MALVERN FEDERAL BANCORP INC
Form 10-Q
May 16, 2011

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

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: March 31, 2011
or
o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ______ to ______

Commission File Number: 001-34051

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

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date: As of May 16, 2011, 6,102,500 shares of the Registrant's common stock were issued and outstanding.

MALVERN FEDERAL BANCORP, INC.

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

	March 31, 2011	September 30, 2010
	(Dollars in thousands, except per share data)	
Assets		
Cash and due from depository institutions	$ 9,358	$ 15,045
Interest bearing deposits in depository institutions	20,876	66,350
Cash and Cash Equivalents	30,234	81,395
Investment securities available for sale, at fair value	72,139	40,719
Investment securities held to maturity (fair value of $4,143 and $4,925 respectively)	4,032	4,716
Restricted stock, at cost	5,927	6,567
Loans receivable, net of allowance for loan losses of $10,366 and $8,157, respectively	519,007	547,323
Other real estate owned	5,429	5,315
Accrued interest receivable	2,089	2,113
Property and equipment, net	8,509	8,765
Deferred income taxes, net	7,898	4,462
Bank-owned life insurance	14,490	14,213
Other assets	3,034	4,918
Total Assets	$ 672,788	$ 720,506
Liabilities and Shareholders’ Equity		
Liabilities		
Deposits:		
Deposits-noninterest-bearing	$ 18,785	$ 18,503
Deposits-interest-bearing	541,001	578,355
Total Deposits	559,786	596,858
FHLB advances	49,599	55,334
Advances from borrowers for taxes and insurance	1,776	585
Accrued interest payable	231	267
Other liabilities	1,502	1,255
Total Liabilities	612,894	654,299
Commitments and Contingencies	-	-
Shareholders’ Equity		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued	-	-
	62	62

Common stock, $0.01 par value, 40,000,000 shares authorized, issued and outstanding: 6,102,500						
Additional paid-in capital		25,897			25,912	
Retained earnings		37,306			42,830	
Treasury stock—at cost, 50,000 shares		(477	)		(477	)
Unearned Employee Stock Ownership Plan (ESOP) shares		(2,250	)		(2,299	)
Accumulated other comprehensive income (loss)		(644	)		179	
Total Shareholders' Equity		59,894			66,207	
Total Liabilities and Shareholders' Equity	$	672,788		$	720,506	

See notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
	(Dollars in thousands, except per share data)			
Interest and Dividend Income				
Loans, including fees	$7,019	$7,952	$ 14,364	$ 16,362
Investment securities, taxable	384	239	720	485
Investment securities, tax-exempt	8	9	15	21
Interest-bearing cash accounts	7	9	19	15
Total Interest and Dividend Income	7,418	8,209	15,118	16,883
Interest Expense				
Deposits	2,081	2,437	4,532	5,271
Short-term borrowings	-	6	-	8
Long-term borrowings	427	923	879	2,038
Total Interest Expense	2,508	3,366	5,411	7,317
Net Interest Income	4,910	4,843	9,707	9,566
Provision for Loan Losses	8,142	3,637	10,042	4,582
Net Interest Income (Loss) after Provision for Loan Losses	(3,232)	1,206	(335)	4,984
Other Income				
Service charges and other fees	230	375	471	759
Rental income	67	63	130	128
Gain (loss) on sale of other real estate owned, net	19	(34)	(7)	(17)
Earnings on bank-owned life insurance	134	136	277	277
Total Other Income	450	540	871	1,147
Other Expense				
Salaries and employee benefits	1,642	1,466	3,157	3,133
Occupancy expense	572	487	1,109	940
Federal deposit insurance premium	320	230	703	868
Advertising	231	218	425	439
Data processing	271	382	562	776
Professional fees	457	276	844	518
Other real estate owned expense	536	365	1,233	793

Other operating expenses	426	414	925	832
Total Other Expenses	4,455	3,838	8,958	8,299
Loss before income tax benefit	(7,237)	(2,092)	(8,422)	(2,168)
Income tax benefit	(2,533)	(867)	(2,979)	(955)
Net Loss	$(4,704)	$(1,225)	$ (5,443)	$ (1,213)
Basic Loss Per Share	$(0.80)	$(0.21)	$ (0.92)	$ (0.21)
Dividends Declared Per Share	$0.00	$0.03	$ 0.03	$ 0.06

See notes to unaudited consolidated financial statements.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	(Dollars in thousands, except share and per share data)						
Balance, October 1, 2009	$62	$25,937	$46,286	$(19)	$(2,445)	$ 21	$ 69,842
Comprehensive Loss:							
Net Loss	-	-	(1,213)	-	-	-	(1,213)
Net change in unrealized gain on securities available for sale, net of taxes and reclassification adjustment and tax effect	-	-	-	-	-	31	31
Total Comprehensive Loss	-	-	-	-	-	-	(1,182)
Treasury stock purchased (48,000 shares)	-	-	-	(458)	-	-	(458)
Cash dividends declared ($0.06 per share)	-	-	(163)	-	-	-	(163)
Committed to be released ESOP shares (6,702 shares)	-	(9)	-	-	73	-	64
Balance, March 31, 2010	$62	$25,928	$44,910	$(477)	$(2,372)	$ 52	$ 68,103
Balance, October 1, 2010	$62	$25,912	$42,830	$(477)	$(2,299)	$ 179	$ 66,207
Comprehensive Loss:							
Net Loss	-	-	(5,443)	-	-	-	(5,443)
Net Change in unrealized loss on securities available for sale, net of taxes	-	-	-	-	-	(823)	(823)
Total Comprehensive Loss	-	-	-	-	-	-	(6,266)
Cash dividends declared ($0.03 per share)	-	-	(81)	-	-	-	(81)
Committed to be released ESOP shares (6,702 shares)	-	(15)	-	-	49	-	34
Balance, March 31, 2011	$62	$25,897	$37,306	$(477)	$(2,250)	$ (644)	$ 59,894

See notes to unaudited consolidated financial statements.

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

	Six Months Ended March 31, 2011	2010
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net loss	$ (5,443)	$ (1,213)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation expense	430	408
Provision for loan losses	10,042	4,582
Deferred income taxes benefit	(3,012)	(1,411)
ESOP expense	34	64
Amortization (accretion) of premiums and discounts on investments securities, net	(63)	(163)
Amortization (accretion) of mortgage servicing rights	(25)	32
Loss on sale of other real estate owned	7	17
Write down of other real estate owned	903	672
Amortization of loan origination fees and costs	(556)	(343)
Decrease in accrued interest receivable	24	106
Decrease in accrued interest payable	(36)	(261)
Increase (decrease) in other liabilities	247	(2,436)
Earnings on bank-owned life insurance	(277)	(277)
Decrease in other assets	1,235	364
Decrease (increase) in prepaid FDIC assessment	674	(3,019)
Net Cash Provided by (Used in) Operating Activities	4,184	(2,878)
Cash Flows from Investing Activities		
Proceeds from maturities and principal collections:		
Investment securities held to maturity	714	99
Investment securities available for sale	12,375	6,670
Purchases of investment securities available for sale	(45,009)	(10,140)
Loan purchases	(9,796)	(11,017)
Loan originations and principal collections, net	23,646	22,329
Proceeds from sale of other real estate owned	3,955	1,162
Net decrease in FHLB stock	640	-
Purchases of property and equipment	(175)	(354)
Net Cash (Used in) Provided by Investing Activities	(13,650)	8,749
Cash Flows from Financing Activities		
Net (decrease) increase in deposits	(37,071)	26,216
Proceeds from long-term borrowings	-	3,000
Repayment of long-term borrowings	(5,735)	(21,093)
Increase in advances from borrowers for taxes and insurance	1,192	949
Cash dividends paid	(81)	(163)
Treasury stock purchased	-	(458)
Net Cash (Used in) Provided by Financing Activities	(41,695)	8,451

Net (Decrease) Increase in Cash and Cash Equivalents	(51,161)	14,322
Cash and Cash Equivalents - Beginning	81,395	25,325
Cash and Cash Equivalents - Ending	$ 30,234	$ 39,647
Supplementary Cash Flows Information		
Interest paid	$ 5,448	$ 7,579
Income taxes paid	$ 4	$ 731
Non-cash transfer of loans to other real estate owned	$ 4,980	$ -

See notes to unaudited consolidated financial statements.

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

Note 1 – Organizational Structure and Nature of Operations

Malvern Federal Bancorp, Inc. (the "Company") and its subsidiaries, Malvern Federal Holdings, Inc., a Delaware investment company, and Malvern Federal Savings Bank (the "Bank") and the Bank's subsidiaries, Strategic Asset Management Group, Inc. ("SAMG") and Malvern Federal Investments, Inc., a Delaware investment company, provides various banking services, primarily the accepting of deposits and the origination of residential and commercial mortgage loans and consumer loans and other loans through the Bank's 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 March 31, 2011 and September 30, 2010, SAMG's total assets were $41,192 and $34,709, respectively. The net loss of SAMG for the three months ended March 31, 2011 was $1,375. For the six months ended March 31, 2011 the net income for SAMG was $6,483. There was no income reported for SAMG for the three and six months ended March 31, 2010. The Company is subject to competition from various other financial institutions and financial services companies. The Company is also subject to the regulations of certain federal and state agencies and, therefore, undergoes periodic examinations by those regulatory agencies.

In accordance with the subsequent events topic of the FASB Accounting Standards Codification (the "Codification" or the "ASC"), the Company evaluates events and transactions that occur after the statement of financial condition date for potential recognition and disclosure in the consolidated financial statements. The effect of all subsequent events that provide additional evidence of conditions that existed at the balance sheet date are recognized in the unaudited consolidated financial statements as of March 31, 2011.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements at March 31, 2011, and September 30, 2010 and for the three and six months ended March 31, 2011 and 2010 include the accounts of Malvern Federal Bancorp, Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all the information or footnotes necessary for a complete presentation of financial condition, operations, changes in shareholders' equity, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements have been included. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Malvern Federal Bancorp, Inc. and the accompanying notes thereto for the year ended September 30, 2010, which are included in the Company's Annual Report on Form 10-K for the year ended September 30, 2010. The results for the three and six months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2011, or any other period.

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Significant Group Concentrations of Credit Risk

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

Cash and Cash Equivalents

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

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

Investment Securities

Debt securities held to maturity are securities that the Company has the positive intent and the ability to hold to maturity; these securities are reported at amortized cost and adjusted for unamortized premiums and discounts. Securities held for trading are securities that are bought and held principally for the purpose of selling in the near term; these securities are reported at fair value, with unrealized gains and losses reported in current earnings. At March 31, 2011 and September 30, 2010, the Company had no investment securities classified as trading. Debt securities that will be held for indefinite periods of time and equity securities, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments are classified as available for sale. Realized gains and losses are recorded on the trade date and are determined using the specific identification method. Securities held as available for sale are reported at fair value, with unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income. Management determines the appropriate classification of investment securities at the time of purchase.

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

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Loans Receivable

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

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

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

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

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

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses

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

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

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

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

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

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

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

Note 2 – Summary of Significant Accounting Policies (Continued)

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

Residential Lending. Residential mortgage originations are secured primarily by properties located in the Company's primary market area and surrounding areas. We currently originate fixed-rate, fully amortizing mortgage loans with maturities of 15 to 30 years. We also offer adjustable rate mortgage ("ARM") loans where the interest rate either adjusts on an annual basis or is fixed for the initial one, three or five years and then adjusts annually. However, due to local market conditions, we have not originated a significant amount of ARM loans in recent years.

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

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

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

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

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

Note 2 – Summary of Significant Accounting Policies (Continued)

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

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

Consumer Lending Activities. The Company currently originates most of its consumer loans in its primary market area and surrounding areas. The Company originates consumer loans on both a direct and indirect basis. Consumer loans generally have higher interest rates and shorter terms than residential mortgage loans; however, they have additional credit risk due to the type of collateral securing the loan or in some case the absence of collateral. As a result of the recent 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.

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

Note 2 – Summary of Significant Accounting Policies (Continued)

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

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

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

Troubled Debt Restructurings

Loans on accrual status whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary elimination of principal payments, a reduction in interest rate or an extension of a loan's stated maturity date. We do not accrue interest on loans that were non-accrual prior to the troubled debt restructuring until they have performed in accordance with their restructured terms for a period of at least six months. We accrue interest on troubled debt restructurings which were performing prior to the restructure and continue to perform in accordance with their restructured terms.

Loan Servicing

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

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

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Other Real Estate Owned

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

Restricted Stock

Restricted stock represents required investments in the common stock of a correspondent bank and is carried at cost. As of March 31, 2011 and September 30, 2010, restricted stock consists solely of the common stock of the Federal Home Loan Bank of Pittsburgh ("FHLB"). In 2008, the FHLB notified member banks that it was suspending dividend payments and the repurchase of capital stock.

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

Property and Equipment

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

Transfers of Financial Assets

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

Bank-Owned Life Insurance

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

Advertising Costs

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

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Income Taxes

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

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

Commitments and Contingencies

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

Segment Information

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

Comprehensive Income

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

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

	For the Three Months Ended	For the Six Months Ended March 31,

	March 31,			
	2011	2010	2011	2010
	(Dollars in thousands)			
Unrealized holding (losses) gain on available for sale securities	$(108)	$49	$(1,248)	$47
Reclassification adjustment for gains included in operations	-	-	-	-
Net Unrealized (Losses) Gains	(108)	49	(1,248)	47
Income tax effect	37	(17)	425	(16)
Net of Tax Amount	$(71)	$32	$(823)	$31

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

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

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

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

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

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

Note 3 – Earnings Per Share

Basic earnings per common share is computed based on the weighted average number of shares outstanding reduced by unearned ESOP shares. Diluted earnings per share is computed based on the weighted average number of shares outstanding and common stock equivalents ("CSEs") that would arise from the exercise of dilutive securities reduced by unearned ESOP shares. As of March 31, 2011 and for the three and six months ended March 31, 2011 and 2010 the Company had not issued and did not have any outstanding CSEs and at the present time, the Company's capital structure has no potential dilutive securities. For the three and six months ended March 31, 2011 and 2010, basic earnings per share are shown below.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
	(Dollars in thousands, except per share data)			
Net Loss	$(4,704)	$(1,225)	$ (5,443)	$ (1,213)
Average common shares outstanding	6,102,500	6,122,756	6,102,500	6,122,533
Average unearned ESOP shares	(204,865)	(218,269)	(206,556)	(219,960)
Weighted average shares outstanding – basic	5,897,635	5,904,487	5,895,944	5,902,573
Loss per share – basic	$(0.80)	$(0.21)	$ (0.92)	$ (0.21)

Note 4 – Employee Stock Ownership Plan

The Company established an employee stock ownership plan ("ESOP") for substantially all of its full-time employees. Certain senior officers of the Bank have been designated as Trustees of the ESOP. Shares of the Company's common stock purchased by the ESOP are held until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each such participant's base compensation to the total base compensation of all eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to additional paid-in capital. During the period from May 20, 2008 to September 30, 2008, the ESOP purchased 241,178 shares of the Company's common stock for approximately $2.6 million, an average price of $10.86 per share which was funded by a loan from Malvern Federal Bancorp, Inc. The ESOP loan is being repaid principally from the Bank's contributions to the ESOP. The loan, which bears an interest rate of 5%, is being repaid in quarterly installments through 2026. Shares are released to participants proportionately as the loan is repaid. During the three and six months ended March 31, 2011, there were 3,351 and 6,702 shares committed to be released, respectively. During the three and six months ended March 31, 2010, there were 3,351 and 6,702 shares committed to be released, respectively. At March 31, 2011, there were 203,202 unallocated shares held by the ESOP which had an aggregate fair value of approximately $1.8 million.

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

Note 5 - Investment Securities

At March 31, 2011 and September 30, 2010, all of the Company's mortgage-backed securities consisted of securities backed by residential mortgage loans.

Investment securities available for sale at March 31, 2011 and September 30, 2010 consisted of the following:

	March 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. government obligations	$4,998	$-	$(10)	$4,988
U.S. government agencies	25,892	4	(564)	25,332
FHLB notes	10,995	-	(256)	10,739
State and municipal obligations	1,198	19	(18)	1,199
Single issuer trust preferred security	1,000	-	(152)	848
Corporate debt securities	1,941	23	(2)	1,962
	46,024	46	(1,002)	45,068
Mortgage-backed securities:				
FNMA:				
Adjustable-rate	2,784	132	-	2,916
Fixed-rate	1,172	50	-	1,222
FHLMC:				
Adjustable-rate	700	23	-	723
Fixed-rate	368	30	-	398
GNMA, adjustable-rate	157	4	-	161
CMO, fixed-rate	21,910	68	(327)	21,651
	27,091	307	(327)	27,071
	$73,115	$353	$(1,329)	$72,139

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

Note 5 - Investment Securities (Continued)

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

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

Note 5 - Investment Securities (Continued)

Investment securities held to maturity at March 31, 2011 and September 30, 2010 consisted of the following:

	March 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Mortgage-backed securities:				
GNMA, Adjustable-rate	$247	$9	$-	$256
GNMA, Fixed-rate	1	-	-	1
FNMA, Fixed-rate	3,784	102	-	3,886
	$4,032	$111	$-	$4,143

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

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

Note 5 - Investment Securities (Continued)

The following tables summarize the aggregate investments at March 31, 2011 and September 30, 2010 that were in an unrealized loss position.

	March 31, 2011					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Investment Securities Available for Sale:						
U.S. government obligations and agencies	$29,966	$(574)	$-	$-	$29,966	$(574)
State and municipal obligations	-	-	27	(18)	27	(18)
FHLB notes	10,739	(256)	-	-	10,739	(256)
Single issuer trust preferred security	-	-	848	(152)	848	(152)
Corporate debt securities	248	(2)	-	-	248	(2)
Mortgage-backed securities:						
CMO, fixed-rate	15,799	(327)	-	-	15,799	(327)
	$56,752	$(1,159)	$875	$(170)	$57,627	$(1,329)

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

Note 5 - Investment Securities (Continued)

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

As of March 31, 2011, the estimated fair value of the securities disclosed above was primarily dependent upon the movement in market interest rates particularly given the negligible inherent credit risk associated with these securities. These investment securities are comprised of securities that are rated investment grade by at least one bond credit rating service. Although the fair value will fluctuate as the market interest rates move, management believes that these fair values will recover as the underlying portfolios mature and are reinvested in market rate yielding investments. As of March 31, 2011, the Company held one U.S. treasury security, 31 U.S. government agency securities, nine FHLB notes, one tax-free municipal bond, one corporate security, 22 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 March 31, 2011 represents other-than-temporary impairment.

During the six months ended March 31, 2011, the gross unrealized loss of the single issuer trust preferred security improved by $89,000 from an unrealized loss at September 30, 2010 of $241,000 to an unrealized loss of $152,000 as of March 31, 2011. The stability of the underlying credit and the financial markets has contributed to this improvement. The historic changes in the economy and interest rates have caused the pricing of agency securities, mortgage-backed securities, and trust preferred securities to widen dramatically over U.S. Treasury securities into the March 2011 quarter, but slight signs of improvement have recently occurred that have slightly stabilized the market. Management will continue to monitor the performance of this security and the markets to determine the true economic value of this security.

At March 31, 2011 and September 30, 2010 the Company had no securities pledged to secure public deposits.

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

Note 5 - Investment Securities (Continued)

The amortized cost and fair value of debt securities by contractual maturity at March 31, 2011 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Within 1 year	$8,156	$8,028	$-	$-
Over 1 year through 5 years	33,861	33,253	-	-
After 5 years through 10 years	18	(18)	-	-
Over 10 years	3,989	3,805		
	46,024	45,068	-	-
Mortgage-backed securities	27,091	27,071	4,032	4,143
	$73,115	$72,139	$4,032	$4,143

Note 6 - Loans Receivable and Related Allowance for Loan Losses

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

	March 31, 2011	September 30, 2010
	(Dollars in thousands)	
Residential mortgage	$ 223,129	$ 230,966
Construction and Development:		
Residential and commercial	27,354	30,429
Land	2,995	2,989
Total Construction and Development	30,349	33,418
Commercial:		
Commercial real estate	139,889	143,095
Multi-family	5,442	6,493
Other	11,767	11,398
Total Commercial	157,098	160,986
Consumer:		
Home equity lines of credit	20,063	19,927
Second mortgages	94,922	105,825
Other	850	1,086
Total Consumer	115,835	126,838
Total loans	526,411	552,208
Deferred loan costs, net	2,962	3,272

Allowance for loan losses		(10,366)		(8,157)
Total loan receivable, net	$	519,007	$	547,323

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

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

The following table summarizes the primary classes of the allowance for loan losses (“ALLL”), segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of March 31, 2011. Activity in the allowance is presented for the three and six months ended March 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
Three Months Ended march 31, 2011: Allowance for credit losses:											
Beginning balance	$ 1,571	$ 707	$ 64	$ 2,679	$ 27	$ 339	$ 225	$ 1,888	$ 18	$ 31	$ 7,549
Charge-offs	(1,842)	-	-	(1,930)	-	-	(27)	(1,532)	(2)	-	(5,333
Recoveries	-	-	-	-	-	-	3	3	2	-	8
Provision	1,458	923	-	3,981	9	17	40	1,294	(1)	421	8,142
Ending Balance	$ 1,187	$ 1,630	$ 64	$ 4,730	$ 36	$ 356	$ 241	$ 1,653	$ 17	$ 452	$ 10,366
Six Months Ended March 31, 2011: Allowance for credit losses:											
Beginning balance	$1,555	$689	$ 63	$ 2,741	$191	$303	$284	$2,264	$22	$45	$8,157
Charge-offs	(2,271)	(107)	-	(2,214)	(164)	-	(126)	(2,980)	(2)	-	(7,864
Recoveries	-	-	-	1	1	1	3	20	5	-	31
Provision	1,903	1,048	1	4,202	8	52	80	2,349	(8)	407	10,042
Ending Balance	$1,187	$1,630	$ 64	$ 4,730	$36	$356	$241	$1,653	$17	$452	$10,366
	$47	$-	$ -	$ 1,462	$-	$11	$89	$93	$-	$-	$1,702

Ending balance: individually evaluated for impairment											
Ending balance: collectively evaluated for impairment	$1,140	$1,630	$ 64	$ 3,268	$36	$345	$152	$1,560	$17	$452	$8,664
Loan receivables:											
Ending balance	$223,129	$27,354	$ 2,995	$ 139,889	$5,442	$11,767	$20,063	$94,922	$850		$526,411
Ending balance: individually evaluated for impairment	$1,490	$1,358	$ -	$ 12,689	$-	$11	$112	$262	$-		$15,922
Ending balance: collectively evaluated for impairment	$221,639	$25,996	$ 2,995	$ 127,200	$5,442	$11,756	$19,951	$94,660	$850		$510,489

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

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

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of March 31, 2011 and September 30, 2010.

	Impaired Loans With Specific Allowance		Impaired Loans With No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)				
March 31, 2011:					
Residential mortgage	$452	$47	$1,038	$1,490	$1,490
Construction and Development:					
Residential and commercial	-	-	1,358	1,358	1,358
Commercial:					
Commercial real estate	4,954	1,462	7,735	12,689	12,689
Other	11	11	-	11	11
Consumer:					
Home equity lines of credit	112	89	-	112	112
Second mortgages	177	93	85	262	262
Total impaired loans	$5,706	$1,702	$10,216	$15,922	$15,922
September 30, 2010:					
Residential mortgage	$2,356	$865	$-	$2,356	$2,356
Construction and Development:					
Residential and commercial	1,393	111	-	1,393	1,393
Commercial:					
Commercial real estate	6,392	650	1,213	7,605	7,605
Multi-family	1,093	164	-	1,093	1,093
Consumer:					
Home equity lines of credit	189	136	-	189	189
Second mortgages	2,391	1,141	1,010	3,401	3,401
Total impaired loans	$13,814	$3,067	$2,223	$16,037	$16,037

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

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

The following table presents the average recorded investment in impaired loans and related interest income recognized for the three and six months ended March 31, 2011:

	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Cash Basis Collection on Impaired Loans
		(Dollars in thousands)	
Three Months Ended March 31, 2011:			
Residential mortgage	$ 2,442	$ -	$ -
Construction and development:			
Residential and commercial	1,364	-	35
Commercial:			
Commercial real estate	8,034	98	110
Multi-family	-	-	-
Other	2	-	1
Consumer:			
Home equity lines of credit	158	-	-
Second mortgages	532	-	-
Total	$ 12,532	$ 98	$ 146
Six Months Ended March 31, 2011:			
Residential mortgage	$ 2,361	$ -	$ -
Construction and development:			
Residential and commercial	1,381	-	35
Commercial:			
Commercial real estate	8,010	281	372
Multi-family	276	-	-
Other	1	-	1
Consumer:			
Home equity lines of credit	158	-	-
Second mortgages	1,586	-	-
Total	$ 13,773	$ 281	$ 408

At March 31, 2011, the Company had $11.4 million of troubled debt restructurings. Five loans with an aggregate balance of $5.9 million are classified as impaired, however, they were performing prior to the restructure and continue to perform under their restructured terms. The remaining $5.5 million of troubled debt restructurings at March 31, 2011 were performing prior to the restructuring and continue to perform under their restructured terms and are not classified as impaired. Such loans have been classified as troubled debt restructurings since we modified the payment terms from the original agreements and allowed the borrowers to make interest only payments in order to relieve some of their overall cash flow burden.

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

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

The following table presents 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 internal risk rating system as of March 31, 2011.

	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Residential mortgage	$217,038	$711	$5,380	$-	$223,129
Construction and Development:					
Residential and commercial	14,658	3,677	9,019	-	27,354
Land	1,070	760	1,165	-	2,995
Commercial:					
Commercial real estate	104,691	11,514	23,684	-	139,889
Multi-family	4,838	-	604	-	5,442
Other	9,728	1,259	780	-	11,767
Consumer:					
Home equity lines of credit	19,923	-	140	-	20,063
Second mortgages	90,815	1,657	2,450	-	94,922
Other	848	1	1	-	850
Total	$463,609	$19,579	$43,223	$-	$526,411

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

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

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories as of March 31, 2011and September 30, 2010.

	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Total Loans Receivable
			(Dollars in thousands)			
March 31, 2011:						
Residential mortgage	$216,767	$680	$565	$5,117	$6,362	$223,129
Construction and Development:						
Residential and commercial	25,348	100	548	1,358	2,006	27,354
Land	2,995	-	-	-	-	2,995
Commercial:						
Commercial real estate	131,794	247	773	7,075	8,095	139,889
Multi-family	5,442	-	-	-	-	5,442
Other	11,305	253	-	209	462	11,767
Consumer:						
Home equity lines of credit	19,923	-	-	140	140	20,063
Second mortgages	91,012	1,259	480	2,171	3,910	94,922
Other	848	-	1	1	2	850
Total	$505,434	$2,539	$2,367	$16,071	$20,977	$526,411
September 30, 2010:						
Residential mortgage	$220,934	$1,004	$674	$8,354	$10,032	$230,966
Construction and Development:						
Residential and commercial	29,036	-	-	1,393	1,393	30,429
Land	2,989	-	-	-	-	2,989
Commercial:						
Commercial real estate	137,843	776	-	4,476	5,252	143,095
Multi-family	5,400	-	-	1,093	1,093	6,493
Other	11,189	-	209	-	209	11,398
Consumer:						
Home equity lines of credit	19,433	37	-	457	494	19,927
Second mortgages	100,132	1,122	486	4,085	5,693	105,825
Other	1,080	2	1	3	6	1,086
Total	$528,036	$2,941	$1,370	$19,861	$24,172	$552,208

Interest income that would have been recognized on nonaccrual loans had they been current in accordance with their original terms was $170,000 and $420,000 for the three months ended March 31, 2011 and 2010, respectively, and was $364,000 and $714,000 for the six-months ended March 31, 2011 and 2010, respectively. There were no loans past due 90 days or more and still accruing interest at March 31, 2011 or September 30, 2010.

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

Note 7 - Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible and core capital (as defined in the regulations) to total adjusted tangible assets (as defined) and of risk-based capital (as defined) to risk-weighted assets (as defined). Management believes, as of March 31, 2011, that the Bank met all capital adequacy requirements to which it was subject.

As of March 31, 2011, the most recent notification from the regulators categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum tangible, core, and risk-based ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's status of "well-capitalized."

In October 2010, the Bank and the Company and the Mutual Holding Company entered into Supervisory Agreements (the "Agreement") with the Office of Thrift Supervision that required compliance with certain items within specified timeframes as outlined in the Agreements. With the exception of certain deviations, which we do not believe were significant, to the provisions regarding commercial loan originations, the Company and the Bank have operated in compliance with the Supervisory Agreements in all material respects.

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Malvern Federal Bancorp, Inc. and Subsidiaries
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 March 31, 2011:						
Tangible Capital (to tangible assets)	$ 53,574	8.01 %	$ ≥10,035	≥1.50 %	N/A	
Core Capital (to adjusted tangible assets)	53,574	8.01	≥26,760	≥4.00	$ ≥33,450	≥ 5.00 %
Tier 1 Capital (to risk-weighted assets)	53,574	11.25	≥19,043	≥4.00	≥28,564	≥ 6.00
Total risk-based Capital (to risk-weighted assets)	59,558	12.51	≥38,085	≥8.00	≥47,606	≥10.00
As of September 30, 2010:						
Tangible Capital (to tangible assets)	$ 59,026	8.24 %	$ ≥10,739	≥1.50 %	N/A	
Core Capital (to adjusted tangible assets)	59,026	8.24	≥28,637	≥4.00	$ ≥35,796	≥ 5.00 %
Tier 1 Capital (to risk-weighted assets)	59,026	11.83	≥19,962	≥4.00	≥29,944	≥ 6.00
Total risk-based Capital (to risk-weighted assets)	64,116	12.85	≥39,925	≥8.00	≥49,906	≥10.00

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Malvern Federal Bancorp, Inc. and Subsidiaries
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 such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future valuations.

FASB ASC 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.

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

Note 8 - Fair Value Measurements (Continued)

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

	March 31, 2011			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Investment securities available for sale:				
Debt securities:				
U.S. government obligations	$4,988	$-	$4,988	$-
U.S. government agencies	25,332	-	25,332	-
FHLB notes	10,739	-	10,739	-
State and municipal obligations	1,199	-	1,199	-
Single issuer trust preferred security	848	-	848	-
Corporate debt securities	1,962	-	1,962	-
Total investment securities available for sale	45,068	-	45,068	-
Mortgage-backed securities available for sale:				
FNMA:				
Adjustable-rate	2,916	-	2,916	-
Fixed-rate	1,222	-	1,222	-
FHLMC:				
Adjustable-rate	723	-	723	-
Fixed-rate	398	-	398	-
GNMA, adjustable-rate	161	-	161	-
CMO, fixed-rate	21,651	-	21,651	-
Total mortgage-backed securities available for sale	27,071	-	27,071	-
Total	$72,139	$-	$72,139	$-

	September 30, 2010			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Investment securities available for sale:				
Debt securities:				
U.S. government obligations	$4,997	$-	$4,997	$-
U.S. government agencies	12,745	-	12,745	-
FHLB notes	3,009	-	3,009	-
State and municipal obligations	1,207	-	1,207	-
Single issuer trust preferred security	759	-	759	-
Corporate debt securities	1,475	-	1,475	-
Total investment securities available for sale	24,192	-	24,192	-

Mortgage-backed securities available for sale:				
FNMA:				
Adjustable-rate	3,488	-	3,488	-
Fixed-rate	1,538	-	1,538	-
FHLMC:		-		-
Adjustable-rate	873	-	873	-
Fixed-rate	512	-	512	-
GNMA, adjustable-rate	169	-	169	-
CMO, fixed-rate	9,947	-	9,947	-
Total mortgage-backed securities available for sale	16,527	-	16,527	-
Total	$40,719	$-	$40,719	$-

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

Note 8 - Fair Value Measurements (Continued)

For assets measured at fair value on a nonrecurring basis that were still held at the end of the period, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at March 31, 2011 and September 30, 2010:

	March 31, 2011			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Other real estate owned	$1,974	$-	$-	$1,974
Impaired loans	4,004	-	-	4,004
Total	$5,978	$-	$-	$5,978

	September 30, 2010			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Other real estate owned	$4,716	$-	$-	$4,716
Impaired loans	10,748	-	-	10,748
Total	$15,464	$-	$-	$15,464

The table below presents a summary of activity in our other real estate owned during the six months ended March 31, 2011:

Types of Property	Balance as of September 30, 2010	Additions	Sales, net	Write-downs	Balance as of March 31, 2011
	(Dollars in thousands				
Residential mortgage	$ 1,538	$ 2,823	$ 1,478	$ 60	$ 2,823
Construction and Development:					
Residential and commercial	1,085	-	838	40	207
Commercial:					
Commercial real estate	2,602	1,059	1,647	576	1,438
Multi-family	70	1,064	-	227	907
Other	20	34	-	-	54
Total	$ 5,315	$ 4,980	$ 3,963	$ 903	$ 5,429

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

Note 8 - Fair Value Measurements (Continued)

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

The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2011 and September 30, 2010. 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 March 31, 2011 and September 30, 2010 and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

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

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

Investment Securities—Investment and mortgage-backed securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are measured at fair value on a recurring basis. Fair value measurements for these securities are typically obtained from independent pricing services that we have engaged for this purpose. When available, we, or our independent pricing service, use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, our independent pricing service’s applications apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare evaluations. For each asset class, pricing applications and models are based on information from market sources and integrate relevant credit information. All of our securities available for sale are valued using either of the foregoing methodologies to determine fair value adjustments recorded to our financial statements. The Company had no Level 1 securities as of March 31, 2011 or September 30, 2010. Level 2 securities include corporate bonds, agency bonds, municipal bonds, mortgage-backed securities, and collateralized mortgage obligations.

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

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

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

Note 8 - Fair Value Measurements (Continued)

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

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

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

Deposits—Deposit liabilities are carried at cost. As such, valuation techniques discussed herein for 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.

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

Note 8 - Fair Value Measurements (Continued)

The carrying amount and estimated fair value of the Company's financial instruments as of March 31, 2011 and September 30, 2010 are presented below:

	March 31, 2011		September 30, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)			
Financial assets:				
Cash and cash equivalents	$ 30,234	$ 30,234	$ 81,395	$ 81,395
Investment securities available for sale	72,139	72,139	40,719	40,719
Investment securities held to maturity	4,032	4,143	4,716	4,925
Loans receivable, net	519,007	532,653	547,323	564,936
Accrued interest receivable	2,089	2,089	2,113	2,113
Restricted stock	5,927	5,927	6,567	6,567
Mortgage servicing rights	158	158	134	134
Financial liabilities:				
Savings accounts	41,883	41,883	42,385	42,385
Checking and NOW accounts	112,308	112,308	101,868	101,868
Money market accounts	90,178	90,178	80,980	80,980
Certificates of deposit	315,417	319,597	371,625	372,388
FHLB advances	49,599	52,846	55,334	58,208
Accrued interest payable	231	231	267	267

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:

	Six Months Ended March 31,	
	2011	2010
	(Dollars in thousands)	
At federal statutory rate	$ (2,863)	$ (737)
Adjustments resulting from:		
State tax, net of federal benefit	-	(122)
Tax-exempt interest	(5)	(18)
Low-income housing credit	(20)	(20)
Earnings on bank-owned life insurance	(94)	(94)
Other	3	36

	$ (2,979)	$ (955)

The Company's effective tax rate was (35.37%) and (44.04%) for the six months ended March 31, 2011 and 2010, respectively.

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

Forward-Looking Statements

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

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

General

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

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

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Malvern Federal Savings is a federally chartered community-oriented savings bank which was originally organized in 1887 and is headquartered in Paoli, Pennsylvania. The Bank currently conducts its business from its headquarters and eight additional financial centers.

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

In October 2010, each of the Company and the Bank, and the Mutual Holding Company entered into Supervisory Agreement with the OTS which primarily addressed the issues identified in the OTS' reports of examination of the Company's, the Bank's, and the Mutual Holding Company's operations and financial condition in 2010. See "Item 1. Business" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010 for more information.

Critical Accounting Policies

In reviewing and understanding financial information for Malvern Federal Bancorp, Inc., you are encouraged to read and understand the significant accounting policies used in preparing our consolidated financial statements. These policies are described in Note 2 of the notes to our unaudited consolidated financial statements included elsewhere herein. The accounting and financial reporting policies of Malvern Federal Bancorp, Inc. conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and to general practices within the banking industry. Accordingly, the unaudited consolidated financial statements require certain estimates, judgments, and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the unaudited consolidated financial statements and the reported amounts of income and expenses during the periods presented. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may affect our reported results and financial condition for the period or in future periods.

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

The allowance for credit losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, the composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available. During the March 31, 2011 quarter, we continued to see increased net charge-offs in the commercial real estate and second mortgage loan classes. There were no net-charge-offs in the construction and development loan segment during the March 2011 quarter, however net charge-offs increased in the residential mortgage loan segment. Our analysis also indicated continued deterioration in certain loan classes within the loan portfolio. Recent appraisals received on properties securing our residential mortgage loans (both first and second mortgage loans), particularly those with balances of $1.0 million or more, and commercial real estate loans showed continued deterioration. Commercial real estate values in our market area continue to show weakness with little evidence that there will be improvement in the near future. As a result of the increased loss experience during the quarter and the continuing decline in real estate values, in assessing its allowance for loan losses, the Bank increased the coverage ratio within our general allowance for the residential mortgage, commercial real estate and second mortgage portfolios.

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

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

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.

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

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 additional information, see Note 2 to the Consolidated Financial Statements (Unaudited).

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

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

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

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Comparison of Financial Condition at March 31, 2011 and September 30, 2010

The Company's total assets amounted to $672.8 million at March 31, 2011 compared to $720.5 million at September 30, 2010. The primary reason for the $47.7 million decrease in assets during first six months of fiscal 2011 was a decrease in cash and cash equivalents in the amount of $51.2 million, as well as a $28.3 million decrease in net loans receivable and a $1.9 million decrease in other assets at March 31, 2011 compared to September 30, 2010. These decreases were partially offset by a $30.7 million increase in investment securities. The decrease in cash and cash equivalents was mostly due to the use of cash for purchases of $45.0 million of investment securities during the first six months of fiscal 2011. The decrease in loan demand from consumers and internal lending restrictions which we adopted early in fiscal 2010 as well as the restrictions imposed by the Supervisory Agreement that the Bank entered into with the OTS in October 2010, contributed to this reduction in the outstanding balance of our total loan portfolio. The Company's total real estate owned ("REO") amounted to $5.4 million at March 31, 2011 compared to $5.3 million at September 30, 2010. The $114,000 increase in REO at March 31, 2011 was due to the transfer of $5.0 million of loans into REO during the first six months of fiscal 2011, which was partially offset by $4.0 million in net sales and $903,000 in reductions in fair value, which reductions in fair value were reflected in other real estate owned expense during the first six months of fiscal 2011. The $4.0 million in sales of REO during the first six months of fiscal 2011 was due primarily to our sales of a mixed-use (medical office and residential) building located in Philadelphia, Pennsylvania for $1.5 million in December 2010, four single-family residential properties in with an aggregate carrying value of $1.4 million located in Chester and Delaware Counties, Pennsylvania, and a construction property located in Chester County, Pennsylvania, sold in January 2011 for $856,000. The $5.0 million in additions in REO during the six months ended March 31, 2011 included $1.1 million for a multi-family residential loan on a 34-unit apartment building located in Delaware County, Pennsylvania, $500,000 for a mixed-use property, located in Philadelphia, Pennsylvania, $2.8 million for four single-family residential properties, located in Delaware and Montgomery Counties, Pennsylvania and $578,000 for a commercial real estate property, located in Franklin County, Pennsylvania.

Our total liabilities at March 31, 2011, amounted to $612.9 million compared to $654.3 million at September 30, 2010. The $41.4 million, or 6.3% decrease in total liabilities was due primarily to a decrease in total deposits of $37.1 million in the first six months of fiscal 2011. Our total deposits amounted to $559.8 million at March 31, 2011 compared to $596.9 million at September 30, 2010. There was a $5.7 million decrease in our FHLB advances during the six months ended March 31, 2011, which was attributable to $5.0 million in long-term debt maturing during the first quarter of fiscal 2011.

Shareholders' equity decreased by $6.3 million to $59.9 million at March 31, 2011 compared to $66.2 million at September 30, 2010 primarily due to a decrease in retained earnings and the effect of our accumulated other comprehensive loss at March 31, 2011. Retained earnings decreased by $5.5 million to $37.3 million at March 31, 2011 as a result of the $5.4 million net loss during the first six months of fiscal 2011. Also affecting our shareholders' equity was the $644,000 accumulated other comprehensive loss at March 31, 2011 compared to $179,000 of accumulated other comprehensive income at September 30, 2010. In addition, the payment of $81,000 in cash dividends during the first six months of fiscal 2011 reduced our shareholders' equity at March 31, 2011 compared to September 30, 2010.

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

	March 31, 2011	December 31, 2010	September 30, 2010
		(Dollars in thousands)	
Loans 31-89 days delinquent:			
Residential mortgage	$ 1,245	$ 2,753	$ 1,678
Construction and Development:			
Residential and commercial	648	-	-
Commercial:			
Commercial real estate	1,020	6,363	776
Other	253	-	209
Consumer:			
Home equity lines of credit	-	-	37
Second mortgages	1,739	1,779	1,608
Other	1	6	3
Total	$ 4,906	$ 10,901	$ 4,311

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The table below sets forth our non-performing assets and performing troubled debt restructurings which were in accruing status at the dates indicated. Loans are generally placed on non-accrual status when they are 90 days or more past due as to principal or interest or when the collection of principal and/or interest becomes doubtful. There were no loans past due 90 days or more and still accruing interest at March 31, 2011, December 31, 2010 or September 30, 2010.

	March 31, 2011	December 31, 2010	September 30, 2010
		(Dollars in thousands)	
Non-accruing loans:			
Residential mortgage	$ 5,117	$ 8,865	$ 8,354
Construction or development:			
Residential and commercial	1,358	1,393	1,393
Commercial:			
Commercial real estate	7,075	4,548	4,476
Multi-family	-	-	1,093
Other	209	209	-
Consumer:			
Home equity lines of credit	140	396	457
Second mortgages	2,171	3,207	4,085
Other	1	1	3
Total non-accruing loans	16,071	18,619	19,861
Other real estate owned and other foreclosed assets:			
Residential mortgage	2,823	1,203	1,538
Construction or development:			
Residential and commercial	207	1,085	1,085
Commercial:			
Commercial real estate	1,438	585	2,602
Multi-family	907	550	70
Other	54	54	20
Total	5,429	3,477	5,315
Total non-performing assets	21,500	22,096	25,176
Performing troubled debt restructurings:			
Residential mortgage	2,146	2,150	2,277
Construction or development:			
Land	1,165	1,167	1,170
Commercial:			
Commercial real estate	7,940	7,665	7,742
Multi-family	-	609	612
Other	176	176	175
Consumer:			
Second mortgages	-	113	-
Total	11,427	11,880	11,976

Total non-performing assets and performing troubled debt restructurings	$	32,927		$	33,976		$	37,152	
Ratios:									
Total non-accrual loans as a percent of gross loans		3.05	%		3.47	%		3.60	%
Total non-performing assets as a percent of total assets		3.20	%		3.20	%		3.49	%
Total non-performing assets and performing troubled debt restructurings as a percent of total assets		4.89	%		4.91	%		5.16	%

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At March 31, 2011, our total non-performing assets amounted to $21.5 million, a decrease of $596,000 compared to total non-performing assets at December 31, 2010 and a decrease of $3.7 million compared to total non-performing assets at September 30, 2010. Included in our non-performing assets at March 31, 2011 were 19 non-accruing single family residential mortgage loans with an aggregate outstanding balance of $5.1 million at such date, 21 non-accruing second mortgage loans with an aggregate outstanding balance of $2.2 million, and four home equity loans with an aggregate outstanding balance of $140,000. Our non-performing assets, non-accruing loans and real estate owned and other foreclosed assets, at March 31, 2011, also included the following significant items.

A $1.4 million participation interest in a construction and development loan in a retirement community located in Montgomery County, Pennsylvania. This loan was placed on non-accrual status in August 2009, and during the quarter ended September 30, 2010, there was a partial charge-off in the amount of $2.9 million, based on a September 2010 appraisal, reducing our loan principal balance from $4.3 million to $1.4 million. The borrower has entered into an agreement of sale with respect to this property, which sale is expected to be consummated in the quarter ending June 30, 2011. Assuming that the sale (which is subject to the completion of due diligence and other conditions) is consummated, we do not expect to incur any additional loss with respect to this loan.

Three non-accruing commercial real loans loan totaling $3.6 million made to one borrower secured by a first mortgage on each of two mixed use (retail space and apartments) buildings and three apartment buildings (approximately 23 units) located in Philadelphia, Pennsylvania, one apartment building with five units located in Gloucester City, New Jersey, and one mixed use building (apartment and a one unit office space) located in Norristown, Pennsylvania. These three loans were deemed impaired at March 31, 2011. During the first six months of fiscal 2011, an aggregate of $658,000 was charged off on these loans and the current aggregate carrying value is approximately the current fair value.

Two commercial real estate loans in the aggregate amount of $881,000 made to one borrower and secured by a first lien on a mixed-use (retail space and rental units) property located in Delaware County, Pennsylvania were non-accruing and deemed impaired as of March 31, 2011. During the six months of fiscal 2011, an aggregate amount of $180,000 was charged off and the current carrying value is approximately the current fair value. Subsequent to March 31, 2011, this property was acquired by us as real estate owned and we expect to market the property for sale.

A mixed-use (a restaurant, retail space and one office) property located in Pottstown, Pennsylvania which was acquired as real estate owned in July 2009 and had a carrying value of $465,000 at March 31, 2011 is scheduled to be sold during the quarter ending June 30, 2011 at no additional loss.

A 34-unit apartment building located in Delaware County, Pennsylvania which was acquired as real estate owned in November 2010 and had a carrying value of $870,000 at March 31, 2011 is under an agreement of sale and is scheduled to settle during the quarter ending June 30, 2011 at no additional loss.

Two construction and development lot loans which were acquired as real estate owned in August 2010 and had a carrying value of $207,000 at March 31, 2011 are scheduled to be sold during the quarter ending June 30, 2011 at no additional loss.

The relatively high levels of the Company's non-performing assets at March 31, 2011 primarily reflect the continuing effects of the recession and a slow economic recovery in the Company's market area. The Company is continuing its efforts to resolve its non-performing assets without additional loss. As a local community bank, we continue to be committed to helping the local community and have been working diligently with customers to assist them during these difficult economic times and the financial difficulties they have incurred.

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At March 31, 2011 our total performing troubled debt restructurings amounted to $11.4 million compared to $12.0 million of performing troubled debt restructurings at September 30, 2010. Our performing troubled debt restructurings at March 31, 2011 included the following significant items.

A total of 17 loans to one borrower with an aggregate outstanding balance of $2.5 million collateralized by first liens on single-family residential rental properties located primarily in Chester and Delaware Counties which were restructured during the quarter ended September 30, 2010 to require payments of interest only for six months. All of these loans have remained current under the terms of the agreement of restructure, and four of the loans have been converted to fully amortizing status with principal and interest payments.

Four loans to one borrower with an aggregate outstanding balance of $3.0 million at March 31, 2011 collateralized by first mortgages on commercial real estate and approved lots. Two of these loans, with an aggregate outstanding balance of $2.0 million, are secured by owner occupied commercial real estate located in Montgomery County, Pennsylvania The other two loans, with an aggregate outstanding balance of $1.0 million, are secured by 23 acres of approved single-family lots located in Chester County, Pennsylvania. The four loans were restructured during the quarter ended March 31, 2010 to require payments of interest only. The borrower has been paying as agreed under the terms of the restructuring and is expected to continue to pay as agreed.

During the three months ended March 31, 2011, we added five commercial real estate loans with an aggregate outstanding balance of $5.9 million to our troubled debt restructurings. As a result, at March 31, 2011, we had $11.4 million of loans classified as performing TDRs. Our performing TDRs at March 31, 2011, include 27 loans in the aggregate comprised of $2.1 million of one- to four-family loans, $7.9 million of commercial real estate loans, $1.2 million of land loans, and $176,000 of commercial loans.

While the amount of our non-performing assets at March 31, 2011 decreased compared to September 30, 2010, the amount of the Company's loans delinquent 31 to 89 days increased to $4.9 million at March 31, 2011 from $4.3 million at September 30, 2010. The Company is attempting to work with its borrowers to bring all of its delinquent and non-performing loans current, but no assurance can be given that there may not be further increases in the Company's non-performing assets in future periods.

Comparison of Our Operating Results for the Three and Six Months Ended March 31, 2011 and 2010

General. Our net loss was $4.7 million for the three months ended March 31, 2011 compared to net loss of $1.2 million for the three months ended March 31, 2010. On a per share basis, the net loss was $0.80 per share for the quarter ended March 31, 2011, compared to net loss of $0.21 per share for the quarter ended March 31, 2010. The primary reason for the $3.5 million difference in our results of operations in the second quarter of fiscal 2011 compared to the second quarter in fiscal 2010 was an increase in the provision of loan losses of $4.5 million, a $90,000 decrease in other income and a $617,000 increase in total other expenses, which were partially offset by a $1.7 million reduction in income taxes during the second quarter. Our interest rate spread of 2.95% and net interest margin of 3.07% for the three months ended March 31, 2011 improved when compared to a net interest spread of 2.80% and a net interest margin of 2.99% for the three months ended March 31, 2010.

Our net loss was $5.4 million for the six months ended March 31, 2011 compared to net loss of $1.2 million for the six months ended March 31, 2010. On a per share basis, the net loss was $0.92 per share for the six months ended March 31, 2011, compared to net loss of $0.21 per share for the six months ended March 31, 2010. The primary reason for the $4.2 million difference in our results of operations in the first six months of fiscal 2011 compared to the comparable prior fiscal year period was an increase in the provision of loan losses of $5.5 million, a $276,000 decrease in other income and a $659,000 increase in total other expenses, which were partially offset by a $2.0 million reduction in income taxes during the second quarter. Our interest rate spread of 2.89% and net interest margin of 3.00% for the six months ended March 31, 2011 improved when compared to a net interest spread of 2.72% and a net interest margin of 2.94% for the six months ended March 31, 2010.

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

	Three Months Ended March 31,					
	2011			2010		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
	(Dollars in Thousands)					
Interest Earning Assets:						
Loans receivable (1)	$534,745	$7,019	5.25 %	$593,681	$7,952	5.36 %
Investment securities	79,969	392	1.96	31,367	248	3.16
Deposits in other banks	18,950	7	0.15	15,793	9	0.24
FHLB stock	6,117	-	0.00	6,567	-	0.00
Total interest-earning assets	639,781	7,418	4.64	647,408	8,209	5.08
Non-interest-earning assets	43,133			37,473		
Total assets	$682,914			$684,881		
Interest Bearing Liabilities:						
Demand and NOW accounts	$92,030	127	0.55	$86,712	208	0.96
Money market accounts	87,752	246	1.12	63,176	165	1.04
Savings accounts	41,166	19	0.18	40,024	28	0.28
Time deposits	324,272	1,689	2.08	311,769	2,036	2.60
Total deposits	545,220	2,081	1.53	501,681	2,437	1.96
FHLB borrowings	49,725	427	3.44	87,490	929	4.24
Total interest-bearing liabilities	594,945	2,508	1.69	589,171	3,366	2.28
Non-interest-bearing liabilities	23,020			24,839		
Total liabilities	617,965			614,010		
Shareholders' Equity	64,949			70,871		
Total liabilities and shareholders' equity	$ 682,914			$684,881		
Net interest-earning assets	$44,836			$58,237		
Net interest income; average interest rate spread		$4,910	2.95 %		$4,843	2.80 %
Net interest margin (2)			3.07 %			2.99 %
Average interest-earning assets to average interest-bearing liabilities	107.54 %			109.88 %		

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

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	Six Months Ended March 31,					
	2011			2010		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
	(Dollars in Thousands)					
Interest Earning Assets:						
Loans receivable (1)	$538,897	$14,364	5.33 %	$599,305	$16,362	5.46 %
Investment securities	75,420	735	1.95	31,231	506	3.24
Deposits in other banks	25,526	19	0.15	13,470	15	0.22
FHLB stock	6,232	-	0.00	6,567	-	0.00
Total interest-earning assets	646,075	15,118	4.68	650,573	16,883	5.20
Non-interest-earning assets	46,729			36,690		
Total assets	$692,804			$687,263		
Interest Bearing Liabilities:						
Demand and NOW accounts	$89,649	298	0.66	$90,897	511	1.12
Money market accounts	86,527	480	1.11	62,397	326	1.04
Savings accounts	41,048	38	0.19	39,700	57	0.28
Time deposits	336,412	3,716	2.21	309,105	4,377	2.84
Total deposits	553,636	4,532	1.64	502,099	5,271	2.10
FHLB borrowings	50,402	879	3.49	90,215	2,046	4.54
Total interest-bearing liabilities	604,038	5,411	1.79	592,314	7,317	2.48
Non-interest-bearing liabilities	23,064			24,741		
Total liabilities	627,102			617,055		
Shareholders' Equity	65,702			70,208		
Total liabilities and shareholders' equity	$ 692,804			$ 687,263		
Net interest-earning assets	$42,037			$58,259		
Net interest income; average interest rate spread		$9,707	2.89 %		$9,566	2.72 %
Net interest margin (2)			3.00 %			2.94 %
Average interest-earning assets to average interest-bearing liabilities	106.96 %			109.84 %		

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

Interest and Dividend Income. The Company's interest and dividend income decreased for the three months ended March 31, 2011 by $791,000 or 9.6% over the comparable 2010 period to $7.4 million. Interest income decreased in the three months ended March 31, 2011 over the prior comparable period in fiscal 2010 due primarily to a decline in the average balance of loans and lower average yields on loans and investment securities. During the second quarter of fiscal 2011 compared to the second quarter of fiscal 2010, the average yield on the Company's loan portfolio decreased by 11 basis points to 5.25% from 5.36%. The average balance of loans receivable decreased by $58.9 million, or 9.9% in the second quarter of fiscal 2011 compared to the second quarter of fiscal 2010, as a result of our efforts to reduce some of our higher risk loans, the lending restrictions imposed by the Supervisory Agreement that the Bank entered into with the Office of Thrift Supervision (the "OTS"), stricter underwriting standards utilized by the Bank in recent periods and an overall reduction in loan demand of all loan types due primarily to a slow economy and uncertainty in the job market. The average yield on investment securities decreased to 1.96% for the three months ended March 31, 2011 from 3.16% for the same period ended 2010 while the average balance of investment securities increased by $48.6 million during the three months ended March 31, 2011 compared to the comparable prior fiscal year period.

The Company's interest and dividend income decreased for the six months ended March 31, 2011 by $1.8 million or 10.5% over the comparable 2010 period to $15.1 million. Interest income decreased in the six months ended March 31, 2011 over the prior comparable period in fiscal 2010 due primarily to a decline in the average balance of loans and lower average yields on loans and investment securities. During the first six month of fiscal 2011 compared to the first six months of fiscal 2010, the average yield on the Company's loan portfolio decreased by 13 basis points to 5.33% from 5.46%. The average balance of loans receivable decreased by $60.4 million, or 10.1% in the first six months of fiscal 2011 compared to the first six months of fiscal 2010, as a result of our efforts to reduce some of our higher risk loans, the lending restrictions imposed by the Supervisory Agreement with the OTS, stricter underwriting standards utilized by the Bank in recent periods and a overall reduction in loan demand of all loan types due primarily to a slow economy and uncertainty in the job market. The average yield on investment securities decreased to 1.95% for the six months ended March 31, 2011 from 3.24% for the same period ended 2010 while the average balance of investment securities increased by $44.2 million during the six months ended March 31, 2011 compared to the comparable prior fiscal year period.

Interest Expense. The Company's interest expense for the three month period ended March 31, 2011 was $2.5 million, a decrease of $858,000 from the three month period ended March 31, 2010. The Company had a $356,000 decrease in interest expense on total deposits and a $502,000 decrease in interest on FHLB borrowings during the second quarter of fiscal 2011 compared to the second quarter of fiscal 2010. The average balance of deposit accounts increased by $43.5 million, or 8.9%, in the second quarter of fiscal 2011 compared to the second quarter of fiscal 2010, due primarily to our new Concordville, Delaware County branch office, which opened in mid-September 2010 and which had $43.7 million in deposits at March 31, 2011. The average rate paid on total deposits decreased to 1.53% for the three months ended March 31, 2011 from 1.96% for the same period in fiscal 2010, and the average rate paid on borrowed funds decreased to 3.44% in the second quarter of fiscal 2011 compared to 4.24% in the second quarter of fiscal 2010.

The Company's interest expense for the six month period ended March 31, 2011 was $5.4 million, a decrease of $1.9 million from the six month period ended March 31, 2010. The Company had a $739,000 decrease in interest expense on total deposits and a $1,167,000 decrease in interest on FHLB borrowings during the first six months of fiscal 2011 compared to the first six months of fiscal 2010. The average balance of deposit accounts increased by $51.5 million, or 10.3%, in the first six months of fiscal 2011 compared to the first six months of fiscal 2010. The average rate paid on total deposits decreased to 1.64% for the six months ended March 31, 2011 from 2.10% for the same period in fiscal 2010, and the average rate paid on borrowed funds decreased to 3.49% in the first six months of fiscal 2011 compared to 4.54% in the first six months of fiscal 2010.

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Provision for Loan Losses. The provision for loan losses was $8.1 million and $10.0 million for the three and six month ended March 31, 2011, respectively. The provision for loan losses was $3.6 million and $4.6 million for the three and six month ended March 31, 2010, respectively. The $4.5 million increase in our provision for loan losses for the quarter ended March 31, 2011 compared to the second quarter in fiscal 2010 was due primarily to increases in our general allowance in residential mortgage, commercial real estate and second mortgage loans during the March 31, 2011 quarter. The Company's net charge-offs to the allowance for loan losses amounted to approximately $5.3 million and $7.8 million, respectively, for the three and six months ended March 31, 2011. Net charge-offs increased during the quarter ended March 31, 2011 due primarily to three single-family residential mortgage loans with aggregate charge-offs of $1.8 million, one commercial loan relationship, consisting of three loans secured by equipment and two parcels of mixed-use real estate located in Franklin County, Pennsylvania, with a $1.3 million charge-off, and 24 second mortgage loans with $1.5 million in aggregate charge-offs in the quarter.

In addition to increased charge-off amounts during the quarter ended March 31, 2011, recent appraisals received on properties securing our residential mortgage loans (both first and second mortgage loans), particularly those with balances of $1.0 million or more, and commercial real estate loans showed continued deterioration. Commercial real estate values in our market area continue to show weakness with little evidence that there will be improvement in the near future. As a result of the increased loss experience during the quarter and the continuing decline in real estate values, in assessing its allowance for loan losses the Bank increased the coverage amounts associated with the residential mortgage, commercial real estate and second mortgage portfolios. Upon consideration of the continuing deterioration in real estate values in the Company's market area, as reflected in recent appraisals, the Company also increased the unallocated componenent of its allowance for loan losses during the quarter ended March 31, 2011 in order to provide additional loss coverage. As of March 31, 2011, the balance of the allowance for loan losses was $10.4 million, or 1.97% of gross loans and 64.50% of non-accruing loans.

At March 31, 2011, the Company's total non-accrual loans amounted to $16.1 million, or 3.05% of total loans, compared to $18.6 million of non-accrual loans, or 3.47% of total loans at December 31, 2010 and $19.9 million of non-accrual loans, or 3.60% of total loans at September 30, 2010. Total non-accruing loans were reduced by $2.5 million on a linked quarter basis due primarily to transfers to other real estate owned ("REO") in the amount of $4.0 million and a $1.0 million reduction in non-accrual second mortgage loans due primarily to net charge offs. These reductions were partially offset by an additional $2.5 million of commercial real estate loans being placed on non-accrual status during the quarter.

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

	For the Six Months Ended March 31, 2011	For the Six Months Ended March 31, 2010	For the Year Ended September 30, 2010
	(Dollars in Thousands)		
Balance at beginning of period	$8,157	$5,718	$ 5,718
Provision for loan losses	10,042	4,582	9,367
Charge-offs:			
Residential mortgage	2,271	824	824
Construction and development			
Residential and commercial	107	960	4,133
Commercial:			
Commercial real estate	2,214	-	927
Multi-family	164	-	525
Consumer:			
Home equity lines of credit	126	168	168
Second mortgages	2,980	93	334
Other	2	15	22
Total charge-offs	7,864	2,060	6,933
Recoveries:			
Commercial:			
Commercial real estate	1	-	-
Multi-family	1	-	1
Other	1	-	-
Consumer:			
Home equity lines of credit	3	-	-
Second mortgages	20	-	-
Other	5	2	4
Total recoveries	31	2	5
Net charge-offs	7,833	2,058	6,928
Balance at end of period	$10,366	$8,242	$ 8,157
Ratios:			
Ratio of allowance for loan losses to non-accrual loans	64.50 %	32.44 %	41.07 %
Ratio of net charge-offs to average loans outstanding, Annualized for the six-month periods ended March 31, 2011 and 2010	2.91 %	0.69 %	1.19 %
Ratio of net charge-offs to total allowance for loan losses (annualized for the six-month periods ended March 31, 2011 and 2010)	151.12 %	49.95 %	84.93 %

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Other Income. Our total other, or non-interest, income decreased by $90,000 to $450,000 for the three months ended March 31, 2011 compared to $540,000 for the three months ended March 31, 2010. The decrease was due primarily to a $145,000 decrease in service charges, primarily related to declining checking account related fees as well as a decline in other loan fees. This was partially offset by a $19,000 net gain on sale of other real estate owned in the 2011 period compared to a net loss on the sale of REO in the amount of $34,000 in the quarter ended March 31, 2010.

Our total other income was $871,000 for the six months ended March 31, 2011 compared to $1.1 million for the six months ended March 31, 2010. The $276,000 decrease was due primarily to a $288,000 decrease in service charges and primarily related to declining checking account related fees as well as a decline in other loan fees.

Other Expenses. Other, or non-interest, expenses of the Company increased by $617,000 in the quarter ended March 31, 2011 from the comparable prior year period. The increase in other operating expenses in the second quarter of fiscal 2011 compared to the second quarter of fiscal 2010 was due primarily to an $181,000 increase in professional fees, a $176,000 increase in salaries and employee benefits and a $171,000 increase in REO expense. The increase in REO expense was primarily due to a write-down of $576,000 for a commercial real estate property located in Philadelphia, PA which was sold in December 2010. The increase in professional fees was primarily due to legal costs associated with work out efforts on troubled loans. The $176,000 increase in salaries and employee benefits was due to the addition of the Concordville branch in mid-September 2010.

Other expenses of the Company increased by $659,000 in the six months ended March 31, 2011 from the comparable prior year period. The increase in other operating expenses was due primarily to a $440,000 increase in other REO expense, a $326,000 increase in professional fees, an $169,000 increase in occupancy expense and a $93,000 increase in miscellaneous other operating expenses. The increase in professional fees was primarily due to legal costs associated with work out efforts on troubled loans. The $93,000 increase in miscellaneous other expenses was primarily due to a $58,000 increase in the Bank's OTS assessment and an increase of $31,000 in real estate appraisal expense. These increases were partially offset by a $165,000 decrease in federal deposit insurance premium, and a $214,000 decrease in data processing expense. The decrease of $165,000 in federal deposit insurance premium for the first six months of fiscal 2011 was primarily due to the absence of a premium credit in the first six months of fiscal 2010. The $214,000 decrease in data processing expense is attributable to the change in the Company's bank core processing vender in April 2010.

Income Tax Expense. Our income tax benefit was $2.5 million for the three months ended March 31, 2011 compared to income tax benefit of $867,000 for the three months ended March 31, 2010. The increase in tax benefit for the second quarter in fiscal 2011 was due to an increase in pre-tax loss for the three months ended March 31, 2011 compared to the three months ended March 31, 2010. The Company's effective tax rate was (35.00%) and (41.43%) for the three months ended March 31, 2011 and 2010, respectively. The change in the effective income tax rate from the three months ended March 31, 2010 compared to the three months ended March 31, 2011, was due to various fluctuations in the permanent and temporary tax differences associated with the following, BOLI income, ESOP dividend received deductions, state income tax credits and net operating losses.

Income Tax Expense. Our income tax benefit was $3.0 million for the six months ended March 31, 2011 compared to income tax benefit of $955,000 for the six months ended March 31, 2010. The increase in tax benefit for the first six months in fiscal 2011 was due to an increase in pre-tax loss for the six months ended March 31, 2011 compared to the six months ended March 31, 2010. The Company's effective tax rate was (35.37%) and (44.04%) for the six months ended March 31, 2011 and 2010, respectively.

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Liquidity and Capital Resources

Our primary sources of funds are from deposits, FHLB borrowings, amortization of loans, loan prepayments and the maturity of loans, mortgage-backed securities and other investments, and other funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan prepayments can be greatly influenced by general interest rates, economic conditions and competition. We also maintain excess funds in short-term, interest-bearing assets that provide additional liquidity. At March 31, 2011, our cash and cash equivalents amounted to $30.2 million. In addition, at such date our available for sale investment securities amounted to $72.1 million.

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

We use our liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. At March 31, 2011, we had certificates of deposit maturing within the next 12 months amounting to $134.4 million. Based upon historical experience, we anticipate that a significant portion of the maturing certificates of deposit will be remaining with us. For the six months ended March 31, 2011, the average balance of our outstanding FHLB advances was $50.4 million. At March 31, 2011, we had $49.6 million in outstanding long-term FHLB advances and we had $307.1 million in additional FHLB advances available to us. In addition, at March 31, 2011, we had $50.0 million available pursuant to an existing line of credit with the FHLB.

The following table summarizes our contractual cash obligations at March 31, 2011.

	Payments Due by Period				
	To One Year	After One to Three Years	After Three to Five Years	After Five Years	Total
	(Dollars in Thousands)				
Long-term debt obligations	$-	$1,599	$-	$48,000	$49,599
Certificates of deposit	134,401	114,046	26,551	40,419	315,417
Operating lease obligations	279	558	474	4,880	6,191
Total contractual obligations	$134,680	$116,203	$27,025	$93,299	$371,207

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

Impact of Inflation and Changing Prices

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

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Item 3 - Quantitative and Qualitative Disclosures About Market Risk

For a discussion of the Company's asset and liability management policies as well as the methods used to manage its exposure to the risk of loss from adverse changes in market prices and rates market, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – How We Manage Market Risk" in the Company's Annual Report on Form 10-K for the year ended September 30, 2010. There has been no material change in the Company's asset and liability position since September 30, 2010.

Item 4. Controls and Procedures

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

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

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

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

Item 1A - Risk Factors

See Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended September 30, 2010. There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2010.

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

(a)	Not applicable
(b)	Not applicable
(c)	Purchases of Equity Securities

Not applicable

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

Item 3 - Defaults Upon Senior Securities

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

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Item 4 - (Removed and Reserved)

Item 5 - Other Information

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

Item 6 - Exhibits

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

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SIGNATURES

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

		MALVERN FEDERAL BANCORP, INC.
May 16, 2011	By:	/s/ Ronald Anderson Ronald Anderson President and Chief Executive Officer
May 16, 2011	By:	/s/ Dennis Boyle Dennis Boyle Senior Vice President and Chief Financial Officer