MALVERN BANCORP, INC.
Form 10-Q/A
February 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
(Amendment No. 1)
(Mark One)

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: December 31, 2012

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)

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

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

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

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

Large accelerated filer	o	Accelerated filer	o

Non-accelerated filer	o	Smaller reporting company	x

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date: As of February 11, 2013, 6,558,473 shares of the Registrant's common stock were issued and outstanding.

Introductory Note

Subsequent to filing its Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2012 (the "Form 10-Q"), the registrant determined that the table reflecting troubled debt restructuring ("TDR") activity included in Note 6 of the Notes to Consolidated Financial Statements (unaudited) was incorrect with respect to the three-month period ended December 31, 2011. The table, which is included herein at page 31, has been corrected with respect to TDR activity in the quarter ended December 31, 2011. As a result of a notification received subsequent to the filing of the original Form 10-Q, the third paragraph previously appearing under Note 7 of the Notes to Consolidated Financial Statements (unaudited) has been deleted. The Bank's capital continues to be well in excess of all regulatory requirements. No other changes have been made in this Amendment No. 1 to the information included in the Form 10-Q filed on February 12, 2013.

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

	December 31, 2012		September 30, 2012	
	(Dollars in thousands, except per share data)			
Assets				
Cash and due from depository institutions	$	1,273	$	1,413
Interest bearing deposits in depository institutions		114,647		130,497
Cash and Cash Equivalents		115,920		131,910
Investment securities available for sale, at fair value		85,208		80,508
Restricted stock, at cost		3,654		4,147
Loans receivable, net of allowance for loan losses of $7,571 and $7,581, respectively		446,271		457,001
Other real estate owned		3,788		4,594
Accrued interest receivable		1,440		1,521
Property and equipment, net		7,571		7,675
Deferred income taxes, net		6,881		6,775
Bank-owned life insurance		14,890		15,286
Other assets		2,407		2,395
Total Assets	$	688,030	$	711,812
Liabilities and Shareholders' Equity				
Liabilities				
Deposits:				
Deposits-noninterest-bearing	$	23,823	$	23,062
Deposits-interest-bearing		511,253		517,926
Total Deposits		535,076		540,988
FHLB advances		48,000		48,085
Advances from borrowers for taxes and insurance		4,663		1,006
Accrued interest payable		238		266
Stock subscription escrow		-		56,677
Other liabilities		1,983		2,154
Total Liabilities		589,960		649,176
Commitments and Contingencies		-		-
Shareholders' Equity				
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued		-		-
		66		62

Common stock, $0.01 par value, 40,000,000 shares authorized, issued and outstanding: 6,558,473 and 6,102,500, respectively				
Additional paid-in capital		60,286		25,846
Retained earnings		39,267		38,596
Treasury stock—at cost, 2012, 0 shares; 2011, 50,000 shares		-		(477)
Unearned Employee Stock Ownership Plan (ESOP) shares		(2,176)		(2,032)
Accumulated other comprehensive income		627		641
Total Shareholders' Equity		98,070		62,636
Total Liabilities and Shareholders' Equity	$	688,030	$	711,812

See notes to unaudited consolidated financial statements.

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

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
	(Dollars in thousands, except per share data)	
Interest and Dividend Income		
Loans, including fees	$ 5,533	$ 6,427
Investment securities, taxable	329	432
Investment securities, tax-exempt	52	4
Dividends, restricted stock	5	-
Interest-bearing cash accounts	31	9
Total Interest and Dividend Income	5,950	6,872
Interest Expense		
Deposits	1,517	1,853
Long-term borrowings	430	434
Total Interest Expense	1,947	2,287
Net Interest Income	4,003	4,585
Provision (Credit) for Loan Losses	400	(300)
Net Interest Income after Provision (Credit) for Loan Losses	3,603	4,885
Other Income		
Service charges and other fees	331	207
Rental income	63	66
Gain on sale of investments, net	27	455
Gain on sale of loans, net	164	-
Earnings on bank-owned life insurance	722	134
Total Other Income	1,307	862
Other Expense		
Salaries and employee benefits	1,848	1,589
Occupancy expense	482	508
Federal deposit insurance premium	217	232
Advertising	180	186
Data processing	319	294
Professional fees	364	455
Other real estate owned expense, net	425	185
Other operating expenses	458	487
Total Other Expenses	4,293	3,936
Income before income tax (benefit) expense	617	1,811
Income tax (benefit) expense	(54)	560
Net Income	$ 671	$ 1,251
Basic Earnings Per Share*	$ 0.11	$ 0.20

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*

Basic earnings per share for the prior period have been adjusted to reflect the impact of the second-step conversion and reorganization of the Company, which was completed on October 11, 2012.

See notes to unaudited consolidated financial statements.

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

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
	(In thousands)	
Net Income	$671	$1,251
Other Comprehensive Income:		
Changes in net unrealized gains on securities available for sale	5	609
Gains realized in net income	(27)	(455)
	(22)	154
Deferred income tax effect	8	(52)
Total other comprehensive (loss) income	(14)	102
Total comprehensive income	$657	$1,353

See notes to unaudited consolidated financial statements.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	(Dollars in thousands, except share and per share data)						
Balance, October 1, 2011	$62	$25,889	$36,637	$(477)	$(2,178)	$ 351	$ 60,284
Net Income	-	-	1,251	-	-	-	1,251
Other comprehensive income	-	-	-	-	-	102	102
Committed to be released ESOP shares (3,351 shares)	-	(16)	-	-	36	-	20
Balance, December 31, 2011	$62	$25,873	$37,888	$(477)	$(2,142)	$ 453	$ 61,657
Balance, October 1, 2012	$62	$25,846	$38,596	$(477)	$(2,032)	$ 641	$ 62,636
Net Income	-	-	671	-	-	-	671
Other comprehensive loss	-	-	-	-	-	(14)	(14)
Cancellation of common stock	(62)	62	-	-	-	-	-
Cancellation of treasury stock	-	(477)	-	477	-	-	-
Additional ESOP shares converted at exchange rate of 1.0748 (18,040 shares at $10/share)	-	180	-	-	(180)	-	-
Dissolution of mutual holding company	-	100	-	-	-	-	100
Proceeds from issuance of common stock, net of offering expenses of $1.6 million	66	34,567	-	-	-	-	34,633
Committed to be released ESOP shares (3,571 shares)	-	8	-	-	36	-	44
Balance, December 31, 2012	$66	$60,286	$39,267	$-	$(2,176)	$ 627	$ 98,070

See notes to unaudited consolidated financial statements.

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

	Three Months Ended December 31, 2012	2011
	(In thousands)	
Cash Flows from Operating Activities		
Net income	$671	$1,251
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation expense	172	186
Provision (credit) for loan losses	400	(300)
Deferred income tax (benefit) expense	(100)	442
ESOP expense	44	20
Accretion of premiums and discounts on investment securities, net	(101)	(71)
Amortization of mortgage servicing rights	6	11
Net gain on sale of investment securities available for sale	(27)	(455)
Net gain on sale of loans	(164)	-
Gain on sale of other real estate owned	(96)	(38)
Write down of other real estate owned	505	111
Amortization of loan origination fees and costs	(569)	(338)
Decrease in accrued interest receivable	81	92
(Decrease) increase in accrued interest payable	(28)	21
(Decrease) increase in other liabilities	(171)	100
Earnings on bank-owned life insurance	(722)	(134)
Increase in other assets	(292)	(263)
Decrease in prepaid FDIC assessment	208	222
Net Cash (Used in) Provided by Operating Activities	(183)	857
Cash Flows from Investing Activities		
Proceeds from maturities and principal collections:		
Investment securities held to maturity	-	255
Investment securities available for sale	9,886	8,181
Proceeds from sales of investment securities available for sale	17	13,928
Purchases of investment securities available for sale	(14,496)	(17,560)
Proceeds from sale of loans	4,567	-
Loan purchases	(4,371)	(5,632)
Loan originations and principal collections, net	10,865	23,981
Proceeds from sale of other real estate owned	399	1,926
Additions to mortgage servicing rights	(18)	-
Net decrease in restricted stock	493	268
Purchases of property and equipment	(68)	(88)
Net Cash Provided by Investing Activities	7,274	25,259
Cash Flows from Financing Activities		

Net decrease in deposits	(5,912)	(3,174)
Repayment of long-term borrowings	(85)	(252)
Increase in advances from borrowers for taxes and insurance	3,657	1,655
Return of excess stock subscription funds	(20,841)	-
Cash from mutual holding company reorganization	100	-
Net Cash Used in Financing Activities	(23,081)	(1,771)
Net (Decrease) Increase in Cash and Cash Equivalents	(15,990)	24,345
Cash and Cash Equivalents - Beginning	131,910	33,496
Cash and Cash Equivalents - Ending	$115,920	$57,841
Supplementary Cash Flows Information		
Interest paid	$1,975	$2,266
Non-cash transfer of loans to other real estate owned	$2	$109
Non-cash transfer of loans to investment securities available for sale	$-	$10,671
Subscription funds transferred to equity	$34,633	$-

See notes to unaudited consolidated financial statements.

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Notes to Consolidated Financial Statements (Unaudited)

Note 1 – Organizational Structure and Nature of Operations

On May 19, 2008, Malvern Federal Savings Bank ("Malvern Federal Savings" or the "Bank") completed its reorganization to the mutual holding company form of organization and formed Malvern Federal Bancorp, Inc. (the "Mid-Tier Holding Company") to serve as the "mid-tier" stock holding company for the Bank. In connection with implementation of the mutual holding company form of organization in 2008, the Company sold 2,645,575 shares of its common stock to certain members of the Bank and the public at a purchase price of $10.00 per share. In addition, the Company issued 3,383,875 shares, or 55% of the then outstanding shares, of its common stock to Malvern Federal Mutual Holding Company, which was a federally chartered mutual holding company (the "Mutual Holding Company"), and contributed 123,050 shares (with a value of $1.2 million), or 2.0% of the then outstanding shares, to the Malvern Federal Charitable Foundation, a newly created Delaware charitable foundation. In addition to the shares of Malvern Federal Bancorp, Inc. which it owned, Malvern Federal Mutual Holding Company was capitalized with $100,000 in cash. An Employee Stock Ownership Plan ("ESOP") was established which borrowed approximately $2.6 million from Malvern Federal Bancorp, Inc. to purchase 241,178 shares of common stock in the 2008 offering. Principal and interest payments of the loan are being made quarterly over a term of 18 years at a fixed interest rate of 5.0%.

On October 11, 2012, Malvern Bancorp, Inc. (the "Company" or "Malvern Bancorp-New") completed the "second-step" conversion of the Bank 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 and 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 Bank's common stock. 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 for the Bank, Malvern Federal Bancorp, Inc., held by the "public" shareholders of the Mid-Tier Holding Company (all shareholders except the 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. The Company does not own or lease any property, but instead uses the premises, equipment and furniture of the Bank. At the present time, the Company employs only persons who are officers of Malvern Federal Savings to serve as officers of the Company. The Company also uses the Bank's support staff from time to time. These persons are not separately compensated by the Company.

Malvern Federal Savings Bank is a federally chartered stock savings bank which was originally organized in 1887 and is operating 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 and general operating expenses. Funds for activities are provided primarily by deposits, amortization of loans, loan prepayments and the maturity of loans, securities and other investments and other funds from operations.

The Bank, the Mid-Tier Holding Company and the Mutual Holding Company previously 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").

Notes to Consolidated Financial Statements (Unaudited)

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

The Company and its subsidiaries, Malvern Federal Holdings, Inc., a Delaware company, and the Bank and the Bank's subsidiaries, Strategic Asset Management Group, Inc. ("SAMG") and Malvern Federal Investments, Inc., a Delaware company, provide various banking services, primarily accepting deposits and originating residential and commercial mortgage loans, consumer loans and other loans through the Bank's eight full-service branches in Chester and Delaware Counties, Pennsylvania. SAMG owns 50% of Malvern Insurance Associates, LLC. Malvern Insurance Associates, LLC offers a full line of business and personal lines of insurance products. As of December 31, 2012 and September 30, 2012, SAMG's total assets were $42,000 and $42,000, respectively. There was no income reported for SAMG for the three months ended December 31, 2012 and 2011. The Company is subject to competition from various other financial institutions and financial services companies. The Company is also subject to the regulations of certain federal agencies and, therefore, undergoes periodic examinations by those regulatory agencies.

In accordance with the subsequent events topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "Codification" or the "ASC"), the Company evaluates events and transactions that occur after the statement of financial condition date for potential recognition and disclosure in the consolidated financial statements. The effect of all subsequent events that provide additional evidence of conditions that existed at the statement of financial date are recognized in the unaudited consolidated financial statements as of December 31, 2012.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements at December 31, 2012 and for the three months ended December 31, 2012 include the accounts of Malvern Bancorp, Inc. and its subsidiaries. The consolidated financial statements at September 30, 2012 and for the three months ended December 31, 2011 include the accounts of Malvern Federal Bancorp, Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all the information or footnotes necessary for a complete presentation of financial condition, operations, changes in shareholders' equity, and cash flows in conformity with accounting principles generally accepted in the United States of America ("GAAP"). However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements have been included. The results for the three months ended December 31, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2013, or any other period. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2012.

Use of Estimates

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

Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

Significant Group Concentrations of Credit Risk

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

Cash and Cash Equivalents

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

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

Investment Securities

Debt securities held to maturity are securities that the Company has the positive intent and the ability to hold to maturity; these securities are reported at amortized cost and adjusted for unamortized premiums and discounts. Securities held for trading are securities that are bought and held principally for the purpose of selling in the near term; these securities are reported at fair value, with unrealized gains and losses reported in current earnings. At December 31, 2012 and September 30, 2012, the Company had no investment securities classified as trading. Debt securities that will be held for indefinite periods of time and equity securities, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments are classified as available for sale. Realized gains and losses are recorded on the trade date and are determined using the specific identification method. Securities held as available for sale are reported at fair value, with unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income ("AOCI"). Management determines the appropriate classification of investment securities at the time of purchase.

Securities are evaluated on a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether declines in their value are other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline and whether or not management intends to sell or expects that it is more likely than not that it will be required to sell the security prior to an anticipated recovery of the fair value. The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value for a debt security is determined to be other-than-temporary, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

Loans Receivable

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

Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

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

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

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

In addition to originating loans, the Company purchases consumer and mortgage loans from brokers in our market area. Such purchases are reviewed for compliance with our underwriting criteria before they are purchased, and are generally purchased without recourse to the seller. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

Allowance for Loan Losses

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

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

Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class that are not considered impaired. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these classes of loans, as adjusted for qualitative factors. These qualitative risk factors include:

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

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

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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In addition, the allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include categories of "pass," "special mention," "substandard" and "doubtful." Assets classified as "Pass" are those protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. Assets which do not currently expose the insured institution to sufficient risk to warrant classification as substandard or doubtful but possess certain identified weaknesses are required to be designated "special mention." If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.”

Residential Lending. Residential mortgage originations are secured primarily by properties located in the Company’s primary market area and surrounding areas. We currently originate fixed-rate, fully amortizing mortgage loans with maturities of 15 to 30 years. We also offer adjustable rate mortgage (“ARM”) loans where the interest rate either adjusts on an annual basis or is fixed for the initial one, three, five or seven years and then adjusts annually.

Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

We underwrite one- to four-family residential mortgage loans with loan-to-value ratios of up to 95%, provided that the borrower obtains private mortgage insurance on loans that exceed 80% of the appraised value or sales price, whichever is less, of the secured property. We also require that title insurance, hazard insurance and, if appropriate, flood insurance be maintained on all properties securing real estate loans. We require that a licensed appraiser from our list of approved appraisers perform and submit to us an appraisal on all properties secured by a first mortgage on one- to four-family first mortgage loans.

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

Construction and Development Loans. During fiscal 2010, the Company generally ceased originating any new construction and development loans. Previously, we originated construction loans for residential and, to a lesser extent, commercial uses within our market area. We generally limited construction loans to builders and developers with whom we had an established relationship, or who were otherwise known to officers of the Bank. Our construction and development loans currently in the portfolio typically have variable rates of interest tied to the prime rate which improves the interest rate sensitivity of our loan portfolio.

Construction and development loans generally are considered to involve a higher level of risk than one-to four-family residential lending, due to the concentration of principal in a limited number of loans and borrowers and the effect of economic conditions on developers, builders and projects. Additional risk is also associated with construction lending because of the inherent difficulty in estimating both a property's value at completion and the estimated cost (including interest) to complete a project. The nature of these loans is such that they are more difficult to evaluate and monitor. In addition, speculative construction loans to a builder are not pre-sold and thus pose a greater potential risk than construction loans to individuals on their personal residences. In order to mitigate some of the risks inherent to construction lending, we inspect properties under construction, review construction progress prior to advancing funds, work with builders with whom we have established relationships, require annual updating of tax returns and other financial data of developers and obtain personal guarantees from the principals.

Commercial Lending. During fiscal 2010, the Company generally ceased originating new commercial or multi-family real estate mortgage loans and we are no longer purchasing whole loans or participation interests in commercial real estate or multi-family loans from other financial institutions. Commercial and multi-family real estate loans generally present a higher level of risk than loans secured by one- to four-family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial and multi-family real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed, or a bankruptcy court modifies a lease term, or a major tenant is unable to fulfill its lease obligations), the borrower's ability to repay the loan may be impaired.

Most of the Company's commercial business loans have been extended to finance local and regional businesses and include short-term loans to finance machinery and equipment purchases, inventory and accounts receivable. The commercial business loans which we originated may be either a revolving line of credit or for a fixed term of generally 10 years or less. Interest rates are adjustable, indexed to a published prime rate of interest, or fixed. Generally, equipment, machinery, real property or other corporate assets secure such loans. Personal guarantees from the business principals are generally obtained as additional collateral.

Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

Consumer Lending Activities. The Company currently originates most of its consumer loans in its primary market area and surrounding areas. The Company originates consumer loans on both a direct and indirect basis. Consumer loans generally have higher interest rates and shorter terms than residential mortgage loans; however, they have additional credit risk due to the type of collateral securing the loan or in some case the absence of collateral. As a result of the declines in the market value of real estate and the deterioration in the overall economy, we are continuing to evaluate and monitor the credit conditions of our consumer loan borrowers and the real estate values of the properties securing our second mortgage loans as part of our on-going efforts to assess the overall credit quality of the portfolio in connection with our review of the allowance for loan losses.

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

Once all factor adjustments are applied, general reserve allocations for each segment are calculated, summarized and reported on the ALLL summary. ALLL final schedules, calculations and the resulting evaluation process are reviewed quarterly by the Bank's Asset Classification Committee and the Bank's Board of Directors.

In addition, Federal bank regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

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

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

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

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

Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

Loan Servicing

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

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

Troubled Debt Restructurings

Loans whose terms are modified are classified as troubled debt restructurings ("TDRs") if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring may be modified by means of extending the maturity date of the loan, reducing the interest rate on the loan to a rate which is below market, a combination of rate adjustments and maturity extensions, or by other means including covenant modifications, forbearances or other concessions. However, the Company generally only restructures loans by modifying the payment structure to interest only or by reducing the actual interest rate. We do not accrue interest on loans that were non-accrual prior to the troubled debt restructuring until they have performed in accordance with their restructured terms for a period of at least six months. We continue to accrue interest on troubled debt restructurings which were performing in accordance with their terms prior to the restructure and continue to perform in accordance with their restructured terms. Management evaluates the ALLL with respect to TDRs under the same policy and guidelines as all other performing loans are evaluated with respect to the ALLL.

Other Real Estate Owned

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

Restricted Stock

Restricted stock represents required investments in the common stock of a correspondent bank and is carried at cost. As of December 31, 2012 and September 30, 2012, restricted stock consists solely of the common stock of the Federal Home Loan Bank of Pittsburgh.

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

Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

Property and Equipment

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

Transfers of Financial Assets

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

Bank-Owned Life Insurance

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

Advertising Costs

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

Income Taxes

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

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

Commitments and Contingencies

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

Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

Segment Information

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

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale investment securities, are reported as a separate component of the shareholders’ equity section of the statement of financial condition, such items, along with net income, are components of comprehensive income. The Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2011-05, “Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income,” (“ASU 2011-05”) as of December 31, 2011. ASU No. 2011-05 amended prior comprehensive income guidance.

Reclassifications

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

Note 3 – Earnings Per Share

Basic earnings per common share is computed based on the weighted average number of shares outstanding reduced by unearned ESOP shares. Diluted earnings per share is computed based on the weighted average number of shares outstanding and common stock equivalents (“CSEs”) that would arise from the exercise of dilutive securities reduced by unearned ESOP shares. As of December 31, 2012 and for the three months ended December 31, 2012 and 2011 the Company had not issued and did not have any outstanding CSEs and at the present time, the Company’s capital structure has no potential dilutive securities. The calculation for the three months ended December 31, 2011 has been adjusted for the exchange and additional share issuance in the reorganization and offering completed on October 11, 2012.

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

	Three Months Ended December 31,	
	2012	2011
	(Dollars in thousands, except per share amounts)	
Net Income	$671	$1,251

Weighted average common shares outstanding	6,503,954	6,102,500
Exchange rate from offering	-	1.0748
Adjusted weighted average shares outstanding	6,503,954	6,558,967
Average unearned ESOP shares	(197,215)	(209,392)
Weighted average shares outstanding – basic	6,306,739	6,349,575
Earnings per share – basic	$0.11	$0.20

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Notes to Consolidated Financial Statements (Unaudited)

Note 4 – Employee Stock Ownership Plan

The Company maintains an employee stock ownership plan (“ESOP”) for substantially all of its full-time employees. Certain senior officers of the Bank have been designated as Trustees of the ESOP. Shares of the Company’s common stock purchased by the ESOP are held until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each such participant’s base compensation to the total base compensation of all eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to additional paid-in capital. During the period from May 20, 2008 to September 30, 2008, the ESOP purchased 241,178 shares of the Mid-Tier Holding Company’s common stock (which have since been converted to shares of the Company’s common stock at the 1.0748 exchange ratio) for approximately $2.6 million, an average price of $10.86 per share, which was funded by a loan from Malvern Federal Bancorp, Inc. The ESOP loan is being repaid principally from the Bank’s contributions to the ESOP. The loan, which bears an interest rate of 5%, is being repaid in quarterly installments through 2026. Shares are released to participants proportionately as the loan is repaid. During the three months ended December 31, 2012 and 2011, there were 3,571 and 3,351 shares committed to be released, respectively. At December 31, 2012, there were 193,220 unallocated shares and 65,933 allocated shares held by the ESOP which had an aggregate fair value of approximately $2.6 million.

Note 5 - Investment Securities

At December 31, 2012 and September 30, 2012, all of the Company’s mortgage-backed securities consisted of securities backed by residential mortgage loans.

Investment securities available for sale at December 31, 2012 and September 30, 2012 consisted of the following:

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. government agencies	$29,451	$227	$(14)	$29,664
State and municipal obligations	12,413	182	(26)	12,569
Single issuer trust preferred security	1,000	-	(179)	821
Corporate debt securities	2,006	42	-	2,048
	44,870	451	(219)	45,102
Mortgage-backed securities:				
FNMA:				
Adjustable-rate	1,129	65	-	1,194
Fixed-rate	527	45	-	572
FHLMC, adjustable-rate	232	11	-	243
GNMA, fixed-rate	1	-	-	1
CMO, fixed-rate	37,499	611	(14)	38,096
	39,388	732	(14)	40,106

$84,258	$1,183	$(233)	$85,208

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Notes to Consolidated Financial Statements (Unaudited)

Note 5 - Investment Securities (Continued)

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. government agencies	$23,674	$247	$-	$23,921
FHLB notes	695	1	-	696
State and municipal obligations	9,217	186	(16)	9,387
Single issuer trust preferred security	1,000	-	(236)	764
Corporate debt securities	2,006	51	-	2,057
	36,592	485	(252)	36,825
Mortgage-backed securities:				
FNMA:				
Adjustable-rate	1,144	71	-	1,215
Fixed-rate	647	63	-	710
FHLMC, adjustable-rate	248	13	-	261
GNMA, adjustable-rate	1	-	-	1
CMO, fixed-rate	40,904	600	(8)	41,496
	42,944	747	(8)	43,683
	$79,536	$1,232	$(260)	$80,508

During the first quarter of fiscal 2013, a municipal security in a loss position of $10,000 was sold for approximately $17,000 which resulted in a gain of approximately $27,000. Proceeds from sales of securities available for sale during the first quarter of fiscal 2012 were $13.9 million. Gross gains of $455,000 were realized on these sales.

Notes to Consolidated Financial Statements (Unaudited)

Note 5 - Investment Securities (Continued)

The following tables summarize the aggregate investments at December 31, 2012 and September 30, 2012 that were in an unrealized loss position.

	December 31, 2012					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Investment Securities Available for Sale:						
U.S. government agencies	$4,984	$(14)	$-	$-	$4,984	$(14)
State and municipal obligations	3,391	(26)	-	-	3,391	(26)
Single issuer trust preferred security	-	-	821	(179)	821	(179)
Mortgage-backed securities:						
CMO, fixed-rate	1,835	(14)	-	-	1,835	(14)
	$10,210	$(54)	$821	$(179)	$11,031	$(233)

	September 30, 2012					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Investment Securities Available for Sale:						
State and municipal obligations	$-	$-	$18	$(16)	$18	$(16)
Single issuer trust preferred security	-	-	764	(236)	764	(236)
Mortgage-backed securities:						
CMO, fixed-rate	2,527	(8)	-	-	2,527	(8)
	$2,527	$(8)	$782	$(252)	$3,309	$(260)

As of December 31, 2012, the estimated fair value of the securities disclosed above was primarily dependent upon the movement in market interest rates particularly given the negligible inherent credit risk associated with these securities. These investment securities are comprised of securities that are rated investment grade by at least one bond credit rating service. Although the fair value will fluctuate as the market interest rates move, management believes that these fair values will recover as the underlying portfolios mature and are reinvested in market rate yielding investments. As of December 31, 2012, the Company held five U.S. government agency securities, nine tax-free municipal bonds, two mortgage-backed securities and one single issuer trust preferred security which were in an unrealized loss position. The Company does not intend to sell and expects that it is not more likely than not that it will be required to sell these securities until such time as the value recovers or the securities mature. Management does not believe any individual unrealized loss as of December 31, 2012 represents other-than-temporary impairment.

During the quarter ended December 31, 2012, the gross unrealized loss of the single issuer trust preferred security improved by $57,000 from an unrealized loss at September 30, 2012 of $236,000 to an unrealized loss of $179,000 as of December 31, 2012. The historic changes in the economy and interest rates have caused the pricing of agency securities, mortgage-backed securities, and trust preferred securities to widen dramatically over U.S. Treasury securities into the December 2012 quarter, but overall trends have stabilized within the market. On a quarterly basis, management will continue to monitor the performance of this security and the markets to determine the true economic value of this security.

Notes to Consolidated Financial Statements (Unaudited)

Note 5 - Investment Securities (Continued)

At December 31, 2012 and September 30, 2012 the Company had no securities pledged to secure public deposits.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2012 follows:

	Available For Sale	
	Amortized Cost	Fair Value
	(In thousands)	
Within 1 year	$17,845	$17,730
Over 1 year through 5 years	11,692	11,935
After 5 years through 10 years	15,333	15,437
Over 10 years	-	-
	44,870	45,102
Mortgage-backed securities	39,388	40,106
	$84,258	$85,208

Note 6 - Loans Receivable and Related Allowance for Loan Losses

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

	December 31, 2012	September 30, 2012
	(In thousands)	
Residential mortgage	$ 231,463	$ 231,803
Construction and Development:		
Residential and commercial	18,580	20,500
Land	3,285	632
Total Construction and Development	21,865	21,132
Commercial:		
Commercial real estate	103,086	112,199
Multi-family	2,172	2,087
Other	7,447	7,517
Total Commercial	112,705	121,803
Consumer:		
Home equity lines of credit	21,968	20,959
Second mortgages	62,672	65,703
Other	848	762
Total Consumer	85,488	87,424
Total loans	451,521	462,162
Deferred loan costs, net	2,321	2,420
Allowance for loan losses	(7,571)	(7,581)

Total loans receivable, net	$ 446,271	$ 457,001

Notes to Consolidated Financial Statements (Unaudited)

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

The following tables summarize the primary classes of the allowance for loan losses ("ALLL"), segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2012 and September 30, 2012. Activity in the allowance is presented for the three months ended December 31, 2012 and 2011 and the year ended September 30, 2012, respectively.

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

Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended December 31, 2011										
		Construction and Development		Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
	(In thousands)										
Allowance for loan losses:											
Beginning balance	$1,458	$1,627	$49	$4,176	$49	$317	$220	$2,154	$16	$35	$10,101
Charge-offs	(475)	(412)	-	(494)	-	(88)	(36)	(456)	(16)	-	(1,977)
Recoveries	-	1,139	-	-	-	1	-	50	1	-	1,191
Provision	356	(1,531)	(38)	937	(44)	30	(14)	(87)	17	74	(300)
Ending Balance	$1,339	$823	$11	$4,619	$5	$260	$170	$1,661	$18	$109	$9,015
Ending balance: individually evaluated for impairment	$-	$104	$-	$1,067	$-	$-	$-	$19	$-	$-	$1,190
Ending balance: collectively evaluated for impairment	$1,339	$719	$11	$3,552	$5	$260	$170	$1,642	$18	$109	$7,825
Loans receivable:											
Ending balance	$218,846	$23,201	$632	$131,283	$639	$9,162	$21,942	$77,254	$885		$483,844
Ending balance: individually evaluated for impairment	$1,178	$3,431	$-	$7,689	$-	$176	$-	$479	$-		$12,953
Ending balance: collectively	$217,668	$19,770	$632	$123,594	$639	$8,986	$21,942	$76,775	$885		$470,891

evaluated
for
impairment

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Notes to Consolidated Financial Statements (Unaudited)

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

	Year Ended September 30, 2012										
		Construction and Development		Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
	(In thousands)										
Allowance for loan losses:											
Beginning balance	$1,458	$1,627	$49	$4,176	$49	$317	$220	$2,154	$16	$35	$10,101
Charge-offs	(1,367)	(826)	-	(951)	(113)	(88)	(72)	(1,184)	(22)	-	(4,623)
Recoveries	-	1,139	-	5	-	2	2	141	4	-	1,293
Provision	1,396	(1,216)	(38)	263	74	(5)	10	278	18	30	810
Ending Balance	$1,487	$724	$11	$3,493	$10	$226	$160	$1,389	$16	$65	$7,581
Ending balance: individually evaluated for impairment	$-	$-	$-	$351	$-	$-	$-	$ -	$-	$-	$351
Ending balance: collectively evaluated for impairment	$1,487	$724	$11	$3,142	$10	$226	$160	$1,389	$16	$65	$7,230
Loans receivable:											
Ending balance	$231,803	$20,500	$632	$112,199	$2,087	$7,517	$20,959	$65,703	$762		$462,162
Ending balance: individually evaluated for impairment	$3,971	$3,788	$-	$4,837	$-	$175	$23	$447	$-		$13,241
Ending balance: collectively	$227,832	$16,712	$632	$107,362	$2,087	$7,342	$20,936	$65,256	$762		$448,921

evaluated
for
impairment

Notes to Consolidated Financial Statements (Unaudited)

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

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2012 and September 30, 2012.

	Impaired Loans With Specific Allowance		Impaired Loans With No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
			(In thousands)		
December 31, 2012:					
Residential mortgage	$-	$-	$4,423	$4,423	$5,782
Construction and Development:					
Residential and commercial	-	-	2,707	2,707	3,474
Commercial:					
Commercial real estate	2,292	335	2,813	5,105	5,708
Other	-	-	175	175	175
Consumer:					
Home equity lines of credit	-	-	22	22	37
Second mortgages	-	-	723	723	910
Total impaired loans	$2,292	$335	$10,863	$13,155	$16,086
September 30, 2012:					
Residential mortgage	$-	$-	$3,971	$3,971	$5,344
Construction and Development:					
Residential and commercial	-	-	3,788	3,788	5,615
Commercial:					
Commercial real estate	2,306	351	2,531	4,837	5,300
Other	-	-	175	175	175
Consumer:					
Home equity lines of credit	-	-	23	23	37
Second mortgages	-	-	447	447	743
Total impaired loans	$2,306	$351	$10,935	$13,241	$17,214

Notes to Consolidated Financial Statements (Unaudited)

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

The following table presents the average recorded investment in impaired loans and related interest income recognized for three months ended December 31, 2012 and 2011.

	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Cash Basis Collection on Impaired Loans
		(In thousands)	
Three Months Ended December 31, 2012:			
Residential mortgage	$4,162	$ 11	$ 18
Construction and development:			
Residential and commercial	3,566	-	152
Commercial:			
Commercial real estate	4,874	49	70
Other	176	2	2
Consumer:			
Home equity lines of credit	22	-	1
Second mortgages	524	-	1
Total	$13,324	$ 62	$ 244
Three Months Ended December 31, 2011:			
Residential mortgage	$1,567	$ 3	$ 8
Construction and development:			
Residential and commercial	4,316	-	-
Commercial:			
Commercial real estate	6,972	73	84
Multi-family	192	1	1
Consumer:			
Home equity lines of credit	42	-	-
Second mortgages	570	-	-
Other	5	-	-
Total	$13,664	$ 77	$ 93

Notes to Consolidated Financial Statements (Unaudited)

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

The following table presents the classes of the loan portfolio summarized by loans considered to be rated as pass and the categories of special mention, substandard and doubtful within the Company's internal risk rating system as of December 31, 2012 and September 30, 2012.

	Pass	Special Mention	Substandard (In thousands)	Doubtful	Total
December 31, 2012:					
Residential mortgage	$226,800	$148	$4,515	$-	$231,463
Construction and Development:					
Residential and commercial	4,182	1,443	12,955	-	18,580
Land	2,653	632	-	-	3,285
Commercial:					
Commercial real estate	82,626	4,091	16,034	335	103,086
Multi-family	2,172	-	-	-	2,172
Other	5,846	1,219	382	-	7,447
Consumer:					
Home equity lines of credit	21,946	-	22	-	21,968
Second mortgages	61,488	-	1,184	-	62,672
Other	822	23	3	-	848
Total	$408,535	$7,556	$35,095	$335	$451,521
September 30, 2012:					
Residential mortgage	$227,651	$149	$4,003	$-	$231,803
Construction and Development:					
Residential and commercial	6,920	1,497	12,083	-	20,500
Land	-	632	-	-	632
Commercial:					
Commercial real estate	89,646	4,441	17,761	351	112,199
Multi-family	2,087	-	-	-	2,087
Other	5,849	900	768	-	7,517
Consumer:					
Home equity lines of credit	20,936	-	23	-	20,959
Second mortgages	64,672	38	993	-	65,703
Other	761	-	1	-	762
Total	$418,522	$7,657	$35,632	$351	$462,162

Notes to Consolidated Financial Statements (Unaudited)

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

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

	December 31, 2012	September 30, 2012
	(In thousands)	
Non-accrual loans:		
Residential mortgage	$ 4,021	$ 3,540
Construction and Development:		
Residential and commercial	2,707	3,788
Commercial:		
Commercial real estate	3,108	1,458
Other	201	201
Consumer:		
Home equity lines of credit	22	23
Second mortgages	1,128	739
Total non-accrual loans	$ 11,187	$ 9,749

Under the Bank’s loan policy, once a loan has been placed on non-accrual status, we do not resume interest accruals until the loan has been brought current and has maintained a current payment status for not less than six consecutive months. Interest income that would have been recognized on nonaccrual loans had they been current in accordance with their original terms was $171,000 and $178,000 for the three months ended December 31, 2012 and 2011, respectively. There were no loans past due 90 days or more and still accruing interest at December 31, 2012 and September 30, 2012

Notes to Consolidated Financial Statements (Unaudited)

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

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by whether a loan payment is "current," that is, it is received from a borrower by the scheduled due date, or the length of time a scheduled payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories as of December 31, 2012 and September 30, 2012.

	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Total Loans Receivable
			(In thousands)			
December 31, 2012:						
Residential mortgage	$226,182	$654	$606	$ 4,021	$5,281	$231,463
Construction and Development:						
Residential and commercial	7,440	-	8,433	2,707	11,140	18,580
Land	3,285	-	-	-	-	3,285
Commercial:						
Commercial real estate	99,978	-	-	3,108	3,108	103,086
Multi-family	2,172	-	-	-	-	2,172
Other	7,246	-	-	201	201	7,447
Consumer:						
Home equity lines of credit	21,646	-	300	22	322	21,968
Second mortgages	60,559	880	105	1,128	2,113	62,672
Other	842	4	2	-	6	848
Total	$429,350	$1,538	$9,446	$ 11,187	$22,171	$451,521
September 30, 2012:						
Residential mortgage	$226,861	$1,020	$382	$ 3,540	$4,942	$231,803
Construction and Development:						
Residential and commercial	16,712	-	-	3,788	3,788	20,500
Land	632	-	-	-	-	632
Commercial:						
Commercial real estate	108,963	-	1,778	1,458	3,236	112,199
Multi-family	2,087	-	-	-	-	2,087
Other	7,316	-	-	201	201	7,517
Consumer:						
Home equity lines of credit	20,716	-	220	23	243	20,959
Second mortgages	63,824	854	286	739	1,879	65,703
Other	758	-	4	-	4	762
Total	$447,869	$1,874	$2,670	$ 9,749	$14,293	$462,162

Notes to Consolidated Financial Statements (Unaudited)

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

Restructured loans deemed to be TDRs in accordance with ASC 310-10-35 are typically the result of extension of the loan maturity date or a reduction of the interest rate of the loan to a rate that is below market, a combination of rate and maturity extension, or by other means including covenant modifications, forbearance and other concessions. However, the Company generally only restructures loans by modifying the payment structure to require payments of interest only for a specified period or by reducing the actual interest rate. Once a loan becomes a TDR, it will continue to be reported as a TDR during the term of the restructure.

The Company had 15 loans classified as TDRs with an outstanding balance of $9.5 million and $9.6 million at December 31, 2012 and September 30, 2012, respectively. Of the total TDR loans, eight loans deemed TDRs with an aggregate balance of $3.9 million at December 31, 2012 were classified as impaired; however, they were performing prior to the restructure and continued to perform under their restructured terms through December 31, 2012, and, accordingly, were deemed to be performing loans at December 31, 2012 and we continued to accrue interest on such loans through such date. At December 31, 2012, three TDRs with an aggregate balance of $2.7 million were deemed non-accruing TDRs. The $2.7 million of TDRs deemed non-accruing TDRs, which were also deemed impaired at December 31, 2012, were comprised of two construction and development loans with an aggregate balance of $1.3 million and one commercial real estate loan with a balance of $1.4 million at December 31, 2012. Four loans deemed TDRs with an aggregate balance of $2.9 million at December 31, 2012 were not classified as impaired and were performing under their restructured terms and, accordingly, were deemed to be performing loans at December 31, 2012 and we continued to accrue interest on such loans through such date. At September 30, 2012, thirteen loans deemed TDRs with an aggregate balance of $8.2 million were classified as impaired; however, they were performing prior to the restructure and continued to perform under their restructured terms as of September 30, 2012. During fiscal 2012 we charged-off $37,000 with respect to one home equity line of credit loan which was deemed a TDR. At September 30, 2012, two TDRs with an aggregate balance of $1.4 million were deemed non-accruing TDRs. The $1.4 million of TDRs deemed non-accruing TDRs, which were also deemed impaired at September 30, 2012, were comprised of two construction and development loans. All of such loans have been classified as TDRs since we modified the payment terms and in some cases interest rate from the original agreements and allowed the borrowers, who were experiencing financial difficulty, to make interest only payments for a period of time in order to relieve some of their overall cash flow burden. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and result in potential incremental losses. These potential incremental losses have been factored into our overall estimate of the allowance for loan losses. The level of any defaults will likely be affected by future economic conditions. A default on a troubled debt restructured loan for purposes of this disclosure occurs when the borrower is 90 days past due or a foreclosure or repossession of the applicable collateral has occurred. No defaults on troubled debt restructured loans occurred during the three months ended December 31, 2011 on loans modified as a TDR within the previous 12 months.

Notes to Consolidated Financial Statements (Unaudited)

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

The following table presents our TDR loans as of December 31, 2012 and September 30, 2012.

	Total Troubled Debt Restructurings		Troubled Debt Restructured Loans That Have Defaulted on Modified Terms YTD	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(Dollars in thousands)			
At December 31, 2012:				
Residential mortgage	4	$857	-	$ -
Construction & Development:				
Residential and commercial	2	1,333	2	1,333
Land Loan	2	1,145	-	-
Commercial:				
Commercial real estate	6	5,958	1	1,367
Other	1	175	-	-
Total	15	$9,468	3	$ 2,700
At September 30, 2012:				
Residential mortgage	4	$864	-	$ -
Construction & Development:				
Residential and commercial	2	1,426	2	1,426
Land Loan	2	1,148	-	-
Commercial:				
Commercial real estate	6	6,000	-	-
Other	1	175	-	-
Total	15	$9,613	2	$ 1,426

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

	December 31, 2012		September 30, 2012	
	Performing	Non-Performing	Performing	Non-Performing
	(In thousands)			
Residential mortgage	$ 857	$ -	$ 864	$ -
Construction and Development:				
Residential and commercial	-	1,333	-	1,426
Land loan	1,145	-	1,148	-
Commercial:				
Commercial real estate	4,591	1,367	6,000	-
Other	175	-	175	-

Total	$ 6,768	$ 2,700	$ 8,187	$ 1,426

Notes to Consolidated Financial Statements (Unaudited)

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

There was no TDR activity for the three months ended December 31, 2012. The following table shows the TDR activity for the three months ended December 31, 2011.

	December 31, 2012			December 31, 2011		
	Restructured During Period					
	Number of Loans	Pre-Modifications Outstanding Recorded Investments	Post-Modifications Outstanding Recorded Investments	Number of Loans	Pre-Modifications Outstanding Recorded Investments	Post-Modifications Outstanding Recorded Investments
	(Dollars in thousands)					
Troubled Debt Restructurings:						
Construction and Development:						
Residential and commercial	-	-	-	2	$ 1,810	$ 1,810
Total troubled debt restructurings	-	$ -	$ -	2	$ 1,810	$ 1,810

Note 7 - Regulatory Matters

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

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

Management believes, as of December 31, 2012, that the Bank met all capital adequacy requirements to which it was subject.

Notes to Consolidated Financial Statements (Unaudited)

Note 7 - Regulatory Matters (Continued)

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

	Actual			For Capital Adequacy Purposes			To be Well Capitalized under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
				(Dollars in thousands)					
As of December 31, 2012:									
Tangible Capital (to tangible assets)	$80,707	11.96	%	$≥ 10,119	≥1.50	%	N/A		
Core Capital (to adjusted tangible assets)	80,707	11.96		≥26,985	≥4.00		$≥33,731	≥ 5.00	%
Tier 1 Capital (to risk-weighted assets)	80,707	19.94		≥16,186	≥4.00		≥24,280	≥ 6.00	
Total risk-based Capital (to risk-weighted assets)	85,796	21.20		≥32,373	≥8.00		≥40,466	≥ 10.00	
As of September 30, 2012:									
Tangible Capital (to tangible assets)	$54,436	7.70	%	$≥ 10,601	≥1.50	%	N/A		
Core Capital (to adjusted tangible assets)	54,436	7.70		≥28,269	≥4.00		$≥35,336	≥ 5.00	%
Tier 1 Capital (to risk-weighted assets)	54,436	12.96		≥16,801	≥4.00		≥25,202	≥ 6.00	
Total risk-based Capital (to risk-weighted assets)	59,715	14.22		≥33,602	≥8.00		≥42,003	≥ 10.00	

During the quarter ended December 31, 2012, the Company contributed $25.0 million in additional capital to the Bank upon the successful completion of the "second-step" conversion and offering on October 11, 2012.

Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements

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

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements (Continued)

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

	December 31, 2012			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Investment securities available for sale:				
Debt securities:				
U.S. government agencies	$29,664	$-	$29,664	$-
State and municipal obligations	12,569	-	12,569	-
Single issuer trust preferred security	821	-	821	-
Corporate debt securities	2,048	-	2,048	-
Total investment securities available for sale	$45,102	-	45,102	-
Mortgage-backed securities available for sale:				
FNMA:				
Adjustable-rate	1,194	-	1,194	-
Fixed-rate	572	-	572	-
FHLMC, adjustable-rate	243	-	243	-
GNMA, fixed-rate	1	-	1	-
CMO, fixed-rate	38,096	-	38,096	-
Total mortgage-backed securities available for sale	40,106	-	40,106	-
Total	$85,208	$-	$85,208	$-

	September 30, 2012			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Investment securities available for sale:				
Debt securities:				
U.S. government agencies	$23,921	$-	$23,921	$-
FHLB notes	696	-	696	-
State and municipal obligations	9,387	-	9,387	-
Single issuer trust preferred security	764	-	764	-
Corporate debt securities	2,057	-	2,057	-
Total investment securities available for sale	36,825	-	36,825	-
Mortgage-backed securities available for sale:				
FNMA:				
Adjustable-rate	1,215	-	1,215	-
Fixed-rate	710	-	710	-
FHLMC, adjustable-rate	261	-	261	-
GNMA, adjustable-rate	1	-	1	-
CMO, fixed-rate	41,496	-	41,496	-

Total mortgage-backed securities available for sale	43,683	-	43,683	-
Total	$80,508	$-	$80,508	$-

The Company monitors and evaluates available data to perform fair value measurements on an ongoing basis and recognizes transfers among the levels of the fair value hierarchy as of the date event or a change in circumstances that affects the valuation method chosen. There were no changes at December 31, 2012 and September 30, 2012.

Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements (Continued)

For assets measured at fair value on a nonrecurring basis that were still held at the end of the period, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at December 31, 2012 and September 30, 2012:

	December 31, 2012			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Other real estate owned	$2,688	$-	$-	$2,688
Impaired loans	2,527	-	-	2,527
Total	$5,215	$-	$-	$5,215

	December 31, 2012			
	Fair Value at September 30, 2012	Valuation Technique	Unobservable Input	Range
	(Dollars in thousands)			
Other real estate owned	$ 2,688	Appraisal of collateral(1) (2)	Collateral discounts(2)	6-63 %
Impaired loans	2,527	Appraisal of collateral(1) (2)	Collateral discounts(2)	0 %
Total	$ 5,215			

(1) Fair value is generally determined through independent appraisals of the underlying collateral.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

	September 30, 2012			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Other real estate owned	$2,991	$-	$-	$2,991
Impaired loans	5,925	-	-	5,925
Total	$8,916	$-	$-	$8,916

	September 30, 2012			
	Fair Value at September 30, 2012	Valuation Technique	Unobservable Input	Range
	(Dollars in thousands)			
Other real estate	$ 2,991	Appraisal of collateral(1) (2)	Collateral discounts(2)	20-63 %

owned						
Impaired loans		5,925	Appraisal of collateral(1) (2)	Collateral discounts(2)	0-16	%
Total	$	8,916				

(1) Fair value is generally determined through independent appraisals of the underlying collateral.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

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Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements (Continued)

The following table shows quantitative information regarding significant techniques and inputs used at December 31, 2012 for assets measured using unobservable inputs (Level 2):

	Fair Value at December 31, 2012 (In thousands)	Valuation Technique	Unobservable Input	Method or Value as of December 31, 2012	
Servicing rights	$118	Discounted rate	Discount rate	11.00%	Rate used through modeling period
			Loan prepayment speeds	27.56%	Weighted-average CPR
			Servicing fees	0.25%	Of loan balance
			Servicing costs	6.25%	Monthly servicing cost per account
				25.00%	Additional monthly servicing cost per loan on loans more than 30 days delinquent
				0.00%	Of loans more than 30 days delinquent

The following table shows quantitative information regarding significant techniques and inputs used at September 30, 2012 for assets measured using unobservable inputs (Level 2):

	Fair Value at September 30, 2012 (In thousands)	Valuation Technique	Unobservable Input	Method or Value as of September 30, 2012	
Servicing rights	$107	Discounted rate	Discount rate	11.00%	Rate used through modeling period
			Loan prepayment speeds	28.04%	Weighted-average CPR
			Servicing fees	0.25%	Of loan balance

Servicing costs	6.25%	Monthly servicing cost per account
	25.00%	Additional monthly servicing cost per loan on loans more than 30 days delinquent
	0.00%	Of loans more than 30 days delinquent

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

Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements (Continued)

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2012 and September 30, 2012. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since December 31, 2012 and September 30, 2012 and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

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

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

Investment Securities—Investment and mortgage-backed securities available for sale (carried at fair value) are measured at fair value on a recurring basis. Fair value measurements for these securities are typically obtained from independent pricing services that we have engaged for this purpose. When available, we, or our independent pricing service, use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, our independent pricing service's applications apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare evaluations. For each asset class, pricing applications and models are based on information from market sources and integrate relevant credit information. All of our securities available for sale are valued using either of the foregoing methodologies to determine fair value adjustments recorded to our financial statements. The Company had no Level 1 or Level 3 securities as of December 31, 2012 or September 30, 2012.

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

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

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

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

Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements (Continued)

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

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

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

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

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

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

The carrying amount and estimated fair value of the Company's financial instruments as of December 31, 2012 and September 30, 2012 are presented below:

	December 31, 2012				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(In thousands)				
Financial assets:					
Cash and cash equivalents	$115,920	$115,920	$115,920	$-	$-
Investment securities available for sale	85,208	85,208	-	85,208	-
Loans receivable, net	446,271	466,935	-	-	466,935
Accrued interest receivable	1,440	1,440	-	1,440	-
Restricted stock	3,654	3,654	3,654	-	-
Mortgage servicing rights	118	118	-	118	-

Financial liabilities:					
Savings accounts	42,233	42,233	42,233	-	-
Checking and NOW accounts	114,967	114,967	114,967	-	-
Money market accounts	67,822	67,822	67,822	-	-
Certificates of deposit	309,954	317,115	-	317,115	-
FHLB advances	48,000	54,024	-	54,024	-
Accrued interest payable	238	238	-	238	-

Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements (Continued)

	September 30, 2012				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(In thousands)				
Financial assets:					
Cash and cash equivalents	$131,910	$131,910	$131,910	$-	$-
Investment securities available for sale	80,508	80,508	-	80,508	-
Loans receivable, net	457,001	479,613	-	-	479,613
Accrued interest receivable	1,521	1,521	-	1,521	-
Restricted stock	4,147	4,147	4,147	-	-
Mortgage servicing rights	107	107	-	107	-
Financial liabilities:					
Savings accounts	41,712	41,712	41,712	-	-
Checking and NOW accounts	110,178	110,178	110,178	-	-
Money market accounts	70,955	70,955	70,955	-	-
Certificates of deposit	318,143	326,974	-	326,974	-
FHLB advances	48,085	56,102	-	56,102	-
Accrued interest payable	266	266	-	266	-

Note 9 – Income Taxes

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

	Three Months Ended December 31,	
	2012	2011
	(In thousands)	
At federal statutory rate	$ 210	$ 616
Adjustments resulting from:		
Tax-exempt interest	(18)	(2)
Low-income housing credit	-	(11)
Earnings on bank-owned life insurance	(245)	(46)
Other	(1)	3
	$ (54)	$ 560
Effective tax rate	(8.76%)	30.93%

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Notes to Consolidated Financial Statements (Unaudited)

Note 9 – Income Taxes (Continued)

Deferred income taxes at December 31, 2012 and September 30, 2012 were as follows:

	December 31, 2012	September 30, 2012
	(In thousands)	
Deferred Tax Assets:		
Allowance for loan losses	$ 3,493	$ 3,362
Nonaccrual interest	377	374
Write-down of real estate owned	394	222
Alternative minimum tax (AMT) credit carryover	83	64
Low-income housing tax credit carryover	337	337
Supplement Employer Retirement Plan	397	384
Charitable contributions	172	198
Depreciation	65	33
State net operating loss	771	800
Federal net operating loss	1,901	2,166
Other	73	74
Total Deferred Tax Assets	8,063	8,014
Valuation allowance for state net operating loss	(771)	(800)
Valuation allowance for charitable contributions	(48)	(74)
Total Deferred Tax Assets, Net of Valuation Allowance	$ 7,244	$ 7,140
Deferred Tax Liabilities:		
Unrealized gain on investments available for sale	(323)	(329)
Mortgage servicing rights	(40)	(36)
Total Deferred Tax Liabilities	(363)	(365)
Deferred Tax Assets, Net	$ 6,881	$ 6,775

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PART II - OTHER INFORMATION

Item 6 - Exhibits

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

The following Exhibits are being furnished* as part of this report:

No.	Description
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.*

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*These interactive data files are being furnished as part of this amended Quarterly Report, and, in accordance with Rule 402 of Regulation S-T, shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

SIGNATURES

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

	MALVERN BANCORP, INC.	
February 14, 2013	By:	/s/ Ronald Anderson Ronald Anderson President and Chief Executive Officer
February 14, 2013	By:	/s/ Dennis Boyle Dennis Boyle Senior Vice President and Chief Financial Officer

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