Valuation Allowance Adversely Impacted Our Results of Operations

Realization of a deferred tax asset requires us to exercise significant judgment and is inherently uncertain because it requires the prediction of future occurrences. Our net deferred tax asset amounted to $2.5 million at September 30, 2013 compared to $6.8 million at September 30, 2012. The decrease in the net deferred tax asset resulted from the recognition of a deferred tax asset valuation allowance of $12.5 million in fiscal 2013. Based on our analysis of the available positive and negative evidence, we determined that an addition to the DTA valuation allowance should be recorded at September 30, 2013, which resulted in a $6.0 million charge to net income. In the future, the DTA valuation allowance could, in accordance with the requirement of accounting principles generally accepted in the United States, be reversed in whole or part. There can be no assurance, however, whether or when we may be able to recover any of the DTA valuation allowance.

The Loss of Senior Management Could Hurt Our Operations

We rely heavily on our executive officers, Messrs. Anderson, Boyle, Hughes, Neiner and Fuchs. The loss of one or more members of senior management could have an adverse effect on us because, as a relatively small community bank, our senior executive officers have more responsibility than would be typical at a larger financial institution with more employees. In addition, we have fewer management-level personnel who are in a position to assume the responsibilities of our senior executive officers.

Strong Competition Within Our Market Area Could Hurt Our Profits and Slow Growth

We face intense competition in making loans, attracting deposits and hiring and retaining experienced employees. This competition has made it more difficult for us to make new loans and attract deposits. Price competition for loans and deposits sometimes results in us charging lower interest rates on our loans and paying higher interest rates on our deposits, which reduces our net interest income. Competition also makes it more difficult and costly to attract and retain qualified employees. Some of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our market area.

The Effects of the Current Economic Conditions Have Been Particularly Severe in Our Primary Market Areas

Substantially all of our loans are to individuals, businesses and real estate developers in Chester County, Pennsylvania and neighboring areas in southern Pennsylvania and our business depends significantly on general economic conditions in these market areas. Severe declines in housing prices and property values have been particularly acute in our primary market areas. A further deterioration in economic conditions or a prolonged delay in economic recovery in our primary market areas could result in the following consequences, any of which could have a material adverse effect on our business:

- Loan delinquencies may increase further;
- Problem assets and foreclosures may increase further;
- Demand for our products and services may decline;
- The carrying value of our other real estate owned may decline further; and
- Collateral for loans made by us, especially real estate, may continue to decline in value, in turn reducing a customer's borrowing power, and reducing the value of assets and collateral associated with our loans.

We Operate In a Highly Regulated Environment and We May Be Adversely Affected By Changes in Laws and Regulations

We are subject to extensive regulation, supervision and examination by the FRB, our primary federal regulator, the OCC, the Bank's primary federal regulator, and by the Federal Deposit Insurance Corporation, as insurer of the Bank's deposits. Such regulation and supervision governs the activities in which an institution and its holding company may engage and are intended primarily for the protection of the insurance fund and the depositors and borrowers of the Bank rather than for holders of our common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations.

The Fair Value of Our Investment Securities Can Fluctuate Due to Market Conditions Outside of Our Control

As of September 30, 2013, the fair value of our investment securities portfolio was approximately $124.7 million. We have historically taken a conservative investment strategy, with concentrations of securities that are backed by government sponsored enterprises. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could have a material adverse effect on us. The process for determining whether impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security.

We Are Dependent On Our Information Technology and Telecommunications Systems and Third-Party Servicers, and Systems Failures, Interruptions or Breaches of Security Could Have a Material Adverse Effect On Us

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on us.

In addition, we provide our customers with the ability to bank remotely, including over the Internet and over the telephone. The secure transmission of confidential information over the Internet and other remote channels is a critical element of remote banking. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security breaches. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, regulatory scrutiny, litigation and

other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could materially and adversely affect us.

Additionally, financial products and services have become increasingly technology-driven. Our ability to meet the needs of our customers competitively, and in a cost-efficient manner, is dependent on the ability to keep pace with technological advances and to invest in new technology as it becomes available. Many of our competitors have greater resources to invest in technology than we do and may be better equipped to market new technology-driven products and services. The ability to keep pace with technological change is important, and the failure to do so could have a material adverse impact on our business and therefore on our financial condition and results of operations.

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Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We currently conduct business from our headquarters and eight full-service financial center offices. The following table sets forth the net book value of the land, building and leasehold improvements and certain other information with respect to our offices at September 30, 2013. We maintain automated teller machines ("ATMs") at each of our branch offices.

Description/Address	Leased/Owned	Date of Lease Expiration	Net Book Value of Property	Amount of Deposits
			(In thousands)	
Paoli Financial Center and Headquarters 42 East Lancaster Avenue Paoli, PA 19301	Owned	N/A	$ 2,730	N/A
Paoli Financial Center 34 East Lancaster Avenue Paoli, PA 19301	Owned	N/A	605	$ 196,406
Malvern Financial Center 100 West King Street Malvern, PA 19355	Owned	N/A	37	54,212
Exton Financial Center 109 North Pottstown Pike Exton, PA 19341	Owned	N/A	214	49,083
Coventry Financial Center 1000 Ridge Road Pottstown, PA 19465	Owned	N/A	253	58,188
Berwyn Financial Center 650 Lancaster Avenue Berwyn, PA 19313	Owned	N/A	615	44,385
Lionville Financial Center 537 West Uwchlan Avenue Downingtown, PA 19335	Owned	N/A	830	30,188
Westtown Financial Center 100 Skiles Boulevard West Chester, PA 19382	Leased	2015	65	24,117

Concordville Financial Center 940 Baltimore Pike Glen Mills, PA 19342	Leased	2030	442	28,017

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Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II.

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) Malvern Bancorp, Inc.'s common stock is listed on the NASDAQ Global Market under the symbol "MLVF". As of the close of business on September 30, 2013, there were 6,558,473 shares of Mid-Tier Holding Company common stock outstanding, held by approximately 478 stockholders of record, not including the number of persons or entities whose stock is held in nominee or "street" name through various brokerage firms and banks. In connection with the second-step conversion, as of October 11, 2012, each share of Malvern Federal Bancorp common stock was converted into the right to receive 1.0748 shares of common stock of Malvern Bancorp, Inc.

The following table sets forth the high and low prices of the Company's common stock as reported by the NASDAQ Stock Market and cash dividends declared per share for the periods indicated.

	Year Ended September 30,			
	2013		2012	
	High	Low	High	Low
First Quarter	$11.73	$9.96	$6.57	$5.51
Second Quarter	$12.30	$11.10	$8.93	$5.90
Third Quarter	$12.20	$11.50	$9.00	$7.76
Fourth Quarter	$13.20	$11.75	$10.64	$8.01

For the years ended September 30, 2013 and 2012, no cash dividends per share of common stock were declared by the Company. In December 2013, the Company's board of directors adopted a resolution, as recommended by the Federal Reserve Bank of Philadelphia, that it will not declare or pay any dividends without the prior written approval of the Reserve Bank.

(b) Not applicable.

(c) Purchase of Equity Securities

Not applicable.

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Item 6. Selected Financial Data.

Set forth below is selected financial and other data of Malvern Federal Bancorp, Inc. You should read the consolidated financial statements and related notes contained in Item 8 hereof which provide more detailed information.

	At September 30,				
	2013	2012	2011	2010	2009
Selected Financial Condition Data:	(Dollars in thousands)				
Total assets	$601,554	$711,812	$666,568	$720,506	$691,639
Loans receivable, net	401,857	457,001	506,019	547,323	593,565
Loans held for sale	10,367	-	-	-	-
Securities held to maturity	-	-	3,797	4,716	4,842
Securities available for sale	124,667	80,508	74,389	40,719	27,098
FHLB borrowings	38,000	48,085	49,098	55,334	99,621
Deposits	484,596	540,988	554,455	596,858	516,511
Shareholders’ equity	75,406	62,636	60,284	66,207	69,842
Total liabilities	526,148	649,176	606,284	654,299	621,796
Allowance for loan losses	5,090	7,581	10,101	8,157	5,718
Non-accrual loans in portfolio	1,901	9,749	12,915	19,861	14,195
Non-performing assets in portfolio	5,863	14,343	21,236	25,176	20,070
Performing troubled debt restructurings in portfolio	1,346	8,187	10,340	11,976	25
Non-performing assets and performing troubled debt restructurings in portfolio	7,209	22,530	31,576	37,152	20,095

	Year Ended September 30,				
	2013	2012	2011	2010	2009
Selected Operating Data:	(Dollars in thousands, except per share data)				
Total interest and dividend income	$22,301	$25,775	$29,726	$33,148	$34,701
Total interest expense	6,944	8,412	10,198	13,641	18,681
Net interest income	15,357	17,363	19,528	19,507	16,020
Provision for loan losses	11,235	810	12,392	9,367	2,280
Net interest income after provision for loan losses	4,122	16,553	7,136	10,140	13,740
Total other income	2,860	2,427	1,702	2,027	2,221
Total other expenses	19,775	16,393	18,529	17,191	14,709
Income tax expense (benefit)	6,010	628	(3,579)	(1,895)	242
Net income (loss)	$(18,803)	$1,959	$(6,112)	$(3,129)	$1,010
Earnings (loss) per share(5)	$(2.96)	$0.31	$(0.96)	$(0.49)	$0.16
Dividends per share	$0.00	$0.00	$0.03	$0.12	$0.14

	Year Ended September 30,				
	2013	2012	2011	2010	2009
Selected Financial Ratios and Other Data:					
Performance Ratios:					
	(2.79)%	0.30%	(0.90)%	(0.45)%	0.15%

Return on assets (ratio of net income to average total assets)					
Return on average equity (ratio of net income to average equity)	(20.24)	3.15	(9.64)	(4.53)	1.46
Interest rate spread(1)	2.27	2.67	2.88	2.78	2.13
Net interest margin(2)	2.44	2.79	3.02	2.98	2.46
Non-interest expenses to average total assets	2.93	2.50	2.72	2.49	2.16
Efficiency ratio(3)	108.55	82.83	87.28	79.83	80.64
Asset Quality Ratios:					
Non-accrual loans as a percent of gross loans	0.47	2.11	2.52	3.60	2.38
Non-performing assets as a percent of total assets	0.97	2.01	3.19	3.49	2.90
Non-performing assets and performing troubled debt restructurings as a percent of total assets	1.20	3.17	4.74	5.16	2.91
Allowance for loan losses as a percent of gross loans	1.26	1.64	1.97	1.48	0.96
Allowance for loan losses as a percent of non-accrual loans	267.75	77.76	78.21	41.07	40.28
Net charge-offs to average loans outstanding	3.12	0.70	1.97	1.19	0.35
Capital Ratios(4):					
Total risk-based capital to risk weighted assets	18.97	14.22	12.01	12.85	12.67
Tier 1 risk-based capital to risk weighted assets	17.72	12.96	10.76	11.83	11.96
Tangible capital to tangible assets	10.91	7.70	7.54	8.24	9.07
Tier 1 leverage (core) capital to adjustable tangible assets	10.91	7.70	7.54	8.24	9.07
Shareholders' equity to total assets	12.54	8.80	9.04	9.19	10.10

(1) Represents the difference between the weighted average yield on interest earning assets and the weighted average cost of interest bearing liabilities.

(2) Net interest income divided by average interest earning assets.

(3) Represents the ratio obtained from dividing non-interest expense by the sum of net interest income and total other income.

(4) Other than shareholders' equity to total assets, all capital ratios are for the Bank only.

(5) The calculation for the years end September 2012, 2011, 2010 and 2009, has been adjusted for the exchange and additional share issuance in the reorganization and offering completed on October 11, 2012.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

The Company's results of operations are primarily dependent on the results of the Bank, which is a wholly owned subsidiary of the Company. The Bank currently operates eight financial center offices in Chester and Delaware Counties, which are located in southeastern Pennsylvania approximately 25 miles west of downtown Philadelphia. The Bank's primary business consists of attracting deposits from the general public and using those funds together with funds we borrow to originate loans to our customers. At September 30, 2013, we had total assets of $601.6 million, including $401.9 million in net portfolio loans, $10.4 million in loans held for sale and $124.7 million of investment securities, total deposits of $484.6 million and total shareholders' equity of $75.4 million.

Our results of operations depend, to a large extent, on net interest income, which is the difference between the income earned on our loan and investment portfolios and interest expense on deposits and borrowings. Our net interest income is largely determined by our net interest spread, which is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities, and the relative amounts of interest-earning assets and interest-bearing liabilities. Results of operations are also affected by our provision for loan losses, fee income and other, non-interest income and non-interest expenses. Our other, or non-interest, expenses principally consist of compensation and employee benefits, office occupancy and equipment expense, data processing, advertising and business promotion, professional fees, other real estate owned expense and other expense. Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable law, regulations or government policies may materially impact our financial conditions and results of operations.

Our business strategy currently is focused on improving core earnings, seeking relief from the Supervisory agreement, maintaining low levels of problem assets and conducting our traditional community-oriented banking business. Below are certain of the highlights of our business strategy in recent years:

Improving Core Earnings. With interest rates falling to historically low levels, it has become increasingly difficult for financial institutions to maintain acceptable levels of net interest income. In recent years, with the Bank unable to grow its asset base and loan portfolio, increasing interest income has been a challenge. This lack of growth in the loan portfolio, combined with higher deposit and borrowing costs, have all contributed to a decline in the Banks' net interest margin. In an effort to achieve consistent sustainable earnings, i.e. improve the net interest margin, we are implementing specific product and pricing strategies designed to increase the yield on loans and reduce the cost of funding. During fiscal 2014, we expect to resume originating commercial real estate loans and commercial business loans, which have higher yields than single-family residential mortgage loans, on a relatively modest basis in accordance with our business plan and our strengthened loan underwriting and loan administration policies and procedures. We also have established a funding composition plan, which is designed to increase checking accounts, primarily non-interest bearing accounts, as well as savings and money market accounts. We are attempting to increase our core deposits, which we define as all deposit accounts other than certificates of deposit. At September 30, 2013, our core deposits amounted to 45.9% of total deposits ($222.6 million), compared to 37.7% of total deposits ($225.2 million) at September 30, 2010. We have continued our promotional efforts to increase core deposits. We review our deposit products on an ongoing basis and we are considering additional deposit products and are currently offering more flexible delivery options, such as mobile banking, as part of our efforts to increase core deposits. We expect to increase our commercial checking accounts and we plan to enhance our cross-marketing as part of our efforts to gain additional deposit relationships with our loan customers. The implementation of these

strategies began in the month of September 2013, when the Bank prepaid $20.0 million in FHLB advances with a weighted average rate of 3.84%. We have replaced the FHLB advances with lower costing sources of funds which will lower our interest expense in fiscal 2014 by $768,000 compared to the amount had we not prepaid the FHLB advances.

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Seek Supervisory Relief. We entered into the Supervisory Agreements with the OTS in October 2010. Among other things, the Supervisory Agreements required that we provide the OCC with relatively extensive reports and data on our business and operations on a quarterly basis. Given the improvements we have seen in the levels of our non-performing and other problem assets, the enhancements we have made to our loan underwriting policies and procedures, as well as our loan administration and oversight policies and procedures and the increased capital levels that we have achieved as a result of the 2012 stock offering, we plan to continue our efforts to obtain relief from the Supervisory Agreement that the Bank entered into in 2010 as well as the IMCRs that the OCC has imposed.

Maintain Low Levels of Problem Assets. We are continuing in our efforts to improve asset quality. At September 30, 2013, our total non-performing assets in portfolio were $5.9 million or 0.97% of total assets, reflecting a reduction of $19.3 million, or 76.7%, compared to $25.2 million of total non-performing assets at September 30, 2010 (when total non-performing assets amounted to 3.49% of total assets). The recent bulk sale of problem loans resulted in a dramatic reduction of the Company's non-performing assets. The bulk sale was undertaken as an efficient mechanism for disposing of non-performing and underperforming assets and improving the Bank's credit quality in the process. As a result of the sale, the Company significantly reduced its exposure to sectors that experienced economic weakness and significant declines in collateral valuations and has substantially reduced the amount of non-accruing loans.

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

Increasing Market Share Penetration. We operate in a competitive market area for banking products and services. In recent years, we have been working to increase our deposit share in Chester and Delaware counties and we increased our marketing and promotional efforts. However, as a result of the shrinkage of our balance sheet and the reduction in total deposits in fiscal 2011 and 2013, our deposit market share in Chester County decreased from 5.13% in 2010 to 4.69% in 2013. In our effort to increase market share as well as non-interest income, we plan to evaluate increasing our business in non-traditional products, such as wealth management.

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

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This Management's Discussion and Analysis section is intended to assist in understanding the financial condition and results of operations of Malvern Bancorp. The information contained in this section should be read in conjunction with our consolidated financial statements and the accompanying notes to the consolidated financial statements contained in Item 8 of this Annual Report on Form 10-K.

Critical Accounting Policies

In reviewing and understanding financial information for Malvern 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 consolidated financial statements included elsewhere in Item 8 of this Annual Report on Form 10-K. The accounting and financial reporting policies of Malvern Bancorp 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 consolidated financial statements require certain estimates, judgments, and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the periods presented. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may affect our reported results and financial condition for the period or in future periods.

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

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer

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

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. Once all factor adjustments are applied, general reserve allocations for each segment are calculated, summarized and reported on the ALLL summary. ALLL final schedules, calculations and the resulting evaluation process are reviewed quarterly by the Asset Classification Committee and the Board of Directors.

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In addition, Federal bank regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not previously have been available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the level of the allowance for loan losses at September 30, 2013 was appropriate under U.S. GAAP.

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

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

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

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

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

write-downs of individual assets.

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

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

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

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

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

Fair value measurements for assets where there exists limited or no observable market data and, therefore, are based primarily upon the Company's or other third-party's estimates, are often calculated based on the characteristics of the asset, the economic and competitive environment and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future valuations. At September 30, 2013, the Company had $3.4 million of assets that were measured at fair value on a non-recurring basis using Level 3 measurements.

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

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

Realization of a deferred tax asset requires us to exercise significant judgment and is inherently uncertain because it requires the prediction of future occurrences. Our net deferred tax asset amounted to $2.6 million at September 30, 2013 compared to $6.8 million at September 30, 2012. In evaluating the need for a valuation allowance, we must

estimate our taxable income in future years and viable tax planning strategies we could employ so that the asset would not go unused. Due primarily to the net loss recognized in the fiscal year ended September 30, 2013, which primarily resulted from the loss on our bulk loan sale transaction and the penalties incurred upon our prepayment of FHLB advances, our total deferred tax assets increased to $15.0 million at September 30, 2013 compared to $8.0 million at September 30, 2012. Upon our review of the available positive and negative evidence, we determined that a DTA valuation allowance of $12.5 million should be established at September 30, 2013. These actions on the valuation allowance resulted in a $6.7 million charge to earnings in the quarter and fiscal year ended September 30, 2013. In the future, the DTA allowance may be reversed, depending on the Company's financial position and results of operations in the future, among other factors, and, in such event, may be available to increase future net income. There can be no assurance, however, as to when we could be in a position to recapture our DTA allowance.

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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.

How We Manage Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from the interest rate risk which is inherent in our lending and deposit taking activities. To that end, management actively monitors and manages interest rate risk exposure. In addition to market risk, our primary risk is credit risk on our loan portfolio. We attempt to manage credit risk through our loan underwriting and oversight policies.

The principal objective of our interest rate risk management function is to evaluate the interest rate risk embedded in certain balance sheet accounts, determine the level of risk appropriate given our business strategy, operating environment, capital and liquidity requirements and performance objectives, and manage the risk consistent with approved guidelines. We seek to manage our exposure to risks from changes in interest rates while at the same time trying to improve our net interest spread. We monitor interest rate risk as such risk relates to our operating strategies. We have established an ALCO Committee, which is comprised of our President and Chief Executive Officer, Chief Financial Officer, Chief Lending Officer and five outside directors, and which is responsible for reviewing our asset/liability and investment policies and interest rate risk position. The ALCO Committee meets on a regular basis. The extent of the movement of interest rates is an uncertainty that could have a negative impact on future earnings.

In recent years, we primarily have utilized the following strategies to manage interest rate risk:

- we have attempted to match fund a portion of our loan portfolio with borrowings having similar expected lives;
- on occasion, we have sold long-term (30-year) fixed-rate mortgage loans with servicing retained;
- we have attempted, where possible, to extend the maturities of our deposits and borrowings; and
- we have invested in securities with relatively short anticipated lives, generally one to three years, and we hold significant amounts of liquid assets.

As part of our asset/liability management efforts, during fiscal year ended September 30, 2013, we sold $27.8 million of long-term, fixed-rate residential mortgage loans with the servicing retained. This transaction resulted in a gain of $366,000. In addition, in order to reduce our average cost of funds in future periods, during the quarter and fiscal year

ended September 30, 2013, we prepaid $20.0 million of FHLB advances which had a weighted average cost of 3.84% and incurred $1.5 million in prepayment penalties. Finally, in light of the removal of the lending restrictions from the Bank's 2010 Supervisory Agreement, we are resuming, on a relatively modest basis subject to our business plan and our strengthened loan underwriting and loan administration policies and procedures, origination of commercial real estate loans and commercial business loans, both of which generally have higher yields than single-family residential mortgage loans.

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Gap Analysis. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring a bank's interest rate sensitivity "gap." An asset and liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to affect adversely net interest income while a positive gap would tend to result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would tend to result in an increase in net interest income while a positive gap would tend to affect adversely net interest income. Our one-year cumulative gap was a negative 31.06% at September 30, 2013 compared to a negative 9.47% at September 30, 2012.

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The following table sets forth the amounts of our interest-earning assets and interest-bearing liabilities outstanding at September 30, 2013, which we expect, based upon certain assumptions, to reprice or mature in each of the future time periods shown (the "GAP Table"). Except as stated below, the amount of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth approximation of the projected repricing of assets and liabilities at September 30, 2013, on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable-rate loans and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans. Annual prepayment rates for single-family and other mortgage loans are assumed to range from 6.0% to 25.0%. The weighted average life for investment securities is assumed to range from 3.9 year to 9.3 years. Savings accounts and interest-bearing checking accounts are assumed to have annual rates of withdrawal, or "decay rates," of 13.7% and 13.9%, respectively. See "Business of Malvern Federal Savings Bank – Lending Activities," "– Investment Activities" and "– Sources of Funds."

	6 Months or Less	More than 6 Months to 1 Year	More than 1 Year to 3 Years	More than 3 Year to 5 Years	More than 5 Years	Total Amount
			(Dollars in thousands)			
Interest-earning assets(1):						
Loans receivable(2)	$ 68,479	$ 36,272	$ 114,033	$ 59,311	$ 128,850	$ 406,945
Investment securities and restricted securities	8,914	7,388	36,500	22,136	52,767	127,705
Other interest-earning assets	22,436	-	-	-	-	22,436
Total interest-earning assets	99,829	43,660	150,533	81,447	181,617	557,086
Interest-bearing liabilities:						
Demand and NOW accounts	87,676	-	-	-	-	87,676
Money market accounts	67,372	-	-	-	-	67,373
Savings accounts	42,932	-	-	-	-	42,932
Certificate accounts	54,555	54,789	98,498	44,962	9,150	216,954
FHLB advances	23,000	-	10,000	5,000	-	38,000
Total interest-bearing liabilities	275,535	54,789	108,498	49,962	9,150	497,934
Interest-earning assets less interest-bearing liabilities	$ (175,706)	$ (11,129)	$ 42,035	$ 31,485	$ 172,467	$ 59,152

Cumulative interest-rate sensitivity gap(3)	$ (175,706)	$ (186,835)	$ (144,800)	$ (113,315)	$ 59,152
Cumulative interest-rate gap as a percentage of total assets at September 30, 2013	(29.21)%	(31.06)%	(24.07)%	(18.84)%	9.83 %
Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities at September 30, 2013	36.23 %	43.44 %	67.00 %	76.82 %	111.88 %

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(1) Interest-earning assets are included in the period in which the balances are expected to be redeployed and/or repriced as a result of anticipated prepayments, scheduled rate adjustments and contractual maturities.
(2) For purposes of the gap analysis, loans receivable includes non-performing loans gross of the allowance for loan losses, undisbursed loan funds, unamortized discounts and deferred loan fees.
(3) Interest-rate sensitivity gap represents the net cumulative difference between interest-earning assets and interest-bearing liabilities.

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate loans, have features which restrict changes in interest rates both on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. Finally, the ability of many borrowers to service their adjustable-rate loans may decrease in the event of an interest rate increase.

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

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The table below sets forth as of September 30, 2013 and 2012, the estimated changes in our net portfolio value that would result from designated instantaneous changes in the United States Treasury yield curve. Computations of prospective effects of hypothetical interest rates changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results.

Changes in Interest Rates (basis points)(1)	As of September 30, 2013			As of September 30, 2012		
	Amount	Dollar Change from Base	Percentage Change from Base	Amount	Dollar Change from Base	Percentage Change from Base
	(Dollars in thousands)					
+300	$41,315	$(35,859)	(46)%	$58,360	$(10,191)	(15)%
+200	54,957	(22,217)	(29)	67,163	(1,388)	(2)
+100	67,966	(9,208)	(12)	72,145	3,594	5
0	77,174	-	-	68,551	-	-
-100	78,841	1,667	2	59,460	(9,091)	(13)

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

In addition to modeling changes in NPV, we also analyze potential changes to NII for a twelve-month period under rising and falling interest rate scenarios. The following table shows our NII model as of September 30, 2013.

Changes in Interest Rates in Basis Points (Rate Shock)	Net Interest Income	$ Change	% Change
	(Dollars in thousands)		
200	$16,066	$332	2.11%
100	15,944	210	1.33
Static	15,734	-	-
(100)	15,030	(704)	(4.47)

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

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

	Year Ended September 30,							
	2013			2012			2011	
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid
	(Dollars in thousands)							
Interest Earning Assets:								
Loans receivable(1)	$440,357	$20,172	4.58%	$478,824	$24,046	5.02%	$530,497	$28,185
Investment securities	106,903	1,973	1.85	86,722	1,674	1.93	78,147	1,510
Deposits in other banks	78,902	137	0.17	51,185	51	0.10	32,024	31
FHLB stock	3,696	19	0.51	4,772	4	0.08	5,905	-
Total interest earning assets(1)	629,858	22,301	3.54	621,503	25,775	4.15	646,573	29,726
Non-interest earning assets	44,312			34,919			34,654	
Total assets	$674,170			$656,422			$681,227	
Interest Bearing Liabilities:								
Demand and NOW accounts	$90,085	119	0.13	$90,963	256	0.28	$90,674	519
Money Market accounts	68,782	228	0.33	79,977	446	0.56	87,329	915
Savings accounts	43,382	24	0.06	46,316	48	0.10	44,237	78
Certificate accounts	298,229	4,908	1.65	300,956	5,942	1.97	321,918	6,941
Total deposits	500,478	5,279	1.05	518,212	6,692	1.29	544,158	8,453
Borrowed funds	47,593	1,665	3.50	48,593	1,720	3.54	49,874	1,745
Total interest-bearing liabilities	548,071	6,944	1.27	566,805	8,412	1.48	594,032	10,198
Non-interest bearing liabilities	33,205			27,439			23,764	
Total liabilities	581,276			594,244			617,796	
Shareholders' equity	92,894			62,178			63,431	
Total liabilities and shareholders' equity	$674,170			$656,422			$681,227	
Net interest-earning assets	$81,787			$54,698			$52,541	
Net interest income		$15,357			$17,363			$19,528
Net interest spread			2.27%			2.67%		
Net interest margin			2.44%			2.79%		
Average interest-earning assets to average interest- bearing liabilities	114.92 %			109.65 %			108.84 %	

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

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The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the increase related to higher outstanding balances and that due to the unprecedented levels and volatility of interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (i.e., changes in volume multiplied by old rate) and (ii) changes in rate (i.e., changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	Year Ended September 30,					
	2013 vs. 2012			2012 vs. 2011		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(In thousands)					
Interest Earning Assets:						
Loans receivable	$(1,931)	$(1,943)	$(3,874)	$(2,744)	$(1,395)	$(4,139)
Investment securities	389	(90)	299	165	(1)	164
Deposits in other banks	28	58	86	19	1	20
FHLB stock	(1)	16	15	-	4	4
Total interest earning assets	$(1,515)	$(1,959)	$(3,474)	$(2,560)	$(1,391)	$(3,951)
Interest Bearing Liabilities						
Demand and NOW accounts	$(2)	$(135)	$(137)	$2	$(265)	$(263)
Money market accounts	(63)	(155)	(218)	(77)	(392)	(469)
Savings accounts	(3)	(21)	(24)	4	(34)	(30)
Certificate accounts	(54)	(980)	(1,034)	(453)	(546)	(999)
Total deposits	(122)	(1,291)	(1,413)	(524)	(1,237)	(1,761)
Borrowed funds	(35)	(20)	(55)	(45)	20	(25)
Total interest-bearing liabilities	$(157)	$(1,311)	$(1,468)	$(569)	$(1,217)	$(1,786)
Net interest income	$(1,358)	$(648)	$(2,006)	$(1,991)	$(174)	$(2,165)

Comparison of Financial Condition at September 30, 2013 and September 30, 2012

Our total assets were $601.6 million at September 30, 2013 compared to $711.8 million at September 30, 2012. The primary reason for the $110.3 million decrease in assets during fiscal 2013 was a decrease of $108.2 million in cash and cash equivalents and a $55.1 million decrease in net loans receivable. These decreases were partially offset by an aggregate $44.2 million increase in investment securities. The decrease in cash and cash equivalents at September 30, 2013 compared to September 30, 2012 was due to a $20.8 million refund of excess stock subscriptions received in our second-step conversion and stock offering, the utilization of cash to purchase additional investment securities and to prepay $20.0 million in advances from the FHLB during fiscal 2013. We also replaced a portion of the prepaid advances with the addition of $10.0 million of new FHLB advances in fiscal 2013. The $55.1 million decrease in net portfolio loans receivable was due primarily to the transfer of a net of$10.4 million of loans (after an aggregate of $10.2 million in charge-offs) to held for sale status at December 31, 2013 as well as normal amortization and prepayments of our loans in portfolio. During fiscal 2013, we recorded a $41.6 million decline in our portfolio of commercial real estate loans, a $13.8 million decrease in our portfolio of residential and commercial construction and development loans as well as an $11.2 million decrease in consumer second mortgage loans.

Our total liabilities at September 30, 2013, were $526.1 million compared to $649.2 million at September 30, 2012. The $123.0 million, or 19.0% decrease in total liabilities was due primarily to the elimination of the $56.7 million stock subscription escrow, reflecting the closing of our second-step conversion on October 11, 2012, and a $56.4 million decrease in total deposits. Our total deposits were $484.6 million at September 30, 2013 compared to $541.0 million at September 30, 2012. There was a $10.1 million decrease in our FHLB advances for fiscal 2013. The decrease in FHLB advances was due to prepaying $20.0 million in advances during the month of September 2013, which was partially offset by a $10.0 million purchase in lower costing advances during fiscal 2013.

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Our shareholders' equity increased by $12.8 million to $75.4 million at September 30, 2013 compared to $62.6 million at September 30, 2012. The increase was due to the $34.7 million in net proceeds received from the stock offering undertaken as part of the "second-step" conversion of the Bank from the mutual holding company structure to the stock holding company structure, which was completed on October 11, 2012. Our ratio of equity to assets was 12.54% at September 30, 2013.

Comparison of Operating Results for the Years Ended September 30, 2013 and September 30, 2012

General. Our net loss was $18.8 million for the year ended September 30, 2013 compared to net income of $2.0 million for the year ended September 30, 2012. On a per share basis, the net loss was $2.96 per share for the year ended September 30, 2013, compared to net income of $0.31 per share (as adjusted for our "second-step" conversion) for the year ended September 30, 2012. The reason for the $20.8 million difference in our results of operations in fiscal 2013 compared to the prior fiscal year was due to an increase in the provision of loan losses of $10.4 million, a $2.0 million decrease in net interest income, a $3.4 million increase in other expenses, as well as $5.4 million increase in income tax expense. Our interest rate spread was 2.27% and our net interest margin was 2.44% for the year ended September 30, 2013, compared to a net interest spread of 2.67% and a net interest margin of 2.79% for the year ended September 30, 2012.

Interest and Dividend Income. Our interest and dividend income decreased for the year ended September 30, 2013 by $3.5 million or 13.5% over fiscal 2012 to $22.3 million. Interest income on loans decreased for the year ended September 30, 2013 over fiscal 2012 by $3.9 million, or 16.1%. The decrease in interest earned on loans in fiscal 2013 was due to a 44 basis point decrease in the average yield earned on our loan portfolio in fiscal 2013 compared to fiscal 2012 as well as a $38.5 million or 8.0%, decrease in the average balance of our outstanding loan portfolio. Interest income on investment securities increased by $299,000, or 17.9%, in fiscal 2013 over the prior fiscal year. The increase in interest income on investment securities in fiscal 2013 was due to a $20.2 million, or 23.3%, increase in the average balance of our investment securities portfolio.

Interest Expense. Our interest expense for the year ended September 30, 2013 was $6.9 million, a decrease of $1.5 million from the year ended September 30, 2012. The reason for the decrease in interest expense in fiscal 2013 compared to fiscal 2012 was a 24 basis point decrease in average rate paid on total deposits together with a decrease in the average balance of our total deposits of $17.7 million, or 3.4%, in fiscal 2013 compared to fiscal 2012 due primarily to a $11.2 million decrease in the average balance of money market accounts. The average rate paid on total deposits decreased to 1.05% for fiscal 2013 from 1.29% for fiscal 2012. Our expense on borrowings was relatively constant, and amounted to $1.7 million in fiscal 2013 and 2012. The average balance of our borrowings decreased by $1.0 million in fiscal 2013 compared to fiscal 2012, and the average rate paid on borrowed funds decreased to 3.50% in fiscal 2013 compared to 3.54% in fiscal 2012. As previously described, during the fourth quarter of fiscal 2013 we prepaid $20.0 million of FHLB advances which had a weighted average cost of 3.84%. During the fourth quarter of fiscal 2013, we replaced a portion of the prepaid advances with $10.0 million of new FHLB advances which have a weighted average cost of 1.06%. We expect these actions to reduce our interest expense by approximately $768,000 in fiscal 2014.

Provision for Loan Losses. Management has identified the evaluation of the allowance for loan losses as a critical accounting policy. 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, which are charges or recoveries to operating results, 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.

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The provision for loan losses was $11.2 million for the year ended September 30, 2013, compared to $810,000 for the year ended September 30, 2012. The $11.2 million provision recorded in 2013 was primarily driven by $10.2 million of charge-offs taken upon our assessment of the fair value of the $20.4 million of loans transferred to held for sale status at September 30, 2013 in connection with our proposed bulk sale of problem loans. Our total gross charge-offs for the year ended September 30, 2013 were $14.3 million, a $9.7 million, or 209.8%, increase compared to $4.6 million of charge-offs during the year ended September 30, 2012. The increase in our charge-offs for fiscal 2013 primarily reflects our proposed sale of problem loans, which was completed in October 2013. As of September 30, 2013, the balance of the allowance for loan losses was $5.1 million, or 1.26% of gross loans and 267.75% of non-accruing loans in portfolio, compared to an allowance for loan losses of $7.6 million or 1.64% of gross loans and 77.76% of non-accruing loans at September 30, 2012. See "Business-Asset Quality – Non-Performing Loans and Real Estate Owned" in Item 1 of this Annual Report on Form 10-K. We will continue to monitor and modify our allowance 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.

Other Income. Our other, or non-interest, income increased by $433,000, or 17.9%, to $2.9 million for the year ended September 30, 2013 compared to $2.4 million for the year ended September 30, 2012. The increase in other income during fiscal 2013 was primarily due to a non-recurring, tax free death benefit of approximately $596,000 received pursuant to BOLI. In addition, we sold approximately $27.8 million in fixed-rate residential mortgage loans in the secondary market which resulted in a net gain of approximately $366,000 during fiscal 2013. Also, our gain on sale of investments in fiscal 2013 decreased by $272,000 compared to fiscal 2012, and we recognized a $416,000 loss on the sale of a $2.1 million commercial real estate loan which had been classified as substandard during the year ended September 30, 2013.

Other Expenses. Our other, or non-interest, expenses increased by $3.4 million, or 20.6%, to $19.8 million for the year ended September 30, 2013 compared to $16.4 million for the year ended September 30, 2012. The increase in other expenses in fiscal 2013 compared to fiscal 2012 was due primarily to the $1.5 million in FHLB pre-payment penalties recognized as well as a $1.1 million increase in salaries and employee benefits. The increase in salaries and employee benefits expense during the year ended September 30, 2013 primarily reflects an increase in the number of employees in our secondary market program as well as the increase in support staff in the Credit Review Department and Mortgage Loan Department. There was an increase of $283,000 in professional fees and a $302,000 increase in REO expense in the fiscal year ended September 2013.

Income Tax Expense. Our income tax expense was $6.0 for the year ended September 30, 2013 compared to an income tax expense of $628,000 for the year ended September 30, 2012. The increased income tax expense for the year ended September 30, 2013 was primarily due to an increase in our DTA valuation allowance to $12.5.

Comparison of Operating Results for the Years Ended September 30, 2012 and September 30, 2011

General. We reported net income of $2.0 million for the year ended September 30, 2012 compared to a net loss of $6.1 million for the year ended September 30, 2011. On a per share basis (as adjusted for our “second-step” conversion), the net income was $0.31 per share for the year ended September 30, 2012, compared to net loss of $0.96 per share for the year ended September 30, 2011. The primary reason for the $8.1 million improvement in our results of operations in fiscal 2012 compared to the prior fiscal year was a reduction in the provision of loan losses of $11.6 million, which was partially offset by a $4.2 million increase in income tax expense and a $2.2 million decrease in net interest income. Our interest rate spread was 2.67% and our net interest margin was 2.79% for the year ended September 30, 2012, compared to a net interest spread of 2.88% and a net interest margin of 3.02% for the year ended September 30, 2011.

Interest and Dividend Income. Our interest and dividend income decreased for the year ended September 30, 2012 by $4.0 million or 13.3% over the comparable fiscal 2011 period to $25.8 million. Interest income on loans decreased for the year ended September 30, 2012 over the prior comparable period in fiscal 2011 by $4.1 million, or 14.7%. The decrease in interest earned on loans in fiscal 2012 was due primarily to a $51.7 million, or 9.7%, decrease in the average balance of our outstanding loans as well as a 29 basis point decrease in the average yield earned on our loan portfolio in fiscal 2012 compared to fiscal 2011. Interest income on investment securities increased by $164,000, or 10.9%, in fiscal 2012 over the comparable prior fiscal year period. The increase in interest income on investment securities in fiscal 2012 was due to an $8.6 million, or 11.0%, increase in the average balance of our investment securities portfolio.

Interest Expense. Our interest expense for the year ended September 30, 2012 was $8.4 million, a decrease of $1.8 million from the year ended September 30, 2011. The reason for the decrease in interest expense in fiscal 2012 compared to fiscal 2011 was a 26 basis point decrease in average rate paid on total deposits together with a decrease in the average balance of our total deposits of $25.9 million, or 4.8%, in fiscal 2012 compared to fiscal 2011 due primarily to a $21.0 million decrease in the average balance of certificates of deposit. The average rate paid on total deposits decreased to 1.29% for fiscal 2012 from 1.55% for fiscal 2011. Our expense on borrowings amounted to $1.7 million in fiscal 2012, which was substantially unchanged from fiscal 2011. The average balance of our borrowings decreased by $1.3 million in fiscal 2012 compared to fiscal 2011, however the average rate paid on borrowed funds increased to 3.54% in fiscal 2012 compared to 3.50% in fiscal 2011.

Provision for Loan Losses. The provision for loan losses was $810,000 for the year ended September 30, 2012, compared to $12.4 million for the year ended September 30, 2011. The $11.6 million difference in the provision for loan losses for the year ended September 30, 2012, compared to fiscal 2011, among other things, reflected the overall improvement in the trend of our levels of delinquent, impaired and non-performing loans during fiscal 2012. At September 30, 2012, our total loans more than 30 days past due amounted to $14.3 million, a $1.3 million, or 8.5%, improvement compared to September 30, 2011. Our total impaired loans amounted to $13.2 million at September 30, 2012, a $1.6 million, or 10.9%, reduction compared to our impaired loans at September 30, 2011. Our total non-accrual loans were $9.7 million at September 30, 2012 compared to $12.9 million at September 30, 2011, a $3.2 million, or 24.5%, reduction. In addition to the improvements in the levels of our delinquent, impaired and non-performing loans during the year ended September 30, 2012 compared to fiscal 2011, the reduction in the provision for loan losses during the fiscal 2012 period also reflected the actions that we took in fiscal 2011 to increase the oversight and resolution of our non-performing and problem loans as well as the significant increases to the allowance for loan losses made in fiscal 2011 with respect to loans that remained in our portfolio or were resolved during the year ended September 30, 2012. Our total gross charge-offs for the year ended September 30, 2012 were $4.6 million, a $5.9 million, or 56.2%, improvement compared to $10.6 million of charge-offs during the year ended

September 30, 2011. We recorded $1.3 million in total recoveries to the allowance for loan losses during the year ended September 30, 2012 compared to fiscal 2011, due primarily to the receipt of a $2.5 million payment in full satisfaction of a $1.4 million participation interest in a construction and development loan on a retirement community located in Montgomery County, Pennsylvania. Our ratio of net charge-offs to the total allowance for loan losses was 43.9% for the fiscal year ended September 30, 2012 compared to 103.4% for the fiscal year ended September 30, 2011. As of September 30, 2012, the balance of the allowance for loan losses was $7.6 million, or 1.64% of gross loans and 77.76% of non-accruing loans, compared to an allowance for loan losses of $10.1 million or 1.97% of gross loans and 78.21% of non-accruing loans at September 30, 2011.

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Other Income. Our other, or non-interest, income increased by $725,000, or 42.6%, to $2.4 million for the year ended September 30, 2012 compared to $1.7 million for the year ended September 30, 2011. The increase in other income during fiscal 2012 was due primarily to a $751,000 net gain recorded on the sale of securities, which consisted of a $415,000 gain recorded on the securitization and sale of $10.7 million of long-term, fixed-rate residential mortgage loans and a $336,000 gain on the sale of $15.7 million of investment securities.

Other Expenses. Our other, or non-interest, expenses decreased by $2.1 million, or 11.5%, to $16.4 million for the year ended September 30, 2012 compared to $18.5 million for the year ended September 30, 2011. The decrease in other operating expenses in fiscal 2012 compared to fiscal 2011 was due primarily to a $1.8 million decrease in other real estate owned expense, a $274,000 decrease in federal deposit insurance premiums, due to a lower deposit base in fiscal 2012 and a $359,000 decrease in professional fees. The decrease in other REO expense was due to the reduction of other real estate owned during fiscal 2012. The decrease in professional fees was primarily due to $311,000 reduction in legal fees. These decreases were partially offset by a $344,000 increase in salaries and employee benefits and a $130,000 increase in data processing in the year ended September 30, 2012 compared to the year ended September 30, 2011.

Income Tax Expense. Our income tax expense was $628,000 for the year ended September 30, 2012 compared to an income tax benefit of $3.6 million for the year ended September 30, 2011. The increased income tax expense for the year ended September 30, 2012 was primarily due to the recognition of $2.6 million in pre-tax income during the year ended September 30, 2012 compared to a $9.7 million pre-tax loss during fiscal 2011. Our effective Federal tax rate was 24.3% for the year ended September 30, 2012 compared to 36.9% for the year ended September 30, 2011. The decrease in effective tax rate for the year ended September 30, 2012 compared to the year ended September 30, 2011 was primarily due to tax exempt income from bank-owned life insurance of $179,000.

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 September 30, 2013, our cash and cash equivalents amounted to $23.7 million. In addition, at such date our available for sale investment securities amounted to $124.7 million.

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 September 30, 2013, we had certificates of deposit maturing within the next 12 months amounting to $109.3 million. Based upon historical experience, we anticipate that a significant portion of the maturing certificates of deposit will be redeposited with us. For the year ended September 30, 2013, the average balance of our outstanding FHLB advances was $47.6 million. At September 30, 2013, we had $38.0 million in outstanding long-term FHLB advances and we had $169.1 million in potential FHLB advances available to us. In addition, at September 30, 2013, we had a $50.0 million line of credit with the FHLB, of which none was outstanding.

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.

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Payments Due Under Contractual Obligations

The following table presents information relating to the Company's payments due under contractual obligations as of September 30, 2013.

	Payments Due by Period				
	Less than One Year	One to Three Years	Three to Five Years	More than Five Years	Total
			(In thousands)		
Long-term debt obligations	$-	$10,000	$-	$28,000	$38,000
Certificates of deposit	109,344	98,498	44,962	9,150	261,954
Operating lease obligations	279	452	430	4,334	5,495
Total contractual obligations	$109,623	$108,950	$45,392	$41,484	$305,449

Off-Balance Sheet Arrangements

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

The contractual amounts of commitments to extend credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer defaults and the value of any existing collateral becomes worthless. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments. Financial instruments whose contract amounts represent credit risk at September 30, 2013 and 2012 were as follows:

	September 30,	
	2013	2012
	(Dollars in thousands)	
Commitments to extend credit:(1)		
Future loan commitments	$7,858	$14,190
Undisbursed construction loans	3,797	4,519
Undisbursed home equity lines of credit	13,936	24,826
Undisbursed Commercial lines of credit	3,032	3,163
Overdraft protection lines	108	813
Standby letters of credit	3,727	3,717
Total commitments	$32,458	$51,228

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

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

Impact of Inflation and Changing Prices

The financial statements, accompanying notes, and related financial data presented herein have been prepared in accordance with U.S. GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of operations. Most of our assets and liabilities are monetary in nature; therefore, the impact of interest rates has a greater impact on its performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

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Recent Accounting Pronouncements

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

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

The information contained in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations – How We Manage Market Risk” in Item 7 hereof is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Malvern Bancorp, Inc. and Subsidiaries

We have audited the accompanying consolidated statement of financial condition of Malvern Bancorp, Inc. and its subsidiaries (collectively the "Company") as of September 30, 2013, and the related consolidated statements of operations, comprehensive (loss) income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Malvern Bancorp, Inc. and its subsidiaries at September 30, 2013, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Philadelphia, Pennsylvania
December 19, 2013

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Malvern Bancorp, Inc. and Subsidiaries

We have audited the accompanying consolidated statements of financial condition of Malvern Federal Bancorp, Inc. (now known as Malvern Bancorp, Inc.) and its subsidiaries (the "Company") as of September 30, 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the years in the two year period ended September 30, 2012. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Malvern Federal Bancorp, Inc. and its subsidiaries as of September 30, 2012, and the results of their operations and their cash flows for each of the years in the two year period ended September 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ ParenteBeard LLC

Philadelphia, Pennsylvania
December 26, 2012

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

	September 30, 2013	September 30, 2012
	(Dollars in thousands, except per share data)	
Assets		
Cash and due from depository institutions	$1,251	$1,413
Interest bearing deposits in depository institutions	22,436	130,497
Cash and Cash Equivalents	23,687	131,910
Investment securities available for sale, at fair value	124,667	80,508
Restricted stock, at cost	3,038	4,147
Loans held for sale	10,367	-
Loans receivable, net of allowance for loan losses of $5,090 and $7,581, respectively	401,857	457,001
Other real estate owned	3,962	4,594
Accrued interest receivable	1,404	1,521
Property and equipment, net	7,259	7,675
Deferred income taxes, net	2,464	6,775
Bank-owned life insurance	21,341	15,286
Other assets	1,508	2,395
Total Assets	$601,554	$711,812
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Deposits-noninterest-bearing	$24,761	$23,062
Deposits-interest-bearing	459,835	517,926
Total Deposits	484,596	540,988
FHLB advances	38,000	48,085
Advances from borrowers for taxes and insurance	1,118	1,006
Accrued interest payable	139	266
Stock subscription escrow	-	56,677
Other liabilities	2,295	2,154
Total Liabilities	526,148	649,176
Commitments and Contingencies	-	-
Shareholders' Equity		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued	-	-
Common stock, $0.01 par value, 40,000,000 shares authorized, issued and outstanding: 6,558,473 and 6,102,500, respectively	66	62
Additional paid-in-capital	60,302	25,846
Retained earnings	19,793	38,596
Treasury stock-at cost, 0 shares and 50,000 shares, respectively	-	(477)

Unearned Employee Stock Ownership Plan (ESOP) shares	(2,067)	(2,032)
Accumulated other comprehensive (loss) income	(2,688)	641
Total Shareholders' Equity	75,406	62,636
Total Liabilities and Shareholders' Equity	$601,554	$711,812

See notes to consolidated financial statements.

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Malvern Bancorp, Inc. and Subsidiaries
Consolidated Statements of Operations

	Year Ended September 30,		
	2013	2012	2011
	(Dollars in thousands, except per share data)		
Interest and Dividend Income			
Loans, including fees	$20,172	$24,046	$28,185
Investment securities, taxable	1,745	1,600	1,487
Investment securities, tax-exempt	228	74	23
Dividends, restricted stock	19	4	-
Interest-bearing cash accounts	137	51	31
Total Interest and Dividend Income	22,301	25,775	29,726
Interest Expense			
Deposits	5,279	6,692	8,453
Long-term borrowings	1,665	1,720	1,745
Total Interest Expense	6,944	8,412	10,198
Net Interest Income	15,357	17,363	19,528
Provision for Loan Losses	11,235	810	12,392
Net Interest Income after Provision for Loan Losses	4,122	16,553	7,136
Other Income			
Service charges and other fees	1,049	897	888
Rental income-other	251	253	267
Gain on sale of investments, net	479	751	-
Loss on disposal of fixed assets	(1)	-	-
Loss on sale of loans, net	(94)	-	-
Earnings on bank-owned life insurance	1,176	526	547
Total Other Income	2,860	2,427	1,702
Other Expense			
Salaries and employee benefits	7,806	6,741	6,397
Occupancy expense	2,027	2,088	2,150
Federal deposit insurance premium	856	867	1,141
Advertising	737	718	737
Data processing	1,269	1,262	1,132
Professional fees	1,756	1,473	1,832
Other real estate owned expense, net	1,638	1,336	3,182
FHLB prepayment penalty	1,543	-	-
Other operating expenses	2,143	1,908	