

MALVERN FEDERAL BANCORP INC
Form 10-K
December 18, 2009

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

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended: September 30, 2009

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: 001-34051

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

United States
(State or Other Jurisdiction of
Incorporation or Organization)

38-3783478
(I.R.S. Employer
Identification Number)

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

19301
(Zip Code)

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

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

Title of each class
Common Stock, \$.01 par value per share

Name of each exchange on which registered
The NASDAQ Stock Market, LLC

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

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

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

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

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

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

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

The aggregate market value of the 2,466,047 shares of the Registrant's common stock held by non-affiliates, based upon the closing price of \$8.95 for the common stock on March 31, 2009, reported by the NASDAQ Stock Market, was approximately \$22.1 million. Shares of common stock held by the registrant's parent, Malvern Federal Mutual Holding Company and its executive officers, directors and certain benefit plans have been excluded since such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the Issuer's common stock, par value \$0.01 per share, outstanding as of December 17, 2009 was 6,102,500.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2010 Annual Meeting of Stockholders are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

MALVERN FEDERAL BANCORP, INC.
2009 ANNUAL REPORT ON FORM 10-K

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Forward-Looking Statements

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

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

PART I

Item 1. Business.

General

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

The Company is a federally chartered corporation which owns all of the issued and outstanding shares of the Bank’s common stock, the only shares of equity securities which the Bank has issued. While the Company is authorized to

pursue all activities permitted by applicable laws and regulations for savings and loan holding companies, the Company's only business activity to date has been holding all of the outstanding common stock of Malvern Federal Savings. Malvern Federal Bancorp does not own or lease any property, but instead uses the premises, equipment and furniture of the Bank. At the present time, the Company employs only persons who are officers of Malvern Federal Savings to serve as officers of the Company. The Company also may use the Bank's support staff from time to time. These persons are not separately compensated by Malvern Federal Bancorp.

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

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

The Bank is an active originator of residential home mortgage loans in our market area. Historically, Malvern Federal Savings was a traditional thrift with an emphasis on originating various residential loan products to hold in its portfolio. Approximately six years ago, we determined to shift the emphasis on the loan products we offer and increased our efforts to originate commercial real estate loans, construction and development loans and consumer loans. We determined to originate greater amounts of commercial real estate loans, construction and development loans and consumer loans because we believed we could compete effectively as a niche lender in our market area for such loans given management's knowledge of, and its extensive network of contacts in, the small to mid-sized businesses community in southeastern Pennsylvania. In addition, commercial real estate loans, construction and development loans and consumer loans are deemed attractive due to their generally higher yields and shorter anticipated lives compared to single-family residential mortgage loans. However, given the continuing recession, in recent periods we have limited our efforts to originate commercial real estate and construction or development loans.

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

Market Area and Competition

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

We face significant competition in originating loans and attracting deposits. This competition stems primarily from commercial banks, other savings banks and savings associations and mortgage-banking companies. Within our

market area, we estimate that more than 75 other banks, credit unions and savings institutions are operating. We face additional competition for deposits from short-term money market funds and other corporate and government securities funds, mutual funds and from other non-depository financial institutions such as brokerage firms and insurance companies.

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Lending Activities

General. At September 30, 2009, our net loan portfolio totaled \$593.6 million or 85.8% of total assets. Historically, our principal lending activity has been the origination of loans collateralized by one-to four-family, also known as “single-family” residential real estate loans located in our market area. We have increased our emphasis on originating commercial real estate loans, construction and development loans and consumer loans in recent years. Our consumer loans consist primarily of home equity loans, second mortgage loans and lines of credit.

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

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Loan Portfolio Composition. The following table shows the composition of our loan portfolio by type of loan at the dates indicated.

	2009		2008		September 30, 2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in Thousands)										
Mortgage Loans:										
One-to four-family(1)	\$252,308	42.4 %	\$248,118	43.3 %	\$193,460	40.4 %	\$186,760	40.9 %	\$202,313	48.6 %
Commercial real estate	142,863	24.0	138,522	24.2	108,500	22.7	94,132	20.6	80,512	19.3
Construction or development	37,508	6.3	45,451	7.9	58,870	12.4	67,833	14.8	48,488	11.6
Multi-family	9,613	1.6	1,906	0.3	2,257	0.5	2,283	0.5	413	0.1
Land loans	3,237	0.6	4,530	0.8	6,665	1.4	7,675	1.6	3,125	0.8
Total mortgage loans	445,529	74.9	438,527	76.5	369,752	77.4	358,683	78.4	334,851	80.4
Commercial Consumer:	15,647	2.6	17,260	3.0	15,767	3.3	16,504	3.6	16,494	4.0
Home equity lines of credit	19,149	3.2	12,393	2.2	11,811	2.5	12,702	2.7	14,132	3.4
Second mortgages	113,943	19.1	103,741	18.1	78,733	16.5	67,742	14.9	49,565	11.9
Other	1,143	0.2	1,304	0.2	1,525	0.3	1,621	0.4	1,262	0.3
Total consumer loans	134,235	22.5	117,438	20.5	92,069	19.3	82,065	18.0	64,959	15.6
Total Loans	595,411	100.0%	573,225	100.0%	477,588	100.0%	457,252	100.0%	416,304	100.0%
Deferred loan costs, net	3,872		3,816		2,404		1,954		1,602	
Allowance for loan losses	(5,718)		(5,505)		(4,541)		(3,393)		(3,222)	
Loans receivable, net	\$593,565		\$571,536		\$475,451		\$455,813		\$414,684	

(1) Includes \$9.3 million of loans held for sale at September 30, 2007.

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

	2009		2008		September 30, 2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in Thousands)										
Fixed-Rate										
Loans:										
Mortgage										
Loans:										
One-to										
four-family(1)	\$227,712	38.2 %	\$218,214	38.1 %	\$163,463	34.2 %	\$153,632	33.6 %	\$182,210	43.7 %
Multi-family	3,519	0.6	—	—	—	—	—	—	326	0.1
Commercial										
real estate	56,126	9.4	52,406	9.1	35,053	7.4	40,502	8.9	35,578	8.5
Construction or development	5,382	0.9	4,505	0.8	8,626	1.8	7,435	1.6	7,121	1.7
Land loans	1,558	0.3	1,575	0.2	1,591	0.3	1,606	0.3	44	0.1
Total fixed-rate mortgage loans	294,297	49.4	276,700	48.2	208,733	43.7	203,175	44.4	225,279	54.1
Commercial	3,798	0.6	4,441	0.8	3,847	0.8	4,799	1.1	2,789	0.7
Consumer:										
Home equity lines of credit										
—	—	—	—	—	—	—	—	—	—	—
Second										
mortgages	113,943	19.1	103,741	18.1	78,706	16.5	67,643	14.8	49,562	11.9
Other	867	0.2	960	0.2	1,097	0.2	1,159	0.3	844	0.2
Total fixed-rate consumer loans	114,810	19.3	104,701	18.3	79,803	16.7	68,802	15.1	50,406	12.1
Total fixed-rate loans	\$412,905	69.3	\$385,842	67.3	\$292,383	61.2	\$276,776	60.5	\$278,474	66.9
Adjustable-Rate										
Loans:										
Mortgage										
Loans:										
One-to										
four-family	\$24,596	4.1 %	\$29,904	5.2 %	\$29,998	6.3 %	\$33,128	7.3 %	\$20,103	4.8 %
Multi-family	6,094	1.0	1,906	0.4	2,257	0.5	2,283	0.5	87	0.1
Commercial										
real estate	86,737	14.6	86,116	15.0	73,448	15.4	53,629	11.7	44,934	10.8
Construction or development	32,126	5.4	40,946	7.1	50,244	10.5	60,398	13.2	41,367	9.9
Land loans	1,679	0.3	2,955	0.5	5,074	1.1	6,069	1.3	3,081	0.7
Total adjustable-rate mortgage loans	151,232	25.4	161,827	28.2	161,021	33.8	155,507	34.0	109,572	26.3
Commercial	11,849	2.0	12,819	2.2	11,920	2.5	11,705	2.5	13,705	3.3

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Consumer:										
Home equity lines of credit	19,149	3.2	12,393	2.2	11,811	2.4	12,703	2.7	14,132	3.4
Second mortgages	—	—	—	—	26	—	99	0.1	4	—
Other	276	0.1	344	0.1	427	0.1	462	0.2	417	0.1
Total adjustable-rate consumer loans	19,425	3.3	12,737	2.3	12,264	2.5	13,264	3.0	14,553	3.5
Total adjustable-rate loans	\$182,506	30.7 %	\$187,383	32.7 %	\$185,205	38.8 %	\$180,476	39.5 %	\$137,830	33.1 %
Total loans(1)	\$595,411	100.0%	\$573,225	100.0%	\$477,588	100.0%	\$457,252	100.0%	\$416,304	100.0%

(1) Includes \$9.3 million of fixed-rate, single-family residential loans held for sale at September 30, 2007.

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Loan Maturity. The following table presents the contractual maturity of our loans at September 30, 2009. The table does not include the effect of prepayments or scheduled principals amortization. Loans having no stated repayment schedule or maturity and overdraft loans are reported as being due in one year or less.

	One-to Four- Family	Multi- family	Commercial Real Estate	Construction or Development	Land Loans	Commercial	Home Equity Lines of Credit	Second Mortgages	Other	Total
(Dollars in Thousands)										
Amounts due in:										
One year or less	\$1,663	\$—	\$12,261	\$20,143	\$2,121	\$3,504	\$300	\$166	\$26	\$40,184
After one year through two years	1,484	—	4,388	11,067	—	2,724	—	456	153	20,272
After two years through three years	926	—	1,716	115	—	226	—	630	164	3,777
After three years through five years	4,554	505	11,656	35	—	1,099	—	3,090	430	21,369
After five years through ten years	28,638	8,117	11,361	6,114	1,116	2,528	27	12,252	95	70,248
After ten years through fifteen years	41,961	463	90,632	—	—	1,599	5,243	47,047	2	186,947
Beyond fifteen years	173,082	528	10,849	34	—	3,967	13,579	50,302	273	252,614
Total	\$252,308	\$9,613	\$142,863	\$37,508	\$3,237	\$15,647	\$19,149	\$113,943	\$1,143	\$595,411
Interest rate terms on amounts due after one year:										
Fixed rate	\$226,049	\$3,519	\$48,786	\$34	\$568	\$1,373	\$—	\$113,777	\$841	\$394,947
Adjustable rate	24,596	6,094	81,816	17,331	548	10,770	18,849	—	276	160,280
Total	\$250,645	\$9,613	\$130,602	\$17,365	\$1,116	\$12,143	\$18,849	\$113,777	\$1,117	\$555,227

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

All of our single-family residential mortgage loans are written on standardized documents used by Freddie Mac and Fannie Mae. We also utilize an automated loan processing and underwriting software system for our new single-family residential mortgage loans. Property valuations of loans secured by real estate are undertaken by an independent third-party appraiser approved by our board of directors. We do not originate, and at September 30, 2009 we had no, sub-prime loans in our portfolio.

In addition to originating loans, we occasionally purchase participation interests in larger balance loans, typically commercial real estate or construction or development loans, from other financial institutions in our market area. Such participations are reviewed for compliance with our underwriting criteria before they are purchased. We actively monitor the performance of such loans through the receipt of regular reports from the lead lender regarding the loan’s performance, physically inspecting the loan security property on a periodic basis, discussing the loan with the lead lender on a regular basis and receiving copies of updated financial statements from the borrower. From October 1, 2005 through September 30, 2009, we purchased four loan participation interests from other institutions. At September 30, 2009, the outstanding balance of such participation interests to Malvern Federal Savings was approximately \$10.2 million and all were current and performing in accordance with their terms. One such purchased participation interest in a construction and developments loan, which had an outstanding balance on our books of \$4.6 million at September 30, 2009, was impaired and on non-accrual status at such date. See “Asset Quality – Non-Performing Loans and Real Estate Owned.”

In addition, we also occasionally sell whole loans or participation interests in loans we originate. From October 1, 2005 through September 30, 2009, we sold a participation interest in one construction and development loan in fiscal 2006. We generally have sold participation interests in loans only when a loan would exceed our loans-to-one borrower limits. Our loans-to-one borrower limit, with certain exceptions, generally is 15% of our unimpaired capital and surplus or \$10.2 million at September 30, 2009. At September 30, 2009, our five largest outstanding loans to one borrower and related entities amounted to \$9.9 million, \$8.6 million, \$8.0 million, \$6.7 million and \$6.6 million, respectively, and all of such loans were performing in accordance with their terms. In addition, in an effort to improve our interest rate risk exposure, we sold long-term (20 or 30 year term) fixed-rate single-family residential mortgage loans to Freddie Mac and Fannie Mae while retaining the loan servicing rights for such loans. We receive a fee for continuing to service such loans when they are sold, and such fees are recorded as non-interest income.

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

	Year Ended September 30,		
	2009	2008	2007
	(In Thousands)		
Total gross loans at beginning of period	\$573,225	\$477,588	\$457,252
Originations by type:			
Mortgage:			
One-to four-family	37,842	10,066	24,370
Multi-family	10,431	—	—
Commercial real estate	32,494	35,040	39,561
Construction or development(1)	16,015	26,534	35,802
Land loans	318	257	116
Other:			
Commercial	5,105	10,092	11,751
Home equity lines of credit	19,309	6,940	8,674
Second mortgages	6,103	1,442	10,715
Other	884	878	1,022
Total originations	128,501	91,249	132,011
Principal Repayments:			
Mortgage:			
One-to four-family	59,838	17,508	24,973
Multi-family	2,727	351	26
Commercial real estate	24,167	6,518	25,193
Construction or development	23,763	39,952	44,765
Land loans	1,612	2,392	1,126
Other:			
Commercial	6,696	8,599	12,487
Home equity lines of credit	12,595	6,358	9,565
Second mortgages	27,250	16,194	19,258
Other	1,044	221	780
Total principal repayments	159,692	98,093	138,173
Net loan originations and principal repayments	(31,191)	(6,844)	(6,162)
Purchases:			
One-to four-family mortgage loans(2)	28,293	71,355	7,303
Second mortgage loans	31,964	39,760	19,533
Home equity lines of credit	58	—	—
Commercial real estate loans	—	1,500	—
Total purchased	60,315	112,615	26,836
Sales:			
One-to four-family mortgage loans	—	9,256	—
Construction or development	—	—	—
Other adjustments, net(3)	(6,938)	(878)	(338)
Net increase	22,186	95,637	20,336
Total gross loans at and of period	\$595,411	\$573,225	\$477,588

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- (1) Includes purchases of participation interests in loans.
 - (2) Includes purchases of loans from our network of loan brokers.
 - (3) Reflects non-cash items related to other real estate owned, recoveries and charge-offs.

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One-to Four-Family Residential Mortgage Lending. One of our primary lending activities continues to be the origination of loans secured by first mortgages on one-to four-family residences in our market area. At September 30, 2009, \$252.3 million, or 42.4%, of our total loans consisted of single-family residential mortgage loans. As a result of our increased emphasis on construction, commercial real estate and consumer loans, our single-family residential real estate loans as a percentage of total loans have decreased from 48.6% at September 30, 2005 to 42.4% at September 30, 2009.

Our single-family residential mortgage loans generally are underwritten on terms and documentation conforming to guidelines issued by Freddie Mac and Fannie Mae. Applications for one-to four-family residential mortgage loans are taken by our Business Development Officer and are accepted at any of our banking offices and are then referred to the lending department at our main office in order to process the loan, which consists primarily of obtaining all documents required by Freddie Mac and Fannie Mae underwriting standards, and completing the underwriting, which includes making a determination whether the loan meets our underwriting standards such that the Bank can extend a loan commitment to the customer. We generally have retained for portfolio a substantial portion of the single-family residential mortgage loans that we originate. We currently originate fixed-rate, fully amortizing mortgage loans with maturities of 15 to 30 years. We also offer adjustable rate mortgage (“ARM”) loans where the interest rate either adjusts on an annual basis or is fixed for the initial one, three or five years and then adjusts annually. However, due to local market conditions, we have not originated a significant amount of ARM loans in recent years. At September 30, 2009, \$24.6 million, or 4.1%, of our one-to four-family residential loans consisted of ARM loans. We also offer “balloon” loans which are amortized on a 30 year schedule but become due at the fifth or seventh anniversary, bi-weekly mortgage loans and, until August 2008, for borrowers with credit scores exceeding 700, no income/no asset (“NINA”) loans. Our NINA loans amounted to \$4.3 million in the aggregate at September 30, 2009.

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

Commercial Real Estate, Multi-family Residential Real Estate and Land Loans. At September 30, 2009, our loans secured by commercial real estate amounted to \$142.9 million and constituted 24.0% of our total loans at such date. In addition, at such date we had \$3.2 million of loans secured by unimproved real estate and lots (“land loans”) and \$9.6 million of loans secured by multi-family (more than four units) residential real estate, constituting 0.6% and 1.6%, respectively, of total loans at September 30, 2009.

Our commercial real estate loan portfolio consists primarily of loans secured by office buildings, retail and industrial use buildings, strip shopping centers, mixed-use and other properties used for commercial purposes located in its market area. Our commercial real estate loans tend to be originated in an amount less than \$3.0 million but will occasionally exceed that amount. At September 30, 2009, the average amount outstanding on our commercial real estate loans was \$446,000. The five largest commercial real estate loans outstanding were \$7.8 million, \$4.8 million, \$4.4 million, \$3.7 million and \$3.7 million at September 30, 2009. During the year ended September 30, 2009, the commercial real estate loan portfolio grew as the result of originations, and the conversion of loans from construction to permanent status, by \$4.3 million, or 3.1%. Our commercial real estate loans have grown steadily over each of the

past five fiscal years. We have increased our emphasis on originating commercial real estate loans due to the higher average yields they provide compared to single-family residential mortgage loans. During the year ended September 30, 2009, the average yield on our commercial real estate loans was 6.1% compared to 5.8% for our single-family residential mortgage loans. Commercial real estate loans are much more likely to have adjustable interest rates than single-family residential mortgage loans, which adds to the interest rate sensitivity of commercial real estate loans and makes them attractive. At September 30, 2009, approximately 60.7% of our commercial real estate loans had adjustable interest rates compared to 9.8% of our single-family residential mortgage loans with adjustable rates at such date.

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Although terms for commercial real estate and multi-family loans vary, our underwriting standards generally allow for terms up to 10 years with the interest rate being reset in the fifth year and with monthly amortization not greater than 20 years loan and loan-to-value ratios of not more than 75%. Interest rates are either fixed or adjustable, based upon the prime rate plus a margin, and fees ranging from 0.5% to 1.50% are charged to the borrower at the origination of the loan. Prepayment fees are charged on most loans in the event of early repayment. Generally, we obtain personal guarantees of the principals as additional collateral for commercial real estate and multi-family real estate loans.

At September 30, 2009, our loan portfolio included \$3.2 million of land loans. Two loans, with outstanding balances of \$1.3 million and \$763,000, respectively, at September 30, 2009, comprised 62.9% of our land loans at such date. Both of these loans are to local developers for the purpose of acquiring raw land in Chester County, Pennsylvania, subdividing and improving such land and then selling the developed lots to nationally known homebuilders. Both of such loans have performed in accordance with their terms since their originations in 2005 and 2004, respectively. We had no non-performing land loans at September 30, 2009. One land loan in the amount of \$763,000 was classified as substandard at September 30, 2009.

Loans secured by commercial real estate, unimproved land and multi-family real estate lending involve different risks than single-family residential lending. These risks include larger loans to individual borrowers and loan payments that are dependent upon the successful operation of the project or the borrower's business. These risks can be affected by supply and demand conditions in the project's market area of rental housing units, office and retail space, warehouses, and other commercial space. We attempt to minimize these risks by limiting loans to proven businesses, only considering properties with existing operating performance which can be analyzed, using conservative debt coverage ratios in its underwriting, and periodically monitoring the operation of the business or project and the physical condition of the property. As of September 30, 2009, \$785,000 or 0.5% of our commercial real estate mortgage loans were on non-accrual status and an aggregate of \$6.6 million of our commercial real estate loans at such date were classified for regulatory reporting purposes (all of which were classified substandard and none of which were classified doubtful or loss). See "Asset Quality – Asset Classification." As of September 30, 2009, \$1.2 million, or 21.8% of our allowance for loan losses was allocated to commercial real estate mortgage loans. In addition, at September 30, 2009 we held \$4.0 million of commercial real estate as real estate owned, although subsequent to our 2009 fiscal year end we sold \$2.8 million of such commercial real estate at no additional loss. See "Asset Quality – Non-Performing Assets and Real Estate Owned." During the fiscal year ended September 30, 2009, we charged off an aggregate of \$1.8 million in commercial real estate loans.

Various aspects of a commercial and multi-family loan and land loan transactions are evaluated in an effort to mitigate the additional risk in these types of loans. In our underwriting procedures, consideration is given to the stability of the property's cash flow history, future operating projections, current and projected occupancy levels, location and physical condition. Generally, we impose a debt service ratio (the ratio of net cash flows from operations before the payment of debt service to debt service) of not less than 125%. We also evaluate the credit and financial condition of the borrower, and if applicable, the guarantor. Appraisal reports prepared by independent appraisers are obtained on each loan to substantiate the property's market value, and are reviewed by us prior to the closing of the loan.

Construction or Development Loans. We originate construction loans for residential and, to a lesser extent, commercial uses within its market area. We generally limit construction loans to builders and developers with whom we have an established relationship, or who are otherwise known to officers of the Bank. At September 30, 2009, we had \$37.5 million, or 6.3% of total loans, in outstanding construction or development loans. Given the downturn in the economic environment during fiscal year 2008, we decided to reduce our exposure to construction and development lending. As a result, the amount of our outstanding construction or development loans decreased to \$37.5 million or 6.3% of total loans at September 30, 2009 from \$45.5 million or 7.9% of total loans as of September 30, 2008. As

market conditions improve, we will continue to evaluate the origination of construction or development loans as a growth area due to the relatively higher yields and shorter terms to maturity compared to long-term, single-family residential mortgage loans. Our construction or development loans in the portfolio typically have variable rates of interest tied to the prime rate which improves the interest rate sensitivity of our loan portfolio. At September 30, 2009, approximately 85.7% of our construction loans had variable rates of interest and 83.2% of such loans had two years or less in their remaining terms to maturity at such date.

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

Prior to committing to a construction loan, we require that an independent appraiser prepare an appraisal of the property. Each project also is reviewed and inspected at its inception and prior to every disbursement of loan proceeds. Disbursements are made after inspections based upon a percentage of project completion. Monthly payment of interest is required on all construction loans and we often establish interest reserves on construction loans to developers, which helps ensure interest payments are received during the construction period.

We also make construction loans for the acquisition and development of land for sale (i.e. roads, sewer and water lines). We typically make these loans only in conjunction with a commitment for a construction loan for the units to be built on the site. These loans are secured by a lien on the property and are limited to a loan-to-value ratio of 80% of the appraised value. The loans have a variable rate of interest and require monthly payments of interest. The principal of the loan is repaid as units are sold and released. We limit loans of this type to our market area and to developers with whom we have established relationships. In most cases, we also obtain personal guarantees from the borrowers.

Our construction or development loans also include loans made to consumers for the construction of their individual homes underwritten on a construction/permanent basis. During the initial or construction phase, these loans require payment of interest only, which generally is tied to prime rate, as the home is being constructed. Upon the earlier of the completion of construction or one year, these loans automatically convert to long-term (generally 30 years), amortizing, fixed-rate single-family mortgage loans.

Construction and development loans generally are considered to involve a higher level of risk than single-family residential lending, due to the concentration of principal in a limited number of loans and borrowers and the effect of economic conditions on developers, builders and projects. At September 30, 2009, the amounts outstanding on our five largest construction or development loans were \$7.0 million, \$4.6 million, \$3.7 million, \$2.6 million and \$2.2 million. The average size of our construction or development loans was approximately \$375,000 at September 30, 2009. Additional risk is also associated with construction lending because of the inherent difficulty in estimating both a property's value at completion and the estimated cost (including interest) to complete a project. The nature of these loans is such that they are more difficult to evaluate and monitor. In addition, speculative construction loans to a builder are not pre-sold and thus pose a greater potential risk than construction loans to individuals on their personal residences.

In order to mitigate some of the risks inherent to construction lending, we inspect properties under construction, review construction progress prior to advancing funds, work with builders with whom we have established relationships, require annual updating of tax returns and other financial data of developers and obtain personal guarantees from the principals. At September 30, 2009, \$1.6 million, or 27.3%, of our allowance for loan losses was attributed to construction or development loans. We have charged off a total of \$66,000 in construction or development loans over the past five fiscal years. At September 30, 2009, we had \$7.1 million in non-performing construction loans due primarily to a \$4.6 million participation interest in a construction and development loan to a single family residential retirement community located in Montgomery County, Pennsylvania and one single family

construction loan in the amount of \$1.8 million located in Chester County, Pennsylvania. See “Asset Quality – Non-Performing Assets and Real Estate Owned.”

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Commercial Business Loans. At September 30, 2009, we had \$15.6 million in commercial business loans (2.6% of gross loans outstanding). Our commercial business loans generally are made to small to mid-sized businesses located in our market area. We originate commercial business loans as these types of loans assist us in our asset/liability management since they generally provide shorter maturities and/or adjustable rates of interest in addition to generally having higher rates of return which are designed to compensate for the additional credit risk associated with these loans. The commercial business loans which we originate may be either a revolving line of credit or for a fixed term of generally 10 years or less. Interest rates are either adjustable, indexed to a published prime rate of interest, or fixed. Generally, equipment, machinery, real property or other corporate assets secure the loans. Personal guarantees from the business principals are generally obtained as additional collateral. At September 30, 2009, the average balance of our commercial business loans was \$150,000.

Generally, commercial business loans are characterized as having higher risks associated with them than single-family residential mortgage loans. As of September 30, 2009, we had \$35,000 of non-accrual commercial business loans. At such date, \$298,000 or 5.2% of the allowance for loan losses was allocated to commercial business loans. During the past five fiscal years, we have charged off an aggregate of \$7,000 of commercial business loans.

Consumer Lending Activities. In our efforts to provide a full range of financial services to our customers, we offer various types of consumer loans. Our consumer loans amounted to \$134.2 million or 22.5% of our total loan portfolio at September 30, 2009. The largest components of our consumer loans are second mortgages, consisting primarily of home equity loans, which amounted to \$113.9 million at September 30, 2009, and home equity lines of credit, which amounted to \$19.1 million at such date. Our consumer loans also include automobile loans, unsecured personal loans and loans secured by deposits. Consumer loans are originated primarily through existing and walk-in customers and direct advertising and, with respect to second mortgages and home equity lines of credit, through our broker network.

Our home equity lines of credit are variable rate loans tied to the prime rate. Our second mortgages may have fixed or variable rates, although they generally have had fixed rates in recent periods. Our second mortgages have a maximum term to maturity of 20 years. Both our second mortgages and our home equity lines of credit generally are secured by the borrower's primary residence. However, our security generally consists of a second lien on the property. Our lending policy provides that our home equity loans have loan-to-value ratios, when combined with any first mortgage, of 85% or less. The maximum loan-to-value ratio on our home equity lines of credit is 75%. We offer home equity lines on a revolving line of credit basis, with interest tied to the prime rate. At September 30, 2009, the unused portion of our home equity lines of credit was \$24.2 million.

Consumer loans generally have higher interest rates and shorter terms than residential loans; however, they have additional credit risk due to the type of collateral securing the loan or in some cases the absence of collateral. In the year ended September 30, 2009, we charged-off \$213,000 of consumer loans. As a result of the recent declines in the market value of real estate and in the overall economy, we have been evaluating 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 efforts to assess the overall credit quality portfolio in connection with our review of the allowance for loan losses. As of September 30, 2009, we had an aggregate of \$2.5 million of non-accruing second mortgage loans and home equity lines of credit, representing an increase of \$1.6 million over the amount of non-accruing second mortgage loans and home equity lines of credit at September 30, 2008. We attribute the substantial increase in non-performing consumer loans primarily to the current recession and increased unemployment levels. At September 30, 2009, an aggregate of \$1.2 million of our allowance for loan losses was allocated to second mortgages and home equity lines of credit.

Loan Approval Procedures and Authority. Our board of directors establishes the Bank's lending policies and procedures. Our Lending Policy Manual is reviewed on at least an annual basis by our management team in order to

propose modifications as a result of market conditions, regulatory changes and other factors. All modifications must be approved by our board of directors.

All loans must be approved by at least two bank officers. Loans in amounts exceeding \$400,000 must be approved by the Commercial Loan Committee, whose members include the Chief Lending Officer and two directors of Malvern Federal Savings Bank and loans in amounts exceeding \$600,000 must be approved by the full board of directors of the Bank.

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Asset Quality

General. One of our key objectives has been, and continues to be, maintaining a high level of asset quality. In addition to maintaining credit standards for new originations which we believe are sound, we are proactive in our loan monitoring, collection and workout processes in dealing with delinquent or problem loans.

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

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

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

We account for our impaired loans under accounting principles generally accepted in the United States of America ("U.S. GAAP"). An impaired loan generally is one for which it is probable, based on current information, that the lender will not collect all the amounts due under the contractual terms of the loan. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Loans collectively evaluated for impairment include smaller balance commercial real estate loans, residential real estate loans and consumer loans. These loans are evaluated as a group because they have similar characteristics and performance experience. Larger commercial and construction loans are individually evaluated for impairment. Our impaired loans amounted to \$14.2 million and \$6.3 million at September 30, 2009 and 2008, respectively.

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

Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered

“uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are required to be designated “special mention.”

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

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

We review and classify assets on a monthly basis and the board of directors is provided with monthly reports on our classified assets. We classify assets in accordance with the management guidelines described above. Assets classified as “substandard” were \$23.4 million, including \$5.9 million of foreclosed other real estate owned, and \$8.6 million, at September 30, 2009 and 2008 respectively. We had \$3.9 million in assets classified doubtful at September 30, 2009 compared to none at September 30, 2008. Assets designated as “special mention” totaled \$13.0 million at September 30, 2009 compared to none at September 30, 2008. We attribute the increases in classified assets and assets designated special mention at September 30, 2009 compared to September 30, 2008 primarily to the effects of the current recession on our borrowers. We have no loans classified as loss at September 30, 2009 or 2008.

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Delinquent Loans. The following table shows the delinquencies in our loan portfolio as of the dates indicated.

	At September 30, 2009 Loans Delinquent For:											
	31-89 Days			90 Days and Over				Total Delinquent Loans				
	Number	Amount	Percent of Total Delinquent Loans 31-89 Days	Number	Amount	Percent of Total Delinquent Loans 90 Days and Over	Number	Amount	Percent of Total Delinquent Loans	Number	Amount	Percent of Total Delinquent Loans Greater Than 30 Days
	(Dollars in Thousands)											
Mortgage:												
One-to four-family	17	\$5,166	60.5 %	12	\$3,809	26.8 %	29	\$8,975	39.5 %			
Multi-family	—	—	—	—	—	—	—	—	—			
Commercial real estate	5	1,939	22.7	3	785	5.5	8	2,724	12.0			
Construction or development	—	—	—	8	7,086	50.0	8	7,086	31.2			
Land loans	—	—	—	—	—	—	—	—	—			
Commercial	2	68	0.8	1	35	0.2	3	103	0.4			
Home equity	—	—	—	8	407	2.9	8	407	1.8			
Second mortgages	20	1,323	15.5	28	2,072	14.6	48	3,395	14.9			
Other	7	38	0.5	1	1	—	8	39	0.2			
Total	51	\$8,534	100.0 %	61	\$14,195	100.0 %	112	\$22,729	100.0 %			

	At September 30, 2008 Loans Delinquent For:											
	31-89 Days			90 Days and Over				Total Delinquent Loans				
	Number	Amount	Percent of Total Delinquent Loans 31-89 Days	Number	Amount	Percent of Total Delinquent Loans 90 Days and Over	Number	Amount	Percent of Total Delinquent Loans	Number	Amount	Percent of Total Delinquent Loans Greater Than 30 Days
	(Dollars in Thousands)											
Mortgage:												
One-to four-family	7	\$ 2,645	45.6 %	4	\$ 1,402	16.3 %	11	\$ 4,047	28.0 %			
Multi-family	—	—	—	—	—	—	—	—	—			
Commercial real estate	4	1,813	31.3	2	4,050	47.2	6	5,863	40.8			
Construction or development	1	350	6.0	2	1,695	19.8	3	2,045	14.2			
Land loans	—	—	—	—	—	—	—	—	—			
Commercial	1	76	1.3	2	561	6.5	3	637	4.4			
	—	—	—	4	205	2.4	4	205	1.4			

Home equity									
Second mortgages	16	904	15.6	15	672	7.8	31	1,576	11.1
Other	5	12	0.2	—	—	—	5	12	0.1
Total	34	\$ 5,800	100.0 %	29	\$ 8,585	100.0 %	63	\$ 14,385	100.0 %

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Non-Performing Loans and Real Estate Owned. The following table sets forth information regarding our non-performing loans and real estate owned. Our general policy is to cease accruing interest on loans which are 90 days or more past due and to charge-off all accrued interest. The table below sets forth the amounts and categories of non-performing assets in our loan portfolio. Loans are placed on non-accrual status when the collection of principal and/or interest becomes doubtful. Our non-performing assets include troubled debt restructurings (which involve forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates). Foreclosed assets include real estate owned and other assets acquired in settlement of loans.

			September 30,			
	2009	2008	2007	2006	2005	
	(Dollars in thousands)					
Non-accruing loans:						
One-to						
four-family	\$3,809	\$1,402	\$461	\$686	\$777	
Multi-family	—	—	—	—	—	
Commercial real						
estate	785	4,050	661	1,500	156	
Construction or						
development	7,086	1,695	—	—	—	
Land loans	—	—	—	—	—	
Commercial	35	561	780	174	559	
Home equity lines of						
credit	407	205	14	—	35	
Second						
mortgages	2,072	672	351	341	270	
Other	1	—	—	24	4	
Total						
non-accruing	14,195	8,585	2,267	2,725	1,801	
Accruing loans delinquent more than 90						
days past due	—	—	—	—	—	
Troubled debt-restructurings	81	103	121	—	2,202	
Total non-performing loans	14,276	8,688	2,388	2,725	4,003	
Real estate owned and other foreclosed assets:						
One-to						
four-family	1,568	230	227	—	—	
Commercial real estate	4,006	—	—	—	—	
Commercial	20	—	—	—	—	
Second						
mortgages	85	—	—	—	—	
Constructions or development	196	—	—	—	—	
Other	—	—	—	—	—	
Total	5,875	230	227	—	—	
Total non-performing						
assets	\$20,151	\$8,918	\$2,615	\$2,725	\$4,003	
Ratios:						
	2.40	%	1.52	%	0.51	%
					0.60	%
						0.96
						%

Nonperforming loans as a percent of gross
loans

Nonperforming assets as a percent of total
assets

2.91 % 1.39 % 0.47 % 0.53 % 0.82 %

At September 30, 2009, our total non-performing assets amounted to \$20.2 million, an increase of \$11.2 million compared to our total non-performing assets at September 30, 2008. Included in our non-performing assets at September 30, 2009 are 12 single family residential mortgage loans, with an aggregate outstanding balance of \$3.8 million at such date, and 36 second mortgage and home equity loans, with an aggregate outstanding balance of \$2.5 million. In addition, our non-performing assets at September 30, 2009, included the following significant items.

A \$4.6 million participation interest in a \$25.9 million construction and development loan for the construction of 103 units of a proposed 260 unit retirement community in Montgomery County, Pennsylvania. To date, a total of 38 homes have been built and sold since the loan was originated in August 2006. However, sales activity has slowed considerably and we put this loan on non-accrual status in August 2009. Construction is continuing, but at much slower pace than originally planned. While we continue to receive payments as units are sold, this loan is not performing in accordance with its terms and is deemed to be impaired. We anticipate that, while we will keep all options open, we and the other participants in this loan will likely continue to work with the developer in order to complete the project, provided that a satisfactory work-out plan is structured and agreed to by all parties.

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A mixed-use (medical office and residential) building located in Philadelphia, Pennsylvania with a carrying value of \$2.2 million at September 30, 2009. This property, which previously had been written down in value by an aggregate of \$1.3 million, was acquired as real estate owned in December 2008. This property was written down by an additional \$34,000 in the fiscal year ended September 30, 2009. The Company currently is marketing the property for sale.

A \$1.8 million construction loan to a local builder to construct one home located in Chester County, Pennsylvania. This loan was placed on non-accrual in May 2009 when the builder failed to keep the loan current after fully applying the interest reserve. Although approximately 85% complete, construction has been suspended, and we likely will acquire this property as real estate owned in the first or second quarter of fiscal 2010. Based on a recent appraisal, we expect that we would be able to dispose of the property with no additional loss.

A mixed-use (a restaurant, retail space and one office) property located in Pottstown, Pennsylvania which was acquired as real estate owned in July 2009 and had a carrying value of \$1.3 million at September 30, 2009. We are attempting to secure tenants for the unoccupied portion of this property (it is currently approximately 75% vacant) and we are actively marketing it for sale.

A group of seven single family rental properties located in Norristown, Pennsylvania which are held as real estate owned and which had an aggregate carrying value of \$860,000 at September 30, 2009. These properties are fully leased and the rent payments are sufficient to cover our current costs. We also are marketing these properties for sale.

A restaurant and related property in Malvern, Pennsylvania with a carrying value of \$592,000 at September 30, 2009. This property, which was acquired as real estate owned in January 2009 and on which we previously recognized aggregate write downs of \$392,000, was sold to a third party subsequent to the fiscal year-end in October 2009 at no additional loss.

For the year ended September 30, 2009, additional gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to \$698,000. The amount that was included in interest income on such loans was \$392,000 for the year ended September 30, 2009.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses. We maintain the allowance at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio that are both probable and reasonable to estimate at each reporting date. Management reviews the allowance for loan losses on no less than a quarterly basis in order to identify those inherent losses and to assess the overall collection probability for the loan portfolio. Our evaluation process includes, among other things, an analysis of delinquency trends, non-performing loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of our loans, the value of collateral securing the loan, the borrower's ability to repay and repayment performance, the number of loans requiring heightened management oversight, local economic conditions and industry experience. Such risk ratings are periodically reviewed by management and revised as deemed appropriate. The establishment of the allowance for loan losses is significantly affected by management judgment and uncertainties and there is likelihood that different amounts would be reported under different conditions or assumptions. Various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require it to make additional provisions for estimated loan losses based upon judgments different from those of management.

We made a provision for loan losses of \$2.3 million for the fiscal year ended September 30, 2009 compared to \$1.6 million in the year ended September 30, 2008. During the fiscal year ended September 30, 2009, our total charge-offs to the allowance for loan losses amounted to \$2.1 million. Approximately \$1.1 million of our provision for loan losses in fiscal 2009 was attributable to one construction loan in the amount of \$1.8 million secured by one single family residence and two one-to four-family loans in the amount of \$1.1 million secured by two single family residences for two separate borrowers. See “Asset Quality – Non-Performing Loans and Real Estate Owned.”

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We will continue to monitor and modify our allowance for loan losses as conditions dictate. No assurances can be given that our level of allowance for loan losses will cover all of the inherent losses on our loans or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the economic and other conditions used by management to determine the current level of the allowance for loan losses.

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

	Year Ended September 30,				
	2009	2008	2007	2006	2005
	(Dollars in Thousands)				
Balance at beginning of period	\$5,505	\$4,541	\$3,393	\$3,222	\$3,034
Provision for loan losses	2,280	1,609	1,298	451	290
Charge-offs:					
Mortgage:					
One-to four-family	124	144	—	—	—
Multi-family	—	—	—	—	—
Commercial real estate	1,760	90	—	44	33
Construction or development	—	—	—	66	—
Land loans	—	—	—	—	—
Commercial:					
Other	—	4	—	—	3
Consumer:					
Home equity lines of credit	—	—	—	—	35
Second mortgages	153	393	135	250	—
Other	60	19	25	26	45
Total charge-offs	2,097	650	160	386	116
Recoveries:					
Mortgage:					
One-to four-family	—	—	—	—	—
Multi-family	—	—	—	—	—
Commercial real estate	25	—	—	—	—
Construction or development	—	—	—	—	—
Land loans	—	—	—	—	—
Commercial	—	—	—	3	—
Total recoveries	25	—	—	3	—
Consumer:					
Home equity lines of credit	—	—	—	—	—
Second mortgages	—	2	3	97	—
Other	5	3	7	6	14
Total recoveries	30	5	10	106	14
Net charge-offs	2,067	645	150	280	102
Balance at end of period	\$5,718	\$5,505	\$4,541	\$3,393	\$3,222
Ratios:					

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Ratio of allowance for loan losses to non-performing loans	40.05	%	63.36	%	190.16	%	124.51	%	80.49	%
Ratio of net charge-offs to average loans outstanding	0.35	%	0.12	%	0.03	%	0.06	%	0.03	%
Ratio of net charge-offs to total allowance for loan losses	36.15	%	11.72	%	3.30	%	8.25	%	3.17	%

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

	2009			2008			September 30, 2007			Amount
	Amount	Percent of Allowance to Total	Percent of Loans in Each Category	Amount	Percent of Allowance to Total	Percent of Loans in Each Category	Amount	Percent of Allowance to Total	Percent of Loans in Each Category	
(Dollars In Thousands)										
Mortgage:										
One-to four-family	\$1,307	22.9 %	42.4 %	\$827	15.0 %	43.3 %	\$552	12.2 %	40.4 %	\$568
Commercial real estate	1,244	21.8	24.0	2,032	36.9	24.2	1,809	39.8	22.7	753
Construction or development	1,558	27.3	6.3	873	15.9	7.9	673	14.8	12.4	946
Multi-family	48	0.8	1.6	10	0.2	0.3	11	0.2	0.5	11
Land loans	57	1.0	0.6	79	1.4	0.8	117	2.6	1.4	134
Commercial	298	5.2	2.6	335	6.1	3.0	386	8.5	3.3	313
Consumer:										
Home equity lines of credit	284	4.9	3.2	122	2.2	2.2	91	2.0	2.5	95
Second mortgages	889	15.6	19.1	1,131	20.6	18.1	734	16.2	16.5	388
Other	25	0.4	0.2	26	0.5	0.2	30	0.7	0.3	36
Total allocated	5,710	99.9	100.0	5,435	98.8	100.0	4,403	97.0	100.0	3,244
Unallocated	8	0.1	-	70	1.2	-	138	3.0	-	149
Balance at end of period	\$5,718	100.0%	100.0%	\$5,505	100.0%	100.0%	\$4,541	100.0%	100.0%	\$3,393

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

Investment Activities

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

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

At September 30, 2009, our investment and mortgage-backed securities amounted to \$31.9 million in the aggregate or 4.6% of total assets at such date. Our securities portfolio is comprised of mortgage-backed securities, which amounted to \$17.9 million or 56.1% of the securities portfolio at September 30, 2009, and U.S. government and agency obligations, municipal securities, corporate debt obligations and other securities. Our agency debt securities often have call provisions which provide the agency with the ability to call the securities at specified dates. We typically invest in securities with relatively short terms to maturity (less than 10 years). At September 30, 2009, \$11.4 million of our investment mortgage-backed securities had contractual maturities of one year or less and the estimated duration of our mortgage-backed securities portfolio was 3.1 years at such date.

At September 30, 2009, we had an aggregate of \$391,000 in gross unrealized losses on our investment securities portfolio. Securities are evaluated on a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline and whether or not management intends to sell or expects that it is more likely than not that it will be required to sell the security prior to an anticipated recovery of the fair value. The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value for a debt security is determined to be other-than-temporary, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income. For equity securities, the full amount of the other-than-temporary impairment is recognized in earnings. Held to maturity securities are accounted for based upon the historical cost of the security. Available for sale securities can be sold at any time based upon needs or market conditions. Available for sale securities are accounted for at fair value, with unrealized gains and losses on these securities, net of income tax, reflected in shareholders' equity as accumulated other comprehensive income. At September 30, 2009, we had \$27.1 million of securities classified as available for sale, \$4.8 million of securities classified as held to maturity and no securities classified as trading account.

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

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

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

Ginnie Mae is a government agency within the Department of Housing and Urban Development which is intended to help finance government-assisted housing programs. Ginnie Mae securities are backed by loans insured by the Federal Housing Administration, or guaranteed by the Veterans Administration. The timely payment of principal and interest on Ginnie Mae securities is guaranteed by Ginnie Mae and backed by the full faith and credit of the U.S. Government. Freddie Mac is a private corporation chartered by the U.S. Government. Freddie Mac issues participation certificates backed principally by conventional mortgage loans. Freddie Mac guarantees the timely payment of interest and the ultimate return of principal on participation certificates. Fannie Mae is a private corporation chartered by the U.S. Congress with a mandate to establish a secondary market for mortgage loans. Fannie Mae guarantees the timely payment of principal and interest on Fannie Mae securities. Freddie Mac and Fannie Mae securities are not backed by the full faith and credit of the U.S. Government, but because Freddie Mac and Fannie Mae are U.S. Government-sponsored enterprises, these securities are considered to be among the highest quality investments with minimal credit risks. In September 2008, the Federal Housing Finance Agency was appointed as conservator of Fannie Mae and Freddie Mac. The U.S. Department of the Treasury agreed to provide capital as needed to ensure that Fannie Mae and Freddie Mac continue to provide liquidity to the housing and mortgage markets.

In analyzing an issuer’s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts’ reports. As management has the intent 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, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

At September 30, 2009, we owned one single issuer trust preferred security, which security had an unrealized loss of \$362,000 at such date, compared to \$248,000 at September 30, 2008. Historic changes in the economy, in interest rates and the ability to price trust preferred securities caused wide fluctuations in the market value and pricing of this security during fiscal year 2009. However, during the quarter ended September 30, 2009, improvements in the economy and increased stability in the financial markets have improved the pricing and resulting market value of this security. The Company has continued to receive contractual payments in a timely manner and management expects to continue to receive timely payments in the future based on the solid credit rating and performance of the issuer. On a quarterly basis, management reviews the credit rating and performance of the issuer, as well as the impact that the overall economy will have on those measurements and the true economic value of this security.

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Investment Securities Portfolio, Maturities and Yields. The following table sets forth the scheduled maturities, amortized cost and weighted average yields for our investment portfolio, at September 30, 2009. Due to repayments of the underlying loans, the average life maturities of mortgage-backed and asset-backed securities generally are substantially less than the final maturities.

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

	One year or less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
(Dollars in Thousands)											
Available for Sale Securities:											
U.S. government agencies and obligations(1)	\$7,948	2.28%	\$1,997	2.67%	\$-	-	% \$-	-	% \$9,945	\$10,053	2.35%
State and municipal obligations	1,010	3.57	556	2.47	202	2.98	-	-	1,768	1,759	3.15
Mortgage-backed securities	1,435	2.54	8,916	3.87	1,804	4.27	909	4.73	13,064	13,321	3.84
Single issuer trust preferred security	1,000	1.65	-	-	-	-	-	-	1,000	639	1.65
Corporate	-	-	1,288	3.06	-	-	-	-	1,288	1,326	3.06
Total AFS	11,393	2.37	12,757	3.54	2,006	4.14	909	4.73	27,065	27,098	3.13
Held to Maturity Securities:											
Mortgage-backed securities	-	-	119	4.48	287	4.97	4,436	4.65	4,842	4,942	4.66
Total HTM	-	-	119	4.48	287	4.97	4,436	4.65	4,842	4,942	4.66
Total debt securities	\$11,393	2.37%	\$12,876	3.55%	\$2,293	4.24%	\$5,345	4.66%	\$31,907	\$32,040	3.36%

(1) Includes FHLB notes

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

	2009		At September 30, 2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in Thousands)					
Securities available for sale:						
U.S. Government agencies(1)	\$ 8,946	\$ 9,042	\$ 6,984	\$ 6,979	\$ 7,996	\$ 8,005
U.S. Government obligations	999	1,011	999	1,005	4,997	5,000
State and municipal obligations	1,768	1,759	2,321	2,312	2,976	2,945
Corporate securities	1,288	1,326	—	—	—	—
Mortgage-backed securities:						
Government National Mortgage Association	203	206	264	259	399	394
Federal Home Loan Mortgage Association	7,072	7,268	7,752	7,585	9,360	9,074
Federal Home Loan Mortgage Corporation	1,774	1,830	3,101	3,077	2,831	2,767
Collateralized mortgage obligations	4,015	4,018	—	—	—	—
Single issuer trust preferred security	1,000	638	1,000	752	1,000	913
Total available for sale	27,065	27,098	22,421	21,969	29,559	29,098
Securities held to maturity:						
Mortgage-backed securities:						
Government National Mortgage Association	300	307	344	346	407	407
Federal Home Loan Mortgage Association	4,542	4,635	2,526	2,484	1,072	1,040
Total held to maturity	4,842	4,942	2,870	2,830	1,479	1,447
Total investment securities	\$ 31,907	\$ 32,040	\$ 25,291	\$ 24,799	\$ 31,038	\$ 30,545

(1) Includes FHLB notes.

Sources of Funds

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

Deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposits consist of checking, both interest-bearing and non-interest-bearing, money market, savings and certificate of deposit accounts. At September 30, 2009, 41.2% of the funds deposited with Malvern Federal Savings were in core deposits, which are deposits other than certificates of deposit.

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

Malvern Federal Savings uses traditional means of advertising its deposit products, including broadcast and print media and we generally do not solicit deposits from outside our market area. In recent years, we have emphasized the origination of core deposits.

We do not actively solicit certificate accounts in excess of \$100,000, known as “jumbo CDs,” or use brokers to obtain deposits. At September 30, 2009, our jumbo CDs amounted to \$107.0 million, of which \$73.6 million are scheduled to mature within twelve months. At September 30, 2009, the weighted average remaining maturity of our certificate of deposit accounts was 12.4 months.

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

	2009		At September 30, 2008		2007	
	Amount	Percent of total deposits	Amount (Dollars in Thousands)	Percent of total deposits	Amount	Percent of total deposits
Deposit type:						
Savings	\$ 39,554	7.7 %	\$ 38,093	8.4 %	\$ 38,162	8.8 %
Money market	58,401	11.3	59,953	13.2	73,790	17.0
Interest bearing demand	95,720	18.5	48,840	10.8	34,649	8.0
Non-interest bearing demand	19,314	3.7	18,470	4.1	18,647	4.3
Total core deposits	212,989	41.2	165,356	36.5	165,248	38.1
Time deposits with original maturities of:						
Three months or less	893	0.2	832	0.2	479	0.1
Over three months to six months	16,294	3.2	9,862	2.2	5,943	1.4
Over six months to twelve months	45,607	8.8	52,030	11.5	43,655	10.1
Over twelve months	240,728	46.6	225,413	49.6	218,163	50.3
Total time deposits	303,522	58.8	288,137	63.5	268,240	61.9
Total deposits	\$ 516,511	100.0 %	\$ 453,493	100.0 %	\$ 433,488	100.0 %

At September 30, 2009, we had \$107.0 million in certificates of deposit and other time deposits with balances of \$100,000 or more maturing as follows:

Maturity Period	Amount (In Thousands)
Three months or less	\$ 34,959
Over three months through six months	22,904
Over six months through 12 months	15,753
Over twelve months	33,340
Total	\$ 106,956

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

Period to maturity from September 30, 2009			
Less than One Year	More than One Year	More Than One Year	More than One Year

At September 30,

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		One Year to Two Years	Two Years to Three Years	Three Years	2009	2008	2007
(Dollars in Thousands)							
Interest Rate Range							
1.99% and below	\$ 48,124	\$ 9,674	\$ 274	\$ —	\$ 58,072	\$ 8,403	\$ —
2.00% to 2.99%	34,515	15,056	1,725	3,176	54,472	15,794	6,302
3.00% to 3.99%	60,403	11,835	3,375	11,639	87,252	107,101	31,670
4.00% to 4.99%	54,849	35,182	2,868	5,542	98,441	129,813	52,043
5.00% to 5.99%	3,655	524	814	292	5,285	27,026	176,780
6.00% and above	—	—	—	—	—	—	1,445
Total	\$ 201,546	\$ 72,271	\$ 9,056	\$ 20,649	\$ 303,522	\$ 288,137	\$ 268,240

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

	Year Ended September 30,					
	2009		2008		2007	
	(Dollars in Thousands)					
Opening balance	\$453,493		\$433,488		\$402,078	
Deposits	1,485,122		1,535,264		1,161,631	
Withdrawals	1,434,564		1,529,157		1,143,863	
Interest credited	12,460		13,898		13,642	
Ending balance	\$516,511		\$453,493		\$433,488	
Net increase	\$63,018		\$20,005		\$31,410	
Percent increase	13.90	%	4.61	%	7.81	%

Borrowings. We utilize advances from the FHLB of Pittsburgh as an alternative to retail deposits to fund operations as part of our operating strategy. These FHLB advances are collateralized primarily by certain of our mortgage loans and mortgage-backed securities and secondarily by our investment in capital stock of the FHLB Pittsburgh. FHLB advances are made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. The maximum amount that the FHLB of Pittsburgh will advance to member institutions, including Malvern Federal Savings, fluctuates from time to time in accordance with the policies of the FHLB. At September 30, 2009, we had \$99.6 million in outstanding FHLB advances and \$270.9 million of additional FHLB advances and other borrowings available. In addition, we have established a \$50.0 million line of credit with the FHLB, none of which was outstanding at September 30, 2009. All amounts drawn on our FHLB line of credit are considered short-term borrowings. At September 30, 2009, \$40.0 million of our FHLB advances were scheduled to mature within one year.

At September 30, 2009, \$40.0 million of our FHLB advances were short-term (maturities of one year or less). Such short-term borrowings had a weighted average interest rate of 6.31% at September 30, 2009. In addition, at September 30, 2009, we had nothing outstanding on our line of credit with the FHLB, which is payable on demand.

Subsidiaries

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

Employees

At September 30, 2009, we had 88 full-time and 7 part-time employees. None of such employees are represented by a collective bargaining group, and we believe that its relationship with its employees is excellent.

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REGULATION

Set forth below is a brief description of certain laws relating to the regulation of Malvern Federal Bancorp, Malvern Federal Mutual Holding Company and Malvern Federal Savings Bank. This description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

General

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

Regulation of Malvern Federal Bancorp, Inc. and Malvern Federal Mutual Holding Company

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

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

Holding Company Activities. Malvern Federal Bancorp and Malvern Federal Mutual Holding Company operate as unitary savings and loan holding companies. Although savings and loan holding companies are not subject to specific capital requirements or specific restrictions on the payment of dividends or other capital distributions, federal regulations do prescribe such restrictions on subsidiary savings institutions, as described below. Malvern Federal Savings Bank must notify the OTS 30 days before declaring any dividend. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the OTS and the agency has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of the institution.

Waivers of Dividends by Malvern Federal Mutual Holding Company. OTS regulations require Malvern Federal Mutual Holding Company to notify the OTS of any proposed waiver of its receipt of any dividends. The OTS reviews dividend waiver notices on a case-by-case basis, and, in general, does not object to any such waiver if the waiver of

cash dividends would not be detrimental to the safe and sound operation of the subsidiary institution. Malvern Federal Mutual Holding Company has waived the receipt of dividends paid by Malvern Federal Bancorp. Under OTS regulations, public shareholders are not diluted because any dividends waived by Malvern Federal Mutual Holding Company would not be considered in determining an appropriate exchange ratio in the event Malvern Federal Mutual Holding Company converts to stock form.

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Federal Securities Laws. Malvern Federal Bancorp has registered its common stock with the Securities and Exchange Commission under Section 12(b) of the Securities Exchange Act of 1934. Malvern Federal Bancorp is subject to the proxy and tender offer rules, insider trading reporting requirements and restrictions, and certain other requirements under the Securities Exchange Act of 1934. Pursuant to the OTS regulations and our plan of stock issuance, we have agreed to maintain such registration for a minimum of three years following completion of the reorganization.

The Sarbanes-Oxley Act. As a public company, Malvern Federal Bancorp is subject to the Sarbanes-Oxley Act of 2002, which implements a broad range of corporate governance and accounting measures for public companies designed to promote honesty and transparency in corporate America and better protect investors from corporate wrongdoing. The Sarbanes-Oxley Act's principal legislation and the derivative regulation and rule-making promulgated by the SEC includes:

- auditor independence provisions that restrict non-audit services that accountants may provide to their audit clients;

- additional corporate governance and responsibility measures, including the requirement that the principal executive officer and principal financial officer certify financial statements;

- a requirement that companies establish and maintain a system of internal control over financial reporting and that a company's management provide an annual report regarding its assessment of the effectiveness of such internal control over financial reporting to the company's independent accountants and that such accountants provide an attestation report with respect to management's assessment of the effectiveness of the company's internal control over financial reporting;

- the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement;

- an increase in the oversight of, and enhancement of certain requirements relating to audit committees of public companies and how they interact with the company's independent auditors;

- the requirement that audit committee members must be independent and are absolutely barred from accepting consulting, advisory or other compensatory fees from the issuer;

- the requirement that companies disclose whether at least one member of the audit committee is a "financial expert" (as such term is defined by the SEC) and if not, why not;

- a prohibition on insider trading during pension blackout periods;

- a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions; and

- a range of enhanced penalties for fraud and other violations.

Malvern Federal Savings Bank

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

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The OTS's enforcement authority over all savings institutions and their holding companies includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OTS.

Emergency Economic Stabilization Act of 2008. The U.S. Congress adopted, and on October 3, 2008, President George W. Bush signed, the Emergency Economic Stabilization Act of 2008 ("EESA") which authorizes the United States Department of the Treasury, to purchase from financial institutions and their holding companies up to \$700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program. The purpose of the troubled asset relief program is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. The troubled asset relief program is also expected to include direct purchases or guarantees of troubled assets of financial institutions. The Treasury Department has allocated \$250 billion towards a capital purchase program. Under the capital purchase program, the Treasury Department will purchase debt or equity securities from participating institutions. We have elected not to participate in the capital purchase program.

The FDIC increased deposit insurance on most accounts from \$100,000 to \$250,000, until the end of 2013. In addition, pursuant to Section 13(c)(4)(G) of the Federal Deposit Insurance Act, the FDIC has implemented two temporary programs to provide deposit insurance for the full amount of most non-interest bearing transaction deposit accounts through June 30, 2010 and to guarantee certain unsecured debt of financial institutions and their holding companies through the end of 2012. For non-interest bearing transaction deposit accounts, including accounts swept from a non-interest bearing transaction account into a non-interest bearing savings deposit account, a 10 basis point annual rate surcharge will be applied to deposit amounts in excess of \$250,000. We decided to opt out of the temporary liquidity guarantee program.

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

In February 2009 the FDIC adopted a final regulation that provided for the replenishment of the Deposit Insurance Fund over a period of seven years. The restoration plan changed the FDIC's base assessment rates and the risk-based assessment system. The a risk-based premium system provides for quarterly assessments based on an insured institution's ranking in one of four risk categories based upon supervisory and capital evaluations. The assessment rate for an individual institution is determined according to a formula based on a weighted average of the institution's individual CAMELS component ratings plus either six financial ratios or, in the case of an institution with assets of \$10.0 billion or more, the average ratings of its long-term debt. Well-capitalized institutions (generally those with CAMELS composite ratings of 1 or 2) are grouped in Risk Category I and their initial base assessment rate for deposit insurance is set at an annual rate of between 12 and 16 basis points. The initial base assessment rate for institutions in Risk Categories II, III and IV is set at annual rates of 22, 32 and 50 basis points, respectively. These initial base assessment rates are adjusted to determine an institution's final assessment rate based on its brokered deposits, secured liabilities and unsecured debt. The adjustments include higher premiums for institutions that rely significantly on excessive amounts of brokered deposits, including CDARS, higher premiums for excessive use of secured liabilities,

including Federal Home Loan Bank advances and adding financial ratios and debt issuer ratings to the premium calculations for banks with over \$10 billion in assets, while providing a reduction for all institutions for their unsecured debt.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize the predecessor to the Deposit Insurance Fund. The annual assessment rate set for the third quarter of 2009 was 0.0026% of insured deposits and is adjusted quarterly. These assessments will continue until the Financing Corporation bonds mature in 2019.

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The FDIC may terminate the deposit insurance of any insured depository institution, including Malvern Federal Savings Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances which would result in termination of Malvern Federal Savings Bank's deposit insurance.

On May 22, 2009, the FDIC announced a five basis point special assessment on each insured depository institution's assets minus its Tier 1 capital as of June 30, 2009. The amount of the special assessment for any institution will not exceed ten basis points times the institution's domestic deposit assessment base for the second quarter 2009 risk-based assessment. The FDIC collected the special assessment on September 30, 2009. Based on our assets and Tier 1 capital at June 30, 2009, the impact of the special assessment was \$320,000, which was fully expensed in the fiscal year ended September 30, 2009.

On November 12, 2009, the FDIC adopted regulations that require insured depository institutions to prepay on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009 and all of 2010, 2011 and 2012, along with their quarterly risk-based assessment for the third quarter of 2009. The prepaid assessments will be collected instead of imposing additional special assessments at this time.

Regulatory Capital Requirements. Federally insured savings institutions are required to maintain minimum levels of regulatory capital. The OTS has established capital standards consisting of a "tangible capital requirement," a "leverage capital requirement" and "a risk-based capital requirement." The OTS also is authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis.

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

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

leverage capital requirement – "core" capital equal to at least 3.0% of adjusted total assets; and

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

Core capital generally consists of common stockholders' equity (including retained earnings). Tangible capital generally equals core capital minus intangible assets, with only a limited exception for purchased mortgage servicing rights. Malvern Federal Savings Bank had no intangible assets at September 30, 2008. Both core and tangible capital are further reduced by an amount equal to a savings institution's debt and equity investments in subsidiaries engaged in activities not permissible to national banks (other than subsidiaries engaged in activities undertaken as agent for customers or in mortgage banking activities and subsidiary depository institutions or their holding companies). These adjustments do not affect Malvern Federal Savings Bank's regulatory capital.

In determining compliance with the risk-based capital requirement, a savings institution is allowed to include both core capital and supplementary capital in its total capital, provided that the amount of supplementary capital included does not exceed the savings institution's core capital. Supplementary capital generally consists of general allowances

for loan losses up to a maximum of 1.25% of risk-weighted assets, together with certain other items. In determining the required amount of risk-based capital, total assets, including certain off-balance sheet items, are multiplied by a risk weight based on the risks inherent in the type of assets. The risk weights range from 0% for cash and securities issued by the U.S. Government or unconditionally backed by the full faith and credit of the U.S. Government to 100% for loans (other than qualifying residential loans weighted at 80%) and repossessed assets.

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

At September 30, 2009, Malvern Federal Savings Bank exceeded all of its regulatory capital requirements, with tangible, core and total risk-based capital ratios of 9.07%, 9.07% and 12.67%, respectively.

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

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

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

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

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

At September 30, 2009, Malvern Federal Savings Bank was deemed a well capitalized institution for purposes of the above regulations and as such is not subject to the above mentioned restrictions.

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The table below sets forth Malvern Federal Savings Bank's capital position relative to its regulatory capital requirements at September 30, 2009.

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions		Excess Over Well-Capitalized Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)								
Total risk-based capital (to risk-weighted assets)	\$ 65,908	12.67 %	\$ 41,631	8.00 %	\$ 52,039	10.00 %	\$ 13,869	2.67 %
Tier 1 risk-based capital (to risk-weighted assets)	62,247	11.96	20,815	4.00	31,223	6.00	31,024	5.96
Tier 1 leverage capital (to adjusted tangible assets)	62,247	9.07	27,459	4.00	34,324	5.00	27,923	4.07

Capital Distributions. OTS regulations govern capital distributions by savings institutions, which include cash dividends, stock repurchases and other transactions charged to the capital account of a savings institution to make capital distributions. A savings institution must file an application for OTS approval of the capital distribution if either (1) the total capital distributions for the applicable calendar year exceed the sum of the institution's net income for that year to date plus the institution's retained net income for the preceding two years, (2) the institution would not be at least adequately capitalized following the distribution, (3) the distribution would violate any applicable statute, regulation, agreement or OTS-imposed condition, or (4) the institution is not eligible for expedited treatment of its filings. If an application is not required to be filed, savings institutions which are a subsidiary of a savings and loan holding company (as well as certain other institutions) must still file a notice with the OTS at least 30 days before the board of directors declares a dividend or approves a capital distribution.

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

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

If the savings institution fails to maintain its QTL status, the holding company's activities are restricted. In addition, it must discontinue any non-permissible business, although the Office of Thrift Supervision may grant a grace period up to two years for good cause. Nonetheless, any company that controls a savings institution that is not a qualified thrift lender must register as a bank holding company within one year of the savings institution's failure to meet the QTL test.

Statutory penalty provisions require an institution that fails to remain a QTL to either become a national bank or be prohibited from the following:

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

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

Paying dividends unless allowable for a national bank.

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

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

At September 30, 2009, Malvern Federal Savings Bank met the requirements to be deemed a QTL.

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

In addition, Sections 22(g) and (h) of the Federal Reserve Act as made applicable to savings associations by Section 11 of the Home Owners' Loan Act, place restrictions on loans to executive officers, directors and principal shareholders of the savings association and its affiliates. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% shareholder of a savings association, and certain affiliated interests of either, may not exceed, together with all other outstanding loans to such person and affiliated interests, the savings association's loans to one borrower limit (generally equal to 15% of the association's unimpaired capital and surplus). Section 22(h) also requires that loans to directors, executive officers and principal shareholders be made on terms substantially the same as offered in comparable transactions to other persons unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the association and (ii) does not give preference to any director, executive officer or principal shareholder, or certain affiliated interests of either, over other employees of the savings association. Section 22(h) also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a savings association to all insiders cannot exceed the association's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers. Malvern Federal Savings Bank currently is subject to Sections 22(g) and (h) of the Federal Reserve Act and at September 30, 2009, was in compliance with the above restrictions.

Anti-Money Laundering. On October 26, 2001, in response to the events of September 11, 2001, the President of the United States signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (referred to as the USA PATRIOT Act). The USA PATRIOT Act significantly expands the responsibilities of financial institutions, including savings and loan associations, in

preventing the use of the U.S. financial system to fund terrorist activities. Title III of the USA PATRIOT Act provides for a significant overhaul of the U.S. anti-money laundering regime. Among other provisions, it requires financial institutions operating in the United States to develop new anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such compliance programs are intended to supplement existing compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control Regulations. Malvern Federal Savings Bank has established policies and procedures to ensure compliance with the USA PATRIOT Act's provisions, and the impact of the USA PATRIOT Act on our operations has not been material.

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Federal Home Loan Bank System. Malvern Federal Savings Bank is a member of the Federal Home Loan Bank of Pittsburgh, which is one of 12 regional Federal Home Loan Banks that administers the home financing credit function of savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the FHLB. At September 30, 2009, Malvern Federal Savings Bank had \$99.6 million of FHLB advances and nothing outstanding on its line of credit with the FHLB.

As a member, Malvern Federal Savings Bank is required to purchase and maintain stock in the FHLB of Pittsburgh in an amount equal to at least 1.0% of its aggregate unpaid residential mortgage loans or similar obligations at the beginning of each year. At September 30, 2009, Malvern Federal Savings Bank had \$6.6 million in FHLB stock, which was in compliance with this requirement.

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

Federal Reserve System. The Federal Reserve Board requires all depository institutions to maintain reserves against their transaction accounts (primarily NOW and Super NOW checking accounts) and non-personal time deposits. Because required reserves must be maintained in the form of vault cash or a noninterest-bearing account at a Federal Reserve Bank, the effect of this reserve requirement is to reduce an institution’s earning assets. At September 30, 2009, Malvern Federal Savings Bank had met its reserve requirement.

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TAXATION

Federal Taxation

General. Malvern Federal Bancorp and Malvern Federal Savings Bank are subject to federal income taxation in the same general manner as other corporations with some exceptions listed below. The following discussion of federal, state and local income taxation is only intended to summarize certain pertinent income tax matters and is not a comprehensive description of the applicable tax rules. Malvern Federal Bancorp files a consolidated federal income tax return with Malvern Federal Savings. Malvern Federal Bancorp federal and state income tax returns for taxable years through September 30, 2005 have been closed for purposes of examination by the Internal Revenue Service or the Pennsylvania Department of Revenue.

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

Bad Debt Reserves. The Small Business Job Protection Act of 1996 eliminated the use of the reserve method of accounting for bad debt reserves by savings institutions, effective for taxable years beginning after 1995. Prior to that time, Malvern Federal Savings Bank was permitted to establish a reserve for bad debts and to make additions to the reserve. These additions could, within specified formula limits, be deducted in arriving at taxable income. As a result of the Small Business Job Protection Act of 1996, savings associations must use the specific charge-off method in computing their bad debt deduction beginning with their 1996 federal tax return. In addition, federal legislation required the recapture over a six year period of the excess of tax bad debt reserves at December 31, 1995 over those established as of December 31, 1987.

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

At September 30, 2009, the total federal pre-1988 reserve was approximately \$1.6 million. The reserve reflects the cumulative effects of federal tax deductions by Malvern Federal Savings for which no federal income tax provisions have been made.

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

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

stock of a corporation distributing a dividend may deduct only 70% of dividends received.

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State and Local Taxation

Pennsylvania Taxation. Malvern Federal Bancorp is subject to the Pennsylvania Corporate Net Income Tax, Capital Stock and Franchise Tax. The Corporate Net Income Tax rate for 2009 is 9.99% and is imposed on unconsolidated taxable income for federal purposes with certain adjustments. In general, the Capital Stock and Franchise Tax is a tax imposed on a corporation's capital stock value at a statutorily defined rate, such value being determined in accordance with a fixed formula based upon average net income and net worth.

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

Item 1A. Risk Factors.

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

Our Portfolio of Loans with a Higher Risk of Loss is Increasing

Our business strategy in recent years has included the increased originations of commercial real estate loans, construction and development loans and second mortgages (home equity loans). These loans have a higher risk of default and loss than single-family residential mortgage loans. The aggregate amount of our commercial real estate loans, construction and development loans and second mortgages (home equity loans) has increased from \$178.6 million, or 42.9% of our total loans, at September 30, 2005 to \$294.3 million, or 49.4% of our total loans, at September 30, 2009. Commercial real estate and construction and development loans generally are considered to involve a higher degree of risk due to a variety of factors, including generally larger loan balances and loan terms which often do not require full amortization of the loan over its term and, instead, provide for a balloon payment at the stated maturity date. Repayment of commercial real estate loans generally is dependent on income being generated by the rental property or underlying business in amounts sufficient to cover operating expenses and debt service. Repayment of construction and development loans generally is dependent on the successful completion of the project and the ability of the borrower to repay the loan from the sale of the property or obtaining permanent financing. Our second mortgage loans generally are considered to involve a higher degree of risk than single-family residential mortgage loans due to the generally higher loan-to-value ratios and their secondary position in the collateral to the existing first mortgage.

If Our Allowance for Loan Losses is Not Sufficient to Cover Actual Loan Losses, Our Earnings Could Decrease

Our loan customers may not repay their loans according to their terms, and the collateral securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which could have a material adverse effect on our operating results. We make various assumptions and judgments about the

collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. Since we must use assumptions regarding individual loans and the economy, our current allowance for loan losses may not be sufficient to cover actual loan losses, and increases in the allowance may be necessary. In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize loan charge-offs. At September 30, 2009, our allowance for loan losses was equal to 0.96% of our total loans held in portfolio and 40.05% of our total non-performing loans. The ratio of our non-performing loans to total loans increased to 2.40% at September 30, 2009 compared to 1.52% and 0.51% at September 30, 2008 and 2007, respectively. As we continue to address our non-performing loans in fiscal 2010, no assurance can be given that additional provisions for loan losses and/or loan charge-offs may not be required.

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Higher Interest Rates Would Hurt Our Profitability

Our ability to earn a profit depends on our net interest income, which is the difference between the interest income we earn on our interest-earning assets, such as mortgage loans and investment securities, and the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings. Our profitability depends on our ability to manage our assets and liabilities during periods of changing interest rates.

A sustained increase in market interest rates could adversely affect our earnings. A significant portion of our loans have fixed interest rates and longer terms than our deposits and borrowings and our net interest income could be adversely affected if the rates we pay on deposits and borrowings increase more rapidly than the rates we earn on loans. In addition, the market value of our fixed-rate assets would decline if interest rates increase. For example, we estimate that as of September 30, 2009, a 200 basis point increase in interest rates would have resulted in our net portfolio value declining by approximately \$10.5 million or 12%. Net portfolio value is the difference between incoming and outgoing discounted cash flows from assets, liabilities and off-balance sheet contracts. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – How We Manage Market Risk.”

The Loss of Senior Management Could Hurt Our Operations

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

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

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

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Our Loans are Concentrated to Borrowers in Our Market Area

The preponderance of our total loans are to individuals and/or secured by properties located in our market area in Chester County, Pennsylvania and neighboring areas in southeastern Pennsylvania. We have relatively few loans outside of our market. As a result, we have a greater risk of loan defaults and losses in the event of an economic downturn in our market area as adverse economic changes may have a negative effect on the ability of our borrowers to make timely repayment of their loans. Additionally, a decline in local property values could adversely affect the value of property used as collateral. If we are required to liquidate a significant amount of collateral during a period of reduced real estate values to satisfy the debt, our earnings and capital could be adversely affected.

Any Future Federal Deposit Insurance Corporation Insurance Premiums or Special Assessments Will Adversely Impact Our Earnings

On May 22, 2009, the Federal Deposit Insurance Corporation adopted a final rule levying a five basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. We recorded an expense of \$320,000 for the fiscal year ended September 30, 2009, to reflect the special assessment. The final rule permits the Federal Deposit Insurance Corporation to levy up to two additional special assessments of up to five basis points each during 2009 if the Federal Deposit Insurance Corporation estimates that the Deposit Insurance Fund reserve ratio will fall to a level that the Federal Deposit Insurance Corporation believes would adversely affect public confidence or to a level that will be close to or below zero. Any further special assessments that the Federal Deposit Insurance Corporation levies will be recorded as an expense during the appropriate period. In addition, the Federal Deposit Insurance Corporation increased the general assessment rate and, therefore, our Federal Deposit Insurance Corporation general insurance premium expense will increase compared to prior periods.

On November 12, 2009, the FDIC adopted regulations that require insured depository institutions to prepay on December 30, 2009 their estimated assessments for the fourth calendar quarter of 2009, and for all of 2010, 2011 and 2012. The new regulations base the assessment rate for the fourth calendar quarter of 2009 and for 2010 on each institution's total base assessment rate for the third quarter of 2009, modified to assume that the assessment rate in effect on September 30, 2009 had been in effect for the entire third quarter, and the assessment rate for 2011 and 2012 on the modified third quarter assessment base, adjusted quarterly for an estimated 5% annual growth rate in the assessment base through the end of 2012. Under the prepaid assessment rule, we will be required to make a payment of approximately \$3.2 million to the Federal Deposit Insurance Corporation on December 30, 2009, and to record the payment as a prepaid expense, which will be amortized to expense over three years.

Proposed Regulatory Reform May Have a Material Impact on Our Operations

The Obama Administration has published a comprehensive regulatory reform plan that is intended to modernize and protect the integrity of the United States financial system and has offered proposed legislation to accomplish these reforms. The President's plan contains several elements that would have a direct effect on the Company and the Bank. Under the proposed legislation, the federal thrift charter and the Office of Thrift Supervision would be eliminated and all companies that control an insured depository institution, such as the Company and the Mutual Holding Company, will be required to register as bank holding companies. An existing federal thrift, such as Malvern Federal Savings, would become a national bank or could choose to adopt a state charter. Registration as a bank holding company would represent a significant change, as there currently exist significant differences between savings and loan holding company and bank holding company supervision and regulation. For example, the Federal Reserve imposes leverage and risk-based capital requirements on bank holding companies whereas the Office of Thrift Supervision does not impose any capital requirements on savings and loan holding companies. The Administration

has also proposed the creation of a new federal agency, the Consumer Financial Protection Agency, that would be dedicated to protecting consumers in the financial products and services market. The creation of this agency could result in new regulatory requirements and raise the cost of regulatory compliance. In addition, legislation stemming from the reform plan could require changes in regulatory capital requirements, loan loss provisioning practices, and compensation practices. If implemented, the foregoing regulatory reforms may have a material impact on our operations. However, because the final legislation may differ significantly from the reform plan proposed by the President, we cannot determine the specific impact of any regulatory reform at this time.

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Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We currently conduct business from our headquarters and seven full-service financial center offices. The following table sets forth the net book value of the land, building and leasehold improvements and certain other information with respect to the our offices at September 30, 2009. We maintain automated teller machines (“ATMs”) at each of our branch offices.

Description/Address	Leased/Owned	Date of Lease Expiration (Dollars in Thousands)	Net Book Value of Property	Amount of Deposits
Paoli Financial Center and Headquarters 34 East Lancaster Avenue and 42 East Lancaster Avenue Paoli, PA 19301	Owned	N/A	\$ 3,945	\$ 212,255
Malvern Financial Center 100 West King Street Malvern, PA 19355	Owned	N/A	46	62,050
Exton Financial Center 109 North Pottstown Pike Exton, PA 19341	Owned	N/A	359	58,779
Coventry Financial Center 1000 Ridge Road Pottstown, PA 19465	Owned	N/A	434	67,206
Berwyn Financial Center 650 Lancaster Avenue Berwyn, PA 19313	Owned	N/A	739	53,456
Lionville Financial Center 537 West Uwchlan Avenue Downingtown, PA 19335	Owned	N/A	957	36,063
Westtown Financial Center 100 Skiles Boulevard West Chester, PA 19382	Leased	2015	244	26,702

Our eighth full-service financial center, which will be located in Concordville, Pennsylvania, is expected to open in the summer of 2010.

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Item 3. Legal Proceedings.

We are not presently involved in any legal proceedings of a material nature. From time to time, we are a party to legal proceedings incidental to our business to enforce our security interest in collateral pledged to secure loans made by Malvern Federal Savings Bank.

Item
4. Submission of Matters to a Vote of Security Holders.

Not Applicable.

PART II

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

(a) Malvern Federal Bancorp, Inc.'s common stock is listed on the NASDAQ Global Market under the symbol "MLVF". The common stock was issued at a price of \$10.00 per share in connection with the Bank's mutual holding company reorganization and the initial public offering of the Company's common stock. The common stock commenced trading on the NASDAQ Stock Market on May 20, 2008. As of the close of business on September 30, 2009, there were 6,150,500 shares of common stock outstanding, held by approximately 615 stockholders of record, not including the number of persons or entities whose stock is held in nominee or "street" name through various brokerage firms and banks.

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

	Year Ended September 30,			
	2009		2008	
	High	Low	High	Low
First Quarter	\$ 9.99	\$ 8.75	N/A	N/A

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Second Quarter	\$ 9.50	\$ 7.50	N/A	N/A
Third Quarter	\$ 10.40	\$ 8.99	\$ 11.05	\$ 10.75
Fourth Quarter	\$ 10.10	\$ 8.57	\$ 10.98	\$ 10.03

The following table summarized the cash dividends per share of common stock declared by the Company during the periods indicated.

	Year Ended September 30,	
	2009	2008
First Quarter	\$ 0.040	\$ —
Second Quarter	\$ 0.040	\$ —
Third Quarter	\$ 0.030	\$ —
Fourth Quarter	\$ 0.030	\$ 0.040

(b) Not applicable.

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(c) Purchase of Equity Securities

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

Period	Total Number Of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Program	Maximum Number of Shares that May Yet be Purchased Under the or Program (1)
July 1 – July 31, 2009	—	\$ —	—	138,000
August 1 – August 31, 2009	—	\$ —	—	138,000
September 1 – September 30, 2009	2,000	\$ 9.50	2,000	136,000
Total	2,000	\$ 9.50	2,000	136,000

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- (1) On May 7, 2009, the Company announced that its Board of Directors approved the repurchase of up to 138,000 shares or approximately 5% of the Company's outstanding common stock held by shareholders other than Malvern Federal Mutual Holding Company. Subsequent to September 30, 2009 and through December 18, 2009 the Company repurchased an additional 48,000 shares of its common stock as part of its publicly announced repurchase program. While we will continue to assess our repurchase opportunities, we expect that limited repurchases will be undertaken under the repurchase program in fiscal 2010 in light of, among other factors, the regulatory capital requirements of the Bank. The repurchase program is scheduled to terminate as of May 7, 2010.

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Selected
Financial
Data.

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

	2009	2008	At September 30, 2007	2006	2005
			(In thousands)		
Selected Financial Condition Data:					
Total assets	\$ 691,639	\$ 639,509	\$ 551,932	\$ 517,212	\$ 487,209
Loans receivable, net	593,565	571,536	466,192	455,813	414,684
Loans held for sale	—	—	9,258	—	—
Securities held to maturity	4,842	2,870	1,479	1,733	2,078
Securities available for sale	27,098	21,969	29,098	28,024	40,142
FHLB borrowings	99,621	113,798	71,387	70,870	61,500
Deposits	516,511	453,493	433,488	402,078	385,045
Shareholders' equity	69,842	68,836	44,039	41,419	38,254
Total liabilities					