MALVERN BANCORP, INC.
Form 10-Q
May 14, 2015

UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2015

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission File Number: 000-54835

MALVERN BANCORP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania (State or Other Jurisdiction of Incorporation or Organization)	45-5307782 (IRS Employer Identification No.)
42 Lancaster Avenue, Paoli, Pennsylvania (Address of Principal Executive Offices)	19301 (Zip Code)

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

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

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company x

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, no par value:	6,558,473 shares
(Title of Class)	(Outstanding as of May 12, 2015)

Table of Contents

		Page
PART I – FINANCIAL INFORMATION		1
Item 1.	Financial Statements	
	Consolidated Statements of Financial Condition at March 31, 2015 (unaudited) and September 30, 2014	2
	Consolidated Statements of Operations for the three and six months ended March 31, 2015 and 2014 (unaudited)	3
	Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended March 31, 2015 and 2014 (unaudited)	4
	Consolidated Statements of Changes in Shareholders' Equity for the six months ended March 31, 2015 and 2014 (unaudited)	5
	Consolidated Statements of Cash Flows for the six months ended March 31, 2015 and 2014 (unaudited)	6
	Notes to Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	34
Item 3.	Qualitative and Quantitative Disclosures about Market Risks	52
Item 4.	Controls and Procedures	53
PART II – OTHER INFORMATION.		
Item 1.	Legal Proceedings	53
Item 1A.	Risk Factors	53
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	53
Item 3.	Default Upon Senior Securities	53
Item 4.	Mine Safety Disclosure	53
Item 5.	Other Information	53
Item 6.	Exhibits	53
SIGNATURES		54

PART I – FINANCIAL INFORMATION

The following unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and, accordingly, do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the full year ending September 30, 2015, or for any other interim period. The Malvern Bancorp, Inc. 2014 Annual Report on Form 10-K should be read in conjunction with these financial statements.

Item 1. Financial Statements

MALVERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except for share data)	March 31, 2015 (Unaudited)	September 30, 2014
ASSETS		
Cash and due from depository institutions	$ 1,056	$ 1,203
Interest bearing deposits in depository institutions	50,587	17,984
Cash and cash equivalents	51,643	19,187
Investment securities available-for-sale, at fair value	113,557	100,943
Investment securities held-to-maturity (fair value of $50,310 and $0, respectively)	50,697	-
Restricted stock, at cost	4,602	3,503
Loans receivable, net of allowance for loan losses of $4,612 and $4,589, respectively	377,340	386,074
Other real estate owned	1,430	1,964
Accrued interest receivable	2,168	1,322
Property and equipment, net	6,592	6,823
Deferred income taxes, net	2,940	2,376
Bank-owned life insurance	18,527	18,264
Other assets	1,610	1,808
Total Assets	$ 631,106	$ 542,264
LIABILITIES		
Deposits:		
Deposits – noninterest-bearing	$ 25,111	$ 23,059
Deposits – interest-bearing	419,035	389,894
Total Deposits	444,146	412,953
FHLB advances	98,000	48,000
Advances from borrowers for taxes and insurance	4,367	1,786
Accrued interest payable	307	149
Other liabilities	4,260	2,604
Total Liabilities	551,080	465,492
Commitments and Contingencies	-	-
SHAREHOLDERS’ EQUITY		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued	-	-
Common stock, $0.01 par value, 40,000,000 shares authorized, issued and outstanding: 6,558,473	66	66
Additional paid-in capital	60,331	60,317
Retained earnings	21,445	20,116
Unearned Employee Stock Ownership Plan (ESOP) shares	(1,848)	(1,922)
Accumulated other comprehensive income (loss)	32	(1,805)
Total Shareholders’ equity	80,026	76,772

Total Liabilities and Shareholders’ equity	$ 631,106	$ 542,264

See accompanying notes to unaudited consolidated financial statements.

MALVERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(in thousands, except for per share data)	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014	Six Months Ended March 31, 2015	Six Months Ended March 31, 2014
Interest and Dividend Income				
Loans, including fees	$ 4,126	$ 4,445	$ 8,328	$ 8,972
Investment securities, taxable	778	549	1,292	1,104
Investment securities, tax-exempt	96	54	133	108
Dividends, restricted stock	142	19	179	33
Interest-bearing cash accounts	24	12	47	27
Total Interest and Dividend Income	5,166	5,079	9,979	10,244
Interest Expense				
Deposits	859	999	1,718	2,066
Borrowings	471	262	864	525
Total Interest Expense	1,330	1,261	2,582	2,591
Net interest income	3,836	3,818	7,397	7,653
Provision for Loan Losses	-	-	90	80
Net Interest Income after Provision for Loan Losses	3,836	3,818	7,307	7,573
Other Income				
Service charges and other fees	264	224	534	482
Rental income-other	64	64	128	128
Net gains on sales of investments, net	266	-	292	14
Net gains on sale of loans, net	20	29	39	56
Earnings on bank-owned life insurance	131	140	263	285
Total Other Income	745	457	1,256	965
Other Expense				
Salaries and employee benefits	1,550	2,072	3,278	4,139
Occupancy expense	465	589	889	1,105
Federal deposit insurance premium	184	177	351	368
Advertising	60	216	145	374
Data processing	301	308	603	638
Professional fees	434	690	777	1,175
Other real estate owned (income)/expense, net	(59)	84	(95)	97
Other operating expenses	638	564	1,286	1,000
Total Other Expense	3,573	4,700	7,234	8,896
Income (loss) before income tax expense (benefit)	1,008	(425)	1,329	(358)
Income tax expense	-	1	-	4
Net Income (Loss)	$ 1,008	$ (426)	$ 1,329	$ (362)
Basic Earnings (Loss) Per Share	$ 0.16	$ (0.07)	$ 0.21	$ (0.06)
Dividends Declared Per Share	$ 0.00	$ 0.00	$ 0.00	$ 0.00

See accompanying notes to unaudited consolidated financial statements.

3

MALVERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
(in thousands)	2015	2014	2015	2014
Net Income (Loss)	$ 1,008	$ (426)	$ 1,329	$ (362)
Other Comprehensive Income (Loss), Net of Tax:				
Unrealized holding gains on available-for-sale securities	1,947	1,582	3,109	228
Tax effect	(662)	(538)	(1,057)	(78)
Net of tax amount	1,285	1,044	2,052	150
Reclassification adjustment for net gains arising during the period	(266)	-	(292)	(14)
Tax effect	90	-	99	5
Net of tax amount	(176)	-	(193)	(9)
Accretion of unrealized holding losses on securities transferred from available-for-sale to held-to- maturity	(33)	-	(33)	-
Tax effect	11	-	11	-
Net of tax amount	(22)	-	(22)	-
Total other comprehensive income	1,087	1,044	1,837	141
Total comprehensive income (loss)	$ 2,095	$ 618	$ 3,166	$ (221)

See accompanying notes to unaudited consolidated financial statements.

MALVERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	(in thousands, except share data)						
Balance, October 1, 2013	$ 66	$ 60,302	$ 19,793	$ -	$ (2,067)	$ (2,688)	$ 75,406
Net Loss	-	-	(362)	-	-	-	(362)
Other comprehensive income	-	-	-	-	-	141	141
Committed to be released ESOP shares (7,200 shares)	-	11	-	-	73	-	84
Balance, March 31, 2014	$ 66	$ 60,313	$ 19,431	$ -	$ (1,994)	$ (2,547)	$ 75,269
Balance, October 1, 2014	$ 66	$ 60,317	$ 20,116	$ -	$ (1,922)	$ (1,805)	$ 76,772
Net Income	-	-	1,329	-	-	-	1,329
Other comprehensive income	-	-	-	-	-	1,837	1,837
Committed to be released ESOP shares (7,200 shares)	-	14	-	-	74	-	88
Balance, March 31, 2015	$ 66	$ 60,331	$ 21,445	$ -	$ (1,848)	$ 32	$ 80,026

See accompanying notes to unaudited consolidated financial statements.

5

MALVERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands)	Six Months Ended March 31, 2015	2014
Cash Flows from Operating Activities		
Net income (loss)	$1,329	$(362)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	321	321
Provision for loan losses	90	80
Deferred income taxes benefit	(1,510)	(141)
ESOP expense	88	84
Amortization (accretion) of premiums and discounts on investment securities, net	208	(628)
Amortization (accretion) of loan origination fees and costs	202	(333)
Amortization of mortgage service rights	40	7
Net gain on sale of investment securities available-for-sale	(292)	(14)
Net gain on sale of secondary market loans	(39)	(56)
Proceeds on sale of secondary market loans	1,555	3,626
Originations of secondary market loans	(1,516)	(3,570)
Gain on sale of other real estate owned	(114)	-
Write down of other real estate owned	19	56
Earnings on bank-owned life insurance	(263)	(285)
(Increase) decrease in accrued interest receivable	(846)	24
Increase (decrease) in accrued interest payable	158	(11)
Increase in other liabilities	1,656	7
Decrease in other assets	170	23
Net Cash Provided by (Used in) Operating Activities	1,256	(1,172)
Cash Flows from Investing Activities		
Investment securities available-for-sale		
Purchases	(113,238)	(4,266)
Sales	51,225	824
Maturities, calls and principal repayments	4,838	6,757
Investment securities held-to-maturity:		
Purchases	(4,152)	-
Maturities, calls and principal repayments	883	-
Proceeds from sale of loans	-	10,367
Loan buyback for sale of loans	-	(1,117)
Loan purchases	-	(15,934)
Loan originations and principal collections, net	8,442	10,021
Proceeds from sale of other real estate owned	629	1,629
Additions to mortgage servicing rights	(12)	(24)
Proceeds from cash surrender on bank-owned life insurance	-	763
Net increase in restricted stock	(1,099)	(338)
Purchases of property and equipment	(90)	(93)

Net Cash (Used in) Provided by Investing Activities	(52,574)	8,589
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	31,193	(25,873)
Net increase in FHLB line of credit	-	2,000
Proceeds for long-term borrowings	50,000	5,000
Increase in advances from borrowers for taxes and insurance	2,581	2,014
Net Cash Provided by (Used in) Financing Activities	83,774	(16,859)
Net Increase (Decrease) in Cash and Cash Equivalents	32,456	(9,442)
Cash and Cash Equivalent – Beginning	19,187	23,687
Cash and Cash Equivalent – Ending	$51,643	$14,245
Supplementary Cash Flows Information		
Interest paid	$2,423	$2,602
Income taxes paid	$-	$17
Non-cash transfer of loans to other real estate owned	$-	$81
Transfer from investment securities available-for-sale to investment securities held-to-maturity	$47,429	$-

See accompanying notes to unaudited consolidated financial statements.

6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

The consolidated financial statements of Malvern Bancorp, Inc. (the “Company” or “Malvern Bancorp”) include the accounts of the Company and its wholly-owned subsidiary, Malvern Federal Savings Bank (“Malvern Federal Savings” or the “Bank”) and the Bank’s subsidiary, Strategic Asset Management Group, Inc. All significant intercompany accounts and transactions have been eliminated from the accompanying consolidated financial statements.

The Bank is a federally chartered stock savings bank which was originally organized in 1887. The Bank operates from its headquarters in Paoli, Pennsylvania and through its seven full service financial center offices in Chester and Delaware Counties, Pennsylvania.

In preparing the consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated statements of condition and that affect the results of operations for the periods presented. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to change in the near term relate to the determination of the allowance for loan losses, other real estate owned, the evaluation of deferred tax assets and the other-than-temporary impairment evaluation of securities.

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”).

Note 2 – Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-05, “Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.” This ASU provides guidance to customer about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer’s accounting for service contracts. ASU No. 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company has evaluated the provisions of ASU No. 2015-05 and has determined that the new standard has no material impact on the Company’s Consolidated Financial Statements.

In April 2015, the FASB issued ASU No. 2015-04, “Compensation—Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets.” The FASB is issuing the amendments in this Update as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. ASU No. 2015-01 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company has evaluated the provisions of ASU No. 2015-05 and has determined that the new standard has no material on the Company’s Consolidated Financial Statements.

In April 2015, the FASB issued ASU No. 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments in ASU 2015-03 are effective for public business entities, for fiscal years, and interim periods within those fiscal years beginning after December 15, 2015. Early adoption is permitted. This amendment should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (i.e., debt issuance cost asset and the debt liability). The Company is currently evaluating the provisions of ASU No. 2015-03 to determine the potential impact the new standard will have on the Company’s Consolidated Financial Statements.

In January 2015, the FASB issued ASU 2015-01, “Income Statement — Extraordinary and Unusual Items (Subtopic 225-20)”. This Update eliminates from GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement—Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. Paragraph 225-20-45-2 contains the following criteria that must both be met for extraordinary classification, (1) unusual nature - the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates; and (2) infrequency of occurrence - the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates. The amendments in ASU 2015-01 are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company’s financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 – Earnings Per Share

Basic earnings per common share is computed based on the weighted average number of shares outstanding reduced by unearned ESOP shares. Diluted earnings per share is computed based on the weighted average number of shares outstanding and common stock equivalents (“CSEs”) that would arise from the exercise of dilutive securities reduced by unearned ESOP shares. As of March 31, 2015 and for the three and six months ended March 31, 2015 and 2014 the Company had not issued and did not have any outstanding CSEs and, at the present time, the Company’s capital structure has no potential dilutive securities.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
(in thousands, except for share data)	2015	2014	2015	2014
Net Income (Loss)	$ 1,008	$ (426)	$ 1,329	$ (362)
Weighted average shares outstanding	6,558,473	6,558,473	6,558,473	6,558,473
Average unearned ESOP shares	(166,952)	(181,352)	(168,786)	(183,166)
Weighted average shares outstanding – basic	6,391,521	6,377,121	6,389,687	6,375,307
Earnings (Loss) per share – basic	$ 0.16	$ (0.07)	$ 0.21	$ (0.06)

Note 4 – Employee Stock Ownership Plan

The Company established an employee stock ownership plan (“ESOP”) for substantially all of its full-time employees. The current ESOP trustee is Pentegra. Shares of the Company’s common stock purchased by the ESOP are held until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each such participant’s base compensation to the total base compensation of all eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to additional paid-in capital. During the period from May 20, 2008 to September 30, 2008, the ESOP purchased 241,178 shares of the common stock for approximately $2.6 million, an average price of $10.86 per share, which was funded by a loan from Malvern Federal Bancorp, Inc. (the Company’s predecessor). The ESOP loan is being repaid principally from the Bank’s contributions to the ESOP. The loan, which bears an interest rate of 5%, is being repaid in quarterly installments through 2026. Shares are released to participants proportionately as the loan is repaid. During the three and six months ended March 31, 2015 and 2014, there were 3,600 and 7,200 shares, respectively, committed to be released. At March 31, 2015, there were 165,165 unallocated shares and 94,053 allocated shares held by the ESOP which had an aggregate fair value of approximately $2.2 million.

Note 5 - Investment Securities

The Company’s investment securities are classified as available-for-sale or held-to-maturity at March 31, 2015 and available-for-sale at September 30, 2014. Investment securities available-for-sale are reported at fair value with unrealized gains or losses included in equity, net of tax. Accordingly, the carrying value of such securities reflects their fair value at the balance sheet date. Fair value is based upon either quoted market prices, or in certain cases where there is limited activity in the market for a particular instrument, assumptions are made to determine their fair value.

8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Investment Securities – (continued)

Transfers of debt securities from the available-for-sale category to the held-to-maturity category are made at fair value at the date of transfer. The unrealized holding gain or loss at the date of transfer remains in accumulated other comprehensive income and in the carrying value of the held-to-maturity investment security. Premiums or discounts on investment securities are amortized or accreted using the effective interest method over the life of the security as an adjustment of yield. Unrealized holding gains or losses that remain in accumulated other comprehensive income are amortized or accreted over the remaining life of the security as an adjustment of yield, offsetting the related amortization of the premium or accretion of the discount.

The following tables present information related to the Company's investment securities at March 31, 2015 and September 30, 2014. At September 30, 2014 there were no held-to-maturity investment securities.

	March 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment Securities Available-for-Sale:				
U.S. government agencies	$ 850	$ -	$ (7)	$ 843
State and municipal obligations	31,274	200	(74)	31,400
Single issuer trust preferred security	1,000	-	(150)	850
Corporate debt securities	64,718	395	(187)	64,926
	97,842	595	(418)	98,019
Mortgage-backed securities:				
Federal National Mortgage Association (FNMA), fixed-rate	9,353	-	(70)	9,283
Federal Home Loan Mortgage Company (FHLMC), fixed-rate	6,314	-	(59)	6,255
	15,667	-	(129)	15,538
Total	$ 113,509	$ 595	$ (547)	$ 113,557
Investment Securities Held-to-Maturity:				
U.S. government agencies	$ 14,845	$ 3	$ (77)	$ 14,771
Corporate debt securities	4,058	9	-	4,067
Mortgage-backed securities:				
Collateralized mortgage obligations, fixed-rate	31,794	52	(374)	31,472
Total	$ 50,697	$ 64	$ (451)	$ 50,310
Total investment securities	$ 164,206	$ 659	$ (998)	$ 163,867

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Investment Securities – (continued)

	September 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment Securities Available-for-Sale:				
U.S. government agencies	$ 19,719	$ 1	$ (464)	$ 19,256
State and municipal obligations	2,543	-	(43)	2,500
Single issuer trust preferred security	1,000	-	(120)	880
Corporate debt securities	1,504	21	-	1,525
	24,766	22	(627)	24,161
Mortgage-backed securities:				
Federal National Mortgage Association (FNMA):				
Adjustable-rate	403	15	-	418
Fixed-rate	17,390	9	(591)	16,808
Federal Home Loan Mortgage Company (FHLMC):				
Adjustable-rate	3,562	33	-	3,595
Fixed-rate	12,336	-	(340)	11,996
Collateralized mortgage obligations (CMO), fixed-rate	45,222	46	(1,303)	43,965
	78,913	103	(2,234)	76,782
Total	$ 103,679	$ 125	$ (2,861)	$ 100,943

During the six months ended March 31, 2015, the Company transferred at fair value approximately $47.4 million in available-for-sale investment securities to the held-to-maturity category. The net unrealized loss at date of transfer amounted to $33,000, remained in accumulated other comprehensive income and will be discounted over the remaining life of the securities as an adjustment of yield, offsetting the related amortization of the premium or accretion of the discount on the transferred securities. No gains or losses were recognized at the time of transfer. Management considers the held-to-maturity classification of these investment securities to be appropriate as the Company has the positive intent and ability to hold these securities to maturity.

For the six months ended March 31, 2015, proceeds of available-for-sale investment securities sold amounted to approximately $51.2 million. Gross realized gains on investment securities sold amounted to approximately $386,000, while gross realized losses amounted to approximately $94,000, for the period. For the six months ended March 31, 2014, proceeds of investment securities sold amounted to approximately $824,000. Gross realized gains on investment securities sold amounted to approximately $14,000, while there were no gross realized losses, for the period.

The varying amount of sales from the available-for-sale portfolio over the past few years, reflect the significant volatility present in the market. Given the historic low interest rates prevalent in the market, it is necessary for the Company to protect itself from interest rate exposure. Securities that once appeared to be sound investments can, after changes in the market, become securities that the Company has the flexibility to sell to avoid losses and mismatches of interest-earning assets and interest-bearing liabilities at a later time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Investment Securities – (continued)

The following tables indicate gross unrealized losses not recognized in income and fair value, aggregated by investment category and the length of time individual securities have been in a continuous unrealized loss position at March 31, 2015 and September 30, 2014:

March 31, 2015	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair value	Unrealized Losses
	(in thousands)					
Investment Securities Available-for-Sale:						
U.S. government agencies	$-	$-	$843	$(7)	$843	$(7)
State and municipal obligations	10,348	(74)	-	-	10,348	(74)
Single issuer trust preferred security	-	-	850	(150)	850	(150)
Corporate debt securities	24,085	(187)	-	-	24,085	(187)
Mortgage-backed securities:						
FNMA, fixed-rate	5,803	(26)	3,480	(44)	9,283	(70)
FHLMC, fixed-rate	3,409	(18)	2,845	(41)	6,254	(59)
Total	$43,645	$(305)	$8,018	$(242)	$51,663	$(547)
Investment Securities Held-to-Maturity:						
U.S. government agencies	12,224	(77)	-	-	12,224	(77)
Mortgage-backed securities:						
CMO, fixed-rate	26,043	(374)	-	-	26,043	(374)
Total	38,267	(451)	-	-	38,267	(451)
Total investment securities	$81,912	$(756)	$8,018	$(242)	$89,930	$(998)

September 30, 2014	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair value	Unrealized Losses
			(in thousands)			
Investment Securities Available-for-Sale:						
U.S. government agencies	$-	$-	$18,267	$(464)	$18,267	$(464)
State and municipal obligations	-	-	2,501	(43)	2,501	(43)
Single issuer trust preferred security	-	-	880	(120)	880	(120)
Mortgage-backed securities:						
FNMA, fixed-rate	-	-	16,715	(591)	16,715	(591)

FHLMC, fixed-rate	-	-	11,996	(340)	11,996	(340)
CMO, fixed-rate	3,945	(54)	36,185	(1,249)	40,130	(1,303)
Total investment securities	$3,945	$(54)	$86,544	$(2,807)	$90,489	$(2,861)

As of March 31, 2015, the estimated fair value of the securities disclosed above was primarily dependent upon the movement in market interest rates, particularly given the negligible inherent credit risk associated with these securities. These investment securities are comprised of securities that are rated investment grade by at least one bond credit rating service. Although the fair value will fluctuate as the market interest rates move, management believes that these fair values will recover as the underlying portfolios mature and are reinvested in market rate yielding investments. As of March 31, 2015, the Company held 14 U.S. government agency securities, 11 tax-free municipal bonds, 13 corporate securities, 38 mortgage-backed securities and one single issuer trust preferred security which were in an unrealized loss position. The Company does not intend to sell and expects that it is not more likely than not that it will be required to sell these securities until such time as the value recovers or the securities mature. Management does not believe any individual unrealized loss as of March 31, 2015 represents other-than-temporary impairment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Investment Securities – (continued)

At March 31, 2015 and September 30, 2014 the Company had no securities pledged to secure public deposits.

The following table presents information for investment securities at March 31, 2015, based on scheduled maturities. Actual maturities can be expected to differ from scheduled maturities due to prepayment or early call options of the issuer.

	March 31, 2015	
	Amortized Cost	Fair Value
	(in thousands)	
Investment Securities Available-for-Sale:		
Due in one year or less	$ -	$ -
Due after one year through five years	12,805	12,893
Due after five years through ten years	59,674	59,867
Due after ten years	41,030	40,797
Total	$ 113,509	$ 113,557
Investment Securities Held-to-Maturity:		
Due after one year through five years	$ 10,301	$ 10,255
Due after five years through ten years	8,602	8,583
Due after ten years	31,794	31,472
Total	$ 50,697	$ 50,310
Total investment securities	$ 164,206	$ 163,867

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses

Loans receivable in the Company's portfolio consisted of the following at the dates indicated below:

	March 31, 2015	September 30, 2014
	(in thousands)	
Residential mortgage	$ 225,232	$ 231,324
Construction and Development:		
Residential and commercial	5,922	5,964
Land	344	1,033
Total Construction and Development	6,266	6,997
Commercial:		
Commercial real estate	68,858	71,579
Multi-family	5,508	1,032
Other	5,506	5,480
Total Commercial	79,872	78,091
Consumer:		
Home equity lines of credit	23,073	22,292
Second mortgages	43,013	47,034
Other	2,610	2,839
Total Consumer	68,696	72,165
Total loans	380,066	388,577
Deferred loan fees and cost, net	1,886	2,086
Allowance for loan losses	(4,612)	(4,589)
Total loans receivable, net	$ 377,340	$ 386,074

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following tables summarize the primary classes of the allowance for loan losses ("ALLL"), segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of March 31, 2015 and September 30, 2014. Activity in the allowance is presented for the three and six months ended March 31, 2015 and 2014 and the year ended September 30, 2014, respectively.

Three Months Ended March 31, 2015 (in thousands)

		Construction and Development		Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
Allowance for loan losses:											
Beginning balance	$ 1,648	$ 363	$ -	$ 1,082	$ 152	$ 49	$ 154	$ 916	$ 29	$ 207	$ 4,600
Charge-offs	-	-	-	-	-	-	-	-	(16)	-	(16)
Recoveries	-	-	-	3	-	-	1	22	2	-	28
Provision	(61)	(55)	5	(27)	5	10	(12)	(87)	17	205	-
Ending Balance	$ 1,587	$ 308	$ 5	$ 1,058	$ 157	$ 59	$ 143	$ 851	$ 32	$ 412	$ 4,612

Three Months Ended March 31, 2014 (in thousands)

		Construction and Development		Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
Allowance for loan losses:											
Beginning balance	$ 1,680	$ 193	$ 53	$ 1,433	$ 26	$ 74	$ 130	$ 1,142	$ 23	$ 91	$ 4,845
Charge-offs	(5)	-	-	-	-	-	-	(83)	(3)	-	(91)
Recoveries	1	72	-	3	-	-	-	17	-	-	93
Provision	107	190	(21)	(213)	41	(19)	22	(87)	19	(39)	-
Ending Balance	$ 1,783	$ 455	$ 32	$ 1,223	$ 67	$ 55	$ 152	$ 989	$ 39	$ 52	$ 4,847

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Six Months Ended March 31, 2015										
		Construction and Development		Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
	(in thousands)										
Allowance for loan losses:											
Beginning balance	$1,672	$291	$13	$1,248	$29	$50	$168	$1,033	$23	$62	$4,589
Charge-offs	-	(1)	-	(48)	-	-	-	(31)	(33)	-	(113)
Recoveries	1	-	-	5	-	1	1	34	4	-	46
Provision	(86)	18	(8)	(147)	128	8	(26)	(185)	38	350	90
Ending Balance	$1,587	$308	$5	$1,058	$157	$59	$143	$851	$32	$412	$4,612
Ending balance: individually evaluated for impairment	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-
Ending balance: collectively evaluated for impairment	$1,587	$308	$5	$1,058	$157	$59	$143	$851	$32	$412	$4,612
Loans receivable:											
Ending balance	$225,232	$5,922	$344	$68,858	$5,508	$5,506	$23,073	$43,013	$2,610		$380,066
Ending balance: individually evaluated for impairment	$861	$142	$-	$604	$-	$-	$20	$308	$-		$1,935
Ending balance: collectively evaluated for impairment	$224,371	$5,780	$344	$68,254	$5,508	$5,506	$23,053	$42,705	$2,610		$378,131

15

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Six Months Ended March 31, 2014										
		Construction and Development		Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
	(in thousands)										
Allowance for loan losses:											
Beginning balance	$1,414	$164	$56	$1,726	$40	$59	$137	$1,393	$22	$79	$5,090
Charge-offs	(5)	(37)	-	-	-	-	(14)	(403)	(5)	-	(464)
Recoveries	12	72	-	5	-	1	-	50	1	-	141
Provision	362	256	(24)	(508)	27	(5)	29	(51)	21	(27)	80
Ending Balance	$1,783	$455	$32	$1,223	$67	$55	$152	$989	$39	$52	$4,847
Ending balance: individually evaluated for impairment	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-
Ending balance: collectively evaluated for impairment	$1,783	$455	$32	$1,223	$67	$55	$152	$989	$39	$52	$4,847
Loans receivable:											
Ending balance	$250,280	$8,500	$1,908	$69,992	$2,065	$5,510	$20,147	$50,170	$3,074		$411,646
Ending balance: individually evaluated for impairment	$2,161	$802	$237	$-	$-	$900	$205	$533	$-		$4,838
Ending balance: collectively evaluated for impairment	$248,119	$7,698	$1,671	$69,992	$2,065	$4,610	$19,942	$49,637	$3,074		$406,808

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Year Ended September 30, 2014										
		Construction and Development		Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
	(in thousands)										
Allowance for loan losses:											
Beginning balance	$1,414	$164	$56	$1,726	$40	$59	$137	$1,393	$22	$79	$5,090
Charge-offs	(83)	(37)	-	(183)	-	-	(14)	(618)	(6)	-	(941)
Recoveries	23	1	-	9	-	3	1	136	4	-	177
Provision	318	163	(43)	(304)	(11)	(12)	44	122	3	(17)	263
Ending Balance	$1,672	$291	$13	$1,248	$29	$50	$168	$1,033	$23	$62	$4,589
Ending balance: individually evaluated for impairment	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-
Ending balance: collectively evaluated for impairment	$1,672	$291	$13	$1,248	$29	$50	$168	$1,033	$23	$62	$4,589
Loans receivable:											
Ending balance	$231,324	$5,964	$1,033	$71,579	$1,032	$5,480	$22,292	$47,034	$2,839		$388,577
Ending balance: individually evaluated for impairment	$999	$187	$-	$504	$-	$900	$115	$695	$-		$3,400
Ending balance: collectively evaluated for impairment	$230,325	$5,777	$1,033	$71,075	$1,032	$4,580	$22,177	$46,339	$2,839		$385,177

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following table presents impaired loans in portfolio by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of March 31, 2015 and September 30, 2014.

	Impaired Loans With Specific Allowance		Impaired Loans With No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	(in thousands)				
March 31, 2015:					
Residential mortgage	$-	$-	$861	$861	$866
Construction and Development:					
Residential and commercial	-	-	142	142	942
Commercial:					
Commercial real estate	-	-	604	604	836
Consumer:					
Home equity lines of credit	-	-	20	20	36
Second mortgages	-	-	308	308	635
Total impaired loans	$-	$-	$1,935	$1,935	$3,315
September 30, 2014:					
Residential mortgage	$-	$-	$999	$999	$1,149
Construction and Development:					
Residential and commercial	-	-	187	187	842
Commercial:	-	-			
Commercial real estate	-	-	504	504	688
Other	-	-	900	900	900
Consumer:					
Home equity lines of credit	-	-	115	115	135
Second mortgages	-	-	695	695	894
Total impaired loans	$-	$-	$3,400	$3,400	$4,608

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following table presents the average recorded investment in impaired loans in portfolio and related interest income recognized for three and six months ended March 31, 2015 and 2014.

	Three Months Ended March 31, 2015		Six Months Ended March 31, 2015	
(in thousands)	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Residential mortgage	$ 871	$ -	$ 894	$ -
Construction and Development:				
Residential and commercial	142	1	161	2
Commercial:				
Commercial real estate	887	-	703	-
Other	458	-	681	12
Consumer:				
Home equity lines of credit	20	-	28	-
Second mortgages	700	-	715	-
Total	$ 3,078	$ 1	$ 3,182	$ 14

	Three Months Ended March 31, 2014		Six Months Ended March 31, 2014	
(in thousands)	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Residential mortgage	$ 1,992	$ -	$ 1,674	$ -
Construction and Development:				
Residential and commercial	973	6	769	9
Land	237	4	237	7
Commercial:				
Other	900	7	900	14
Consumer:				
Home equity lines of credit	120	-	70	-
Second mortgages	564	-	567	-
Total	$ 4,786	$ 17	$ 4,217	$ 30

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following table presents the classes of the loan portfolio summarized by loans considered to be rated as pass and the categories of special mention, substandard and doubtful within the Company's internal risk rating system as of March 31, 2015 and September 30, 2014.

	March 31, 2015				
	Pass	Special Mention	Substandard	Doubtful	Total
			(in thousands)		
Residential mortgage	$ 224,141	$ 133	$ 958	$ -	$ 225,232
Construction and Development:					
Residential and commercial	5,674	106	142	-	5,922
Land	344	-	-	-	344
Commercial:					
Commercial real estate	60,212	4,505	4,141	-	68,858
Multi-family	5,220	288	-	-	5,508
Other	5,226	280	-	-	5,506
Consumer:					
Home equity lines of credit	22,956	-	117	-	23,073
Second mortgages	42,067	137	809	-	43,013
Other	2,596	14	-	-	2,610
Total	$ 368,436	$ 5,463	$ 6,167	$ -	$ 380,066

	September 30, 2014				
	Pass	Special Mention	Substandard	Doubtful	Total
			(in thousands)		
Residential mortgage	$ 230,065	$ 137	$ 1,122	$ -	$ 231,324
Construction and Development:					
Residential and commercial	5,777	-	187	-	5,964
Land	1,033	-	-	-	1,033
Commercial:					
Commercial real estate	63,125	5,797	2,657	-	71,579
Multi-family	1,032	-	-	-	1,032
Other	3,555	1,025	900	-	5,480
Consumer:					
Home equity lines of credit	22,177	-	115	-	22,292
Second mortgages	46,292	21	721	-	47,034
Other	2,823	16	-	-	2,839
Total	$ 375,879	$ 6,996	$ 5,702	$ -	$ 388,577

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

	March 31, 2015	September 30, 2014
	(in thousands)	
Residential mortgage	$ 861	$ 1,232
Construction and Development:		
Residential and commercial	33	78
Commercial:		
Commercial real estate	604	504
Consumer:		
Home equity lines of credit	20	115
Second mortgages	308	462
Total non-accrual loans	$ 1,826	$ 2,391

Under the Bank's loan policy, once a loan has been placed on non-accrual status, we do not resume interest accruals until the loan has been brought current and has maintained a current payment status for not less than six consecutive months. Interest income that would have been recognized on nonaccrual loans had they been current in accordance with their original terms was $39,000 and $32,000 for the three months ended March 31, 2015 and 2014, respectively, and was $63,000 and $75,000 for the six months ended March 31, 2015 and 2014, respectively. There were no loans past due 90 days or more and still accruing interest at March 31, 2015 or September 30, 2014.

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by whether a loan payment is "current," that is, it is received from a borrower by the scheduled due date, or the length of time a scheduled payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories as of March 31, 2015 and September 30, 2014.

	Current	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans Receivable
	(in thousands)					
March 31, 2015:						
Residential mortgage	$223,200	$1,140	$31	$861	$2,032	$225,232
Construction and Development:						
Residential and commercial	5,889	-	-	33	33	5,922
Land	344	-	-	-	-	344
Commercial:						
Commercial real estate	68,254	-	-	604	604	68,858
Multi-family	5,508	-	-	-	-	5,508
Other	5,506	-	-	-	-	5,506

Consumer:						
Home equity lines of credit	23,053	-	-	20	20	23,073
Second mortgages	42,127	407	171	308	886	43,013
Other	2,600	10	-	-	10	2,610
Total	$376,481	$1,557	$202	$1,826	$3,585	$380,066

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2014:						
Residential mortgage	$229,257	$835	$-	$1,232	$2,067	$231,324
Construction and Development:						
Residential and Commercial	5,886	-	-	78	78	5,964
Land	1,033	-	-	-	-	1,033
Commercial:						
Commercial real estate	71,075	-	-	504	504	71,579
Multi-family	1,032	-	-	-	-	1,032
Other	5,480	-	-	-	-	5,480
Consumer:						
Home equity lines of credit	22,177	-	-	115	115	22,292
Second mortgages	45,847	200	525	462	1,187	47,034
Other	2,822	17	-	-	17	2,839
Total	$384,609	$1,052	$525	$2,391	$3,968	$388,577

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

The Company had two and three loans classified as TDRs with an aggregate outstanding balance of $130,000 and $1.1 million at March 31, 2015 and September 30, 2014, respectively. The two TDR loans at March 31, 2015 were also classified as impaired; however, they were performing prior to the restructure and all except one loan, continued to perform under their restructured terms through March 31, 2015, and, accordingly, were deemed to be performing loans at March 31, 2015 and we continued to accrue interest on such loans through such date. At March 31, 2015, one construction and development TDR loan with a balance of $21,000 was deemed a non-accruing TDR and was also deemed impaired at March 31, 2015. At September 30, 2014, three loans deemed TDRs with an aggregate balance of $1.1 million were classified as impaired; however, they were performing prior to the restructure and continued to perform under their restructured terms as of September 30, 2014, and, accordingly, were deemed to be performing loans at September 30, 2014 and we continued to accrue interest on such loans through such date. At September 30, 2014, one construction and development TDR loan with a balance of $78,000 was deemed a non-accruing TDR and was also deemed impaired at September 30, 2014. All of such loans have been classified as TDRs since we modified the payment terms and in some cases interest rate from the original agreements and allowed the borrowers, who were experiencing financial difficulty, to make interest only payments for a period of time in order to relieve some of their overall cash flow burden. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and result in potential incremental losses. These potential incremental losses have been factored into our overall estimate of the allowance for loan losses. The level of any defaults will likely be affected by future economic conditions. A default on a troubled debt restructured loan for purposes of this disclosure occurs when the borrower is 90 days past due or a foreclosure or repossession of the applicable collateral has occurred.

22

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following table presents our TDR loans as of March 31, 2015 and September 30, 2014.

	Total Troubled Debt Restructurings		Troubled Debt Restructured Loans That Have Defaulted on Modified Terms Within The Past 12 Months	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)			
At March 31, 2015:				
Construction and Development:				
Residential and commercial	2	$130	1	$ 21
Total	2	$130	1	$ 21
At September 30, 2014:				
Construction and Development:				
Residential and commercial	2	$187	1	$ 78
Commercial:				
Other	1	900	-	-
Total	3	$1,087	1	$ 78

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

	March 31, 2015		September 30, 2014	
	Performing	Non-Performing	Performing	Non-Performing
	(in thousands)			
Construction and Development:				
Residential and commercial	$ 109	$ 21	$ 109	$ 78
Commercial:				
Other	-	-	900	-
Total	$ 109	$ 21	$ 1,009	$ 78

No loans were first deemed TDRs during the three months ended March 31, 2015 and 2014. The following table shows the new TDRs for the six months ended March 31, 2015 and 2014.There was no new TDR activity for the six months ended March 31, 2015.

	For the Six Months Ended March 31, 2015			For the Six Months Ended March 31, 2014		
	Restructured During Period					
	Number of Loans	Pre-Modifications Outstanding Recorded Investments	Post-Modifications Outstanding Recorded Investments	Number of Loans	Pre-Modifications Outstanding Recorded Investments	Post-Modifications Outstanding Recorded Investments

			(dollars in thousands)					
Construction and Development:								
Residential and commercial	-	$ -	$ -	1	$	437	$	437
Total troubled debt restructurings	-	$ -	$ -	1	$	437	$	437

23

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Regulatory Matters

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

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

The Bank remains well capitalized under the implementation of Basel III, which was effective January 1, 2015.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible and core capital (as defined in the regulations) to total adjusted tangible assets (as defined) and of risk-based capital (as defined) to risk-weighted assets (as defined). In addition to the standard regulatory capital requirements, the Bank also is required to satisfy individual minimum capital ratios (“IMCRs”) imposed by the Office of the Comptroller of the Currency of 8.5% Tier 1 capital to adjusted total assets, 10.5% Tier 1 risk-based capital to risk-weighted assets and 12.5% total risk-based capital to risk-weighted assets.

Management believes, as of March 31, 2015, that the Bank met all capital adequacy requirements to which it was subject.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Regulatory Matters – (continued)

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

	Actual Amount	Ratio		For Capital Adequacy Purposes Amount	Ratio		To be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio	
	(dollars in thousands)								
As of March 31, 2015:									
Core Capital (to adjusted tangible assets)	$ 66,517	10.78	%	$ ≥24,683	4.00	%	$ ≥30,854	5.00	%
Tier 1 Capital (to risk-weighted assets)	66,517	17.03		≥23,430	6.00		≥31,240	8.00	
Total risk-based Capital (to risk-weighted assets)	71,191	18.23		≥31,240	8.00		≥39,050	10.00	
As of September 30, 2014:									
Tangible Capital (to tangible assets)	$ 64,414	12.09	%	$ ≥7,990	1.50	%	$ -	N/A	
Core Capital (to adjusted tangible assets)	64,414	12.09		≥21,305	4.00		≥26,632	5.00	%
Tier 1 Capital (to risk-weighted assets)	64,414	19.50		≥13,212	4.00		≥19,818	6.00	
Total risk-based Capital (to risk-weighted assets)	68,549	20.75		≥26,424	8.00		≥33,030	10.00	

Note 8 - Fair Value Measurements

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 - Fair Value Measurements – (continued)

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

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

The Company monitors and evaluates available data to perform fair value measurements on an ongoing basis and recognizes transfers among the levels of the fair value hierarchy as of the date event or a change in circumstances that affects the valuation method chosen. There were no changes in valuation technique or transfers between levels at March 31, 2015 and September 30, 2014.

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

	March 31, 2015			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Investment securities available-for-sale:				
Debt securities:				
U.S. government agencies	$843	$-	$843	$-
State and municipal obligations	31,400	-	31,400	-
Single issuer trust preferred security	850	-	850	-
Corporate debt securities	64,926	-	64,926	-
Total investment securities available-for-sale	98,019	-	98,019	-
Mortgage-backed securities available-for-sale:				
FNMA, fixed-rate	9,283	-	9,283	-
FHLMC, fixed-rate	6,255	-	6,255	-
Total mortgage-backed securities available-for-sale	15,538	-	15,538	-
Total	$113,557	$-	$113,557	$-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 - Fair Value Measurements – (continued)

	September 30, 2014			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Investment securities available-for-sale:				
Debt securities:				
U.S. government agencies	$19,256	$-	$19,256	$-
State and municipal obligations	2,500	-	2,500	-
Single issuer trust preferred security	880	-	880	-
Corporate debt securities	1,525	-	1,525	-
Total investment securities available-for-sale	24,161	-	24,161	-
Mortgage-backed securities available-for-sale:				
FNMA:				
Adjustable-rate	418	-	418	-
Fixed-rate	16,808	-	16,808	-
FHLMC:				
Adjustable-rate	3,595	-	3,595	-
Fixed-rate	11,996	-	11,996	-
CMO, fixed-rate-fate	43,965	-	43,965	-
Total mortgage-backed securities available-for-sale	76,782	-	76,782	-
Total	$100,943	$-	$100,943	$-

For assets measured at fair value on a nonrecurring basis that were still held at the end of the period, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at March 31, 2015 and September 30, 2014:

	March 31, 2015			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Other real estate owned	$233	$-	$-	$233
Impaired loans(1) (2)	26	-	-	26
Mortgage servicing rights	12	-	12	-
Total	$271	$-	$12	$259

	March 31, 2015			
	Fair Value at March 31, 2015	Valuation Technique	Unobservable Input	Range/(Weighted Average)
	(dollars in thousands)			
Other real estate owned	$ 233	Appraisal of collateral(3)	Collateral discounts(4)	0 – 7%/(7%)
Impaired loans(1) (2)	26	Appraisal of collateral(3)	Collateral discounts(4)	0 – 64%/(64%)
Total	$ 259			

---

(1) At March 31, 2015, consisted of one loan with an aggregate balance of $26,000 and no specific loan loss allowance.
(2) Includes assets directly charged-down to fair value during the year-to-date period.
(3) Fair value is generally determined through independent appraisals of the underlying collateral primarily using comparable sales.
(4) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 - Fair Value Measurements – (continued)

	September 30, 2014			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Other real estate owned	$1,030	$-	$-	$1,030
Impaired loans(1) (2)	887	-	-	887
Mortgage servicing rights	160	-	160	-
Total	$2,077	$-	$160	$1,917

	September 30, 2014			
	Fair Value at September 30, 2014	Valuation Technique	Unobservable Input	Range/(Weighted Average)
	(dollars in thousands)			
Other real estate owned	$ 1,030	Appraisal of collateral(3)	Collateral discounts(4)	16 – 72%/(38%)
Impaired loans(1) (2)	887	Appraisal of collateral(3)	Collateral discounts(4)	7 – 52%/(20%)
Total	$ 1,917			

(1) At September 30, 2014, consisted of six loans with an aggregate balance of $887,000 and no specific loan loss allowance.
(2) Includes assets directly charged-down to fair value during the year-to-date period.
(3) Fair value is generally determined through independent appraisals of the underlying collateral primarily using comparable sales.
(4) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

The following table shows active information regarding significant techniques and inputs used at March 31, 2015 and September 30, 2014 for measures in a non-recurring basis using unobservable inputs (Level 2):

	Fair Value at March 31, 2015 (in thousands)	Valuation Technique	Unobservable Input	Method or Value as of March 31, 2015	
Mortgage servicing rights	$ 12	Discounted rate	Discount rate	11.50 – 12.50%	Rate used through modeling period
			Loan prepayment speeds	14.41%	Weighted-average CPR
			Servicing fees	0.25%	Of loan balance
			Servicing costs	6.67%	Monthly servicing cost per account

$300 – 500	Additional monthly servicing cost per loan on loans more than 30 days delinquent

28

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 - Fair Value Measurements – (continued)

	Fair Value at September 30, 2014 (in thousands)	Valuation Technique	Unobservable Input	Method or Value as of September 30, 2014	
Mortgage servicing rights	$ 160	Discounted rate	Discount rate	11.00 – 12.00%	Rate used through modeling period
			Loan prepayment speeds	14.15%	Weighted-average CPR
			Servicing fees	0.25%	Of loan balance
			Servicing costs	6.25%	Monthly servicing cost per account
				$300 – 500	Additional monthly servicing cost per loan on loans more than 30 days delinquent

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

The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2015 and September 30, 2014. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since March 31, 2015 and September 30, 2014 and, therefore, current estimates of fair value may differ significantly from the amounts presented herein

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

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

Investment Securities Available-for-Sale. Investment and mortgage-backed securities available-for-sale (carried at fair value) are measured at fair value on a recurring basis. Fair value measurements for these securities are typically obtained from independent pricing services that we have engaged for this purpose. When available, we, or our independent pricing service, use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, our independent pricing service's applications apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare evaluations. For each asset class, pricing applications and models are based on information from market sources and integrate relevant credit information. All of our securities are valued using either of the foregoing methodologies to determine fair value adjustments recorded to our financial statements. The Company had no Level 1 or Level 3 securities as of March 31, 2015 or September 30, 2014.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 - Fair Value Measurements – (continued)

Investment Securities Held-to-Maturity. The fair value of investment securities held-to-maturity was primarily measured using information from a third-party pricing service. If quoted prices were not available, fair values were estimated primarily by obtaining quoted prices for similar assets in active markets or through the use of pricing models. In cases where there may be limited or less transparent information provided by the third-party pricing service, fair value may be estimated by the use of secondary pricing services or through the use of non-binding third-party broker quotes.

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

Loans Held-For-Sale. The fair values of mortgage loans originated and intended for sale in the secondary market are based on current quoted market prices. There were no loans held for sale at March 31, 2015 or September 30, 2014.

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 - Fair Value Measurements – (continued)

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

Time deposits are valued using an “all in” cost for brokered CDs with a similar maturity. The rates are further adjusted to offset the “all in” cost against servicing costs based upon industry estimates.

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 - Fair Value Measurements – (continued)

The carrying amount and estimated fair value of the Company's financial instruments as of March 31, 2015 and September 30, 2014 are presented below:

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
March 31, 2015:					
Financial assets:					
Cash and cash equivalents	$51,643	$51,643	$51,643	$-	$-
Investment securities available-for-sale	113,557	113,557	-	113,557	-
Investment securities held-to-maturity	50,697	50,310	-	50,310	-
Loans receivable, net	377,340	383,489	-	-	383,489
Accrued interest receivable	2,168	2,168	-	2,168	-
Restricted stock	4,602	4,602	-	4,602	-
Mortgage servicing rights	424	453	-	453	-
Financial liabilities:					
Savings accounts	44,848	44,848	-	44,848	-
Checking and NOW accounts	113,032	113,032	-	113,032	-
Money market accounts	70,066	70,066	-	70,066	-
Certificates of deposit	216,200	219,403	-	219,403	-
FHLB advances	98,000	99,994	-	99,994	-
Accrued interest payable	307	307	-	307	-
September 30, 2014:					
Financial assets:					
Cash and cash equivalents	$19,187	$19,187	$19,187	$-	$-
Investment securities available-for-sale	100,943	100,943	-	100,943	-
Loans receivable, net	386,074	388,202	-	-	388,202
Accrued interest receivable	1,322	1,322	-	1,322	-
Restricted stock	3,503	3,503	-	3,503	-
Mortgage servicing rights	453	512	-	512	-
Financial liabilities:					
Savings accounts	44,917	44,917	-	44,917	-
Checking and NOW accounts	104,980	104,980	-	104,980	-
Money market accounts	59,529	59,529	-	59,529	-
Certificates of deposit	203,527	207,080	-	207,080	-
FHLB advances	48,000	49,627	-	49,627	-
Accrued interest payable	149	149	-	149	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Income Taxes

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

	Six Months Ended March 31,	
	2015	2014
	(Dollar in thousands)	
At federal statutory rate	$-	$-
Adjustments resulting from:		
State tax, net of federal benefit	-	4
	$-	$4
Effective tax rate	0.00 %	$(1.14)%

Deferred income taxes at March 31, 2015 and September 30, 2014 were as follows:

	March 31, 2015	September 30, 2014
	(in thousands)	
Deferred Tax Assets:		
Unrealized loss on investments available-for-sale	$-	$932
Allowance for loan losses	2,985	3,051
Non-accrual interest	184	122
Write-down of real estate owned	112	270
Alternative minimum tax (AMT) credit carryover	76	64
Low-income housing tax credit carryover	337	337
Supplement Employer Retirement Plan	455	455
Charitable contributions	39	36
Depreciation	170	127
State net operating loss	1,472	-
Federal net operating loss	6,912	7,159
Other	290	54
Total Deferred Tax Assets	13,032	12,607
Valuation allowance for DTA	(9,726)	(10,074)
Total Deferred Tax Assets, Net of Valuation Allowance	3,306	2,533
Deferred Tax Liabilities:		
State net operating income	-	(3)
Unrealized gains on investments available-for-sale	(16)	-
Mortgage servicing rights	(144)	(154)
Other	(206)	-
Total Deferred Tax Liabilities	(366)	(157)

Deferred Tax Assets, Net	$2,940	$2,376

33

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

The purpose of this analysis is to provide the reader with information relevant to understanding and assessing the Company’s results of operations for the periods presented herein and financial condition as of March 31, 2015 and September 30, 2014. In order to fully understand this analysis, the reader is encouraged to review the consolidated financial statements and accompanying notes thereto appearing elsewhere in this report.

Forward-Looking Statements

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

As used in this report, unless the context otherwise requires, the terms “we,” “our,” “us,” or the “Company” refer to Malvern Bancorp, Inc., a Pennsylvania chartered Company, 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.

This report contains certain financial information determined by methods other than in accordance with accounting principles generally accepted in the United States of America (“GAAP”). These measures include net interest income on a fully tax equivalent basis and net interest margin on a fully tax equivalent basis. Our management uses these non-GAAP measures, together with the related GAAP measures, in its analysis of our performance and in making business decisions. Management also uses these measures for peer comparisons. The tax equivalent adjustment to net interest income recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a 34% tax rate. Management believes that it is standard practice in the banking industry to present net interest income and net interest margin on a fully tax equivalent basis, and accordingly believes that providing these measures may be useful for peer comparison purposes. These disclosures should not be viewed as substitutes for the results determined to be in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be represented by other companies. Reconciliations of net interest income on a fully tax equivalent basis to net interest income and net interest margin on a fully tax equivalent basis to net interest margin are contained in the tables under "Earnings-Net Interest Income and Margin."

Critical Accounting Policies

The accounting and reporting policies followed by Malvern Bancorp, Inc. and its subsidiaries (the “Company”) conform, in all material respects, to U.S. generally accepted accounting principles. In preparing the consolidated financial statements, management has made estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated statements of condition and for the periods indicated in the statements of operations. Actual results could differ significantly from those estimates.

The Company’s accounting policies are fundamental to understanding Management’s Discussion and Analysis (“MD&A”) of financial condition and results of operations. The Company has identified the determination of the allowance for loan losses, other real estate owned, fair value measurements, deferred tax assets and the other-than-temporary impairment evaluation of securities to be critical because management must make subjective and/or complex judgments about matters that are inherently uncertain and could be most subject to revision as new information becomes available. Additional information on these policies is provided below.

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

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

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

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

In addition, Federal bank regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not previously have been available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the level of the allowance for loan losses at March 31, 2015 was appropriate under GAAP.

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

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

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

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

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

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

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

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

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

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

Fair value measurements for assets where there exists limited or no observable market data and, therefore, are based primarily upon the Company's or other third-party's estimates, are often calculated based on the characteristics of the asset, the economic and competitive environment and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future valuations. At March 31, 2015, the Company had $259,000 of assets that were measured at fair value on a non-recurring basis using Level 3 measurements.

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

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

Realization of a deferred tax asset requires us to exercise significant judgment and is inherently uncertain because it requires the prediction of future occurrences. Our net deferred tax asset amounted to $2.9 million and $2.4 million at March 31, 2015 and September 30, 2014, respectively. In evaluating the need for a valuation allowance, we estimated our viable tax planning strategies that we could employ so that the asset would not go unused. We feel that the DTA balance of $2.9 million as of March 31, 2015 is appropriate since it is the amount of such estimated tax planning strategies. Our total deferred tax assets increased to $13.0 million at March 31, 2015 compared to $12.6 million at September 30, 2014. Our DTA valuation allowance amounted to $9.7 million at March 31, 2015 compared to $10.1 million at September 30, 2014. In the future, the DTA allowance may be reversed, depending on the Company's financial position and results of operations in the future, among other factors, and, in such event, may be available to increase future net income. There can be no assurance, however, as to when we could be in a position to recapture our DTA allowance.

Other-Than-Temporary Impairment of Securities. Securities are evaluated on a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether declines in their value are other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline and whether or not management intends to sell or expects that it is more likely than not that it will be required to sell the security prior to an anticipated recovery of the fair value. The term “other-than-temporary” is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are 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.

Earnings

Net income available to common shareholders for the three months ended March 31, 2015 amounted to $1.0 million compared to net loss of $426,000 for the comparable three-month period ended March 31, 2014. The Company recorded earnings per common share of $0.16 for the three months ended March 31, 2015 as compared with loss of $0.07 per common share for the same three months in fiscal 2014. The annualized return on average assets was 0.64 percent for the three months ended March 31, 2015, compared to annualized loss on average assets of 0.29 percent for three months ended March 31, 2014. The annualized return on average shareholders' equity was 5.05 percent for the three-month period ended March 31, 2015, compared to 2.26 percent in annualized loss on average shareholders' equity for the three months ended March 31, 2014.

Net income available to common shareholders for the six months ended March 31, 2015 amounted to $1.3 million compared to net loss of $362,000 for the comparable six-month period ended March 31, 2014. The Company recorded earnings per common share of $0.21 for the six months ended March 31, 2015 as compared with loss of $0.06 per common share for the same six months in fiscal 2014. The annualized return on average assets was 0.44 percent for the six months ended March 31, 2015, compared to annualized loss on average assets of 0.12 percent for six months ended March 31, 2014. The annualized return on average shareholders' equity was 3.38 percent for the six-month period ended March 31, 2015, compared to 0.96 percent in annualized loss on average shareholders' equity for the six months ended March 31, 2014.

Net Interest Income and Margin

Net interest income is the difference between the interest earned on the portfolio of earning assets (principally loans and investments) and the interest paid for deposits and borrowings, which support these assets. Net interest income is presented on a fully tax-equivalent basis by adjusting tax-exempt income (primarily interest earned on obligations of state and political subdivisions) by the amount of income tax which would have been paid had the assets been invested in taxable issues. We believe this to be the preferred measurement of net interest income as it provides a relevant comparison between taxable and non-taxable amounts.

The following table presents the components of net interest income on a fully tax-equivalent basis, a non-GAAP measure, for the periods indicated, together with a reconciliation of net interest income as reported under GAAP.

Net Interest Income (tax-equivalent basis)

	Three Months Ended March 31,				Six Months Ended March 31,			
(dollars in thousands)	2015	2014	Increase (Decrease)	Percent Change	2015	2014	Increase (Decrease)	Percent Change
Interest income:								
Loans, including fees	$ 4,128	$ 4,447	$ (319)	(7.17)%	$ 8,331	$ 8,976	$ (645)	(7.19)%
Investment securities	907	622	285	45.82	1,470	1,249	221	17.69
Dividends, restricted stock	142	19	123	647.37	179	33	146	442.42
Interest-bearing cash accounts	24	12	12	100.00	47	27	20	74.07

Total interest income	5,201	5,100	101	1.98	10,027	10,285	(258)	(2.51)
Interest expense:								
Deposits	859	999	(140)	(14.01)	1,718	2,066	(348)	(16.84)
Borrowings	471	262	209	79.77	864	525	339	64.57
Total interest expense	1,330	1,261	69	5.47	2,582	2,591	(9)	(0.35)
Net interest income on a fully tax-equivalent basis	3,871	3,839	32	0.83	7,445	7,694	(249)	(3.24)
Tax-equivalent adjustment (1)	(35)	(21)	(14)	66.67	(48)	(41)	(7)	17.07
Net interest income, as reported under GAAP	$ 3,836	$ 3,818	$ 18	0.47 %	$ 7,397	$ 7,653	$ (256)	(3.35)%

(1) Computed using a federal income tax rate of 34 percent for the three and six months ended March 31, 2015 and 2014.

38

Net interest income on a fully tax-equivalent basis increased $32,000 or 0.8 percent to $3.9 million for the three months ended March 31, 2015 as compared to the same period in fiscal 2014. For the three months ended March 31, 2015, the net interest margin (which is defined as net interest income as a percentage of total average interest-earnings assets) on a fully tax-equivalent basis contracted 16 basis points to 2.58 percent from 2.74 percent during the three months ended March 31, 2014. For the three months ended March 31, 2015 a decrease in the average yield on interest-earning assets of 16 basis points with no change in the average cost of interest-bearing liabilities, resulted in a decrease in the Company's net interest spread of 16 basis points for the period. Net interest margin compression during the second quarter period of 2015, occurred primarily as result of a high liquidity pool carried during the quarter and the timing of new asset growth. This, coupled with a continued high level of interest-earning asset prepayments and maturities during the quarter, dampened other actions (including a growth in the Company's customer base and enhancement the Company's liquidity position, effected while the Company strived to increase its earning assets base taken to improve the margin.

Net interest income on a fully tax-equivalent basis decreased $249,000 or 3.2 percent to $7.4 million for the six months ended March 31, 2015 as compared to the same period in fiscal 2014. For the six months ended March 31, 2015, the net interest margin on a fully tax-equivalent basis contracted 15 basis points to 2.59 percent from 2.74 percent during the six months ended March 31, 2014. For the six months ended March 31, 2015, a decrease in the average yield on interest-earning assets of 17 basis points was partially offset by a decrease in the average cost of interest-bearing liabilities of one basis point, resulting in a decrease in the Company's net interest spread of 16 basis points for the period.

For the three-month period ended March 31, 2015, interest income on a tax-equivalent basis increased by $101,000 or 2.0 percent compared to the same three-month period in fiscal 2014. This increase in interest income was due primarily to a volume increase in investment securities owned. Average investment securities volume increased during the current three-month period by $26.9 million, to $151.7 million, compared to the second quarter of fiscal 2014. For the three-month period ended March 31, 2015, interest income on FHLB dividends increased by $123,000 or 647.4 percent compared to the same three-month period in fiscal 2014. This increase was due to a special dividend of approximately $88,000 paid during the second quarter of fiscal. The average balance of the loan portfolio decreased by $27.6 million, to $384.9 million, from an average of $412.5 million in the same quarter in fiscal 2014, reflecting net decreases in single-family residential loans, construction loans and consumer loans of the loan portfolio. Average loans represented approximately 64.2 percent of average interest-earning assets during the second quarter of fiscal 2015 compared to 73.5 percent in the same quarter in fiscal 2014.

For the six-month period ended March 31, 2015, interest income on a tax-equivalent basis decreased by $258,000 or 2.5 percent compared to the same six-month period in fiscal 2014. This decrease in interest income was due primarily to a volume decrease in loans along with a decline in average yields due to the lower interest rate environment. The average balance of the loan portfolio decreased by $23.4 million, to $387.2 million during the first six months of fiscal 2015, from an average of $410.6 million in the six months ended March 31, 2014, reflecting net decreases in single-family residential loans, construction loans and consumer loans in the loan portfolio. Average loans represented approximately 67.5 percent of average interest-earning assets during the six months ended March 31, 2015 compared to 73.2 percent in the six months ended March 31, 2014. The decrease in interest income was partially offset by an increase of $221,000 in interest income on investment securities and an increase of $146,000 in interest income on FHLB dividends. Average investment securities volume increased during the six-month period ended March 31, 2015 by $7.0 million, to $132.7 million, compared to the six-month period of fiscal 2014. As stated above, the increase in interest income on FHLB dividends was primarily due to a special dividend paid during the second quarter of fiscal 2015.

For the three months ended March 31, 2015, interest expense increased $69,000, or 5.5 percent from the same period in fiscal 2014. The average rate of total interest-bearing liabilities remained at 1.04 percent for both the three months ended March 31, 2015 and 2014. At the same time, the volume of average interest-bearing liabilities increased by $28.1 million. This increase primarily reflects an increase in the average balance of borrowings of $51.2 million, as well as a $3.5 million increase in the average balance of money market accounts and a $1.6 million increase in the average balance of savings accounts and was partially offset by a decrease in the average balances of certificates of deposit and other interest-bearing deposits of $27.3 million and $0.9 million, respectively. For the three months ended March 31, 2015, the Company’s net interest spread on a tax-equivalent basis decreased to 2.43 percent, from 2.59 percent for the three months ended March 31, 2014.

For the six months ended March 31, 2015, interest expense decreased $9,000, or 0.4 percent from the same period in fiscal 2014. The average rate of total interest-bearing liabilities decreased one basis point to 1.05 percent for the six months ended March 31, 2015, from 1.06 percent for the six months ended March 31, 2014. At the same time, the volume of average interest-bearing liabilities increased by $1.9 million. This increase in volume of average interest-bearing liabilities primarily reflects an increase in the average balance of borrowings of $42.6 million and a $1.8 million increase in savings accounts. These increases were partially offset by a decrease in the average balances of certificates of deposit, money market and other interest-bearing deposits of $39.7 million, $1.0 million and $1.7 million, respectively. For the six months ended March 31, 2015, the Company’s net interest spread on a tax-equivalent basis decreased to 2.44 percent, from 2.60 percent for the six months ended March 31, 2014.

The following table quantifies the impact on net interest income on a tax-equivalent basis resulting from changes in average balances and average rates during the three month periods presented. Any change in interest income or expense attributable to both changes in volume and changes in rate has been allocated in proportion to the relationship of the absolute dollar amount of change in each category.

Analysis of Variance in Net Interest Income Due to Changes in Volume and Rates

	Three Months Ended March 31, 2015 and 2014 Increase (Decrease) Due to Change in:			Six Months Ended March 31, 2015 and 2014 Increase (Decrease) Due to Change in:		
(tax-equivalent basis, in thousands)	Average Volume	Average Rate	Net Change	Average Volume	Average Rate	Net Change
Interest-earning assets:						
Loans, including fees	$(1,190)	$871	$(319)	$(1,024)	379	(645)
Investment securities	534	(249)	285	139	82	221
Interest-bearing cash accounts	87	(75)	12	73	(53)	20
Dividends, restricted stock	28	95	123	20	126	146
Total interest-earning assets	(541)	642	101	(792)	534	(258)
Interest-bearing liabilities:						
Money market deposits	8	13	21	(3)	24	21
Savings deposits	1	—	1	1	2	3
Certificates of deposit	(418)	256	(162)	(611)	240	(371)
Other interest-bearing deposits	(1)	1	—	(2)	1	(1)
Total interest-bearing deposits	(410)	270	(140)	(615)	267	(348)
Borrowings	1,239	(1,030)	209	1,090	(751)	339
Total interest-bearing liabilities	829	(760)	69	475	(484)	(9)
Change in net interest income	$(1,370)	$1,402	$32	$(1,267)	$1,018	$(249)

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

	Three Months Ended March 31,					
	2015			2014		
(tax-equivalent basis)	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
	(dollars in thousands)					
Assets						
Interest-earning assets:						
Loans, including fees(1)	$384,915	$4,128	4.29 %	$412,522	$4,447	4.31 %
Investment securities	151,746	907	2.39	124,888	622	1.99
Interest-bearing cash accounts	58,367	24	0.16	20,564	12	0.23
Dividends, restricted stock	4,466	142	12.72	3,276	19	2.32
Total interest-earning assets	599,494	5,201	3.47	561,250	5,100	3.63
Non interest-earning assets:						
Cash and due from banks	1,117			1,414		
Bank-owned life insurance	18,462			21,425		
Other assets	13,509			13,508		
Allowance for loan losses	(4,614)			(4,869)		
Total non interest-earning assets	28,474			31,478		
Total assets	$627,968			$592,728		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Money market deposits	$69,594	$59	0.34 %	$66,047	$38	0.23 %
Savings deposits	45,250	7	0.06	43,688	6	0.05
Certificates of deposit	217,333	772	1.42	244,629	934	1.53
Other interest-bearing deposits	87,190	21	0.10	88,117	21	0.10
Total interest-bearing deposits	419,367	859	0.82	442,481	999	0.90
Borrowings	94,556	471	1.99	43,342	262	2.42
Total interest-bearing liabilities	513,923	1,330	1.04	485,823	1,261	1.04
Non interest-bearing liabilities:						
Demand deposits	27,002			25,660		
Other liabilities	7,272			5,829		
Total non interest-bearing liabilities	34,274			31,489		
Shareholders' equity	79,771			75,416		
Total liabilities and shareholders' equity	$627,968			$592,728		

Net interest income (tax-equivalent basis)	3,871		3,839	
Net interest spread		2.43 %		2.59 %
Net interest margin (tax equivalent basis)		2.58 %		2.74 %
Tax equivalent effect		0.02 %		0.02 %
Net interest margin on a GAAP basis		2.56 %		2.72 %
Tax-equivalent adjustment (2)	(35)		(21)	
Net interest income	$3,836		$3,818	

(1) Includes non-accrual loans during the respective periods. Calculated net of deferred loan fees and loan discounts.
(2) Computed using a federal income tax rate of 34 percent for the periods ended March 31, 2015 and 2014.

41

	Six Months Ended March 31,					
	2015			2014		
(tax-equivalent basis)	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
	(dollars in thousands)					
Assets						
Interest-earning assets:						
Loans, including fees(1)	$ 387,255	$ 8,331	4.30 %	$ 410,642	$ 8,976	4.38 %
Investment securities	132,731	1,470	2.22	125,754	1,249	1.98
Interest-bearing cash accounts	49,747	47	0.19	21,558	27	0.26
Dividends, restricted stock	4,106	179	8.72	3,168	33	2.08
Total interest-earning assets	573,839	10,027	3.49	561,122	10,285	3.66
Non interest-earning assets:						
Cash and due from banks	1,140			1,394		
Bank-owned life insurance	18,396			21,419		
Other assets	13,360			15,151		
Allowance for loan losses	(4,607)			(4,946)		
Total non interest-earning assets	28,289			33,018		
Total assets	$ 602,128			$ 594,140		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Money market deposits	$ 65,347	$ 104	0.32 %	$ 66,379	$ 83	0.26 %
Savings deposits	45,055	15	0.07	43,217	12	0.06
Certificates of deposit	210,140	1,557	1.48	249,835	1,928	1.54
Other interest-bearing deposits	85,610	42	0.10	87,346	43	0.10
Total interest-bearing deposits	406,152	1,718	0.85	446,777	2,066	0.92
Borrowings	83,632	864	2.07	41,066	525	2.56
Total interest-bearing liabilities	489,784	2,582	1.05	487,843	2,591	1.06
Non interest-bearing liabilities:						
Demand deposits	26,884			25,549		
Other liabilities	6,706			5,377		
Total non interest-bearing liabilities	33,590			30,926		
Shareholders' equity	78,754			75,371		
Total liabilities and shareholders' equity	$ 602,128			$ 594,140		
		7,445			7,694	

Net interest income (tax- equivalent basis)				
Net interest spread		2.44 %		2.60 %
Net interest margin (tax equivalent basis)		2.59 %		2.74 %
Tax equivalent effect		0.01 %		0.01 %
Net interest margin on a GAAP basis		2.58 %		2.73 %
Tax-equivalent adjustment (2)	(48)		(41)	
Net interest income	$ 7,397		$ 7,653	

(1) Includes non-accrual loans during the respective periods. Calculated net of deferred loan fees and loan discounts.
(2) Computed using a federal income tax rate of 34 percent for the periods ended March 31, 2015 and 2014.

42

Investment Portfolio

At March 31, 2015, the principal components of the investment securities portfolio were U.S. Government agency obligations, federal agency obligations including mortgage-backed securities, obligations of U.S. states and political subdivisions, corporate securities, trust preferred securities, asset backed securities and equity securities.

During the six months ended March 31, 2015, approximately $51.2 million in investment securities were sold from the available-for-sale portfolio. The cash flow from the sale of investment securities was primarily used to purchase new securities. The Company’s sales from its available-for-sale investment portfolio reflect continued volatility present in the market. Given the historic low interest rates prevalent in the market, the Bank has been actively reviewing its investments and has engaged in certain transactions in its investment securities in its efforts to protect itself from undue interest rate exposure. Securities that once appeared to be sound investments can, after changes in the market, become securities that the Bank determines to sell in order to avoid losses and mismatches of interest-earning assets and interest-bearing liabilities.

For the three months ended March 31, 2015, average investment securities increased $26.9 million to approximately $151.7 million, or 25.3 percent of average interest-earning assets, from $124.9 million on average, or 22.3 percent of average interest-earning assets, for the comparable period in fiscal 2014. For the six months ended March 31, 2015, average investment securities increased $7.0 million to approximately $132.7 million, or 23.1 percent of average interest-earning assets, from $125.8 million on average, or 22.4 percent of average interest-earning assets, for the comparable period in fiscal 2014.

During the three-month period ended March 31, 2015, the volume-related factors applicable to the investment portfolio increased interest income by approximately $534,000 while rate-related changes resulted in a decrease in interest income of approximately $249,000 from the same period in fiscal 2014. The tax-equivalent yield on investments increased by 40 basis points to 2.39 percent for the three-month period ended March 31, 2015 as compared to the three-month period ended March 31, 2014 at 1.99 percent.

During the six-month period ended March 31, 2015, the volume-related factors applicable to the investment portfolio increased interest income by approximately $139,000 while rate-related changes resulted in an increase in interest income of approximately $82,000 from the same period in fiscal 2014. The tax-equivalent yield on investments increased by 24 basis points to 2.22 percent for the six-month period ended March 31, 2015 as compared to the six-month period ended March 31, 2014 at 1.98 percent.

At March 31, 2015, net unrealized gains on investment securities available-for-sale, which is carried as a component of accumulated other comprehensive income and included in shareholders’ equity, net of tax, amounted to $2.1 million as compared with net unrealized losses of $1.4 million at September 30, 2014. The gross unrealized losses associated with agency securities and federal agency obligations, mortgage-backed securities, corporate bonds, trust preferred security and tax-exempt securities are not considered to be other than temporary because their unrealized losses are related to changes in interest rates and do not affect the expected cash flows of the underlying collateral or issuer.

Loan Portfolio

Lending is one of the Company’s primary business activities. The Company’s loan portfolio consists of residential, construction and development, commercial and consumer loans, serving the diverse customer base in its market area. The composition of the Company’s portfolio continues to change due to the local economy. Factors such as the economic climate, interest rates, real estate values and employment all contribute to these changes. Growth is generated through business development efforts, repeat customer requests for new financings, penetration into existing markets and entry into new markets.

The Company seeks to create growth in commercial lending by offering customer-focused products and competitive pricing and by capitalizing on the positive trends in its market area. Products offered are designed to meet the financial requirements of the Company's customers. It is the objective of the Company's credit policies to diversify the commercial loan portfolio to limit concentrations in any single industry.

At March 31, 2015, total loans amounted to $380.1 million, a decrease of $8.5 million or 2.2 percent as compared to September 30, 2014. For the period ended March 31, 2015, growth of $4.5 million in the multi-family and other commercial loans were offset by decreases of $6.1 million in residential mortgage loans, $2.7 million in commercial real estate loans, $731,000 in construction and development loans and $3.5 million in consumer loans. Total gross loans recorded in the quarter included $17.3 million of new loans and advances, offset by payoffs and principal payments of $23.2 million.

At March 31, 2015, the Company had $18.0 million in outstanding loan commitments which were expected to fund over the next 90 days.

Average total loans decreased $27.6 million or 6.7 percent for the three months ended March 31, 2015 as compared to the same period in fiscal 2014, while the average yield on loans decreased by two basis points as compared with the same period in fiscal 2014. The decrease in the average yield on loans was primarily the result of lower market interest rates on the repricing of existing loans and the origination of new loans. The decrease in average total loan volume was due primarily to loan prepayments and repayments which exceeded the volume of new loan originations. The volume-related factors during the period contributed to a decrease of interest income of $1.2 million, while the rate-related changes increased interest income by $871,000.

Average total loans decreased $23.4 million or 5.7 percent for the six months ended March 31, 2015 as compared to the same period in fiscal 2014, while the average yield on loans decreased by eight basis points as compared with the same period in fiscal 2014. The volume-related factors during the period resulted in decreased interest income of $1.0 million, while the rate-related changes increased interest income by $379,000.

Allowance for Loan Losses and Related Provision

The purpose of the allowance for loan losses (the "allowance") is to absorb the impact of losses inherent in the loan portfolio. Additions to the allowance are made through provisions charged against current operations and through recoveries made on loans previously charged-off. The allowance for loan losses is maintained at an amount considered adequate by management to provide for probable credit losses inherent in the loan portfolio based upon a periodic evaluation of the portfolio's risk characteristics. In establishing an appropriate allowance, an assessment of the individual borrowers, a determination of the value of the underlying collateral, a review of historical loss experience and an analysis of the levels and trends of loan categories, delinquencies and problem loans are considered. Such factors as the level and trend of interest rates and current economic conditions and peer group statistics are also reviewed. Given the extraordinary economic volatility impacting national, regional and local markets, the Company's analysis of its allowance for loan losses takes into consideration the potential impact that current trends may have on the Company's borrower base.

Although management uses the best information available, the level of the allowance for loan losses remains an estimate, which is subject to significant judgment and short-term change. Various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to increase the allowance based on their analysis of information available to them at the time of their examination. Furthermore, the majority of the Company's loans are secured by real estate in the State of

Pennsylvania. Future adjustments to the allowance may be necessary due to economic factors impacting Pennsylvania real estate and the economy in general, as well as operating, regulatory and other conditions beyond the Company's control.

At March 31, 2015, the level of the allowance was $4.6 million, which was relatively constant with the amount of the allowance at September 30, 2014. There were no provisions to the allowance for the three-month period ended March 31, 2015 as well as for the same period in fiscal 2014. For the six-month period ended March 31, 2015, we recorded $90,000 of provisions to the allowance as compared to $80,000 for the same period in fiscal 2014. The net recoveries were $12,000 for the three months ended March 31, 2015 compared to $2,000 in net recoveries for the three months ended March 31, 2014, bringing the Company's net charge offs to $67,000 for the six months of fiscal 2015 compared to net charge offs of $323,000 for the same period of 2014. The allowance for loan losses as a percentage of total loans amounted to 1.21 percent at March 31, 2015 compared to 1.18 percent at September 30, 2014.

The level of the allowance for the respective periods of fiscal 2015 and fiscal 2014 reflects the credit quality within the loan portfolio, the loan volume recorded during the periods, the changing composition of the commercial and residential real estate loan portfolios and other related factors. In management's view, the level of the allowance at March 31, 2015 was adequate to cover losses inherent in the loan portfolio. Management's judgment regarding the adequacy of the allowance constitutes a "Forward-Looking Statement" under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from management's analysis, based principally upon the factors considered by management in establishing the allowance.

Changes in the allowance for loan losses are presented in the following table for the periods indicated.

	Six Months Ended March 31,			
	2015		2014	
	(dollars in thousands)			
Balance at beginning of period	$4,589		$5,090	
Provision for loan losses	90		80	
Charge-offs:				
Residential mortgage	—		5	
Construction and Development:				
Residential and commercial	1		37	
Commercial:				
Commercial real estate	48		—	
Consumer:				
Home equity lines of credit	—		14	
Second mortgages	31		403	
Other		33		5
Total charge-offs	113		464	
Recoveries:				
Residential mortgage	1		12	
Construction and Development:				
Residential and commercial	—		72	
Commercial:				
Commercial real estate	5		5	
Other	1		1	
Consumer:				
Home equity lines of credit	1		—	
Second mortgages	34		50	
Other	4		1	
Total recoveries	46		141	
Net charge-offs	67		323	
Balance at end of period	$4,612		$4,847	
Ratios:				
Ratio of allowance for loan losses to non-accrual loans in portfolio	252.57	%	147.24	%
Ratio of net charge-offs to average loans outstanding in portfolio(1)	0.04	%	0.16	%
Ratio of net charge-offs to total allowance for loan losses(1)	2.90	%	13.32	%

(1) Annualized

Asset Quality

The Company manages asset quality and credit risk by maintaining diversification in its loan portfolio and through review processes that include analysis of credit requests and ongoing examination of outstanding loans, delinquencies, and potential problem loans, with particular attention to portfolio dynamics and mix. The Company strives to identify loans experiencing difficulty early enough to correct the problems, to record charge-offs promptly based on realistic assessments of current collateral values and cash flows, and to maintain an adequate allowance for loan losses at all times.

It is generally the Company’s policy to discontinue interest accruals once a loan is past due as to interest or principal payments for a period of ninety days. When a loan is placed on non-accrual status, interest accruals cease and uncollected accrued interest is reversed and charged against current income. Payments received on non-accrual loans are applied against principal. A loan may be restored to an accruing basis when it again becomes well-secured, all past due amounts have been collected and the borrower continues to make payments for the next six months on a timely basis. Accruing loans past due 90 days or more are generally well-secured and in the process of collection.

Non-Performing Assets and Troubled Debt Restructured Loans

Non-performing loans include non-accrual loans and accruing loans past due 90 days or more. Non-accrual loans represent loans on which interest accruals have been suspended. In general, it is the policy of management to consider the charge-off of loans at the point they become past due in excess of 90 days, with the exception of loans that are both well-secured and in the process of collection. Non-performing assets include non-performing loans and other real estate owned. Troubled debt restructured loans represent loans to borrowers experiencing financial difficulties on which a concession was granted, such as a reduction in interest rate which is lower than the current market rate for new debt with similar risks, or modified repayment terms, and are performing under the restructured terms. Such loans, as restructured, are not included within the Company’s non-performing loans.

The following table sets forth, as of the dates indicated, the amount of the Company’s non-accrual loans, accruing loans past due 90 days or more, other real estate owned and troubled debt restructured loans.

	March 31, 2015	September 30, 2014
	(in thousands)	
Non-accrual loans	$ 1,826	$ 2,391
Accruing loans past due 90 days or more	-	-
Total non-performing loans	1,826	2,391
Other real estate owned	1,430	1,964
Total non-performing assets	$ 3,256	$ 4,355
Troubled debt restructured loans — performing	$ 109	$ 1,009

At March 31, 2015, non-performing assets totaled $3.3 million, or 0.52 percent of total assets, as compared with $4.4 million, or 0.80 percent, at September 30, 2014 and $5.7 million, or 0.97 percent, at March 31, 2014. Non-performing assets decreased by $1.1 million at March 31, 2015 from September 30, 2014. The decrease was attributable to loans returned to performing status of $366,000, payments of $286,000, other real estate owned sales proceeds net of gain and loss of $515,000 and other real estate owned write downs of $19,000, offset in part by the addition of three commercial loans (totaling approximately $121,000) to non-performing status.

The Company held $1.4 million in other real estate owned at March 31, 2015 and $2.0 million at September 30, 2014, respectively.

Troubled debt restructured loans totaled $130,000 at March 31, 2015 and $1.1 million at September 30, 2014. A total of $109,000 and $1.0 million of troubled debt restructured loans were performing pursuant to the terms of their respective modifications at March 31, 2015 and September 30, 2014, respectively. The $900,000 decrease in troubled debt restructured loans at March 31, 2015 was due to a commercial loan with an outstanding balance of approximately $900,000 being paid-off during the second quarter of fiscal 2015. A total of $21,000 and $78,000 in troubled debt restructured loans were deemed non-performing at March 31, 2015 and September 30, 2014, respectively.

Overall credit quality in the Bank's loan portfolio at March 31, 2015 remained relatively strong. Non-performing loans amounted to $1.8 million and $2.4 million at March 31, 2015 and September 30, 2014, respectively. Other known "potential problem loans" (as defined by SEC regulations), some of which are non-performing loans and are included in the table above, as of March 31, 2015 have been identified and internally risk-rated as assets specially mentioned or substandard. Special mention loans were $5.5 million and $7.0 million at March 31, 2015 and September 30, 2014, respectively. Most of the change in special mention loans was attributable to seven commercial real estate loans with an aggregate balance of $1.7 million at March 31, 2015, being moved to substandard loan grading during the six months ended March 31, 2015. Substandard loans were $6.2 million and $5.7 million at March 31, 2015 and September 30, 2014, respectively. The $465,000 increase in substandard loans was attributable to the seven special mentioned loans being classified as substandard loans during the six months ended March 31, 2015, as well as four new loans with an aggregate balance of $406,000 at March 31, 2015, being classified as substandard loans. The increase in substandard loans was offset by six loans with an aggregate balance of $1.2 million being paid off during fiscal period 2015. Our loans which have been identified as specially mentioned or substandard are considered potential problem loans due to a variety of changing conditions affecting the credits, including general economic conditions and/or conditions applicable to the specific borrowers. The Company has no foreign loans.

At March 31, 2015, other than the loans set forth above, the Company is not aware of any loans which present serious doubts as to the ability of its borrowers to comply with present loan repayment terms and which are expected to fall into one of the categories set forth in the tables or descriptions above.

Other Income

The following table presents the principal categories of other income for the periods indicated.

	Three Months Ended March 31,				Six Months Ended March 31,			
(dollars in thousands)	2015	2014	Increase (Decrease)	Percent Change	2015	2014	Increase (Decrease)	Percent Change
Service charges and other fees	$ 264	$ 224	$ 40	17.86%	$ 534	$ 482	$ 52	10.79%
Rental income-other	64	64	-	-	128	128	-	-
Gain on sale of investments, net	266	-	266	100.00	292	14	278	1,985.71
Gain on sale of loans, net	20	29	(9)	(31.03)	39	56	(17)	(30.36)
Earnings on bank-owned life insurance	131	140	(9)	(6.43)	263	285	(22)	(7.72)
Total other income	$ 745	$ 457	$ 288	63.02%	$ 1,256	$ 965	$ 291	30.16 %

For the three months ended March 31, 2015, total other income amounted to $745,000, compared to total other income of $457,000 for the same period in fiscal 2014. The increase of $288,000 for the three months ended March 31, 2015 was primarily as a result of $266,000 in net gains on sales of investment securities in the fiscal 2015 period compared to no net gain on sales of investment securities for the same period in fiscal 2014. Excluding net investment securities gains, a non-GAAP measure, the Company recorded total other income of $479,000 for the three months ended March 31, 2015, compared to $457,000 for the three months ended March 31, 2014. This increase reflected an increase of $40,000 in service charges and other fees, partially offset by a $9,000 decrease in bank owned life insurance income and a $9,000 decrease in net gain on sale of loans.

For the six months ended March 31, 2015, total other income amounted to $1.3 million, compared to total other income of $965,000 for the same period in fiscal 2014. The increase of $291,000 for the six months ended March 31, 2015 was primarily as a result of $292,000 in net gains on sales of investment securities in the fiscal 2015 period compared to $14,000 in net gain on sales of investment securities for the same period in fiscal 2014. Excluding net investment securities gains, a non-GAAP measure, the Company recorded total other income of $964,000 for the six months ended March 31, 2015, compared to $951,000 for the six months ended March 31, 2014. This increase reflected an increase of $52,000 in service charges and other fees, which was partially offset by a $22,000 decrease in bank owned life insurance income and a decrease of $17,000 in net gain on sale of loans.

Other Expense

The following table presents the principal categories of other expense for the periods indicated.

(dollars in thousands)	Three Months Ended March 31, 2015	2014	Increase (Decrease)	Percent Change	Six Months Ended March 31, 2015	2014	Increase (Decrease)	Percent Change
Salaries and employee benefits	$ 1,550	$ 2,072	$ (522)	(25.19)%	$ 3,278	$ 4,139	$ (861)	(20.80)%
Occupancy expense	465	589	(124)	(21.05)	889	1,105	(216)	(19.55)
Federal deposit insurance premium	184	177	7	3.95	351	368	(17)	(4.62)
Advertising	60	216	(156)	(72.22)	145	374	(229)	(61.23)
Data processing	301	308	(7)	(2.27)	603	638	(35)	(5.49)
Professional fees	434	690	(256)	(37.10)	777	1,175	(398)	(33.87)
Other real estate owned expense, net	(59)	84	(143)	(170.24)	(95)	97	(192)	(197.94)
Other operating expense	638	564	74	13.12	1,286	1,000	286	28.60
Total other expense	$ 3,573	$ 4,700	$ (1,127)	(23.98)%	$ 7,234	$ 8,896	$ (1,662)	(18.68)%

For the three months ended March 31, 2015, total other expense decreased $1.1 million, or 24.0 percent, from the comparable three months ended March 31, 2014. This was primarily attributable to decreases in salaries and employee benefits of $522,000, professional fees of $256,000, occupancy expense of $124,000, advertising of $156,000, other real estate expense of $143,000 and data processing of $7,000. These decreases were partially offset by an increase of $74,000 in other operating expense and a $7,000 increase in federal deposit insurance premium. For the six months ended March 31, 2015, total other expense decreased $1.7 million, or 18.7 percent from the comparable six months ended March 31, 2014.

Salaries and employee benefits expense for the quarter ended March 31, 2015 decreased $522,000, or 25.2 percent over the comparable period in the prior year. For the six months ended March 31, 2015, salaries and employee benefits expense decreased $861,000, or 20.8 percent over the comparable period in the prior year. Decreases for the three and six month-period ended March 31, 2015, primarily reflected reductions in salaries and employee benefits primarily due to workforce reductions. Full-time equivalent staffing levels were 76 at March 31, 2015 and 103 at March 31, 2014.

Occupancy expense for the quarter ended March 31, 2015 decreased $124,000, or 21.1 percent, from the comparable three-month period ended March 31, 2014. The decrease for the quarter was primarily attributable to a decrease in rent expense of $21,000, a decrease in building and equipment expenses of $25,000 and a decrease in building insurance of $51,000. The reduction in rent and building and equipment expenses were due to elimination of expenses related to a branch closure in fiscal 2014 as well as a reduction in expenses associated with janitorial, snow removal and related activities The decrease in building insurance was due to a reclass of certain insurance expense from occupancy expense to other operating expenses. For the six months ended March 31, 2015, occupancy expense decreased $216,000, or 19.6 percent over the comparable period in the prior year. The decrease was primarily attributable to a decrease in rent expense of $42,000, a decrease in building and equipment expenses of $46,000 and a decrease in building insurance of $96,000.

Professional fee expense for the three months ended March 31, 2015 decreased $256,000, or 37.1 percent compared to the comparable quarter of fiscal 2014, primarily reflecting lower expenses related to loan workouts. For the six months ended March 31, 2015, professional fee expense decreased $398,000, or 33.9 percent over the comparable period in the prior year.

Advertising for the three months ended March 31, 2015 decreased $156,000, or 72.22 percent compared to the comparable quarter of fiscal 2014. For the six months ended March 31, 2015, advertising decreased $229,000, or 61.2 percent over the comparable period in the prior year.

Other operating expense for the three months ended March 31, 2015 increased $74,000, or 13.1 percent, compared to the same quarter of fiscal 2014. The increase in operating expense during the quarter ended March 31, 2015 was primarily due to an increase in professional service fees. For the six months ended March 31, 2015, other operating expense increased $286,000, or 28.6 percent over the comparable period in the prior year.

Provision for Income Taxes

For the quarter ended March 31, 2015, the Company recorded no income tax expense, compared with $1,000 of income tax expense for the quarter ended March 31, 2014. The effective tax rates for the quarterly periods ended March 31, 2015 and 2014 were 0.0 percent and 0.2 percent, respectively.

For the six months ended March 31, 2015, the Company recorded no income tax expense, compared with $4,000 of income tax expense for the quarter ended March 31, 2014. The effective tax rates for the six-month periods ended March 31, 2015 and 2014 were 0.0 percent and 1.1 percent, respectively

Recent Accounting Pronouncements

Note 2 of the Notes to Consolidated Financial Statements discusses the expected impact of accounting pronouncements recently issued or proposed but not yet required to be adopted.

Asset and Liability Management

Asset and Liability management encompasses an analysis of market risk, the control of interest rate risk (interest sensitivity management) and the ongoing maintenance and planning of liquidity and capital. The composition of the Company's statement of condition is planned and monitored by the Asset and Liability Committee ("ALCO"). In general, management's objective is to optimize net interest income and minimize market risk and interest rate risk by monitoring the components of the statement of condition and the interaction of interest rates.

Short-term interest rate exposure analysis is supplemented with an interest sensitivity gap model. The Company utilizes interest sensitivity analysis to measure the responsiveness of net interest income to changes in interest rate levels. Interest rate risk arises when an earning asset matures or when its interest rate changes in a time period different than that of a supporting interest-bearing liability, or when an interest-bearing liability matures or when its interest rate changes in a time period different than that of an earning asset that it supports. While the Company matches only a small portion of specific assets and liabilities, total earning assets and interest-bearing liabilities are grouped to determine the overall interest rate risk within a number of specific time frames. The difference between interest-sensitive assets and interest-sensitive liabilities is referred to as the interest sensitivity gap. At any given point in time, the Company may be in an asset-sensitive position, whereby its interest-sensitive assets exceed its interest-sensitive liabilities, or in a liability-sensitive position, whereby its interest-sensitive liabilities exceed its interest-sensitive assets, depending in part on management's judgment as to projected interest rate trends.

The Company's interest rate sensitivity position in each time frame may be expressed as assets less liabilities, as liabilities less assets, or as the ratio between rate sensitive assets ("RSA") and rate sensitive liabilities ("RSL"). For example, a short-funded position (liabilities repricing before assets) would be expressed as a net negative position, when period gaps are computed by subtracting repricing liabilities from repricing assets. When using the ratio method, a RSA/RSL ratio of 1 indicates a balanced position, a ratio greater than 1 indicates an asset-sensitive position and a ratio less than 1 indicates a liability-sensitive position.

A negative gap and/or a rate sensitivity ratio less than 1 tends to expand net interest margins in a falling rate environment and reduce net interest margins in a rising rate environment. Conversely, when a positive gap occurs, generally margins expand in a rising rate environment and contract in a falling rate environment. From time to time, the Company may elect to deliberately mismatch liabilities and assets in a strategic gap position.

At March 31, 2015, the Company reflected a negative interest sensitivity gap with an interest sensitivity ratio of 0.55:1.00 at the cumulative one-year position. Based on management's perception of interest rates remaining low through 2015, emphasis has been, and is expected to continue to be, placed on controlling liability costs while extending the maturities of liabilities in order to insulate the net interest spread from rising interest rates in the future. However, no assurance can be given that this objective will be met.

Estimates of Fair Value

The estimation of fair value is significant to a number of the Company's assets, including investment securities available-for-sale. These are all recorded at either fair value or the lower of cost or fair value. Fair values are volatile and may be influenced by a number of factors. Circumstances that could cause estimates of the fair value of certain assets and liabilities to change include a change in prepayment speeds, discount rates, or market interest rates. Fair values for most available-for-sale investment securities are based on quoted market prices. If quoted market prices are not available, fair values are based on judgments regarding future expected loss experience, current economic condition risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Impact of Inflation and Changing Prices

The financial statements and notes thereto presented elsewhere herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of operations; unlike most industrial companies, nearly all of the Company's assets and liabilities are monetary. As a result, interest rates have a greater impact on performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Liquidity

The liquidity position of the Company is dependent primarily on successful management of the Bank's assets and liabilities so as to meet the needs of both deposit and credit customers. Liquidity needs arise principally to accommodate possible deposit outflows and to meet customers' requests for loans. Scheduled principal loan repayments, maturing investments, short-term liquid assets and deposit inflows, can satisfy such needs. The objective of liquidity management is to enable the Company to maintain sufficient liquidity to meet its obligations in a timely and cost-effective manner.

Management monitors current and projected cash flows, and adjusts positions as necessary to maintain adequate levels of liquidity. Under its liquidity risk management program, the Company regularly monitors correspondent bank funding exposure and credit exposure in accordance with guidelines issued by the banking regulatory authorities. Management uses a variety of potential funding sources and staggering maturities to reduce the risk of potential funding pressure. Management also maintains a detailed contingency funding plan designed to respond adequately to situations which could lead to stresses on liquidity. Management believes that the Company has the funding capacity to meet the liquidity needs arising from potential events. The Company maintains borrowing capacity through the Federal Home Loan Bank of Pittsburgh secured with loans and marketable securities.

The Company's primary sources of short-term liquidity consist of cash and cash equivalents and investment securities available-for-sale.

At March 31, 2015, the Company had $51.6 million in cash and cash equivalent compared to $19.2 million at September 30, 2014. In addition, our investment securities available-for-sale amounted to $113.6 million at March 31, 2015 and $100.9 million at September 30, 2014.

Deposits

Total deposits increased to $444.1 million at March 31, 2015 from $413.0 million at September 30, 2014. Total interest-bearing deposits increased from $389.9 million at September 30, 2014 to $419.0 million at March 31, 2015, an increase of $29.1 million or 7.5 percent. Interest-bearing demand, savings and time deposits under $100,000 increased $9.0 million to a total of $294.6 million at March 31, 2015 as compared to $285.6 million at September 30, 2014. Time deposits $100,000 and over increased $20.1 million as compared to September 30, 2014 primarily due to increase in certificates of deposit. Time deposits $100,000 and over represented 28.0 percent of total deposits at March 31, 2015 compared to 25.3 percent at September 30, 2014.

Core Deposits

The Company derives a significant proportion of its liquidity from its core deposit base. Total demand deposits, savings and money market accounts of $227.9 million at March 31, 2015 increased by $18.5 million, or 8.8 percent, from September 30, 2014. Total demand deposits, savings and money market accounts were 51.3 percent of total deposits at March 31, 2015 and 50.7 percent at September 30, 2014. Alternatively, the Company uses a more stringent calculation for the management of its liquidity positions internally, which calculation consists of total demand, savings accounts and money market accounts (excluding money market accounts and certificates of deposit greater than $100,000) as a percentage of total deposits. This number decreased by $70,000, or 0.03 percent, from $265.3 million at September 30, 2014 to $265.2 million at March 31, 2015 and represented 59.7 percent of total deposits at March 31, 2015 as compared with 64.2 percent at September 30, 2014.

The Company continues to place the main focus of its deposit gathering efforts in the maintenance, development, and expansion of its core deposit base. Management believes that the emphasis on serving the needs of our communities will provide a long term relationship base that will allow the Company to efficiently compete for business in its market. The success of this strategy is reflected in the growth of the demand, savings and money market balances during the six-month period of fiscal 2015.

The following table depicts the Company’s core deposit mix at March 31, 2015 and September 30, 2014 based on the Company’s alternative calculation:

	March 31, 2015		September 30, 2014		Dollar
	Amount	Percentage	Amount	Percentage	Change
	(dollars in thousands)				
Non interest-bearing demand	$ 25,111	9.5%	$ 23,059	8.7%	$ 2,052
Interest-bearing demand	87,921	33.1	81,921	30.9	6,000
Savings	44,848	16.9	44,917	16.9	(69)
Money market deposits under $100,000	15,561	5.9	16,178	6.1	(617)
Certificates of deposit under $100,000	91,778	34.6	99,214	37.4	(7,436)
Total core deposits	$ 265,219	100.0%	$ 265,289	100.0%	$ (70)
Total deposits	$ 444,146		$ 412,953		$ 31,193
Core deposits to total deposits		59.7%		64.2%	

Borrowings

Short-Term Borrowings

Short-term borrowings, which consist primarily of securities sold under agreements to repurchase, Federal Home Loan Bank (“FHLB”) advances and federal funds purchased, generally have maturities of less than one year. At March 31, 2015, we had no short-term borrowings.

Long-Term Borrowings

Long-term borrowings, which consist primarily of FHLB advances and securities sold under agreements to repurchase, totaled $98.0 million and $48.0 million at March 31, 2015 and September 30, 2014, respectively, and mature within one to eight years. The FHLB advances are secured by pledges of certain collateral, including but not limited to U.S. government and agency mortgage-backed securities and a blanket assignment of qualifying first lien mortgage loans, consisting of both residential mortgages and commercial real estate loans.

Payments Due Under Contractual Obligations

The following table presents information relating to the Company's payments due under contractual obligations as of March 31, 2015.

	Payments Due by Period				
	Less than One Year	One to Three Years	Three to Five Years	More than Five Years	Total
			(in thousands)		
Long-term debt obligations	$ -	$ 15,000	$ 83,000	$ -	$ 98,000
Certificates of deposit	95,770	89,295	27,388	3,747	216,200
Operating lease obligations	195	429	429	4,119	5,172
Total contractual obligations	$ 95,965	$ 104,724	$ 110,817	$ 7,866	$ 319,372

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

Cash Flows

The Consolidated Statements of Cash Flows present the changes in cash and cash equivalents resulting from the Company's operating, investing and financing activities. During the six months ended March 31, 2015, cash and cash equivalents increased by $32.5 million over the balance at September 30, 2014. Net cash of $1.3 million was provided by operating activities, primarily, net income as adjusted to net cash. Net income of $1.3 million was adjusted principally by net gains on sales of investment securities of $292,000, amortization of premiums and accretion of discounts on investment securities net of $208,000, a decrease in other assets of $170,000 and an increase in other liabilities of $1.7 million. Net cash used by investing activities amounted to approximately $52.6 million, primarily reflecting a net increase in investment securities of $63.3 million. Net cash of $83.8 million was used in financing activities, primarily from the increase in deposits of $31.2 million and an increase of $50.0 million in FHLB advances.

Shareholders' Equity

Total shareholders' equity amounted to $80.0 million, or 12.7 percent of total assets, at March 31, 2015, compared to $76.8 million or 14.2 percent of total assets at September 30, 2014. Book value per common share was $12.20 at March 31, 2015, compared to $11.71 at September 30, 2014.

	March 31, 2015	September 30, 2014
	(in thousands, except for share data)	
Shareholders' equity	$ 80,026	$ 76,772
Book value per common share	$ 12.20	$ 11.71

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

For a discussion of the Company's asset and liability management policies as well as the methods used to manage its exposure to the risk of loss from adverse changes in market prices and rates market, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – How We Manage Market Risk" in the Company's Annual Report on Form 10-K for the year ended September 30, 2014. There has been no material change in the Company's asset and liability position since September 30, 2014.

Item 4. Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer (who was also performing the duties as acting principal financial officer as of the date of filing this Quarterly Report on Form 10-Q) the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer (who was also performing the duties as acting principal financial officer as of the date of filing this Quarterly Report on Form 10-Q) concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and are operating in an effective manner.

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

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

Not applicable.

Item 1A - Risk Factors

See Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended September 30, 2014. There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2014.

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

Not applicable.

Item 3 - Defaults Upon Senior Securities

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

Item 4 - Mine Safety Disclosure

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

Item 5 - Other Information

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

Item 6 - Exhibits

31.1 Rule 13a-14(a)/15d-14(a) Section Certification

31.2 Rule 13a-14(a)/15d-14(a) Section 302 Certification
32.1 Section 1350 Certification

101.INS XBRL Instance Document.
101.SCH XBRL Taxonomy Extension Schema Document.
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB XBRL Taxonomy Extension Label Linkbase Document.
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF XBRL Taxonomy Extension Definitions Linkbase Document.

SIGNATURES

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

MALVERN BANCORP, INC.

May 14, 2015

By: /s/ Anthony C. Weagley
Anthony C. Weagley
President and Chief Executive Officer
(Also authorized to sign this report as
acting chief financial officer at the time
this Form 10-Q is filed.)

54