

MALVERN BANCORP, INC.  
Form 10-Q  
August 13, 2013

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

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended: June 30, 2013

or  
 Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-54835

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

Pennsylvania  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

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

19301  
(Zip Code)

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

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

YES  NO

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

YES  NO

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of

the Act). YES  NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date: As of August 9, 2013, 6,558,473 shares of the Registrant's common stock were issued and outstanding.

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MALVERN BANCORP, INC.

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Consolidated Statements of Financial Condition (Unaudited)

	June 30, 2013	September 30, 2012
	(Dollars in thousands, except per share data)	
Assets		
Cash and due from depository institutions	\$ 1,275	\$ 1,413
Interest bearing deposits in depository institutions	66,108	130,497
Cash and Cash Equivalents	67,383	131,910
Investment securities available for sale, at fair value	125,451	80,508
Restricted stock, at cost	3,718	4,147
Loans receivable, net of allowance for loan losses of \$6,060 and \$7,581, respectively	423,943	457,001
Other real estate owned	5,134	4,594
Accrued interest receivable	1,501	1,521
Property and equipment, net	7,380	7,675
Deferred income taxes, net	8,791	6,775
Bank-owned life insurance	21,196	15,286
Other assets	1,410	2,395
Total Assets	\$ 665,907	\$ 711,812
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Deposits-noninterest-bearing	\$ 21,895	\$ 23,062
Deposits-interest-bearing	495,243	517,926
Total Deposits	517,138	540,988
FHLB advances	48,000	48,085
Advances from borrowers for taxes and insurance	3,571	1,006
Accrued interest payable	269	266
Stock subscription escrow	-	56,677
Other liabilities	2,380	2,154
Total Liabilities	571,358	649,176
Commitments and Contingencies	-	-
Shareholders' Equity		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued	-	-

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Common stock, \$0.01 par value, 40,000,000 shares authorized, issued and outstanding: 6,558,473 and 6,102,500, respectively	66	62
Additional paid-in capital	60,296	25,846
Retained earnings	38,563	38,596
Treasury stock—at cost, 2013, 0 shares; 2012, 50,000 shares	-	(477 )
Unearned Employee Stock Ownership Plan (ESOP) shares	(2,103 )	(2,032 )
Accumulated other comprehensive (loss) income	(2,273 )	641
Total Shareholders' Equity	94,549	62,636
Total Liabilities and Shareholders' Equity	\$ 665,907	\$ 711,812

See notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands, except per share data)			
<b>Interest and Dividend Income</b>				
Loans, including fees	\$4,931	\$5,894	\$15,465	\$18,352
Investment securities, taxable	504	387	1,199	1,246
Investment securities, tax-exempt	57	23	166	33
Dividends, restricted stock	2	1	10	2
Interest-bearing cash accounts	34	16	101	34
<b>Total Interest and Dividend Income</b>	<b>5,528</b>	<b>6,321</b>	<b>16,941</b>	<b>19,667</b>
<b>Interest Expense</b>				
Deposits	1,200	1,589	4,134	5,131
Long-term borrowings	426	427	1,277	1,289
<b>Total Interest Expense</b>	<b>1,626</b>	<b>2,016</b>	<b>5,411</b>	<b>6,420</b>
<b>Net Interest Income</b>	<b>3,902</b>	<b>4,305</b>	<b>11,530</b>	<b>13,247</b>
(Recovery) Provision for Loan Losses	(190 )	335	1,255	360
<b>Net Interest Income after (Recovery) Provision for Loan Losses</b>	<b>4,092</b>	<b>3,970</b>	<b>10,275</b>	<b>12,887</b>
<b>Other Income</b>				
Service charges and other fees	244	218	783	686
Rental income – other	62	59	188	192
Gain on sale of investments, net	293	40	503	663
Loss on disposal of fixed assets	(1 )	-	(1 )	-
Loss on sale of loans, net	(314 )	-	(128 )	-
Earnings on bank-owned life insurance	160	134	1,030	400
<b>Total Other Income</b>	<b>444</b>	<b>451</b>	<b>2,375</b>	<b>1,941</b>
<b>Other Expense</b>				
Salaries and employee benefits	1,900	1,689	5,695	5,001
Occupancy expense	516	520	1,527	1,568
Federal deposit insurance premium	211	204	648	657
Advertising	158	159	620	581
Data processing	321	319	953	939
Professional fees	456	279	1,271	1,193
Other real estate owned expense, net	364	495	1,009	1,130
Other operating expenses	510	452	1,598	1,397
<b>Total Other Expenses</b>	<b>4,436</b>	<b>4,117</b>	<b>13,321</b>	<b>12,466</b>
<b>Income (Loss) before income tax expense (benefit)</b>	<b>100</b>	<b>304</b>	<b>(671 )</b>	<b>2,362</b>

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Income tax (benefit) expense	(41	)	32	(638	)	620
Net Income (Loss)	\$141		\$272	\$(33	)	\$1,742
Basic Earnings (Loss) Per Share*	\$0.02		\$0.04	\$(0.01	)	\$0.27
Dividends Declared Per Share	\$0.00		\$0.00	\$0.00		\$0.00

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

See notes to unaudited consolidated financial statements.



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## Malvern Bancorp, Inc. and Subsidiaries

## Consolidated Statements of Comprehensive (Loss) Income (Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Net Income (Loss)	\$141	\$272	\$(33)	) \$1,742
Other Comprehensive (Loss) Income:				
Changes in unrealized net-gains and losses on securities available for sale	(3,598	) 43	(3,912	) 823
Gains realized in net income(loss)(1)	(293	) (40	) (503	) (663
	(3,891	) 3	(4,415	) 160
Deferred income tax effect	1,323	(1	) 1,501	(54
Total other comprehensive (loss) income	(2,568	) 2	(2,914	) 106
Total comprehensive (loss) income	\$(2,427	) \$274	\$(2,947	) \$1,848

(1) Amounts are included in net gains on sales of securities on the Consolidated Statements of Operations in total other income. Related income tax expense in the amount of \$100,000, \$14,000, \$171,000, and \$225,000, respectively, are included in income tax (benefit) expense.

See notes to unaudited consolidated financial statements.

Table of ContentsMalvern 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 (Loss) Income	Total Shareholders' Equity
(Dollars in thousands, except share and per share data)							
Balance, October 1, 2011	\$ 62	\$ 25,889	\$ 36,637	\$ (477 )	\$ (2,178 )	\$ 351	\$ 60,284
Net Income	-	-	1,742	-	-	-	1,742
Other comprehensive income	-	-	-	-	-	106	106
Committed to be released ESOP shares (10,053 shares)	-	(37 )	-	-	109	-	72
Balance, June 30, 2012	\$ 62	\$ 25,852	\$ 38,379	\$ (477 )	\$ (2,069 )	\$ 457	\$ 62,204
Balance, October 1, 2012	\$ 62	\$ 25,846	\$ 38,596	\$ (477 )	\$ (2,032 )	\$ 641	\$ 62,636
Net Loss	-	-	(33 )	-	-	-	(33 )
Other comprehensive loss	-	-	-	-	-	(2,914 )	(2,914 )
Cancellation of common stock	(62 )	62	-	-	-	-	-
Cancellation of treasury stock	-	(477 )	-	477	-	-	-
Additional ESOP shares converted at exchange rate of 1.0748 (18,040 shares at \$10/share)	-	180	-	-	(180 )	-	-
Dissolution of mutual holding company	-	100	-	-	-	-	100

Proceeds from issuance of common stock, net of offering expenses of \$1.6 million	66	34,567	-	-	-	-	34,633
Committed to be released ESOP shares (10,771 shares)	-	18	-	-	109	-	127
Balance, June 30, 2013	\$ 66	\$ 60,296	\$ 38,563	\$ -	\$ (2,103 )	\$ (2,273 )	\$ 94,549

See notes to unaudited consolidated financial statements.

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Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended June 30,	
	2013	2012
	(In thousands)	
Cash Flows from Operating Activities		
Net (loss) income	\$(33	) \$1,742
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation expense	523	547
Provision for loan losses	1,255	360
Deferred income taxes (benefit) expense	(515	) 596
ESOP expense	127	72
Accretion of premiums and discounts on investment securities, net	(257	) (162
(Accretion) amortization of mortgage servicing rights	(7	) 61
Net gain on sale of investment securities available for sale	(503	) (499
Net gain on sale of investment securities held to maturity	-	(164
Net loss on disposal of fixed assets	1	-
Net loss on sale of loans	128	-
Proceeds on sale of secondary market loans	<b>23,277</b>	-
(Gain) loss on sale of other real estate owned	(110	) 70
Write down of other real estate owned	966	812
Amortization of loan origination fees and costs	(534	) (848
Decrease in accrued interest receivable	20	349
Increase in accrued interest payable	3	11
(Decrease) increase in other liabilities	(981	) 70
Earnings on bank-owned life insurance	(1,030	) (400
Decrease (increase) in other assets	735	(357
Decrease in prepaid FDIC assessment	391	626
Net Cash Provided by Operating Activities	23,456	2,886
Cash Flows from Investing Activities		
Proceeds from maturities and principal collections:		
Investment securities held to maturity	-	292
Investment securities available for sale	<b>22,344</b>	22,890
Proceeds from sales of investment securities held to maturity	-	2,996
Proceeds from sales of investment securities available for sale	16,031	22,854
Purchases of investment securities available for sale	(76,871	) (44,664
Proceeds from sale of loans	1,667	-
Loan purchases	(23,315	) (23,061
Loan originations and principal collections, net	17,290	52,128
Proceeds from sale of other real estate owned	1,792	4,374
Additions to mortgage servicing rights	(129	) (53

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Purchases of bank-owned life insurance	(6,000 )	-
Proceeds from death benefit of bank-owned life insurance	1,121	-
Net decrease in restricted stock	428	763
Proceeds from sale of property and equipment	2	-
Purchases of property and equipment	(232 )	(147 )
Net Cash (Used in) Provided by Investing Activities	(45,872 )	38,372
Cash Flows from Financing Activities		
Net decrease in deposits	(23,850 )	(16,210 )
Repayment of long-term borrowings	(85 )	(758 )
Increase in advances from borrowers for taxes and insurance	2,565	2,450
Return of excess stock subscription funds	(20,841 )	-
Cash from mutual holding company reorganization	100	-
Net Cash Used in Financing Activities	(42,111 )	(14,518 )
Net (Decrease) Increase in Cash and Cash Equivalents	(64,527 )	26,740
Cash and Cash Equivalents - Beginning	131,910	33,496
Cash and Cash Equivalents – Ending	\$67,383	\$60,236
Supplementary Cash Flows Information		
Interest paid	\$5,408	\$6,409
Income taxes paid	\$12	\$-
Non-cash transfer of loans to other real estate owned	\$3,188	\$1,151
Non-cash transfer of loans to investment securities available for sale	\$-	\$10,671
Transfer of mortgage-backed securities held to maturity to investment and mortgage-backed securities available for sale	<b>\$10,102</b>	\$746
Subscription funds transferred to equity	\$34,633	\$-

See notes to unaudited consolidated financial statements.

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Notes to Consolidated Financial Statements (Unaudited)

Note 1 – Organizational Structure and Nature of Operations

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

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

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

Malvern Federal Savings Bank is a federally chartered stock savings bank which was originally organized in 1887 and is operating out of its headquarters in Paoli, Pennsylvania and eight full service financial center offices in Chester and Delaware Counties, Pennsylvania. The Bank is primarily engaged in attracting deposits from the general public and using those funds to invest in loans and investment securities. The Bank’s principal sources of funds are deposits,

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

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

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Notes to Consolidated Financial Statements (Unaudited)

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

The Company and its subsidiaries, Malvern Federal Holdings, Inc., a Delaware company, and the Bank and the Bank's subsidiaries, Strategic Asset Management Group, Inc. ("SAMG") and Malvern Federal Investments, Inc., a Delaware company, provide various banking services, primarily accepting deposits and originating residential and commercial mortgage loans, consumer loans and other loans through the Bank's eight full-service branches in Chester and Delaware Counties, Pennsylvania. SAMG owns 50% of Malvern Insurance Associates, LLC. Malvern Insurance Associates, LLC offers a full line of business and personal lines of insurance products. As of June 30, 2013 and September 30, 2012, SAMG's total assets were \$38,000 and \$42,000, respectively. The net loss for SAMG for both the three and nine months ended June 30, 2013 was \$4,000. There was no income reported for SAMG for the three and nine months ended June 30, 2012. The Company is subject to competition from various other financial institutions and financial services companies. The Company is also subject to the regulations of certain federal agencies and, therefore, undergoes periodic examinations by those regulatory agencies.

In accordance with the subsequent events topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "Codification" or the "ASC"), the Company evaluates events and transactions that occur after the statement of financial condition date for potential recognition and disclosure in the consolidated financial statements. The effect of all subsequent events that provide additional evidence of conditions that existed at the statement of financial date are recognized in the unaudited consolidated financial statements as of June 30, 2013.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements at June 30, 2013 and for the three and nine months ended June 30, 2013 include the accounts of Malvern Bancorp, Inc. and its subsidiaries. The consolidated financial statements at September 30, 2012 and for the three and nine months ended June 30, 2012 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, comprehensive (loss) income, changes in shareholders' equity, and cash flows in conformity with accounting principles generally accepted in the United States of America ("GAAP"). However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements have been included. The results for the three and nine months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2013, or any other period. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2012.

Use of Estimates



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

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Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

Significant Group Concentrations of Credit Risk

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

Cash and Cash Equivalents

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

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

Investment Securities

Debt securities held to maturity are securities that the Company has the positive intent and the ability to hold to maturity; these securities are reported at amortized cost and adjusted for unamortized premiums and discounts. Securities held for trading are securities that are bought and held principally for the purpose of selling in the near term; these securities are reported at fair value, with unrealized gains and losses reported in current earnings. At June 30, 2013 and September 30, 2012, the Company had no investment securities classified as trading. Debt securities that will be held for indefinite periods of time and equity securities, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments, are classified as available for sale. Realized gains and losses are recorded on the trade date and are determined using the specific identification method. Securities held as available for sale are reported at fair value, with unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income ("AOCI"). Management determines the appropriate classification of investment securities at the time of purchase.

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

related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

#### Loans Receivable

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

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Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

Loans Held-For-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value on the consolidated balance sheet. Gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan. Servicing is retained at the Bank for loans sold in the secondary market and are placed as a mortgage servicing asset on the consolidated balance sheet (see "Loan Servicing"

for more detail). There were no loans classified as held for sale as of June 30, 2013 or September 30, 2012.

#### Allowance for Loan Losses

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

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### Notes to Consolidated Financial Statements (Unaudited)

#### Note 2 – Summary of Significant Accounting Policies (Continued)

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

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 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. Value of underlying collateral.

The qualitative factors are applied to the historical loss rates for each class of loan. A quarterly calculation is made adjusting the reserve allocation for each factor within a risk weighted range as it relates to each particular loan type, collateral type and risk rating within each segment. Data is gathered and evaluated through internal, regulatory, and government sources quarterly for each factor.

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

In addition, the allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include categories of "pass," "special mention," "substandard" and "doubtful." Assets classified as "Pass" are those protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. Assets which do not currently expose the insured institution to

sufficient risk to warrant classification as substandard or doubtful but possess certain identified weaknesses are required to be designated “special mention.” If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the insured institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.”

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Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

**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 10 to 30 years. We also offer adjustable rate mortgage (“ARM”) loans where the interest rate either adjusts on an annual basis or is fixed for the initial one, three, five or seven years and then adjusts annually.

We underwrite one- to four-family residential mortgage loans with loan-to-value ratios of up to 97%, provided that the borrower obtains private mortgage insurance on loans that exceed 80% of the appraised value or sales price, whichever is less, of the secured property. We also require that title insurance, hazard insurance and, if appropriate, flood insurance be maintained on all properties securing real estate loans. We require that a licensed appraiser from our list of approved appraisers perform and submit to us an appraisal on all properties secured by a first mortgage on one- to four-family first mortgage loans.

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

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

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



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

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Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

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 declines in the market value of real estate and the deterioration in the overall economy, we are continuing to evaluate and monitor the credit conditions of our consumer loan borrowers and the real estate values of the properties securing our second mortgage loans as part of our on-going efforts to assess the overall credit quality of the portfolio in connection with our review of the allowance for loan losses.

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

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

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

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

circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

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

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

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### Notes to Consolidated Financial Statements (Unaudited)

#### Note 2 – Summary of Significant Accounting Policies (Continued)

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.

#### Loan Servicing

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

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

#### Troubled Debt Restructurings

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

#### Other Real Estate Owned

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

#### Restricted Stock

Restricted stock represents required investments in the common stock of a correspondent bank and is carried at cost. As of June 30, 2013 and September 30, 2012, restricted stock consists solely of the common stock of the Federal Home Loan Bank of Pittsburgh (the "FHLB").

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### Notes to Consolidated Financial Statements (Unaudited)

#### Note 2 – Summary of Significant Accounting Policies (Continued)

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 expense as incurred.

#### Transfers of Financial Assets

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

#### Bank-Owned Life Insurance

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

#### Advertising Costs

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

#### Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in

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

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

#### Commitments and Contingencies

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

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Notes to Consolidated Financial Statements (Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

### Segment Information

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

### Comprehensive Income

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

### Reclassifications

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

### Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” This amendment addresses the financial statement presentation of an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. The adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, “Comprehensive Income, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (Topic 220).” The amendments in this update aim to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this update seek to attain that objective by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. This would be the



case when a portion of the amount reclassified out of accumulated other comprehensive income is reclassified to a balance sheet account instead of directly to income or expense in the same reporting period. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this Update did not have a material effect on the Company's consolidated financial statements.

#### 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 June 30, 2013 and for the three and nine months ended June 30, 2013 and 2012, the Company had not issued and did not have any outstanding CSEs and at the present time, the Company's capital structure has no potential dilutive securities. The calculation for the three and nine months ended June 30, 2012 has been adjusted for the exchange and additional share issuance in the reorganization and offering completed on October 11, 2012.

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## Notes to Consolidated Financial Statements (Unaudited)

## Note 3 – Earnings Per Share

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands, except per share amounts)			
Net Income (Loss)	\$ 141	\$ 272	\$ (33 )	\$ 1,742
Average common shares outstanding	6,558,473	6,102,500	6,540,100	6,102,500
Exchange rate from offering	-	1.0748	-	1.0748
Adjusted weighted average shares outstanding	6,558,473	6,558,967	6,540,100	6,558,967
Average unearned ESOP shares	(192,147 )	(202,175 )	(195,056 )	(205,798 )
Weighted average shares outstanding – basic	6,366,326	6,356,792	6,345,044	6,353,169
Earnings (Loss) per share – basic	\$ 0.02	\$ 0.04	\$ (0.01 )	\$ 0.27

## Note 4 – Employee Stock Ownership Plan

The Company maintains an employee stock ownership plan (“ESOP”) for substantially all of its full-time employees. Certain senior officers of the Bank have been designated as Trustees of the ESOP. Shares of the Company’s common stock purchased by the ESOP are held until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each such participant’s base compensation to the total base compensation of all eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to additional paid-in capital. During the period from May 20, 2008 to September 30, 2008, the ESOP purchased 241,178 shares of the Mid-Tier Holding Company’s common stock (which have since been converted to shares of the Company’s common stock at the 1.0748 exchange ratio) for approximately \$2.6 million, an average price of \$10.86 per share, which was funded by a loan from Malvern Federal Bancorp, Inc. The ESOP loan is being repaid principally from the Bank’s contributions to the ESOP. The loan, which bears an interest rate of 5%, is being repaid in quarterly installments through 2026. Shares are released to participants proportionately as the loan is repaid. During the three and nine months ended June 30, 2013, there were 3,600 and 10,771 shares committed to be released, respectively. During the three and nine months ended June 30, 2012, there were 3,351 and 10,053 shares committed to be released, respectively. At June 30, 2013, there were 190,365 unallocated shares and 68,853 allocated shares held by the ESOP which had an aggregate fair value of approximately \$2.3 million.





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## Notes to Consolidated Financial Statements (Unaudited)

## Note 5 - Investment Securities (Continued)

The following tables summarize the aggregate investments at June 30, 2013 and September 30, 2012 that were in an unrealized loss position.

	Less than 12 Months		June 30, 2013 More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
Investment Securities Available for Sale:						
U.S. government obligations and agencies	\$18,115	\$(672)	\$-	\$-	\$18,115	\$(672)
State and municipal obligations	10,751	(470)	-	-	10,751	(470)
Single issuer trust preferred security	-	-	811	(189)	811	(189)
Corporate securities	996	(8)	-	-	996	(8)
Mortgage-backed securities:						
FNMA, fixed-rate	18,451	(789)	-	-	18,451	(789)
FHLMC, fixed-rate	13,092	(576)	-	-	13,092	(576)
CMO, fixed rate	40,675	(1,065)	-	-	40,675	(1,065)
	\$102,080	\$(3,580)	\$811	\$(189)	\$102,891	\$(3,769)

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

As of June 30, 2013, the estimated fair value of the securities disclosed above was primarily dependent upon the movement in market interest rates particularly given the negligible inherent credit risk associated with these securities. These investment securities are comprised of securities that are rated investment grade by at least one bond credit

rating service. Although the fair value will fluctuate as the market interest rates move, management believes that these fair values will recover as the underlying portfolios mature and are reinvested in market rate yielding investments. As of June 30, 2013, the Company held 21 U.S. government agency securities, 30 tax-free municipal bonds, four corporate securities, 56 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 June 30, 2013 represents other-than-temporary impairment.

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## Notes to Consolidated Financial Statements (Unaudited)

## Note 5 - Investment Securities (Continued)

During the nine months ended June 30, 2013, the gross unrealized loss of the single issuer trust preferred security improved by \$47,000 from an unrealized loss at September 30, 2012 of \$236,000 to an unrealized loss of \$189,000 as of June 30, 2013. Increases in long-term interest rate, specifically the 10-year Treasury during the June 2013 quarter, caused the pricing of agency securities, mortgage-backed securities, and trust preferred securities to decrease. On a quarterly basis, management will continue to monitor the performance of this security and the markets to determine the true economic value of this security.

At June 30, 2013 and September 30, 2012 the Company had no securities pledged to secure public deposits.

The amortized cost and fair value of debt securities by contractual maturity at June 30, 2013 follows:

	Available for Sale	
	Amortized Cost	Fair Value
	(In thousands)	
Within 1 year	\$2,652	\$2,471
Over 1 year through 5 years	3,775	3,774
After 5 years through 10 years	27,039	25,986
Over 10 years	1,469	1,409
	34,935	33,640
Mortgage-backed securities	93,959	91,811
	\$128,894	\$125,451

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## Notes to Consolidated Financial Statements (Unaudited)

## Note 6 - Loans Receivable and Related Allowance for Loan Losses

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

	June 30, 2013	September 30, 2012
	(In thousands)	
Residential mortgage	\$ 237,670	\$ 231,803
Construction and Development:		
Residential and commercial	15,620	20,500
Land	2,990	632
Total Construction and Development	18,610	21,132
Commercial:		
Commercial real estate	84,327	112,199
Multi-family	2,111	2,087
Other	6,380	7,517
Total Commercial	92,818	121,803
Consumer:		
Home equity lines of credit	20,320	20,959
Second mortgages	56,515	65,703
Other	1,761	762
Total Consumer	78,596	87,424
 Total loans	 427,694	 462,162
Deferred loan costs, net	2,309	2,420
Allowance for loan losses	(6,060 )	(7,581 )
 Total loans receivable, net	 \$ 423,943	 \$ 457,001



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## Notes to Consolidated Financial Statements (Unaudited)

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

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

	Three Months Ended June 30, 2013													
	Construction and Development			Commercial				Consumer				Unallocated	Total	
	Residential		Commercial Land	Commercial Real Estate		Multi-family	Other	Home Equity Lines of Credit		Second Mortgages	Other			
	Residential and Mortgage	Commercial		Estate	Multi-family			Credit	Second Mortgages					
Allowance for loan losses:														
Beginning balance	\$ 1,431	\$ 723	\$ 9	\$ 2,404	\$ 111	\$ 79	\$ 136	\$ 1,361	\$ 7	\$ 41			\$ 6,302	
Charge-offs	(35 )	(87 )	-	(216 )	-	-	-	(40 )	(2 )	-			(380 )	
Recoveries	175	-	-	113	-	1	1	36	2	-			328	
Provision (credit)	(134 )	89	-	(207 )	(2 )	(5 )	(1 )	74	10	(14 )			(190 )	
Ending balance	\$ 1,437	\$ 725	\$ 9	\$ 2,094	\$ 109	\$ 75	\$ 136	\$ 1,431	\$ 17	\$ 27			\$ 6,060	

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Notes to Consolidated Financial Statements (Unaudited)

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

	Nine Months Ended June 30, 2013										
	Construction and Development			Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
	(In thousands)										
Allowance for loan losses:											
Beginning balance	\$1,487	\$724	\$11	\$3,493	\$10	\$226	\$160	\$1,389	\$16	\$65	\$7,500
Charge-offs	(331)	(1,622)	-	(771)	-	-	-	(552)	(7)	-	(3,283)
Recoveries	187	-	-	114	-	22	3	178	3	-	507
Provision (credit)	94	1,623	(2)	(742)	99	(173)	(27)	416	5	(38)	1,235
Ending balance	\$1,437	\$725	\$9	\$2,094	\$109	\$75	\$136	\$1,431	\$17	\$27	\$6,000
Ending balance: individually evaluated for impairment	\$-	\$-	\$-	\$66	\$-	\$-	\$-	\$-	\$-	\$-	\$66
Ending balance: collectively evaluated for impairment	\$1,437	\$725	\$9	\$2,028	\$109	\$75	\$136	\$1,431	\$17	\$27	\$5,934
Loans receivable:											
Ending balance	\$237,670	\$15,620	\$2,990	\$84,327	\$2,111	\$6,380	\$20,320	\$56,515	\$1,761		\$427,694
Ending balance: individually evaluated for impairment	\$2,394	\$8,395	\$-	\$5,296	\$-	\$335	\$20	\$538	\$-		\$16,948
Ending balance: collectively evaluated for impairment	\$235,276	\$7,225	\$2,990	\$79,031	\$2,111	\$6,045	\$20,300	\$55,977	\$1,761		\$410,746

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## Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended June 30, 2012											
	Construction and Development			Commercial			Consumer				Total	
	Residential		Commercial Land	Commercial Real Estate		Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other		Unallocated
	Mortgages	Commercial		Estate	Multi-family							
Allowance for loan losses:												
Beginning balance	\$1,310	\$819	\$11	\$3,809	\$ 37	\$218	\$177	\$ 1,569	\$17	\$ 109	\$8,076	
Charge-offs	(140 )	(199 )	-	-	-	-	(21 )	(110 )	-	-	(470 )	
Recoveries	-	-	-	-	-	-	1	39	2	-	42	
Provision	341	7	-	18	-	(4 )	8	(29 )	(4 )	(2 )	335	
Ending Balance	\$1,511	\$627	\$11	\$3,827	\$ 37	\$214	\$165	\$ 1,469	\$15	\$ 107	\$7,983	

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## Notes to Consolidated Financial Statements (Unaudited)

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

## Nine Months Ended June 30, 2012

	Construction and Development		Commercial				Consumer			Unallocated		Total
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other			
	(In thousands)											
Allowance for loan losses:												
Beginning balance	\$1,458	\$1,627	\$49	\$4,176	\$49	\$317	\$220	\$2,154	\$16	\$35		\$10,101
Charge-offs	(1,115 )	(611 )	-	(855 )	-	(88 )	(72 )	(975 )	(22 )	-		(3,738 )
Recoveries	-	1,139	-	-	-	2	1	114	4	-		1,260
Provision	1,168	(1,528 )	(38 )	506	(12 )	(17 )	16	176	17	72		360
Ending Balance	\$1,511	\$627	\$11	\$3,827	\$37	\$214	\$165	\$1,469	\$15	\$107		\$7,983
Ending balance: individually evaluated for impairment	\$73	\$41	\$-	\$429	\$-	\$-	\$-	\$55	\$-	\$-		\$598
Ending balance: collectively evaluated for impairment	\$1,438	\$586	\$11	\$3,398	\$37	\$214	\$165	\$1,414	\$15	\$107		\$7,385
Loans receivable:												
Ending balance	\$225,213	\$20,571	\$632	\$119,687	\$5,374	\$8,471	\$21,497	\$68,914	\$757			\$471,116
Ending balance: individually evaluated for impairment	\$4,553	\$3,777	\$-	\$6,237	\$-	\$176	\$23	\$813	\$-			\$15,579
Ending balance: collectively evaluated for impairment	\$220,660	\$16,794	\$632	\$113,450	\$5,374	\$8,295	\$21,474	\$68,101	\$757			\$455,537



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## Notes to Consolidated Financial Statements (Unaudited)

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

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

Ending balance Ending balance: individually evaluated for impairment	\$3,971	\$3,788	\$-	\$4,837	\$-	\$175	\$23	\$447	\$-	\$13,241
Ending balance: collectively evaluated for impairment	\$227,832	\$16,712	\$632	\$107,362	\$2,087	\$7,342	\$20,936	\$65,256	\$762	\$448,921

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## 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 June 30, 2013 and September 30, 2012.

	Impaired Loans With Specific Allowance		Impaired Loans With No Specific Allowance	Total Impaired Loans Unpaid Principal Balance	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	
	(In thousands)				
June 30, 2013:					
Residential mortgage	\$-	\$-	\$2,394	\$2,394	\$2,767
Construction and Development:					
Residential and commercial	-	-	8,395	8,395	10,314
Commercial:					
Commercial real estate	1,074	66	4,222	5,296	6,465
Other	-	-	335	335	349
Consumer:					
Home equity lines of credit	-	-	20	20	36
Second mortgages	-	-	538	538	780
Total impaired loans	\$1,074	\$66	\$15,904	\$16,978	\$20,711
September 30, 2012:					
Residential mortgage	\$-	\$-	\$3,971	\$3,971	\$5,344
Construction and Development:					
Residential and commercial	-	-	3,788	3,788	5,615
Commercial:					
Commercial real estate	2,306	351	2,531	4,837	5,300
Other	-	-	175	175	175
Consumer:					
Home equity lines of credit	-	-	23	23	37
Second mortgages	-	-	447	447	743
Total impaired loans	\$2,306	\$351	\$10,935	\$13,241	\$17,214



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## 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 nine months ended June 30, 2013 and 2012.

	Three Months Ended June 30, 2013			Nine Months Ended June 30, 2013		
	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Cash Basis Collection on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Cash Basis Collection on Impaired Loans
	(In thousands)					
Residential mortgage	\$3,131	\$ 5	\$12	\$3,836	\$ 34	\$59
Construction and Development:					<b>59</b>	
Residential and commercial	9,295	59	254	5,563		551
Commercial:						
Commercial real estate	4,797	67	404	4,842	185	571
Other	201	2	11	184	6	15
Consumer:						
Home equity lines of credit	21	1	1	22	2	3
Second mortgages	574	1	1	592	2	5
Total	\$18,019	\$ 135	\$683	\$15,039	\$ 288	\$1,204
	Three Months Ended June 30, 2012			Nine Months Ended June 30, 2012		
	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Cash Basis Collection on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Cash Basis Collection on Impaired Loans
	(In thousands)					
Residential mortgage	\$4,087	\$ 22	\$46	\$2,530	\$ 82	\$143
Construction and Development:						
Residential and commercial	3,304	13	568	3,299	49	820
Commercial:						
Commercial real estate	6,156	69	97	6,662	222	281
Other	176	2	2	181	5	5
Consumer:						
Home equity lines of credit	23	-	-	27	-	-
Second mortgages	767	1	3	637	10	16

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Other	-	-	-	2	-	-
Total	\$14,513	\$ 107	\$716	\$13,338	\$ 368	\$1,265

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## Notes to Consolidated Financial Statements (Unaudited)

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

The following table presents the classes of the loan portfolio summarized by loans considered to be rated as pass and the categories of special mention, substandard and doubtful within the Company's internal risk rating system as of June 30, 2013 and September 30, 2012.

	Pass	Special Mention	Substandard (In thousands)	Doubtful	Total
June 30, 2013:					
Residential mortgage	\$234,853	\$145	\$2,672	\$-	\$237,670
Construction and Development:					
Residential and commercial	5,024	760	9,836	-	15,620
Land	2,653	337	-	-	2,990
Commercial:					
Commercial real estate	70,063	3,778	10,420	66	84,327
Multi-family	2,111	-	-	-	2,111
Other	4,826	1,214	340	-	6,380
Consumer:					
Home equity lines of credit	20,300	-	20	-	20,320
Second mortgages	55,583	125	807	-	56,515
Other	1,737	23	1	-	1,761
Total	\$397,150	\$6,382	\$24,096	\$66	\$427,694
September 30, 2012:					
Residential mortgage	\$227,651	\$149	\$4,003	\$-	\$231,803
Construction and Development:					
Residential and commercial	6,920	1,497	12,083	-	20,500
Land	-	632	-	-	632
Commercial:					
Commercial real estate	89,646	4,441	17,761	351	112,199
Multi-family	2,087	-	-	-	2,087
Other	5,849	900	768	-	7,517
Consumer:					
Home equity lines of credit	20,936	-	23	-	20,959
Second mortgages	64,672	38	993	-	65,703
Other	761	-	1	-	762
Total	\$418,522	\$7,657	\$35,632	\$351	\$462,162

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## Notes to Consolidated Financial Statements (Unaudited)

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

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

	June 30, 2013	September 30, 2012
	(In thousands)	
Non-accrual loans:		
Residential mortgage	\$2,360	\$ 3,540
Construction and Development:		
Residential and commercial	8,395	3,788
Commercial:		
Commercial real estate	2,907	1,458
Other	163	201
Consumer:		
Home equity lines of credit	20	23
Second mortgages	713	739
Total non-accrual loans	\$14,558	\$ 9,749

Under the Bank's loan policy, once a loan has been placed on non-accrual status, we do not resume interest accruals until the loan has been brought current and has maintained a current payment status for not less than six consecutive months. Interest income that would have been recognized on nonaccrual loans had they been current in accordance with their original terms was \$283,000 and \$163,000 for the three months ended June 30, 2013 and 2012, respectively, and was \$585,000 and \$437,000 for the nine months ended June 30, 2013 and 2012, respectively. There were no loans past due 90 days or more and still accruing interest at June 30, 2013 or September 30, 2012.

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## Notes to Consolidated Financial Statements (Unaudited)

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

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by whether a loan payment is “current,” that is, it is received from a borrower by the scheduled due date, or the length of time a scheduled payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories as of June 30, 2013 and September 30, 2012.

	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Total Loans Receivable
(In thousands)						
June 30, 2013:						
Residential mortgage	\$233,466	\$1,670	\$174	\$2,360	\$4,204	\$237,670
Construction and Development:						
Residential and commercial	7,225	-	-	8,395	8,395	15,620
Land	2,990	-	-	-	-	2,990
Commercial:						
Commercial real estate	80,022	1,398	-	2,907	4,305	84,327
Multi-family	2,111	-	-	-	-	2,111
Other	6,217	-	-	163	163	6,380
Consumer:						
Home equity lines of credit	20,228	58	14	20	92	20,320
Second mortgages	55,013	555	234	713	1,502	56,515
Other	1,752	2	7	-	9	1,761
Total	\$409,024	\$3,683	\$429	\$14,558	\$18,670	\$427,694
September 30, 2012:						
Residential mortgage	\$226,861	\$1,020	\$382	\$3,540	\$4,942	\$231,803
Construction and Development:						
Residential and commercial	16,712	-	-	3,788	3,788	20,500
Land	632	-	-	-	-	632
Commercial:						
Commercial real estate	108,963	-	1,778	1,458	3,236	112,199
Multi-family	2,087	-	-	-	-	2,087
Other	7,316	-	-	201	201	7,517
Consumer:						
Home equity lines of credit	20,716	-	220	23	243	20,959
Second mortgages	63,824	854	286	739	1,879	65,703
Other	758	-	4	-	4	762
Total	\$447,869	\$1,874	\$2,670	\$9,749	\$14,293	\$462,162

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Notes to Consolidated Financial Statements (Unaudited)

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

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

The Company had 16 and 15 loans classified as TDRs with an outstanding balance of \$13.9 million and \$9.6 million at June 30, 2013 and September 30, 2012, respectively. Of the total TDR loans, eight loans deemed TDRs with an aggregate balance of \$3.5 million at June 30, 2013 were classified as impaired; however, they were performing prior to the restructure and continued to perform under their restructured terms through June 30, 2013, and, accordingly, were deemed to be performing loans at June 30, 2013 and we continued to accrue interest on such loans through such date. At June 30, 2013, eight TDRs with an aggregate balance of \$10.4 million were deemed non-accruing TDRs. The \$10.4 million of TDRs deemed non-accruing TDRs, which were also deemed impaired at June 30, 2013, were comprised of four construction and development loans to one borrower with an aggregate balance of \$7.3 million, two construction and development loans to one borrower with an aggregate balance of \$1.1 million, one commercial real estate loan with a balance of \$1.1 million and one commercial real estate loan with a balance of \$892,000 at June 30, 2013. At September 30, 2012, 13 loans deemed TDRs with an aggregate balance of \$8.2 million were classified as impaired; however, they were performing prior to the restructure and continued to perform under their restructured terms as of September 30, 2012. During fiscal 2012 we charged-off \$37,000 with respect to one home equity line of credit loan which was deemed a TDR. At September 30, 2012, two TDRs with an aggregate balance of \$1.4 million were deemed non-accruing TDRs. The \$1.4 million of TDRs deemed non-accruing TDRs, which were also deemed impaired at September 30, 2012, were comprised of two construction and development loans. All of such loans have been classified as TDRs since we modified the payment terms and in some cases interest rate from the original agreements and allowed the borrowers, who were experiencing financial difficulty, to make interest only payments for a period of time in order to relieve some of their overall cash flow burden. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and result in potential incremental losses. These potential incremental losses have been factored into our overall estimate of the allowance for loan losses. The level of any defaults will likely be affected by future economic conditions. A default on a troubled debt restructured loan for purposes of this disclosure occurs when the borrower is 90 days past due or a foreclosure or repossession of the applicable collateral has occurred.

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Notes to Consolidated Financial Statements (Unaudited)

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

The following table presents our TDR loans as of June 30, 2013 and September 30, 2012.

	Total Troubled Debt Restructurings		Troubled Debt Restructured Loans That Have Defaulted on Modified Terms Within The Past 12 Months	
	Number of Loans	Recorded Investment (Dollars in thousands)	Number of Loans	Recorded Investment
At June 30, 2013:				
Residential mortgage	4	\$540	-	\$ -
Construction & Development:				
Residential and commercial	6	8,395	6	8,395
Commercial:				
Commercial real estate	5	4,721	2	1,966
Other	1	173	-	-
Total	16	\$13,829	8	\$ 10,361
At September 30, 2012:				
Residential mortgage	4	\$864	-	\$ -
Construction & Development:				
Residential and commercial	2	1,426	2	1,426
Land Loan	2	1,148	-	-
Commercial:				
Commercial real estate	6	6,000	-	-
Other	1	175	-	-
Total	15	\$9,613	2	\$ 1,426

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

	June 30, 2013		September 30, 2012	
	Performing	Non-Performing	Performing	Non-Performing
	(In thousands)			
Residential mortgage	\$ 540	\$ -	\$ 864	\$ -
Construction and Development:				

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Residential and commercial	-	8,395	-	1,426
Land loan	-	-	1,148	-
Commercial:				
Commercial real estate	2,755	1,966	6,000	-
Other	173	-	175	-
Total	\$ 3,468	\$ 10,361	\$ 8,187	\$ 1,426

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## Notes to Consolidated Financial Statements (Unaudited)

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

The following table shows the activity in loans which were first deemed to be TDRs during the three months and nine months ended June 30, 2013 and 2012. No loans were first deemed to be TDRs during the three months ended June 30, 2012

	Number of Loans	For the Three Months Ended June 30,				
		2013		2012		
		Pre- Modifications Outstanding Recorded Investments	Post- Modifications Outstanding Recorded Investments (Dollars in thousands)	Restructured During Period Number of Loans	Pre- Modifications Outstanding Recorded Investments	Post- Modifications Outstanding Recorded Investments
Troubled Debt Restructurings: Construction and Development: Residential and commercial Total troubled debt restructurings	   1  1	  \$ 1,074  \$ 1,074	  \$ 1,074  \$ 1,074	  -  -	  \$ -  \$ -	  \$ -  \$ -

	Number of Loans	For the Nine Months Ended June 30,				
		2013		2012		
		Pre- Modifications Outstanding Recorded Investments	Post- Modifications Outstanding Recorded Investments (Dollars in thousands)	Restructured During Period Number of Loans	Pre- Modifications Outstanding Recorded Investments	Post- Modifications Outstanding Recorded Investments
Troubled Debt Restructurings: Construction and Development: Residential and commercial Total troubled debt restructurings	   5  5	  \$ 9,408  \$ 9,408	  \$ 9,408  \$ 9,408	  2  2	  \$ 1,810  \$ 1,810	  \$ 1,810  \$ 1,810

## Note 7 - Regulatory Matters

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

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

Management believes, as of June 30, 2013, that the Bank met all capital adequacy requirements to which it was subject including individual minimum capital ratios imposed by the OCC of 8.5% Tier 1 capital to adjusted total assets, 10.5% Tier 1 risk-based capital to risk-weighted assets and 12.5% total risk-based capital to risk-weighted assets.

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## Notes to Consolidated Financial Statements (Unaudited)

## Note 7 - Regulatory Matters (Continued)

The Bank's actual capital amounts and selected capital ratios are presented in the table below at the dates indicated:

	Actual		For Minimum Regulatory Capital Requirement Purposes (Dollars in thousands)		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2013:						
Tangible Capital (to tangible assets)	\$ 78,001	11.99 %	\$ ≥ 9,759	1.50 %	N/A	
Core Capital (to adjusted tangible assets)	78,001	11.99	≥26,025	4.00	\$ ≥32,531	5.00 %
Tier 1 Capital (to risk-weighted assets)	78,001	20.27	≥15,392	4.00	≥23,088	6.00
Total risk-based Capital (to risk-weighted assets)	82,828	21.52	≥30,784	8.00	≥38,480	10.00
As of September 30, 2012:						
Tangible Capital (to tangible assets)	\$ 54,436	7.70 %	\$ ≥10,601	1.50 %	N/A	
Core Capital (to adjusted tangible assets)	54,436	7.70	≥28,269	4.00	\$ ≥35,336	5.00 %
Tier 1 Capital (to risk-weighted assets)	54,436	12.96	≥16,801	4.00	≥25,202	6.00
Total risk-based Capital (to risk-weighted assets)	59,715	14.22	≥33,602	8.00	≥42,003	10.00

During the nine months ended June 30, 2013, the Company contributed \$25.0 million in additional capital to the Bank upon the successful completion of the "second-step" conversion and offering on October 11, 2012.

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Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements

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

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

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

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

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

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

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

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

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## Notes to Consolidated Financial Statements (Unaudited)

## Note 8 - Fair Value Measurements (Continued)

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

	Total	June 30, 2013		Level 3
		Level 1	Level 2	
(In thousands)				
Investment securities available for sale:				
Debt securities:				
U.S. government agencies	\$19,117	\$-	\$19,117	\$-
State and municipal obligations	11,942	-	11,942	-
Single issuer trust preferred security	811	-	811	-
Corporate debt securities	1,770	-	1,770	-
Total investment securities available for sale	33,640	-	33,640	-
Mortgage-backed securities available for sale:				
FNMA:				
Adjustable-rate	1,109	-	1,109	-
Fixed-rate	18,562	-	18,562	-
FHLMC:				
Adjustable-rate	219	-	219	-
Fixed-rate	13,092	-	13,092	-
CMO, fixed-rate	58,829	-	58,829	-
Total mortgage-backed securities available for sale	91,811	-	91,811	-
Total	\$125,451	\$-	\$125,451	\$-

	Total	September 30, 2012		Level 3
		Level 1	Level 2	
(In thousands)				
Investment securities available for sale:				
Debt securities:				
U.S. government agencies	\$23,921	\$-	\$23,921	\$-
FHLB notes	696	-	696	-
State and municipal obligations	9,387	-	9,387	-
Single issuer trust preferred security	764	-	764	-
Corporate debt securities	2,057	-	2,057	-
Total investment securities available for sale	\$36,825	-	\$36,825	-
Mortgage-backed securities available for sale:				

FNMA:				
Adjustable-rate	1,215	-	1,215	-
Fixed-rate	710	-	710	-
FHLMC, adjustable-rate	261	-	261	-
GNMA, adjustable-rate	1	-	1	-
CMO, fixed-rate	41,496	-	41,496	-
Total mortgage-backed securities available for sale	43,683	-	43,683	-
Total	\$80,508	\$-	\$80,508	\$-

The Company monitors and evaluates available data to perform fair value measurements on an ongoing basis and recognizes transfers among the levels of the fair value hierarchy as of the date event or a change in circumstances that affects the valuation method chosen. There were no changes at June 30, 2013 or September 30, 2012.

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## Notes to Consolidated Financial Statements (Unaudited)

## Note 8 - Fair Value Measurements (Continued)

For assets measured at fair value on a nonrecurring basis that were still held at the end of the period, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at June 30, 2013 and September 30, 2012:

	Total	June 30, 2013		Level 3
		Level 1	Level 2	
		(In thousands)		
Other real estate owned	\$4,754	\$-	\$-	\$4,754
Impaired loans	4,120	-	-	4,120
Total	\$8,874	\$-	\$-	\$8,874

	Fair Value at June 30, 2013	Valuation Technique (Dollars in thousands)	Unobservable Input	Range	
Other real estate owned	\$ 4,754	Appraisal of collateral(1)	Collateral discounts(2)	7-72	%
Impaired loans(3)	4,120	Appraisal of collateral(1)	Collateral discounts(2)	1-33	%
Total	\$ 8,874				

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

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

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

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

September 30, 2012

	Fair Value at September 30, 2012	Valuation Technique (Dollars in thousands)	Unobservable Input	Range
Other real estate owned	\$ 2,991	Appraisal of collateral(1)	Collateral discounts(2)	20-63 %
Impaired loans(3)	5,925	Appraisal of collateral(1)	Collateral discounts(2)	0-16 %
Total	\$ 8,916			

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

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

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



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## Notes to Consolidated Financial Statements (Unaudited)

## Note 8 - Fair Value Measurements (Continued)

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

	Fair Value at June 30, 2013 (In thousands)	Valuation Technique	Observable Input		Method or Value as of June 30, 2013
Servicing rights	\$ 243	Discounted cash flow	Discount rate	11.19%	Rate used through modeling period
			Loan prepayment speeds	16.82%	Weighted-average CPR
			Servicing fees	0.25%	Of loan balance
			Servicing costs	6.67%	Monthly servicing cost per account
				25.00%	Additional monthly servicing cost per loan on loans more than 30 days delinquent
				0.00%	Of loans more than 30 days delinquent

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

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

Servicing fees	0.25%	Of loan balance
Servicing costs	6.25%	Monthly servicing cost per account
	25.00%	Additional monthly servicing cost per loan on loans more than 30 days delinquent
	0.00%	Of loans more than 30 days delinquent

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

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Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements (Continued)

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 June 30, 2013 and September 30, 2012. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since June 30, 2013 and September 30, 2012 and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

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

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

**Investment Securities**—Investment and mortgage-backed securities available for sale (carried at fair value) are measured at fair value on a recurring basis. Fair value measurements for these securities are typically obtained from independent pricing services that we have engaged for this purpose. When available, we, or our independent pricing service, use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, our independent pricing service's applications apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare evaluations. For each asset class, pricing applications and models are based on information from market sources and integrate relevant credit information. All of our securities available for sale are valued using either of the foregoing methodologies to determine fair value adjustments recorded to our financial statements. The Company had no Level 1 or Level 3 securities as of June 30, 2013 or September 30, 2012.

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

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

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

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

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

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Notes to Consolidated Financial Statements (Unaudited)

Note 8 - Fair Value Measurements (Continued)

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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## Notes to Consolidated Financial Statements (Unaudited)

## Note 8 - Fair Value Measurements (Continued)

The carrying amount and estimated fair value of the Company's financial instruments as of June 30, 2013 and September 30, 2012 are presented below:

	Carrying Amount	Fair Value	June 30, 2013		
			Level 1 (In thousands)	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	\$67,383	\$67,383	\$67,383	\$-	\$-
Investment securities available for sale	125,451	125,451	-	125,451	-
Loans receivable, net	423,943	427,743	-	-	427,743
Accrued interest receivable	1,501	1,501	-	1,501	-
Restricted stock	3,718	3,718	-	3,718	-
Mortgage servicing rights	243	243	-	243	-
Financial liabilities:					
Savings accounts	44,348	44,348	-	44,348	-
Checking and NOW accounts	114,470	114,470	-	114,470	-
Money market accounts	69,437	69,437	-	69,437	-
Certificates of deposit	288,883	295,991	-	295,991	-
FHLB advances	48,000	52,783	-	52,783	-
Accrued interest payable	269	269	-	269	-

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## Notes to Consolidated Financial Statements (Unaudited)

## Note 8 - Fair Value Measurements (Continued)

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

## Note 9 – Income Taxes

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

	Nine Months Ended June 30,	
	2013	2012
	(In thousands)	
At federal statutory rate	\$ (228 )	\$ 803
Adjustments resulting from:		
Tax-exempt interest	(57 )	(11 )
Low-income housing credit	-	(33 )
Earnings on bank-owned life insurance	(350 )	(136 )
Other	(3 )	(3 )
	\$ (638 )	\$ 620
Effective tax rate	95.10 %	26.24 %

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Notes to Consolidated Financial Statements (Unaudited)

Note 9 – Income Taxes (Continued)

Deferred income taxes at June 30, 2013 and September 30, 2012 were as follows:

	June 30, 2013	September 30, 2012	
	(In thousands)		
Deferred Tax Assets:			
Unrealized loss on investments available for sale	\$1,172	\$ -	
Allowance for loan losses	3,637	3,362	
Nonaccrual interest	460	374	
Write-down of real estate owned	288	222	
Alternative minimum tax (AMT) credit carryover	68	64	
Low-income housing tax credit carryover	337	337	
Supplement Employer Retirement Plan	422	384	
Charitable contributions	201	198	
Depreciation	136	33	
State net operating loss	886	800	
Federal net operating loss	2,252	2,166	
Other	102	74	
Total Deferred Tax Assets	9,961	8,014	
Valuation allowance for state net operating loss	(886 )	(800 )	
Valuation allowance for charitable contributions	(201 )	(74 )	
Total Deferred Tax Assets, Net of Valuation Allowance	\$8,874	\$ 7,140	
Deferred Tax Liabilities:			
Unrealized gain on investments available for sale	-	(329 )	
Mortgage servicing rights	(83 )	(36 )	
Total Deferred Tax Liabilities	(83 )	(365 )	
Deferred Tax Assets, Net	\$8,791	\$ 6,775	



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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 hereunder). Forward looking statements are not historical facts but instead represent only the beliefs, expectations or opinions of Malvern Bancorp, Inc. and its management regarding future events, many of which, by their nature, are inherently uncertain. Forward looking statements may be identified by the use of such words as: “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” or words of similar meaning, or future conditional terms such as “will,” “would,” “should,” “could,” “may,” “likely,” “probably,” or “possibly.” Forward looking statements include, but are not limited to, financial projections and estimates and their underlying assumptions; statements regarding plans, objectives and expectations with respect to future operations, products and services; and statements regarding future performance. Such statements are subject to certain risks, uncertainties and assumption, many of which are difficult to predict and generally are beyond the control of Malvern Bancorp, Inc. and its management, that could cause actual results to differ materially from those expressed in, or implied or projected by, forward looking statements. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward looking statements: (1) economic and competitive conditions which could affect the volume of loan originations, deposit flows and real estate values; (2) the levels of non-interest income and expense and the amount of loan losses; (3) competitive pressure among depository institutions increasing significantly; (4) changes in the interest rate environment causing reduced interest margins; (5) general economic conditions, either nationally or in the markets in which Malvern Bancorp, Inc. is or will be doing business, being less favorable than expected; (6) political and social unrest, including acts of war or terrorism; (7) changes which affect our ability to realize our deferred tax assets; or (8) legislation or changes in regulatory requirements adversely affecting the business in which Malvern Bancorp, Inc. will be engaged. Malvern Bancorp, Inc. undertakes no obligation to update these forward looking statements to reflect events or circumstances that occur after the date on which such statements were made.

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

General

On October 11, 2012, Malvern Bancorp, Inc. (the “Company” or “Malvern Bancorp-New”) completed the “second-step” conversion of the Bank from the mutual holding company structure to the stock holding company structure pursuant to a Plan of Conversion and Reorganization. Upon completion of the conversion and reorganization, Malvern Bancorp-New, a Pennsylvania company, became the holding company for Malvern Federal Savings Bank (“Malvern Federal Savings” or the “Bank”) and owner of all of the issued and outstanding shares of the Bank’s common stock. In connection with the conversion and reorganization, 3,636,875 shares of common stock, par value \$0.01 per share, of Malvern Bancorp-New were sold in a subscription offering to certain depositors of the Bank and other investors for \$10 per share, or \$36.4 million in the aggregate, and 2,921,598 shares of common stock were issued in exchange for the outstanding shares of common stock of the former federally chartered mid-tier holding company for the Bank, Malvern Federal Bancorp, Inc. (the “Mid-Tier Holding Company”) held by the “public” shareholders of the Mid-Tier Holding Company (all shareholders except Malvern Federal Mutual Holding Company). Each share of common stock

of the Mid-Tier Holding Company was converted into the right to receive 1.0748 shares of common stock of the Malvern Bancorp-New in the conversion and reorganization. As a result of the stock offering and reorganization, the Company had \$56.7 million of subscriptions, which were held in a deposit escrow account at the Bank at September 30, 2012. Upon completion of the stock offering and the exchange on October 11, 2012, 6,558,473 shares of Malvern Bancorp-New common stock were issued and outstanding. Per share amounts for the three and nine months ended June 30, 2012 have been adjusted to reflect the second-step conversion. See Note 3 of the Notes to Consolidated Financial Statements.

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In October 2010, the Bank entered into a Supervisory Agreement (the “Supervisory Agreement”) with the Office of Thrift Supervision (the “OTS”) (the regulatory oversight functions and authority of the OTS related to the Bank were subsequently transferred to the Office of the Comptroller of the Currency (the “OCC”). Among other things, the Supervisory Agreement prohibited, with certain limited exceptions, the Bank from making any new commercial real estate loans and/or commercial and industrial loans without the prior written non-objection of the OCC. In addition, as a result of the Supervisory Agreement, the Bank was required to limit its asset growth in any quarter to an amount which did not exceed the amount of net interest credited on deposit liabilities during the quarter, unless otherwise permitted by the OCC. The OCC recently notified the Bank that, upon its review of the Bank’s request, the Bank is no longer subject to the restrictions on commercial lending and asset growth. As a result, we expect to resume in the near future, subject to our enhanced policies and procedures and underwriting standards, originations of new commercial loans, which will consist primarily of commercial real estate loans, on a relatively modest basis consistent with our business plan. In addition, we expect to reverse the shrinkage of our asset base in recent periods and to resume a relatively modest growth trajectory of our interest-earning assets in the near future.

## Critical Accounting Policies

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

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

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

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

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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 previously have been available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the level of the allowance for loan losses at June 30, 2013 was appropriate under U.S. GAAP.

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

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

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

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

nonrecurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or write-downs of individual assets.

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

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

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

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

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

Fair value measurements for assets where there exists limited or no observable market data are based primarily upon the Company's or other third-party's estimates, and therefore, are often calculated based on the characteristics of the asset, the economic and competitive environment and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future valuations. At June 30, 2013, the Company had \$8.9 million of assets that were measured at fair value on a non-recurring basis using Level 3 measurements.

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

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

Realization of a deferred tax asset requires us to exercise significant judgment and is inherently uncertain because it requires the prediction of future occurrences. Our net deferred tax asset amounted to \$8.8 million at June 30, 2013. Other than an \$886,000 allowance with respect to state net operating losses and \$201,000 allowance with respect to charitable contributions, we have not established a valuation allowance against our net deferred tax asset as we believe it is more likely than not that the remaining amount of the asset will be realized. In evaluating the need for a valuation allowance, we must estimate our taxable income in future years and viable tax planning strategies we could employ so that the asset would not go unused. Our deferred tax asset may be reduced in the future by an additional valuation allowance due to changes in our estimates of future income or if our tax planning strategies do not support the amount of the deferred tax asset. If it is determined that a valuation allowance with respect to our deferred tax asset is necessary, we may incur a charge to earnings for the amount included therein.



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

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

Our total assets decreased \$45.9 million or 6.5% to \$665.9 million at June 30, 2013 compared to \$711.8 million at September 30, 2012. The decrease was primarily due to a \$64.5 million or 48.9% decrease in cash and cash equivalents and a \$33.1 million or 7.2% reduction in net loans receivable. The decrease was partially offset by a \$44.9 million or 55.8% increase in investment securities. At June 30, 2013 our bank owned life insurance (“BOLI”) increased by \$5.9 million over the level of BOLI at September 30, 2012 due to our purchase of an additional \$6.0 million of coverage, which purchase was partially offset by the effect of death benefit proceeds received on our BOLI during the nine months ended June 30, 2013. The decrease in cash and cash equivalents at June 30, 2013 compared to September 30, 2012 was due to a \$20.8 million refund of excess stock subscriptions received in our second-step conversion and stock offering, as well as the utilization of cash to purchase additional investment securities during the period. Our portfolio of investment securities, all of which are held for sale, increased by \$44.9 million to \$125.5 million at June 30, 2013 compared to \$80.5 million at September 30, 2012. The \$33.1 million decrease in net loans receivable was due primarily to a \$27.9 million decline in commercial real estate loans, as well as a \$9.2 million decrease in consumer second mortgage loans.

Our total liabilities decreased \$77.8 million or 12.0% to \$571.4 million at June 30, 2013 compared to \$649.2 million at September 30, 2012. The decrease was primarily due to the elimination of the \$56.7 million stock subscription escrow, reflecting the closing of our second-step conversion on October 11, 2012, and a \$23.9 million decrease in total deposits. Our total deposits were \$517.1 million at June 30, 2013 compared to \$541.0 million at September 30, 2012.

Shareholders’ equity increased by \$31.9 million to \$94.5 million at June 30, 2013 compared to \$62.6 million at September 30, 2012. The increase was primarily due to the \$34.7 million in net proceeds received from the stock offering undertaken as part of the “second-step” conversion of the Bank from the mutual holding company structure to the stock holding company structure, which was completed on October 11, 2012. Our ratio of equity to assets was 14.20% at June 30, 2013.

## Asset Quality

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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.

	June 30, 2013	March 31, 2013	September 30, 2012
		(In thousands)	
Loans 31-89 days delinquent:			
Residential mortgage	\$1,844	\$ 1,266	\$ 1,402
Commercial:			
Commercial real estate	1,398	2,631	1,778
Consumer:			
Home equity lines of credit	72	203	220
Second mortgages	789	763	1,140
Other	9	1	4
Total	\$4,112	\$ 4,864	\$ 4,544

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Federal regulations and our policies require that we utilize an internal asset classification system as a means of reporting problem and potential problem assets. We have incorporated an internal asset classification system, substantially consistent with Federal banking regulations, as a part of our credit monitoring system. Federal banking regulations set forth a classification scheme for problem and potential problem assets as “substandard,” “doubtful” or “loss” assets. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the insured institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are required to be designated “special mention.”

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

	June 30, 2013	March 31, 2013 (In thousands)	September 30, 2012
Classified assets:			
Substandard(1)	\$ 29,230	\$ 39,438	\$ 40,226
Doubtful	66	79	351
Loss	-	-	-
Total classified assets	29,296	39,517	40,577
Special mention assets	6,382	6,857	7,657
Total classified and special mention assets	\$ 35,678	\$ 46,374	\$ 48,234

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(1) Includes other real estate owned of \$5.1 million, \$4.3 million and \$4.6 million, at June 30, 2013, March 31, 2013 and September 30, 2012, respectively.

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

	June 30, 2013	March 31, 2013 (Dollars in thousands)	September 30, 2012		
Non-accruing loans:					
Residential mortgage	\$ 2,360	\$ 3,585	\$ 3,540		
Construction or development:					
Residential and commercial(1)	8,395	9,496	3,788		
Commercial:					
Commercial real estate(2)	2,907	3,200	1,458		
Other	163	182	201		
Consumer:					
Home equity lines of credit	20	22	23		
Second mortgages	713	767	739		
Total non-accruing loans	14,558	17,252	9,749		
Other real estate owned and other foreclosed assets:					
Residential mortgage	2,025	1,238	1,262		
Construction or development:					
Residential and commercial	801	-	-		
Commercial:					
Commercial real estate	1,721	2,280	2,405		
Multi-family	171	405	486		
Consumer:					
Second mortgages	416	416	441		
Total	5,134	4,339	4,594		
Total non-performing assets	19,692	21,591	14,343		
Performing troubled debt restructurings:					
Residential mortgage	540	547	864		
Construction or development:					
Land	-	1,142	1,148		
Commercial:					
Commercial real estate	2,755	4,529	6,000		
Other	173	175	175		
Total	3,468	6,393	8,187		
Total non-performing assets and performing troubled debt restructurings	\$ 23,160	\$ 27,984	\$ 22,530		
Ratios:					
Total non-accrual loans as a percent of gross loans	3.40	%	3.83	%	2.11
					%

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Total non-performing assets as a percent of total assets	2.96	%	3.16	%	2.01	%
Total non-performing assets and performing troubled debt restructurings as a percent of total assets	3.48	%	4.09	%	3.17	%

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- (1) Includes six loans classified as TDRs in the aggregate amount of \$8.4 million at June 30, 2013 and \$8.6 million at March 31, 2013 and two loans classified as TDRs in the aggregate amount of \$1.4 million at September 30, 2012.
- (2) Includes two loans classified as TDRs in the aggregate amount of \$2.0 million at June 30, 2013 and one loan classified as a TDR in the amount of \$1.4 million at March 31, 2013.

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At June 30, 2013, our total non-performing assets amounted to \$19.7 million, a \$1.9 million reduction compared to total non-performing assets at March 31, 2013 and an increase of \$5.3 million compared to total non-performing assets at September 30, 2012. At June 30, 2013, the Company's total non-accruing loans amounted to \$14.6 million, or 3.40% of total loans, compared to \$17.3 million of non-accruing loans, or 3.83% of total loans at March 31, 2013 and \$9.7 million of non-accruing loans, or 2.11% of total loans at September 30, 2012. The \$2.7 million decrease in non-accruing loans for the three months ended June 30, 2013 compared to March 31, 2013 was due primarily to the transfer to other real estate owned (REO) of four residential mortgage loans in the amount of \$1.6 million and three construction and development loans in the amount of \$801,000.

The increase in total non-performing assets at June 30, 2013 compared to September 30, 2012 primarily reflects the Company's determination made during the quarter ended March 31, 2013 to place four construction and development loans to one borrower, with an outstanding balance of \$8.4 million as of December 31, 2012, on non-accrual and impaired status. As a result, the Company recorded a charge-off to the allowance for loan losses in the amount of \$959,000 with respect to this loan relationship during the quarter ended March 31, 2013 to reflect the fair value of the collateral for the loans. The remaining \$7.3 million aggregate carrying value of these loans was deemed to be impaired and continue to be on non-accrual status as of June 30, 2013. These four loans are for site development for a 190 unit residential townhouse community in Downingtown, Pennsylvania, and for the demolition and redevelopment for mixed use commercial and residential purposes of six duplex multi-family homes and nine parcels of vacant land on approximately seven acres in Downingtown, Pennsylvania.

For the nine months ended June 30, 2013 and 2012, additional gross interest income which would have been recorded had all of our non-accruing loans been current in accordance with their original terms amounted to \$585,000 and \$437,000, respectively. The amount of interest payments made on such loans was \$345,000 for the nine months ended June 30, 2013.

Our non-performing assets include REO in addition to non-performing loans. At June 30, 2013, our total REO amounted to \$5.1 million, an increase of \$540,000 compared to total REO at September 30, 2012. The \$540,000 increase in REO at June 30, 2013 compared to September 30, 2012, was due to \$3.2 million in additions in REO, which was partially offset by \$1.8 million of REO sales, at a net gain of \$110,000, and \$966,000 in reductions to REO fair values which are reflected in other REO expense during the first nine months of fiscal 2013.

While not considered non-performing, our performing troubled debt restructurings are closely monitored as they consist of loans that have been modified where the borrower is experiencing financial difficulty. Troubled debt restructurings may be deemed to have a higher risk of loss than loans which have not been restructured. At June 30, 2013, our total performing troubled debt restructurings amounted to \$3.5 million compared to \$8.2 million of performing troubled debt restructurings at September 30, 2012. The reduction in troubled debt restructurings at June 30, 2013 compared to September 30, 2012 was due primarily to a \$2.9 million payoff on four performing TDRs which consisted of \$1.1 million in land loans and \$1.8 million in commercial real estate loans, the transfer of a \$892,000 TDR to non-accrual status during the first nine months of fiscal 2013, as well as a \$303,000 partial charge-off due to a reduction in the valuation of a property securing five loans related to one borrower.

## Comparison of Operating Results for the Three and Nine Months Ended June 30, 2013 and 2012

General. Our net income was \$141,000 for the three months ended June 30, 2013 compared to net income of \$272,000 for the three months ended June 30, 2012. On a per share basis, the net income was \$0.02 per share for the

quarter ended June 30, 2013, compared to net income of \$0.04 per share (as adjusted) for the quarter ended June 30, 2012. The primary reason for the \$131,000 difference in the third quarter of fiscal 2013 compared to the third quarter in fiscal 2012 was due to a \$403,000 decrease in net interest income, and a \$319,000 increase in other expenses, which were partially offset by a \$525,000 decrease in the provision for loan losses and a \$73,000 difference in total income taxes. Our net interest rate spread of 2.32% and net interest margin of 2.48% for the three months ended June 30, 2013 decreased when compared to a net interest rate spread of 2.67% and a net interest margin of 2.80% for the three months ended June 30, 2012.

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Our net loss was \$33,000 for the nine months ended June 30, 2013 compared to net income of \$1.7 million for the nine months ended June 30, 2012. On a per share basis, our net loss was \$0.01 per share for the nine months ended June 30, 2013, compared to net income of \$0.27 per share (as adjusted) for the nine months ended June 30, 2012. The primary reason for the \$1.8 million reduction in our net income in the first nine months of fiscal 2013 compared to the comparable prior fiscal year period was a \$1.7 million decrease in net interest income, an \$895,000 increase in the provision for loan losses and an \$855,000 increase in total operating expenses. These increases were partially offset by a \$434,000 increase in total other income and a \$1.3 million decrease in income taxes in the nine months ended June 30, 2013 compared to the nine months ended June 30, 2012. Our net interest rate spread of 2.23% and net interest margin of 2.40% for the nine months ended June 30, 2013 decreased when compared to a net interest rate spread of 2.70% and a net interest margin of 2.84% for the nine months ended June 30, 2012.

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.

	Average Balance	Three Months Ended June 30,		Average Yield/Rate (Dollars in thousands)	2012		
		2013 Interest	Average Yield/Rate		Average Balance	Interest	Average Yield/Rate
<b>Interest Earning Assets:</b>							
Loans receivable (1)	\$ 440,757	\$ 4,931	4.48 %	\$ 472,086	\$ 5,894	4.99 %	
Investment securities	120,792	561	1.86	88,214	410	1.86	
Deposits in other banks	64,694	34	0.21	50,695	16	0.13	
FHLB stock	3,703	2	0.22	4,662	1	0.09	
Total interest-earning assets	629,946	5,528	3.51	615,657	6,321	4.11	
Non-interest-earning assets	43,807			34,022			
Total assets	\$ 673,753			\$ 649,679			
<b>Interest Bearing Liabilities:</b>							
Demand and NOW accounts	\$ 92,136	24	0.10	\$ 93,715	60	0.26	
Money market accounts	68,675	48	0.28	76,138	85	0.45	
Savings accounts	44,567	5	0.04	47,791	12	0.10	
Time deposits	293,838	1,123	1.53	294,654	1,432	1.94	
Total deposits	499,216	1,200	0.96	512,298	1,589	1.24	
FHLB borrowings	48,000	426	3.55	48,468	427	3.52	
T o t a l interest-bearing liabilities	547,216	1,626	1.19	560,766	2,016	1.44	
Non-interest-bearing liabilities	29,647			26,364			
Total liabilities	576,863			587,130			
Shareholders' Equity	96,890			62,549			



Total liabilities and shareholders' equity	\$ 673,753			\$ 649,679	
Net interest-earning assets	\$ 82,730			\$ 54,891	
Net interest income; average interest rate spread		\$ 3,902	2.32 %		\$ 4,305 2.67 %
Net interest margin			2.48 %		2.80 %
Average interest-earning assets to average interest-bearing liabilities	115.12 %			109.79 %	

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

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	Nine Months Ended June 30,						
	2013					2012	
	Average Balance	Interest	Average Yield/Rate (Dollars in thousands)	Average Balance	Interest	Average Yield/Rate	
<b>Interest Earning Assets:</b>							
Loans receivable (1)	\$447,512	\$15,465	4.61 %	\$483,023	\$18,352	5.07 %	
Investment securities	100,437	1,365	1.81	85,690	1,279	1.99	
Deposits in other banks	87,884	101	0.15	48,025	34	0.09	
FHLB stock	3,724	10	0.36	4,934	2	0.05	
Total interest-earning assets	639,557	16,941	3.53	621,672	19,667	4.21	
Non-interest-earning assets	23,869			35,782			
Total assets	\$663,426			\$657,454			
<b>Interest Bearing Liabilities:</b>							
Demand and NOW accounts	\$89,934	97	0.14	\$91,315	209	0.31	
Money market accounts	68,885	180	0.35	82,326	370	0.60	
Savings accounts	43,446	17	0.05	46,015	36	0.11	
Time deposits	304,422	3,840	1.68	301,273	4,516	2.00	
Total deposits	506,687	4,134	1.09	520,929	5,131	1.31	
FHLB borrowings	48,005	1,277	3.55	48,721	1,289	3.53	
Total interest-bearing liabilities	554,692	5,411	1.30	569,650	6,420	1.51	
Non-interest-bearing liabilities	25,606			25,852			
Total liabilities	580,298			595,502			
Shareholders' Equity	83,128			61,952			
Total liabilities and shareholders' equity	\$663,426			\$657,454			
Net interest-earning assets	\$84,865			\$52,022			
Net interest income; average interest rate spread		\$11,530	2.23 %		\$13,247	2.70 %	
Net interest margin			2.40 %			2.84 %	
Average interest-earning assets to average interest-bearing liabilities	115.30 %			109.13 %			

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

**Interest and Dividend Income.** Our interest and dividend income decreased for the three months ended June 30, 2013 by \$793,000, or 12.6%, over the comparable fiscal 2012 period to \$5.5 million. Interest income on loans decreased in the three months ended June 30, 2013 over the prior comparable period in fiscal 2012 by \$963,000, or 16.3%. The decrease in interest earned on loans in the third quarter of fiscal 2013 was due primarily to a \$31.3 million, or 6.6%, decrease in the average balance of our outstanding loans as well as a 51 basis point decrease in the average yield earned on our loan portfolio in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012. Interest

income on investment securities increased by \$151,000, or 36.8%, in the third quarter of fiscal 2013 compared to the comparable prior fiscal year period. The average yield on investment securities of 1.86% for the third quarter of fiscal 2013 remained the same as in the third quarter of fiscal 2012.

Our interest and dividend income decreased for the nine months ended June 30, 2013 by \$2.7 million, or 13.9%, over the comparable fiscal 2012 period to \$16.9 million. Interest income on loans decreased in the nine months ended June 30, 2013 over the prior comparable period in fiscal 2012 by a \$2.9 million, or 15.7%. The decrease in interest earned on loans in the first nine months of fiscal 2013 was due primarily to a \$35.5 million, or 7.4%, decrease in the average balance of our outstanding loans as well as a 46 basis point decrease in the average yield earned on our loan portfolio in the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012. Interest income on investment securities increased by \$86,000, or 6.7%, in the first nine months of fiscal 2013 compared to the comparable prior fiscal year period. The average yield on investment securities decreased 18 basis points to 1.81% for the nine months ended June 30, 2013 from 1.99% for the same period in fiscal 2012.

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**Interest Expense.** Our interest expense for the three month period ended June 30, 2013 was \$1.6 million, a decrease of \$390,000 from the three month period ended June 30, 2012. The reason for the decrease in interest expense in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 was a 28 basis point decrease in average rate paid on total deposits together with a decrease in the average balance of our total deposits of \$13.1 million, or 2.6%, in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 due primarily to a \$7.5 million decrease in the average balance of money market accounts. The average rate paid on total deposits decreased to 0.96% for the third quarter of fiscal 2013 from 1.24% for the third quarter of fiscal 2012. Our expense on borrowings amounted to \$426,000 in the third quarter of fiscal 2013 compared to \$427,000 in the third quarter of fiscal 2012. The average balance of our borrowings decreased by \$468,000 in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012. The average rate paid on borrowed funds increased to 3.55% in the third quarter of fiscal 2013 compared to 3.52% in the third quarter of fiscal 2012.

Our interest expense for the nine month period ended June 30, 2013 was \$5.4 million, a decrease of \$1.0 million from the nine month period ended June 30, 2012. The reason for the decrease in interest expense in the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012 was a 22 basis point decrease in average rate paid on total deposits together with a decrease in the average balance of our total deposits of \$14.2 million, or 2.7%, in the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012 due primarily to a \$13.4 million decrease in the average balance of money market accounts. The average rate paid on total deposits decreased to 1.09% for the first nine months of fiscal 2013 from 1.31% for the first nine months of fiscal 2012. Our expense on borrowings was relatively constant, and amounted to \$1.3 million in the first nine months of each of fiscal 2013 and fiscal 2012. The average balance of our borrowings decreased by \$716,000 in the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012. The average rate paid on borrowed funds increased slightly to 3.55% in the first nine months of fiscal 2013 compared to 3.53% in the first nine months of fiscal 2012.

**Provision for Loan Losses.** We recorded a recovery of \$190,000 to the provision for loan losses for the three month period ended June 30, 2013 compared to a \$335,000 provision for the three month period ended June 30, 2012. This was due primarily to a decrease in total net loans receivable, as well as an \$11.5 million reduction in total classified and special mention loans during the three months ended June 30, 2013. The provision for loan losses for the nine month period ended June 30, 2013 was \$1.3 million compared to \$360,000 for the nine month period ended June 30, 2012. A \$1.1 million recovery to the allowance for loan losses during the nine months ended June 30, 2012 contributed to the \$895,000 difference in the provision for loan losses for the nine-month periods ended June 30, 2013 and 2012. Our net charge-offs for the three and nine months ended June 30, 2013 were \$52,000 and \$2.8 million, respectively. As of June 30, 2013, the balance of the allowance for loan losses was \$6.1 million, or 1.42% of gross loans and 41.63% of non-accruing loans, compared to an allowance for loan losses of \$7.6 million or 1.64% of gross loans and 77.76% of non-accruing loans at September 30, 2012. The \$1.5 million reduction in the allowance for loan losses at June 30, 2013 compared to September 30, 2012 primarily reflects an aggregate of \$1.6 million in charge-offs of construction loans during the first nine months of fiscal 2013 including the previously described \$959,000 charge-off of four construction loans to one borrower during the quarter ended March 31, 2013.

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

	For the Nine Months Ended June 30,		For the Year Ended September 30,			
	2013	2012	2012			
	(Dollars in thousands)					
Balance at beginning of period	\$ 7,581	\$ 10,101	\$ 10,101			
Provision for loan losses	1,255	360	810			
Charge-offs:						
Residential mortgage	331	1,115	1,367			
Construction and Development						
Residential and commercial	1,622	611	826			
Commercial:						
Commercial real estate	771	855	951			
Multi-family	-	-	113			
Other	-	88	88			
Consumer:						
Home equity lines of credit	-	72	72			
Second mortgages	552	975	1,184			
Other	7	22	22			
Total charge-offs	3,283	3,738	4,623			
Recoveries:						
Residential mortgage	187	-	-			
Construction and Development						
Residential and commercial	-	1,139	1,139			
Commercial:						
Commercial real estate	114	-	5			
Other	22	2	2			
Consumer:						
Home equity lines of credit	3	1	2			
Second mortgages	178	114	141			
Other	3	4	4			
Total recoveries	507	1,260	1,293			
Net charge-offs	2,776	2,478	3,330			
Balance at end of period	\$ 6,060	\$ 7,983	\$ 7,581			
Ratios:						
Ratio of allowance for loan losses to non-accrual loans	41.63	%	75.11	%	77.76	%
Ratio of net charge-offs to average loans outstanding (annualized for the nine-month periods ended June 30, 2013 and 2012)	0.83	%	0.68	%	0.70	%



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**Other Income.** Our other, or non-interest, income decreased by \$7,000 to \$444,000 for the three months ended June 30, 2013 compared to \$451,000 for the three months ended June 30, 2012. The decrease in other income during the third quarter of fiscal 2013 was due to a \$314,000 net loss on sale of loans, due primarily to a \$416,000 loss on the sale of a \$2.1 million commercial real estate loan which had been classified as substandard. These decreases were partially offset by a \$253,000 increase in net gain on of sale of investments, a \$26,000 increase in service charges and other fees and a \$26,000 increase in earnings on BOLI.

Our other, or non-interest, income increased by \$434,000, or 22.3%, to \$2.4 million for the nine months ended June 30, 2013 compared to \$1.9 million for the nine months ended June 30, 2012. The increase in other income during the first nine months of fiscal 2013 was primarily due to a one-time, tax free death benefit of approximately \$596,000 received pursuant to BOLI. In addition, we sold approximately \$23.1 million in fixed-rate residential mortgage loans in the secondary market which resulted in a net gain of approximately \$289,000 during the first nine months of fiscal 2013. Also, our gain on sale of investments in the first nine months of fiscal 2013 decreased by \$160,000 compared to the nine months ended June 30, 2012, and we recognized a \$416,000 loss on the sale of a \$2.1 million commercial real estate loan, as described above, during the nine months ended June 30, 2013.

**Other Expenses.** Our other, or non-interest, expenses increased by \$319,000 or 7.8%, to \$4.4 million in the quarter ended June 30, 2013 compared to \$4.1 million for the three months ended June 30, 2012. The increase in other expenses in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 was due primarily to a \$211,000 increase in salaries and employee benefits and a \$177,000 increase in professional fees. These items were partially offset by a \$131,000 decrease in other real estate owned expense in the quarter ended June 30, 2013 compared to the quarter ended June 30, 2012.

Our other, or non-interest, expenses increased by \$855,000, or 6.9%, to \$13.3 million for the nine months ended June 30, 2013 compared to \$12.5 million for the nine months ended June 30, 2012. The increase in other expenses in the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012 was due primarily to a \$694,000 increase in salaries and employee benefits in fiscal 2013 when compared to the same period in fiscal 2012. The increase in salaries and employee benefits expense in the nine months ended June 30, 2013 primarily reflects an increase in the number of employees in our secondary market program as well as the increase in support staff in the Credit Review Department and Mortgage Loan Department. Our other operating expense increased by \$201,000 in the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012. These increases were partially offset by a \$121,000 decrease in other real estate owned expense in the nine months ended June 30, 2013 compared to the nine months ended June 30, 2012.

**Income Tax (Benefit)/Expense.** Our income tax benefit was \$41,000 for the three months ended June 30, 2013 compared to an income tax expense of \$32,000 for the three months ended June 30, 2012. The income tax benefit for the quarter ended June 30, 2013 primarily reflects the \$204,000 difference in income/(loss) before taxes during the quarter ended June 30, 2013. Our effective Federal tax rate was (41.0%) and 10.4% for the three months ended June 30, 2013 and 2012, respectively.

Our income tax benefit was \$638,000 for the nine months ended June 30, 2013 compared to an income tax expense of \$620,000 for the nine months ended June 30, 2012. The income tax benefit for the nine months ended June 30, 2013 primarily reflects the \$3.0 million difference in income/loss before taxes during the nine months ended June 30, 2013. Our effective Federal tax rate was (95.1%) and 26.2% for the nine months ended June 30, 2013 and 2012, respectively. The significant difference in our effective federal tax rate for the nine months ended June 30, 2013

compared to the nine months ended June 30, 2012 primarily reflects our \$671,000 loss before income taxes in the current fiscal year period compared to \$2.4 million in income before income taxes in the comparable period in fiscal 2012 as well as an increase of \$630,000 in BOLI income in the fiscal 2013 period which is not subject to federal income taxes.



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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 June 30, 2013, our cash and cash equivalents amounted to \$67.4 million. In addition, at such date our available for sale investment securities amounted to \$125.5 million.

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

We use our liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. At June 30, 2013, we had certificates of deposit maturing within the next 12 months amounting to \$111.3 million. Based upon historical experience, we anticipate that a significant portion of the maturing certificates of deposit will be remaining with us. For the nine months ended June 30, 2013, the average balance of our outstanding FHLB advances was \$48.0 million. At June 30, 2013, we had \$48.0 million in outstanding long-term FHLB advances and we had \$149.2 million in potential FHLB advances available to us.

The following table summarizes our contractual cash obligations at June 30, 2013.

	To One Year	Payments Due by Period			Total
		After One to Three Years	After Three to Five Years	After Five Years	
			(In thousands)		
Long-term debt obligations	\$ -	\$ -	\$ -	\$ 48,000	\$ 48,000
Certificates of deposit	111,334	113,212	46,574	17,763	288,883
Operating lease obligations	70	516	429	4,548	5,563
Total contractual obligations	\$ 111,404	\$ 113,728	\$ 47,003	\$ 70,311	\$ 342,446

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, 2012. There has been no material change in the Company's asset and liability management position since September 30, 2012.

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

Not applicable.

Item 1A - Risk Factors

See Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended September 30, 2012. 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, 2012.

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

Not applicable.

Item 3 - Defaults Upon Senior Securities

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

Item 4 - Mine Safety Disclosure

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



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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

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

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

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

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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 BANCORP, INC.

August 12, 2013

By: /s/ Ronald Anderson  
Ronald Anderson  
President and Chief Executive Officer

August 12, 2013

By: /s/ Dennis Boyle  
Dennis Boyle  
Senior Vice President and Chief Financial  
Officer