

MALVERN BANCORP, INC.  
Form S-1  
May 31, 2012

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As filed with the Securities and Exchange Commission on May 31, 2012

Registration No. 333-\_\_\_\_\_

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM S-1**

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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**MALVERN BANCORP, INC.  
AND MALVERN FEDERAL SAVINGS BANK  
EMPLOYEES SAVING AND PROFIT SHARING PLAN**

*(Exact name of registrant as specified in its articles of incorporation)*

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**Pennsylvania**  
(State or other jurisdiction of  
incorporation or organization)

**6036**  
(Primary Standard  
Industrial Classification Code Number)

**45-5307782**  
(I.R.S. Employer  
Identification No.)

**42 East Lancaster Avenue  
Paoli, Pennsylvania 19301  
(610) 644-9400**

*(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)*

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**Ronald Anderson  
President and Chief Executive Officer  
Malvern Bancorp, Inc.  
42 East Lancaster Avenue  
Paoli, Pennsylvania 19301  
(610) 644-9400**

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(Name, address, including zip code, and telephone number, including area code, of agent for service)

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier registration statement for the same offering.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, \$.01 par value per share	6,558,762 shares(1)	\$10.00	\$65,587,620(2)	\$7,517
Participation interests	678,189 interests(2)			(2)

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Regulation 457(o) under the Securities Act.

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- (2) The securities of Malvern Bancorp, Inc. to be purchased by the Malvern Federal Savings Bank Employees Savings and Profit Sharing Plan are included in the common stock being registered. Pursuant to Rule 457(h)(2) of the Securities Act of 1933, as amended, no separate fee is required for the participation interests.

**The Registrant hereby amends this Registration Statement on such date as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that the Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission acting pursuant to said Section 8(a) may determine.**

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### PROSPECTUS

#### **MALVERN BANCORP, INC.**

(Proposed holding company for Malvern Federal Savings Bank)

#### **Up to 3,162,500 Shares of Common Stock for Sale (Anticipated Maximum, Subject to Increase)**

Malvern Bancorp, Inc., a newly formed Pennsylvania corporation (which we refer to as Malvern Bancorp New), is offering up to 3,162,500 shares of its common stock to the public in connection with the second step conversion of Malvern Federal Mutual Holding Company from the mutual to the stock form of organization. All shares of common stock being offered for sale will be sold at a price of \$10.00 per share. The shares being offered represent Malvern Federal Mutual Holding Company's current 55.5% ownership interest in the existing mid-tier holding company for Malvern Federal Savings Bank, a federally chartered corporation known as Malvern Federal Bancorp, Inc. (which we refer to as Malvern Federal Bancorp). The remaining 44.5% ownership interest in Malvern Federal Bancorp is now owned by public shareholders and will be exchanged for shares of common stock of Malvern Bancorp New. The common stock of Malvern Federal Bancorp is currently listed on the Nasdaq Global Market under the symbol MLVF. We expect that the common stock of Malvern Bancorp New will trade on the Nasdaq Global Market under the symbol MLVFD for a period of 20 trading days after completion of the conversion and offering. Thereafter, the trading symbol will be MLVF.

If you are a current or former depositor or other member of Malvern Federal Savings Bank as of one of the eligibility record dates, you may have priority rights to purchase shares in the subscription offering.

If you are not a depositor, but are interested in purchasing shares of our common stock, you may be able to purchase shares in the community offering to the extent shares remain available after priority orders are filled.

If you are a shareholder of Malvern Federal Bancorp, the shares you own will be exchanged automatically for shares of Malvern Bancorp New based on an exchange ratio.

We are offering shares of common stock in a subscription offering to eligible depositors and certain borrowers of Malvern Federal Savings Bank. Shares of common stock not purchased in the subscription offering may be offered for sale to the public in a community offering, with a preference given to residents of our local communities and the shareholders of Malvern Federal Bancorp. We must sell a minimum of 2,337,500 shares to complete the offering. Stifel, Nicolaus & Company, Incorporated will assist us in selling our common stock on a best efforts basis in the subscription and community offerings. We also may offer for sale shares of common stock not purchased in the subscription offering or community offering in a syndicated community offering through a syndicate of selected broker-dealers, with Stifel, Nicolaus & Company, Incorporated serving as a sole book-running manager. We retain the right to accept or reject, in whole or in part, any order received in the community offering or the syndicated community offering. Stifel, Nicolaus & Company, Incorporated is not obligated to purchase any shares of common stock that are being offered for sale.

The minimum order is 25 shares. The subscription offering will end at 2:00 p.m., Eastern Time, on , 2012. We expect that the community offering, if held, will terminate at the same time, although it may continue without notice to you until , 2012. The offering may be extended further, subject to the receipt of any necessary approvals or non-objections from the Board of Governors of the Federal Reserve System. No

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single extension may exceed 90 days, and the offering must be completed by , 2014. Once submitted, orders are irrevocable unless the offering is terminated or is extended beyond , 2012, or the number of shares of common stock to be sold is increased to more than 3,636,875 shares or decreased to less than 2,337,500 shares. If we extend the offering beyond , 2012, all subscribers will be notified and given the opportunity to confirm, change or cancel their orders. If you do not respond to this notice, we will promptly return your funds, with interest calculated at Malvern Federal Savings Bank's passbook rate or cancel your deposit account withdrawal authorization. If we intend to sell fewer than 2,337,500 shares or more than 3,636,875 shares, we will promptly return all funds, with interest, and set a new offering range. All subscribers will be notified and given the opportunity to place a new order. Funds received prior to the completion of the offering will be held in a segregated account at Malvern Federal Savings Bank and will earn interest calculated at Malvern Federal Savings Bank's passbook savings rate, which is currently % per annum.

**This investment involves a degree of risk, including the possible loss of principal.  
Please read Risk Factors beginning on page 19.**

### OFFERING SUMMARY Price Per Share: \$10.00

	Minimum	Midpoint	Maximum	Maximum, as Adjusted
Number of shares	2,337,500	2,750,000	3,162,500	3,636,875
Gross offering proceeds	\$23,375,000	\$27,500,000	\$31,625,000	\$36,368,750
Estimated offering expenses, excluding selling agent fees and expenses	\$ 955,000	\$ 955,000	\$ 955,000	\$ 955,000
Estimated selling agent fees and expenses (1)(2)	\$ 1,128,000	\$ 1,293,000	\$ 1,458,000	\$ 1,647,750
Estimated net proceeds	\$21,292,000	\$25,252,000	\$29,212,000	\$33,766,000
Estimated net proceeds per share	\$ 9.11	\$ 9.18	\$ 9.24	\$ 9.28

- (1) Includes: (i) selling commissions payable by us to Stifel, Nicolaus & Company, Incorporated in connection with the subscription and community offerings equal to 1.0% of the aggregate amount of common stock sold in the subscription and community offerings (net of insider purchases) or approximately \$143,000, at the adjusted maximum of the offering range, assuming that 40% of the offering is sold in the subscription and community offerings and the remaining 60% of the offering will be sold by a syndicate of broker-dealers in a syndicated community offering; (ii) fees and selling commissions payable by us to Stifel, Nicolaus & Company, Incorporated and any other broker-dealers participating in the syndicated offering equal to 6.0% of the aggregate amount of common stock sold in the syndicated community offering, or approximately \$1.3 million at the adjusted maximum of the offering range, and (iii) other expenses of the offering payable to Stifel, Nicolaus & Company, Incorporated and the other broker-dealers that may participate in the syndicated community offering, including the assumptions regarding the number of shares that may be sold in the subscription offering and the syndicated community offering to determine the estimated offering expenses, see Pro Forma Data on page 34 and The Conversion and the Offering Marketing Arrangements on page 123.
- (2) If all shares of common stock are sold in the syndicated community offering, the maximum selling agent commissions and expenses would be \$1.6 million at the minimum, \$1.8 million at the midpoint, \$2.1 million at the maximum, and \$2.4 million at the adjusted maximum.

**These securities are not deposits or savings accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.**

**Neither the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.**

#### STIFEL NICOLAUS WEISEL

For assistance, please contact the Stock Information Center, toll-free, at ( ) -

The date of this prospectus is , 2012

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**SUMMARY**

*This summary highlights material information from this prospectus and may not contain all the information that is important to you. To understand the stock offering fully, you should read this entire prospectus carefully, including the consolidated financial statements and the notes to the consolidated financial statements of Malvern Federal Bancorp and the section entitled Risk Factors.*

**Malvern Bancorp New**

Malvern Bancorp New is a newly formed Pennsylvania corporation. Malvern Bancorp New is conducting this offering in connection with the conversion of Malvern Federal Mutual Holding Company from the mutual to the stock form of organization. The shares of common stock of Malvern Bancorp New to be sold represent the 55.5% ownership interest in Malvern Federal Bancorp currently owned by Malvern Federal Mutual Holding Company. The remaining 44.5% ownership interest in Malvern Federal Bancorp is currently owned by other shareholders (who are sometimes referred to as the public shareholders ) and will be exchanged for shares of common stock of Malvern Bancorp New based on an exchange ratio which will range from 0.6908 shares at the minimum of the offering range to 0.9346 shares at the maximum of the offering range. The exchange ratio may be increased to as much as 1.0748 shares in the event the maximum of the offering range is increased by 15%. The actual exchange ratio will be determined at the closing of the offering and will depend on the number of shares of common stock sold in the stock offering. The executive offices of Malvern Bancorp New are located at 42 East Lancaster Avenue, Paoli, Pennsylvania 19301, and its telephone number is (610) 644-9400.

**Malvern Federal Savings Bank**

Malvern Federal Savings Bank is a federally chartered stock savings bank operating out of its headquarters in Paoli, Pennsylvania and eight full service financial center offices in Chester and Delaware Counties, Pennsylvania. Our headquarters office in Paoli, Pennsylvania, is approximately 25 miles west of the City of Philadelphia. In addition to Chester County, our lending efforts are focused in neighboring Montgomery County and Delaware County, both of which are also in southeastern Pennsylvania. To a lesser extent, we provide services to other areas in the greater Philadelphia market.

Historically, Malvern Federal Savings Bank was a traditional thrift institution which emphasized the origination of loans secured by one-to four-family, or single-family residential real estate located in its market area. At March 31, 2012, single-family residential real estate loans amounted to \$220.2 million, or 46.6% of our total loans. Approximately eight years ago, we decided to focus on increasing our originations of loans secured by non-residential or commercial real estate as well as construction and development loans and home equity loans and lines of credit. Such loans were deemed attractive due to their generally higher yields and shorter anticipated lives compared to single-family residential mortgage loans. However, commercial real estate loans, construction and development loans and home equity loans and lines of credit are all deemed to have a higher risk of default than single-family residential mortgage loans. At March 31, 2012, our commercial real estate loans amounted to \$122.1 million, or 25.8% of our total loans, our total home equity loans and lines of credit amounted to \$92.9 million, or 19.7% of our loan portfolio and our total construction and development loans amounted to \$22.5 million, or 4.7% of our total loan portfolio.

Largely mirroring the effects of the national recession on the local economy, our non-performing assets have increased significantly since September 30, 2007. The increase in our non-performing assets was due primarily to increased levels of non-performing commercial real estate loans and construction and development loans. Given the increase in non-performing assets and in light of the increased risk represented by such loans, we generally ceased originating any new construction and development loans in October 2009, with certain exceptions, and we ceased originating new commercial real estate loans in August 2010. In October 2010, Malvern Federal Savings Bank, Malvern Federal Bancorp and Malvern Federal Mutual Holding Company entered into Supervisory Agreements with the Office of Thrift Supervision (which was our primary Federal regulator until July 2011). Among other things, the terms of the Supervisory Agreements, which remain in effect:

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prohibit us from making or acquiring any new commercial real estate loans and/or commercial and industrial loans without the prior written non-objection of the Office of the Comptroller of the Currency (as successor to the Office of Thrift Supervision);

required us to develop a plan to reduce our problem assets;

required us to develop enhanced policies and procedures for identifying, monitoring and controlling the risks associated with concentrations of commercial real estate loans;

required that an independent third party undertake reviews of our commercial real estate loans, construction and development loans, multi-family residential mortgage loans and commercial loans not less than once every six months; and

prohibit Malvern Federal Bancorp from declaring or paying dividends or making any other capital distributions, such as repurchases of common stock, without the prior written approval of the Board of Governors of the Federal Reserve System (as successor to the Office of Thrift Supervision).

In addition, as a result of the Supervisory Agreements, Malvern Federal Savings Bank is subject to certain additional restrictions, including a limit on its growth in assets in any quarter to an amount which does not exceed the amount of net interest credited on deposits during the quarter, a requirement that it provide the Office of the Comptroller of the Currency (as successor to the Office of Thrift Supervision) with prior written notice of any new director or senior executive officer and it generally may not enter into, renew, extend or revise any contractual agreements related to compensation or benefits with any director or officer. See Regulation The Supervisory Agreements for further information regarding the Supervisory Agreements.

In December 2011, based in part upon communications with staff of the Office of the Comptroller of the Currency and upon consideration of the risk elements inherent in our loan portfolio, the Boards of Directors of Malvern Federal Bancorp and Malvern Federal Savings Bank determined that, while Malvern Federal Savings Bank exceeded the regulatory thresholds for well-capitalized status, it was prudent to increase its capital and, accordingly, Malvern Federal Bancorp made a \$3.2 million capital infusion into the savings bank. In January 2012, the Boards of Directors adopted the plan of conversion and reorganization as a means to further augment the capital at Malvern Federal Savings Bank, put us in a stronger position to carry out our business strategy and to capitalize Malvern Bancorp New in order for it to serve as a source of strength for Malvern Federal Savings Bank.

Malvern Federal Savings Bank's headquarters is located at 42 East Lancaster Avenue, Paoli, Pennsylvania 19301 and its telephone number is (610) 644-9400.

### **Malvern Federal Mutual Holding Company**

Malvern Federal Mutual Holding Company is a federally chartered mutual holding company which currently is the parent of Malvern Federal Bancorp. As a mutual holding company, Malvern Federal Mutual Holding Company does not have shareholders. The principal business purpose of Malvern Federal Mutual Holding Company is owning more than a majority of the outstanding shares of common stock of Malvern Federal Bancorp. Malvern Federal Mutual Holding Company currently owns 3,383,875 shares of common stock of Malvern Federal Bancorp, which is 55.5% of the shares outstanding. Malvern Federal Mutual Holding Company will no longer exist upon completion of the conversion and offering and the shares of Malvern Federal Bancorp common stock that it holds will be canceled.

### **Malvern Federal Bancorp**

Malvern Federal Bancorp is a federally chartered corporation and currently is the mid-tier stock holding company for Malvern Federal Savings Bank. At March 31, 2012, an aggregate of 2,718,625 shares of common stock, or 44.5% of the outstanding shares, of Malvern Federal Bancorp were owned by the public shareholders. The common stock of Malvern Federal Bancorp is registered under the Securities Exchange Act of 1934, as amended, and is publicly traded on the Nasdaq Global Market. At the conclusion of the offering and the conversion of Malvern Federal Mutual Holding Company, Malvern Federal Bancorp will no longer

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exist. The existing public shareholders of Malvern Federal Bancorp will have their shares converted into shares of Malvern Bancorp New common stock based on the exchange ratio, which will range from 0.6908 shares at the minimum of the offering range to 0.9346 shares at the maximum of the offering range, and to 1.0748 shares if the maximum of the offering range is increased by 15%. The shares of common stock being offered by Malvern Bancorp New represent Malvern Federal Mutual Holding Company's current ownership interest in Malvern Federal Bancorp. As of March 31, 2012, Malvern Federal Bancorp had \$651.6 million in total assets, \$537.0 million in total deposits and \$61.9 million in shareholders' equity. The executive offices of Malvern Federal Bancorp are located at 42 East Lancaster Avenue, Paoli, Pennsylvania 19301, its telephone number is (610) 644-9400, and its website is [www.malvernfederal.com](http://www.malvernfederal.com). Information on our website should not be treated as part of this prospectus.

### **Our Current and Proposed Organizational Structure**

We have been organized in the mutual holding company form since May 2008 when we completed our reorganization into the current two-tier mutual holding company structure. As a result, Malvern Federal Bancorp became the mid-tier holding company for Malvern Federal Savings Bank. As part of the 2008 reorganization, Malvern Federal Bancorp sold \$26.5 million of its common stock (2,645,575 shares), at a purchase price of \$10.00 per share, in a public offering and issued 3,383,875, or approximately 55%, of its shares of common stock to Malvern Federal Mutual Holding Company (Malvern Federal Mutual Holding Company's ownership interest has increased to 55.5% as of March 31, 2012). In addition, in the 2008 transaction, Malvern Federal Bancorp contributed 123,050 shares of its common stock to the Malvern Federal Charitable Foundation, which was a newly created foundation organized to support charitable causes and community development activities in the markets served by Malvern Federal Savings Bank.

The following chart shows our current ownership structure which is commonly referred to as the two-tier mutual holding company structure:

Pursuant to the terms of our plan of conversion and reorganization, we are now converting from the partially public mutual holding company structure to the fully public stock holding company form of organization, in what is known as a second step conversion transaction. As part of the conversion, we are offering for sale the majority ownership interest in Malvern Federal Bancorp that is currently owned by Malvern Federal Mutual Holding Company. Upon completion of the conversion and offering, Malvern Federal Mutual Holding Company and Malvern Federal Bancorp will cease to exist, we will be fully owned by public shareholders and there will be no continuing interest by a mutual holding company. Upon completion of the conversion, public shareholders of Malvern Federal Bancorp will receive shares of common stock of Malvern Bancorp New in exchange for their shares of Malvern Federal Bancorp. We are not contributing any

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additional shares to the Malvern Federal Charitable Foundation in connection with the conversion and offering.

Following the conversion and offering, we will be organized as a fully public holding company and our ownership structure will be as follows:

These transactions are commonly referred to as a second-step conversion.

### **Our Business Strategy**

Our business strategy currently is focused on reducing the level of our non-performing assets, monitoring and overseeing our performing classified assets and troubled debt restructurings in an effort to limit the amount of additional non-performing assets in future periods, complying with the provisions of the Supervisory Agreements and conducting our traditional community-oriented banking business within these constraints. Below are certain of the highlights of our business strategy in recent periods.



*Improving Asset Quality.* We are continuing in our efforts to improve asset quality. At March 31, 2012, our total non-performing assets amounted to \$16.5 million, or 2.53% of total assets, reflecting a reduction of \$8.7 million, or 34.6%, compared to \$25.2 million of total non-performing assets at September 30, 2010 (when total non-performing assets amounted to 3.49% of total assets). The relatively high levels of non-performing assets and other problem assets significantly impacted our results of operations in recent years as the high levels of provisions for loan losses and charge-offs and other expenses related to other real estate owned were the primary reasons that we reported net losses for the fiscal years ended September 30, 2011 and 2010. In our efforts to reduce the levels of our non-performing and other problem assets in recent periods, we have strengthened our loan underwriting policies and procedures and we have enhanced our loan administration and oversight policies and procedures. We have revised both our consumer loan policy and our commercial loan policy to strengthen certain of our minimum loan-to-value ratios, maximum gross debt ratio and minimum debt coverage ratio requirements. We have invested in and implemented a software which facilitates our ability to internally review and grade loans in our portfolio and to monitor loan performance. During the fiscal year ended September 30, 2011, we established a Credit Review Department (which is currently staffed by six persons). The primary focus of the Credit Review Department to date has been the resolution of our non-performing and other problem assets. In addition, as described below, we generally ceased originating new commercial real estate loans and construction and development loans during fiscal 2010, due to the increased risk elements inherent in such loans. We remain focused on continuing to reduce our non-performing and problem assets.

*Managing Our Loan Portfolio.* As part of our efforts to improve asset quality, we have been actively managing our loan portfolio in recent periods. In light of the increase in our non-performing assets and in order to reduce the risk profile of our loan portfolio, we generally ceased originating any new

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construction and development loans in October 2009, with certain exceptions, and, in August 2010, we generally ceased originating any new commercial real estate loans. In addition, the Supervisory Agreements that we entered into in October 2010 prohibit us from, among other things, originating new commercial real estate loans without the prior written non-objection of the Office of the Comptroller of the Currency, and limit our ability to grow our assets beyond the amount of net interest credited on our deposits in any quarter. These factors contributed to a \$122.8 million or 20.6%, reduction in our total loans outstanding at March 31, 2012 compared to September 30, 2009, with the bulk of such reduction centered in construction and development loans, second mortgage loans and commercial real estate loans. At March 31, 2012 compared to September 30, 2009, we have reduced our commercial real estate loans by \$20.8 million, or 14.5%, we have reduced our total construction and development loans by \$18.3 million, or 44.8%, and we have reduced our second mortgage loans by \$41.8 million, or 36.7%. Such reductions reflect lower volumes of loan originations and purchases in these portfolios.

*Increasing Capital.* In December 2011, based in part upon communications with staff of the Office of the Comptroller of the Currency and upon consideration of the risk elements inherent in our loan portfolio, the Boards of Directors of Malvern Federal Bancorp and Malvern Federal Savings Bank determined that it was prudent to increase the capital of Malvern Federal Savings Bank, although it exceeded the regulatory thresholds necessary to be deemed well-capitalized. Initially, Malvern Federal Bancorp made a \$3.2 million capital infusion into Malvern Federal Savings Bank in December 2011. While the December capital infusion increased capital at Malvern Federal Savings Bank, it depleted capital at Malvern Federal Bancorp. In January 2012, we adopted the plan of conversion and reorganization as a means to further augment the capital at Malvern Federal Savings Bank and provide for stronger capital at our new holding company, Malvern Bancorp New. In addition, in January 2012, we decided to establish specific capital ratio targets for Malvern Federal Savings Bank which are higher than the regulatory thresholds necessary to be deemed well-capitalized. Our specific capital ratio targets are 8.5% for tier 1 core capital, 10.0% for tier 1 risk-based capital, and 12.0% for total risk-based capital. At March 31, 2012, our tier 1 core capital ratio was 8.27%, our tier 1 risk-based capital ratio was 12.45% and our total risk-based capital ratio was 13.71%. The conversion and offering will result in Malvern Federal Savings Bank exceeding all of the specific capital ratio targets which it has adopted. While Federal regulations require that a minimum of 50% of the net proceeds of the offering be contributed to Malvern Federal Savings Bank, we have determined to contribute 70% of the net offering proceeds. We believe that the maintenance of higher capital levels is appropriate in light of the current banking and economic environments and our risk profile. In addition, the increased capital will facilitate our ability to implement our business strategy.

*Seeking Relief from the Supervisory Agreements.* We entered into the Supervisory Agreements with the Office of Thrift Supervision in October 2010. Among other things, the Supervisory Agreements restrict our ability to make any new commercial real estate loans, limit our growth and require that we provide the Office of the Comptroller of the Currency with relatively extensive reports and data on our business and operations on a quarterly basis. Given the improvements we have seen in the levels of our non-performing and other

problem assets, the enhancements we have made to our loan underwriting policies and procedures as well as our loan administration and oversight policies and procedures, and the increased capital that we will recognize as a result of the conversion and offering, we will seek relief from the Supervisory Agreements upon consummation of the conversion and offering. In the event that the Supervisory Agreements are not fully terminated, we will, at a minimum, seek the ability to resume making commercial real estate loans without the need to obtain specific approval from the Office of the Comptroller of the Currency and we will request that the asset growth limitations be removed.

*Growing Our Loan Portfolio and Resuming Commercial Real Estate and Construction and Development Lending.* Upon consummation of the conversion and offering, we plan to resume, subject to the receipt of relief from the Supervisory Agreements and any other necessary approvals or non-objections from Federal banking regulators, on a relatively modest basis, the origination of commercial

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real estate loans and construction and development loans in our market area. Such loans will be underwritten in accordance with our strengthened loan underwriting standards and our enhanced credit review and administration procedures. We continue to believe that we can be a successful niche lender to small and mid-sized commercial borrowers and homebuilders in our market area. Upon receiving regulatory relief from the restrictions of the Supervisory Agreements, we also plan to resume modest growth of our loan portfolio commencing in fiscal 2013. We believe that a resumption of commercial real estate and construction and development lending in a planned, deliberative fashion with the loan underwriting and administration enhancements that we have implemented in recent periods, together with modest loan growth, should increase our interest income and our returns in future periods. However, no assurance can be given whether, or when, we will receive the necessary relief from the Supervisory Agreements and any other approvals or non-objections to engage in such expanded lending activities in the future.

*Increasing Market Share Penetration.* We operate in a competitive market area for banking products and services. In recent years, we have been working to increase our deposit share in Chester and Delaware Counties, and we increased our marketing and promotional efforts. However, as a result of the shrinkage of our balance sheet and the reduction in total deposits in fiscal 2011, our deposit market share in Chester and Delaware Counties decreased from 5.05% in 2010 to 4.84% in 2011. We are focused on continuing our efforts to increase market share. Subsequent to the conversion and offering, in our effort to increase market share as well as non-interest income, we plan to evaluate increasing our business in non-traditional products, such as insurance products through our existing insurance agency subsidiary, which currently is inactive, or, possibly, through the addition of other products and services, such as wealth management.

*Increasing Our Core Deposits.* We are attempting to increase our core deposits, which we define as all deposit products other than certificates of deposit. At March 31, 2012, our core deposits amounted to \$242.7 million, or 45.2% of total deposits, compared to \$239.9 million, or 43.3% of total deposits, at September 30, 2011 and \$225.2 million, or 37.7% of total deposits, at September 30, 2010. We have continued our promotional efforts to increase core deposits. We review our deposit products on an on-going basis and we are considering additional deposit products as well as more flexible delivery options, such as mobile banking, as part of our efforts to increase core deposits. We expect to increase our commercial checking accounts when we resume commercial lending and we plan to enhance our cross-marketing as part of our efforts to gain additional deposit relationships with our loan customers.

*Continuing to Provide Exceptional Customer Service.* As a community oriented savings bank, we take pride in providing exceptional customer service as a means to attract and retain customers. We deliver personalized service to our customers that distinguish us from the large regional banks operating in our market area. Our management team has strong ties to, and deep roots in, the community. We believe that we know our customers' banking needs and can respond quickly to address them.

## **Reasons for the Conversion and Offering**

In recent periods we have focused on addressing our asset quality issues. While we are continuing our efforts to further reduce our non-performing and problem assets, we feel that we have made sufficient progress such that a second-step conversion is in our best interests at this time. We are pursuing the conversion and related offering for the following reasons:

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In light of the risk profile posed by, among other factors, the increased levels of our non-performing assets in recent years and also based in part upon our communications with staff of the Office of the Comptroller of the Currency, we determined to increase the amount of capital we maintain at Malvern Federal Savings Bank. The additional funds raised in the offering will increase our capital such that we meet all of the specific capital ratio targets that we have established (which exceed the regulatory thresholds for well-capitalized status) and support our ability to operate in accordance with our business strategy in the future.

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Conversion to the fully public form of ownership will remove the uncertainties associated with the mutual holding company structure. We believe that the conversion and offering will result in a more familiar and flexible form of corporate organization and will better position us to continue to meet all current and future regulatory requirements, including regulatory capital requirements which may be imposed on savings and loan holding companies such as Malvern Bancorp New, and, in light of the portion of the net proceeds of the offering to be retained by the new stock-form holding company, will facilitate the ability of Malvern Bancorp New to serve as a source of strength for Malvern Federal Savings Bank.

The number of our outstanding shares after the conversion and offering will be greater than the number of shares currently held by public shareholders, so we expect our stock to have greater liquidity.

### **Use of Proceeds from the Sale of Our Common Stock**

We will contribute 70% of the net proceeds from the offering to Malvern Federal Savings Bank. The remaining 30% of the net offering proceeds will be retained by Malvern Bancorp New. The portion of the proceeds retained by Malvern Bancorp New will be used to, among other things, invest in securities, and will be available for general corporate purposes which may, in the future, include the payment of dividends and repurchases of shares of common stock (subject to removal of the existing limitations of our Supervisory Agreements and any other applicable regulatory restrictions).

The proceeds to be contributed to Malvern Federal Savings Bank will be available for general corporate purposes, including the expansion of our lending activities, subject to the receipt of all necessary approvals or non-objections from Federal banking regulators. Subsequent to the conversion and offering we plan to resume, on a modest basis and assuming we receive the necessary approvals or non-objections from the Office of the Comptroller of the Currency, commercial real estate lending and construction and development lending in our market area as well as to modestly grow our loan portfolio consistent with our business strategy. The portion of the net proceeds contributed to Malvern Federal Savings Bank also may be used in the event we determine to increase our non-traditional banking activities, either through our existing insurance broker subsidiary, which currently is inactive, or possibly, the expansion into other non-traditional business lines, such as wealth management, although we have no specific plans regarding expansion of our non-traditional products at this time. The proceeds to be contributed to Malvern Federal Savings Bank also will augment its capital and facilitate the ability of Malvern Federal Savings Bank to exceed its target regulatory capital ratios, which are higher than the thresholds required in order for a savings bank to be considered well-capitalized for regulatory purposes. Such higher capital levels at Malvern Federal Savings Bank will provide an extra cushion to protect it against loan risk and, thereby, will further support its lending activities.

### **The Offering and Persons Who Can Purchase in the Offering**

We are offering common stock which represents the 55.5% ownership interest in Malvern Federal Bancorp now owned by Malvern Federal Mutual Holding Company. We are offering between 2,337,500 and 3,162,500 shares of common stock, at a price of \$10.00 per share. The number of shares to be sold may be increased to 3,636,875. The actual number of shares we sell will depend on an independent appraisal performed by RP Financial, LC, an independent appraisal firm. We are also exchanging shares of Malvern Federal Bancorp, other than those held by Malvern Federal Mutual Holding Company, for shares of Malvern Bancorp New based on an exchange ratio which will range from 0.6908 shares at the minimum of the offering range to 0.9346 shares at the maximum of the offering range. The exchange ratio may be increased to 1.0748 in the event the stock offering closes at the maximum, as adjusted of the valuation range. See The Conversion and Offering How We Determined the Price Per Share, the Offering Range and the Exchange Ratio at page 118. Shares are being offered in a subscription offering in the following order of priority.

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FIRST: Eligible Account Holders (depositors at Malvern Federal Savings Bank with \$50 or more on deposit as of December 31, 2010).

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SECOND: Malvern Federal Savings Bank's employee stock ownership plan (although the employee stock ownership plan does not intend to exercise its priority subscription right to purchase shares in the offering).

THIRD: Supplemental Eligible Account Holders (depositors at Malvern Federal Savings Bank with \$50 or more on deposit as of \_\_\_\_\_, 2012).

FOURTH: Other Members (depositors at Malvern Federal Savings Bank as of \_\_\_\_\_, 2012 and borrowers of Malvern Federal Savings Bank as of December 31, 1990 whose loans continued to be outstanding as of \_\_\_\_\_, 2012, and, in either case, who do not qualify as Eligible Account Holders or Supplemental Eligible Account Holders).

The subscription offering will terminate at 2:00 p.m., Eastern Time, on \_\_\_\_\_, 2012. We may extend this expiration date without notice to you for up to 45 days, until \_\_\_\_\_, 2012. Once submitted, your order is irrevocable unless the offering is terminated or extended beyond \_\_\_\_\_, 2012. We may extend the offering beyond \_\_\_\_\_, 2012, but any such further extension may require the approval or non-objection of the Board of Governors of the Federal Reserve System (which we also refer to as the Federal Reserve Board or the FRB). In no event may the offering be extended beyond \_\_\_\_\_, 2014. If the offering is extended beyond \_\_\_\_\_, 2012, we will be required to notify each subscriber and give each subscriber the opportunity to confirm, change or cancel their order.

Concurrently with the subscription offering, or commencing after the subscription offering begins, we may also offer shares of common stock to the general public in a community offering. In the community offering, natural persons (and trusts of natural persons) who reside in Chester and Delaware Counties, Pennsylvania, will have a first preference, and public shareholders of Malvern Federal Bancorp as of \_\_\_\_\_, 2012 will have a second preference in the community offering after persons residing in Chester and Delaware Counties. The community offering, if commenced, is expected to terminate at 2:00 p.m., Eastern Time, on \_\_\_\_\_, 2012, but may be extended without notice until \_\_\_\_\_, 2012.

Shares not sold in the subscription and community offerings may be offered for sale in a syndicated community offering, which would be an offering to the general public on a best efforts basis by a syndicate of selected broker-dealers.

We may begin the syndicated community offering at any time following the commencement of the subscription offering. Stifel, Nicolaus & Company, Incorporated will act as sole book-running manager in any syndicated community offering, which will be conducted on a best efforts basis.

We have the right to reject any orders of stock in the community offering and syndicated community offering either in whole or in part. If you submit an order which we reject in part, you cannot cancel the remainder of your order.

If we receive subscriptions for more shares than are to be sold in this offering, we may be unable to fill or may only partially fill your order. Shares will be allocated in order of the priorities described in the plan of conversion and reorganization. See "The Conversion and Offering" for a detailed description of the subscription, community and syndicated community offerings and a discussion of share allocation procedures.

The purchase price is \$10.00 per share. All investors will pay the same purchase price per share. Investors will not be charged a commission to purchase shares of common stock in the offering. Stifel, Nicolaus & Company, Incorporated, our conversion advisor and marketing agent in the offering, will use its best efforts to assist us in selling shares of our common stock. Stifel, Nicolaus & Company, Incorporated is not obligated to purchase any shares of common stock in the offering.

You cannot transfer your rights to purchase shares in the subscription offering. If you attempt to transfer your rights, you may lose the right to purchase shares and may be subject to criminal prosecution and/or other sanctions.

**Table of Contents****How We Determined the Price Per Share, the Offering Range and the Exchange Ratio**

The offering range and the exchange ratio are based on an independent appraisal by RP Financial, LC, an appraisal firm experienced in appraisals of savings institutions. The pro forma market value is the estimated market value of our common stock assuming the sale of shares in the conversion and related offering. RP Financial has indicated that in its opinion as of May 4, 2012, the estimated pro forma market value of our common stock was \$49.6 million at the midpoint. In the offering, we are selling the number of shares representing the 55.5% of shares currently owned by Malvern Federal Mutual Holding Company, which results in an offering range between \$23.4 million and \$31.6 million, with a midpoint of \$27.5 million. The appraisal was based in part upon Malvern Federal Bancorp's financial condition and operations and the effect of the additional capital we will raise from the sale of common stock in this offering.

Subject to regulatory approval, we may increase the amount of common stock offered by up to 15%. Accordingly, at the minimum of the offering range, given the purchase price per share of \$10.00, we are offering 2,337,500 shares, and at the maximum of the offering range we are offering 3,162,500 shares in the offering. The appraisal will be updated before the conversion is completed. If the pro forma market value of the common stock at that time is either below \$42.2 million or above \$65.6 million, we will notify subscribers, return their funds, with interest, or cancel their deposit account withdrawal authorizations. If we decide to set a new offering range, subscribers will have the opportunity to place a new order. See "The Conversion and Offering" "How We Determined the Price Per Share, the Offering Range and the Exchange Ratio" for a description of the factors and assumptions used in determining the stock price and offering range.

The appraisal was based in part upon Malvern Federal Bancorp's financial condition and results of operations, the effect of the additional capital we will raise from the sale of common stock in this offering, and an analysis of a peer group of ten publicly traded savings and loan holding companies that RP Financial considered comparable to us. The appraisal peer group consists of the companies listed below. Total assets are as of December 31, 2011.

<b>Company Name and Ticker Symbol</b>	<b>Exchange</b>	<b>Headquarters</b>	<b>Total Assets (in millions)</b>
ESSA Bancorp, Inc. (ESSA)	NASDAQ	Stroudsburg, PA	\$ 1,097
Cape Bancorp, Inc. (CBNJ)	NASDAQ	Cape May Court House, NJ	1,071
Beacon Federal Bancorp, Inc. (BFED)	NASDAQ	East Syracuse, NY	1,027
Ocean Shore Holding Co.(OSHC)	NASDAQ	Ocean City, NJ	995
Fox Chase Bancorp, Inc.(FXCB)	NASDAQ	Hatboro, PA	994
TF Financial Corp. (THRD)	NASDAQ	Newtown, PA	682
Oneida Financial Corp. (ONFC)	NASDAQ	Oneida, NY	656
Colonial Financial Services, Inc. (COBK)	NASDAQ	Vineland, NJ	604
Alliance Bancorp, Inc. of PA (ALLB)	NASDAQ	Broomall, PA	470
Standard Financial Corp. (STND)	NASDAQ	Monroeville, PA	437

In preparing its appraisal, RP Financial considered the information in this prospectus, including our financial statements. RP Financial also considered the following factors, among others:

our historical, present and projected operating results including, but not limited to, historical income statement information such as return on assets, return on equity, net interest margin trends, operating expense ratios, levels and sources of non-interest income, and levels of loan loss provisions;

our historical, present and projected financial condition including, but not limited to, historical balance sheet size, composition and growth trends, loan portfolio composition and trends, liability composition and trends, credit risk measures and trends, and interest rate risk measures and trends;

the economic, demographic and competitive characteristics of Malvern Federal Bancorp's primary market area including, but not limited to, employment by industry type, unemployment trends, size and growth of the population, trends in household and per capita income, deposit market share and largest competitors by deposit market share;

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a comparative evaluation of the operating and financial statistics of Malvern Federal Bancorp's with those of other similarly situated, publicly traded companies, which included a comparative analysis of balance sheet composition, income statement ratios, credit risk, interest rate risk and loan portfolio composition;

the impact of the offering on Malvern Federal Bancorp's consolidated shareholders' equity and earnings potential including, but not limited to, the increase in consolidated equity resulting from the offering, the estimated increase in earnings resulting from the reinvestment of the net proceeds of the offering and the effect of higher consolidated shareholders' equity on Malvern Federal Bancorp's future operations;

the impact of consolidation of Malvern Federal Mutual Holding Company with and into Malvern Federal Bancorp, including the impact of consolidation of Malvern Federal Mutual Holding Company's assets and liabilities; and

the trading market for securities of comparable institutions and general conditions in the market for such securities.

Two of the measures investors use to analyze whether a stock might be a good investment are the ratio of the offering price to the issuer's book value and the ratio of the offering price to the issuer's annual net income. RP Financial considered these ratios, among other factors, in preparing its appraisal. Book value is the same as total stockholders' equity, and represents the difference between the issuer's assets and liabilities. Tangible book value is equal to total stockholders' equity less intangible assets. RP Financial's appraisal also incorporates an analysis of a peer group of publicly traded companies that RP Financial considered to be comparable to us.

The following table presents a summary of selected pricing ratios for the peer group companies and for us on a reported basis as utilized by RP Financial in its appraisal. These ratios are based on earnings for the 12 months ended March 31, 2012 and book value as of March 31, 2012 for us and December 31, 2011 for the peer group.

	<b>Price to Earnings Multiple</b>	<b>Price to Book Value Ratio</b>	<b>Price to Tangible Book Value Ratio</b>
<b>Malvern Bancorp - New (pro forma)</b>			
Minimum	45.09x	50.61%	50.61%
Midpoint	51.68	56.85	56.85
Maximum	57.94	62.54	62.54
Maximum, as adjusted	64.77	68.49	68.49
<b>Peer group companies as of May 4, 2012</b>			
Average	18.40x	78.42%	85.17%
Median	17.00	74.90	83.11

Compared to the average pricing ratios of the peer group at the maximum of the offering range, our stock would be priced at a premium of 214.9% to the peer group on a price-to-earnings basis and a discount of 20.2% to the peer group on a price-to book value basis and 26.6% on a price to tangible book value basis. This means that, at the maximum of the offering range, a share of our common stock would be more

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expensive than the peer group based on an earnings per share basis and less expensive than the peer group based on a book value and tangible book value basis. See Pro Forma Data for the assumptions used to derive these pricing ratios.

Compared to the average pricing ratios of the peer group, at the minimum of the offering range our common stock would be priced at a premium of 145.1% to the peer group on a price-to-earnings basis, a discount of 35.5% to the peer group on a price-to-book basis, and a discount of 40.6% to the peer group on a price-to-tangible book basis. This means that, at the minimum of the offering range, a share of our common stock would be more expensive than the peer group on an earnings basis and less expensive than the peer group on a book value and tangible book value basis.

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Our board of directors reviewed RP Financial's appraisal report, including the methodology and the assumptions used by RP Financial, and determined that the offering range was reasonable and appropriate. Our board of directors has decided to offer the shares for a price of \$10.00 per share. The purchase price of \$10.00 per share was determined by us, taking into account, among other factors, the market price of our stock prior to adoption of the plan of conversion, the requirement under Federal regulations that the common stock be offered in a manner that will achieve the widest distribution of the stock, the desired trading liquidity in the common stock after the offering, and the fact that \$10.00 per share is the most commonly used price in conversion offerings. Our board of directors also established the formula for determining the exchange ratio. Based upon such formula and the offering range, the exchange ratio ranged from a minimum of 0.6908 to a maximum of 0.9346 shares of Malvern Bancorp New common stock for each share of Malvern Federal Bancorp common stock, with a midpoint of 0.8127.

Because of differences and important factors such as operating characteristics, location, financial performance, asset size, capital structure, and business prospects between us and other fully converted institutions, you should not rely on these comparative valuation ratios as an indication as to whether or not the stock is an appropriate investment for you. **The independent valuation is not intended, and must not be construed, as a recommendation of any kind as to the advisability of purchasing the common stock. Because the independent valuation is based on estimates and projections on a number of matters, all of which are subject to change from time to time, no assurance can be given that persons purchasing the common stock in the offering will be able to sell their shares at a price equal to or greater than the \$10.00 purchase price.** See Risk Factors Our Stock Price May Decline When Trading Commences at page 24 and Pro Forma Data at page 34 and The Conversion and Offering How We Determined the Price Per Share, The Offering Range and the Exchange Ratio at page 118.

### **Possible Change in Offering Range**

RP Financial will update its appraisal before we complete the conversion and related offering. If, as a result of regulatory considerations, demand for the shares or changes in financial market conditions, RP Financial determines that our estimated pro forma market value has increased, we may sell up to 3,636,875 shares without further notice to you. If our pro forma market value at that time is either below \$42.2 million or above \$65.6 million, then, after consulting with the Federal Reserve Board, we may:

terminate the offering and promptly return all funds;

promptly return all funds, set a new offering range and give all subscribers the opportunity to place a new order; or

take such other actions as may be permitted by the Board of Governors of the Federal Reserve System and the Securities and Exchange Commission.

### **Termination of the Offering**

We may terminate the offering at any time prior to the special meetings of members of Malvern Federal Mutual Holding Company and shareholders of Malvern Federal Bancorp that are being called to vote on the plan of conversion and reorganization, and at any time thereafter with the approval of the Federal Reserve Board. If we terminate the offering, we will promptly return funds received, with interest, and we will cancel deposit account withdrawal authorizations.

### **The Exchange of Malvern Federal Bancorp Common Stock**

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If you are a shareholder of Malvern Federal Bancorp, the existing publicly traded mid-tier holding company, your shares will be cancelled and exchanged for new shares of Malvern Bancorp New common stock. The number of shares you will receive will be based on an exchange ratio determined as of the closing of the conversion. The actual number of shares you receive will depend upon the number of shares we sell in our offering, which in turn will depend upon the final appraised value of Malvern Bancorp New. The following table shows how the exchange ratio will adjust, based on the number of shares sold in our offering.

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The table also shows how many shares a hypothetical owner of Malvern Federal Bancorp common stock would receive in the exchange, based on the number of shares sold in the offering.

	Shares to be sold in the offering		Shares of Malvern Bancorp New stock to be issued in exchange for Malvern Federal Bancorp common stock		Total shares of Malvern Bancorp New common stock to be outstanding after the conversion	Exchange ratio	100 shares of Malvern Federal Bancorp common stock would be exchanged for the following number of shares of Malvern Bancorp New(1)	Equivalent Per Share Value(2)
	Amount	Percent	Amount	Percent				
Minimum	2,337,500	55.4506%	1,877,961	44.5494%	4,215,461	0.6908	69	\$ 6.91
Midpoint	2,750,000	55.4506	2,209,366	44.5494	4,959,366	0.8127	81	8.13
Maximum	3,162,500	55.4506	2,540,771	44.5494	5,703,271	0.9346	93	9.35
Maximum, as adjusted	3,636,875	55.4506	2,921,887	44.5494	6,558,762	1.0748	107	10.75

(1) Cash will be paid instead of issuing any fractional shares.

(2) Represents the value of shares of Malvern Bancorp New common stock to be received by a holder of one share of Malvern Federal Bancorp common stock at the exchange ratio, assuming a value of \$10.00 per share.

Upon completion of the conversion and offering, if you own shares of Malvern Federal Bancorp which are held in street name, they will be exchanged without any action on your part. If you are the record owner of shares of Malvern Federal Bancorp and hold stock certificates you will receive, after the conversion and offering is completed, a transmittal form with instructions to surrender your stock certificates. Certificates for common stock of Malvern Bancorp New will be mailed within five business days after our exchange agent receives properly executed



transmittal forms and certificates.

No fractional shares of Malvern Bancorp New common stock will be issued to any public shareholder of Malvern Federal Bancorp upon consummation of the conversion. For each fractional share that would otherwise be issued, we will pay in cash an amount equal to the product obtained by multiplying the fractional share interest to which the holder would otherwise be entitled by the \$10.00 per share stock offering price. For further information, see The Conversion and Offering Effect of the Conversion and Offering on Public Shareholders beginning on page 112.

### Conditions to Completion of the Conversion

We cannot complete our conversion and related offering unless:

The plan of conversion and reorganization is approved by at least a majority of votes eligible to be cast by members of Malvern Federal Mutual Holding Company (who are the depositors and certain borrowers of Malvern Federal Savings Bank);

The plan of conversion and reorganization is approved by at least:

two-thirds of the outstanding shares of Malvern Federal Bancorp common stock; and

a majority of the outstanding shares of Malvern Federal Bancorp common stock held by the public shareholders;

We sell at least the minimum number of shares offered; and

We receive the final approval of the Board of Governors of the Federal Reserve System to complete the conversion and offering and related transactions.

Malvern Federal Mutual Holding Company intends to vote its 55.5% ownership interest in favor of the conversion. In addition, as of , 2012, directors and executive officers of Malvern Federal Bancorp and their associates owned 67,399 shares of Malvern Federal Bancorp or 1.1% of the outstanding shares. They intend to vote those shares in favor of the plan of conversion and reorganization.

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### After-Market Performance Information

The following table presents for all second-step offerings that began trading from January 1, 2011 to May 4, 2012, the percentage change in the trading price from the initial trading date of the offering to the dates shown in the table. The table also presents the average and median trading prices and percentage change in trading prices for the same dates. This information relates to stock performance experienced by other companies that may have no similarities to us with regard to market capitalization, offering size, earnings quality and growth potential, among other factors.

The table is not intended to indicate how our common stock may perform. Data represented in the table reflects a small number of transactions and is not necessarily indicative of general stock market performance trends or of price performance trends of companies that undergo second-step conversions. Furthermore, this table presents only short-term price performance and may not be indicative of the longer-term stock price performance of these companies. There can be no assurance that our stock price will appreciate or that our stock price will not trade below \$10.00 per share. The movement of any particular company's stock price is subject to various factors, including, but not limited to, the amount of proceeds a company raises, the company's historical and anticipated operating results, the nature and quality of the company's assets, the company's market area and the quality of management and management's ability to deploy proceeds (such as through loans and investments, the acquisition of other financial institutions or other businesses, the payment of dividends and common stock repurchases). In addition, stock prices may be affected by general market and economic conditions, the interest rate environment, the market for financial institutions and merger or takeover transactions and the presence of professional and other investors who purchase stock on speculation, as well as other unforeseeable events not in the control of management. Before you make an investment decision, please carefully read this entire prospectus, including Risk Factors.

**After Market Trading Activity  
Completed Second-Step Offerings  
Closing Dates between January 1, 2011 and May 4, 2012**

Company Name and Ticker Symbol	Closing Date	Exchange	Percentage Price Change from Initial Trading Date			
			One Day	One Week	One Month	Through May 4, 2012
Cheviot Financial Corp. (CHEV)	1/18/12	NASDAQ	3.1%	2.6%	3.5%	9.7%
Naugatuck Valley Fin. Corp. (NVSL)	6/30/11	NASDAQ	(1.3)	(2.5)	1.9	(6.1)
Rockville Financial New, Inc. (RCKB)	3/4/11	NASDAQ	6.0	6.5	5.0	14.6
Eureka Financial Corp. (EKFC)	3/1/11	OTCBB	22.5	17.5	28.5	50.2
Atlantic Coast Fin. Corp. (ACFC)	2/4/11	NASDAQ	0.5	%	2.0	(77.5)
Alliance Bancorp, Inc. (ALLB)	1/18/11	NASDAQ	10.0	6.8	11.9	16.5
SI Financial Group, Inc. (SIFI)	1/13/11	NASDAQ	15.9	12.9	17.5	43.9
Minden Bancorp, Inc. (MDNB)	1/5/11	OTCBB	28.0	28.5	30.0	42.5
Average			10.6%	9.0%	12.5%	11.7%
Median			8.0	6.7	8.5	15.6

**THERE CAN BE NO ASSURANCE THAT OUR STOCK PRICE WILL TRADE SIMILARLY TO THESE COMPANIES. THERE CAN ALSO BE NO ASSURANCE THAT OUR STOCK PRICE WILL NOT TRADE BELOW \$10.00 PER SHARE, PARTICULARLY AS THE PROCEEDS RAISED AS A PERCENTAGE OF PRO FORMA STOCKHOLDERS EQUITY MAY HAVE A NEGATIVE EFFECT ON OUR STOCK PRICE PERFORMANCE.**

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### **Limitations on the Amount of Stock You May Purchase**

The minimum purchase is 25 shares. Generally, you may purchase no more than \$500,000 (50,000 shares) of common stock in the offering. The maximum amount of shares that a person together with any associates or group of persons acting in concert with such person may purchase, in all categories of the offering combined, is \$700,000 of common stock (70,000 shares). Your associates include the following persons:

persons on joint accounts with you;

your spouse and other relatives living in your house;

companies, trusts or other entities in which you have a controlling interest or hold a position as an officer or a similar position; or

trusts or other estates in which you have a substantial beneficial interest or as to which you serve as trustee or in another fiduciary capacity.

In addition to the above, there is an ownership limitation for Malvern Federal Bancorp public shareholders who wish to purchase additional shares in the offering. The number of shares of Malvern Bancorp New common stock that a public shareholder may purchase in the offering individually, and together with associates or persons acting in concert, plus any shares of Malvern Bancorp New received by them in exchange for their shares of Malvern Federal Bancorp, may not exceed 5% of the total shares of Malvern Bancorp New common stock to be issued and

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outstanding at the completion of the conversion and offering, provided, however, that no one will be required to divest any shares of Malvern Bancorp New received in exchange for shares of Malvern Federal Bancorp or be limited in the number of exchange shares received.

We have the right to determine, in our sole discretion, whether subscribers are associates or acting in concert. Persons having the same address or with accounts registered to the same address generally will be assumed to be associates or acting in concert.

We may decrease or increase the maximum purchase limitations, with the concurrence of the Federal Reserve Board, without notifying you. In the event the maximum purchase limitation(s) is increased, persons who subscribed for the maximum in the subscription offering and who indicated on their stock order forms a desire to be resolicited, will be notified and permitted to increase their subscription. For additional information, see *The Conversion and Offering Limitations on Common Stock Purchases* at page 121.

### **How to Pay for Shares in the Subscription and Community Offerings**

In the subscription offering and the community offering, you may pay for your shares by:

1. personal check, bank check or money order made payable directly to Malvern Bancorp, Inc. ; or
2. authorizing us to withdraw money from the types of Malvern Federal Savings Bank deposit accounts identified on the stock order form.

If you wish to pay by cash rather than by the above recommended methods, you must deliver your stock order form and payment in person to the headquarters of Malvern Federal Savings Bank, located at 42 East Lancaster Avenue, Paoli, Pennsylvania. Malvern Federal Savings Bank is not permitted to lend funds (including funds drawn on a Malvern Federal Savings Bank line of credit) to anyone for the purpose of purchasing shares of common stock in the offering. Additionally, you may not use a Malvern Federal Savings Bank line of credit check or any type of third party check or wire transfer to pay for shares of common stock.

You may not designate on your stock order form a direct withdrawal from an IRA or other retirement account at Malvern Federal Savings Bank. If you wish to use funds in a retirement account at Malvern Federal Saving Bank, see *The Conversion and Offering Procedure for Purchasing Shares in the Subscription and Community Offerings Using Retirement Account Funds to Purchase Shares* at page 127. Additionally, you may not designate on your stock order form a direct withdrawal from Malvern Federal

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Savings Bank accounts with check-writing privileges. Please submit a check instead. If you request a direct withdrawal, we reserve the right to interpret that as your authorization to treat those funds as if we had received a check for the designated amount, and we will immediately withdraw the amount from your checking account.

Checks will be immediately cashed, so, if you submit a personal check, the funds must be available within the account when your stock order form is received. Subscription funds will be held in a segregated account at Malvern Federal Savings Bank. We will pay interest calculated at Malvern Federal Savings Bank's passbook rate from the date those funds are processed until completion of or termination of the offering, at which time subscribers will receive interest checks. Withdrawals from certificate of deposit accounts at Malvern Federal Savings Bank for the purpose of purchasing common stock in the offering may be made without incurring an early withdrawal penalty. All funds authorized from withdrawal from deposit accounts with Malvern Federal Savings Bank must be available within the deposit accounts at the time the stock order form is received. A hold will be placed on the amount of funds designated on your stock order form. Those funds will be unavailable to you during the offering; however, the funds will not be withdrawn from the accounts until the offering is completed and will continue to earn interest at the applicable contractual deposit account rate until the completion of the offering.

### **Delivery of Stock Order Forms**

## Edgar Filing: MALVERN BANCORP, INC. - Form S-1

You may deliver your stock order form in one of three ways: by mail, using the stock order reply envelope provided; by overnight delivery to the Stock Information Center at the address indicated on the stock order form; or by hand-delivery to Malvern Federal Savings Bank's headquarters, located at 42 East Lancaster Avenue, Paoli, Pennsylvania. Please do not deliver stock order forms to other Malvern Federal Savings Bank offices. Please mail stock order forms to our Stock Information Center; do not mail stock order forms to Malvern Federal Savings Bank. Once submitted, your order is irrevocable. See *The Conversion and Offering Procedure for Purchasing Shares in the Subscription and Community Offerings* at page 125.

We may, in our sole discretion, reject orders received in the community offering, either in whole or in part. In addition, we may reject an order submitted by a person who we believe is making false representations or who we believe is attempting to violate, evade or circumvent the terms and conditions of the plan of conversion and reorganization. If your order is rejected in part, you cannot cancel the remainder of your order.

### **Using IRA Funds to Purchase Shares in the Offering**

You may be able to subscribe for shares of common stock using funds in your individual retirement account, or IRA. If you wish to use some or all of the funds in your Malvern Federal Savings Bank IRA or other retirement account, the applicable funds must first be transferred to a self-directed retirement account maintained by an unaffiliated institutional trustee or custodian, such as a brokerage firm. An annual fee may be payable to the trustee. If you do not have such an account you will need to establish one and transfer your funds before placing your stock order. Our Stock Information Center can give you guidance if you wish to place an order for stock using funds held in a retirement account at Malvern Federal Savings Bank or elsewhere. Because processing retirement account transactions takes additional time, we recommend that you promptly contact our Stock Information Center, preferably at least two weeks before the \_\_\_\_\_, 2012 offering deadline. Whether you may use retirement funds for the purchase of shares in the offering will depend on timing constraints and possibly, limitations imposed by the institution where the funds are held. See *The Conversion and Offering Procedure for Purchasing Shares in the Subscription and Community Offerings Using Retirement Account Funds to Purchase Shares* at page 127.

### **Deadline for Orders of Stock in the Subscription and Community Offerings**

The subscription offering will end at 2:00 p.m., Eastern Time, on \_\_\_\_\_, 2012. We expect that the community offering, if held, will terminate at the same time. If you wish to purchase shares, a properly completed and signed original stock order form, together with full payment for the shares of common stock,

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must be *received* (not postmarked) no later than this time. We are not required to accept copies or facsimiles of order forms. The subscription offering and/or community offering may be extended until \_\_\_\_\_, 2012, or longer if the Federal Reserve Board approves or provides its non-objection of a later date. No single extension may be for more than 90 days. We are not required to provide notice to you of an extension unless we extend the offering beyond \_\_\_\_\_, 2012, in which case all subscribers in the subscription and community offerings will be notified and given the opportunity to confirm, change or cancel their orders. If you do not respond to this notice, we will promptly return your funds, with interest calculated at Malvern Federal Savings Bank's passbook savings rate or cancel your deposit account withdrawal authorization. If we intend to sell fewer than 2,337,500 shares or more than 3,636,875 shares, we will promptly cancel all deposit account withdrawal authorizations, return all funds received, with interest, and set a new offering range. All subscribers will be notified and given the opportunity to place a new order.

### **Your Subscription Rights are Not Transferable**

You may not assign or sell your subscription rights. Any transfer of subscription rights is prohibited by law. If you exercise subscription rights to purchase shares in the subscription offering, you will be required to acknowledge that you are purchasing shares solely for your own account and that you have no agreement or understanding regarding the sale or transfer of shares. We intend to pursue any and all legal and equitable remedies if we learn of the transfer of any subscription rights. We will reject orders that we determine to involve the transfer of subscription rights. On the stock order form, you may not add the names of others for joint stock registration who do not have subscription rights or who qualify only in a lower subscription offering priority than you do. You may add only those who were eligible to purchase shares of common stock in the subscription offering at your date of eligibility. In addition, the stock order form requires that you list all qualifying deposit or loan accounts, giving all names on each account and the account number at the applicable eligibility date. **Failure to provide this information, or**

providing incomplete or incorrect information, may result in a loss of part or all of your share allocation, in the event of an oversubscription.

### **Stock-Based Compensation Plans**

Typically, in conjunction with mutual-to-stock conversions, the converting institution may determine to utilize various stock benefit plans as a method to provide stock-based compensation to the converting institution's directors, officers and other employees. Such plans typically include an employee stock ownership plan, which are provided under Federal banking regulations with priority subscription rights to purchase shares in the conversion offering, as well as a stock option plan and management recognition plan, neither of which can be established during the first six months following the conversion but, if implemented during the first year following conversion, must be described in the converting institution's offering and proxy materials and are subject to other requirements of regulations of the Federal Reserve Board. In order to maximize the net proceeds from the offering and to avoid the additional compensation expense that would result from such employee benefit plans, we have decided that we will not utilize any stock benefit plans in conjunction with our conversion and offering. Accordingly, while our plan of conversion and reorganization, consistent with regulations of the Federal Reserve Board, grants second priority subscription rights to our existing employee stock ownership plan, our employee stock ownership plan will not be purchasing any shares of Malvern Bancorp New common stock in the offering. In addition, we will not implement any stock option plan or management recognition plan during the first year following our conversion. While we have no current intention to implement stock benefit plans after the one-year anniversary date of our conversion, we could do so, but any such determination would be evaluated by our Board of Directors at that time based upon, among other factors, our financial condition and results of operations and regulatory considerations.

### **Market for Common Stock**

Malvern Federal Bancorp's common stock is currently listed on the Nasdaq Global Market under the symbol MLVF. Upon completion of the conversion and offering, Malvern Bancorp New shares will replace the currently listed shares of Malvern Federal Bancorp. We have applied to have the common stock of

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Malvern Bancorp New listed for trading on the Nasdaq Global Market. For the first 20 trading days after the completion of the conversion and offering, we expect Malvern Bancorp New's common stock to trade under the symbol MLVFD. Thereafter it will trade under MLVF.

### **Our Dividend Policy**

As a result of the October 2010 Supervisory Agreements, Malvern Federal Bancorp currently is precluded from declaring or paying any dividends without the prior written approval of the Board of Governors of the Federal Reserve System (as successor to the Office of Thrift Supervision). We have no current plans to pay dividends on the common stock of Malvern Bancorp-New upon consummation of the conversion and offering. In addition to receiving any required prior approval of the Board of Governors of the Federal Reserve System, our ability to pay dividends will depend on a number of other factors, including regulatory capital requirements, Federal statutes and regulatory limitations and our results of operations and financial condition. We cannot assure you that we will pay dividends after the conversion and offering or that, if we commence paying dividends, that we will not reduce or eliminate them in the future.

### **Federal and State Income Tax Consequences**

As a general matter, the conversion will not be a taxable transaction for purposes of federal or state income taxes to us or persons who receive or exercise subscription rights. Shareholders of Malvern Federal Bancorp who receive cash in lieu of fractional share interests in shares of Malvern Bancorp New will recognize gain or loss equal to the difference between the cash received and the tax basis of the fractional share. Elias, Matz, Tiernan & Herrick L.L.P. and ParenteBeard LLC, have issued opinions to this effect, see *The Conversion and Reorganization Tax Aspects* at page 131.

### **Restrictions on the Acquisition of Malvern Bancorp New and Malvern Federal Savings Bank**

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Federal regulation, as well as provisions contained in the articles of incorporation and bylaws of Malvern Bancorp New, contain certain restrictions on acquisitions of Malvern Bancorp New or its capital stock. These restrictions include the requirement that a potential acquirer of common stock obtain the prior approval of the Federal Reserve Board before acquiring in excess of 10% of the stock of Malvern Bancorp New. Additionally, Federal Reserve Board approval would be required for us to be acquired within three years after the conversion.

In addition, the articles of incorporation and bylaws of Malvern Bancorp New contain provisions that may discourage takeover attempts and prevent you from receiving a premium over the market price of your shares as part of a takeover. These provisions include:

prohibitions on the acquisition of more than 10% of our stock;

limitations on voting rights of shares held in excess of 10% thereafter;

staggered election of only approximately one-third of our board of directors each year;

limitations on the ability of shareholders to call special meetings;

advance notice requirements for shareholder nominations and new business;

removals of directors only for cause and by a majority vote of all shareholders;

requirement of a 75% vote of shareholders for certain amendments to the bylaws and certain provisions of the articles of incorporation;

the right of the board of directors to issue shares of preferred or common stock without shareholder approval; and

a 75% vote of shareholders requirement for the approval of certain business combinations not approved by two-thirds of the board of directors.

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For further information, see Restrictions on Acquisitions of Malvern Bancorp New and Malvern Federal Savings Bank and Related Anti-Takeover Provisions.

### **Receiving a Prospectus and an Order Form**

**To ensure that each purchaser in the subscription and community offerings receives a prospectus at least 48 hours before the offering deadline, we may not mail prospectuses any later than five days prior to such date or hand-deliver prospectuses later than two days prior to that date. Stock order forms may only be delivered if accompanied or preceded by a prospectus. We are not obligated to deliver a prospectus or order form by means other than U.S. mail.**

We will make reasonable attempts to provide a prospectus and offering materials to holders of subscription rights. The subscription offering and all subscription rights will expire at 2:00 p.m., Eastern Time, on , 2012, whether or not we have been able to locate each person entitled to subscription rights.

### **Delivery of Stock Certificates**

Certificates representing shares of common stock issued in the subscription and community offerings will be mailed by first-class mail by our transfer agent as soon as practicable following completion of the conversion and offering. Certificates will be mailed to purchasers at the registration address provided by them on the order form. **Until certificates for common stock are available and delivered to purchasers,**

**purchasers may not be able to sell their shares, even though trading of the common stock will have commenced.** Your ability to sell the shares of common stock prior to your receipt of the stock certificate will depend on arrangements you may make with your brokerage firm.

#### **How You Can Obtain Additional Information Stock Information Center**

Our banking office personnel may not, by law, assist with investment-related questions about the offering. If you have any questions regarding the offering, please call our Stock Information Center. The toll-free telephone number is ( ) . The Stock Information Center is open Monday through Friday, from 10:00 a.m. to 4:00 p.m., Eastern Time. The Stock Information Center will be closed weekends and bank holidays.

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### **RISK FACTORS**

*You should consider carefully the following risk factors in deciding how to vote on the conversion and before purchasing Malvern Bancorp New common stock.*

#### **Risks Related to Our Business**

**We Have Incurred Losses in Each of Our Last Two Fiscal Years. There Can Be No Assurance That We Will Return to Profitability on a Sustained Basis.**

During the years ended September 30, 2010 and 2011, we incurred net losses of \$3.1 million and \$6.1 million, respectively. These losses were primarily due to deterioration in the quality of our loan portfolio which resulted in significantly higher provisions for loan losses and other real estate owned expenses. In addition, the operating restrictions imposed by the Supervisory Agreements to which we are subject restrict our ability to increase our lending and grow the assets of Malvern Federal Savings Bank. Finally, from September 30, 2010 to March 31, 2012, we have shrunk the assets of the Bank by approximately 9.6%, reducing our capacity to generate interest income.

Our ability to generate net income on a sustained basis depends on being able to reduce the costs associated with our non-performing assets and other problem assets we have experienced in recent years. In addition, our results in future periods will depend upon whether we are able to have the restrictions of the Supervisory Agreements abated such that we can resume originating commercial real estate loans and resume growing our balance sheet consistent with our business strategy. If we are unable to accomplish these items we may be unable to maintain profitability on a sustained basis. In addition, in the event we receive the regulatory approvals or non-objections necessary for us to resume originating commercial real estate loans, we will need to hire additional personnel for such purpose. We expect that, in such event, we would hire one or two additional loan officers and one additional staff employee, which will increase our salaries and benefits expense.

**Our Portfolio of Loans Continues to Include a Significant Amount of Loans with a Higher Risk of Loss**

Until we changed our lending emphasis during the fiscal year ended September 30, 2010 and as a result of the October 2010 Supervisory Agreements, which restrict our ability to originate new commercial loans, our business plan had included as a strategy the increased originations of commercial real estate loans, construction and development loans and second mortgages (home equity loans). These loans have a higher risk of default and loss than single-family residential mortgage loans. The aggregate amount of our commercial real estate loans, construction and development loans and second mortgages (home equity loans) amounted to \$216.8 million, or 45.9%, of our total loan portfolio at March 31, 2012 and \$245.8 million, or 47.9% of our total loan portfolio at September 30, 2011. At March 31, 2012, our non-performing assets included an aggregate of \$7.1 million in non-performing commercial real estate loans, construction and development loans and second mortgage loans, as well as \$3.2 million in commercial real estate owned. Taken together, such non-performing commercial real estate, construction and development and second mortgage assets amounted to \$10.2 million or 62.1% of our total non-performing assets at March 31, 2012. In addition, \$1.2 million of our construction and development loans and \$6.1 million of our commercial real estate loans were TDRs at March 31, 2012. Commercial real estate and construction and development loans generally are considered to involve a higher degree of risk due to a variety of factors, including generally larger loan balances and loan terms which often do not require full amortization of the loan over its term and, instead, provide for a balloon payment at the stated maturity date. Repayment of commercial real estate loans generally is dependent on income being generated by the rental property or underlying business in amounts sufficient to cover operating expenses and debt service. Repayment of construction and development loans generally is dependent on the successful completion of the project and the ability of the borrower to repay the loan from the sale of the property or obtaining permanent financing. Our second mortgage loans generally are considered to involve a higher degree of risk than single-family residential mortgage loans due to the generally higher loan-to-value ratios and their secondary position in the collateral to the existing first mortgage.

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**Table of Contents****Our Provisions to Increase Our Allowance for Loan Losses and Our Net Charge-Offs to Our Allowance for Loan Losses Have Adversely Affected, and May Continue to Adversely Affect, Our Results of Operations**

Our customers may not repay their loans according to the original terms, and the collateral securing the payment of those loans may be insufficient to pay any remaining loan balance. While we maintain an allowance for loan losses to provide for loan defaults and non-performance, losses may exceed the value of the collateral securing the loans and the allowance may not fully cover any excess loss.

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. Our allowance for loan losses is based on these judgments, as well as historical loss experience and an evaluation of the other risks associated with our loan portfolio, including but not limited to, the size and composition of the loan portfolio, current economic conditions and geographic concentrations within the portfolio. Federal regulatory agencies, as part of their examination process, review our loans and allowance for loan losses. If our assumptions or judgments used to determine the allowance prove to be incorrect, if the value of the collateral securing the loans decreases substantially or if our regulators disagree with our judgments, we may need to increase the allowance in amounts that exceed our expectations. Material additions to the allowance would adversely affect our results of operations and financial condition.

We recorded provisions for loan losses of \$25,000 during the six months ended March 31, 2012 compared to \$12.4 million and \$9.4 million during the fiscal years ended September 30, 2011 and 2010, respectively. We had net charge-offs to the allowance for loan losses of \$2.1 million for the six months ended March 31, 2012, compared to \$10.4 million and \$6.9 million of net charge-offs for the fiscal years ended September 30, 2011 and 2010, respectively. The net charge-offs to our allowance for loan losses in the first six months in fiscal 2012 and in the fiscal years ended September 30, 2011 and 2010 and the provisions for loan losses in such periods adversely affected our reported results of operations. While our total non-performing assets improved to \$16.5 million, or 2.53% of total assets, at March 31, 2012, compared to \$21.2 million, or 3.19% of total assets, at September 30, 2011, and \$25.2 million, or 3.49% of total assets, at September 30, 2010, no assurance can be given that additional provisions for loan losses or additional charge-offs may not be necessitated in future periods.

**The Supervisory Agreements Limit Our Ability to Grow and to Pay Dividends and Impose Other Restrictions Which May Adversely Affect Our Results of Operations And the Market Value of Our Common Stock**

In October 2010, Malvern Federal Savings Bank, Malvern Federal Bancorp and Malvern Federal Mutual Holding Company entered into Supervisory Agreements with the Office of Thrift Supervision. See Regulation The Supervisory Agreements. As a result of the Supervisory Agreements, Malvern Federal Savings Bank must limit its asset growth in any quarter to an amount which does not exceed the amount of net interest credited on deposit liabilities during the quarter, unless otherwise permitted by the Office of the Comptroller of the Currency (as successor to the Office of Thrift Supervision). In addition, the Supervisory Agreements impose a number of operating restrictions, including a provision which prohibits, with certain exceptions, any new commercial real estate loans or commercial and industrial loans without the prior written non-objection of the Office of the Comptroller of the Currency, and imposes requirements that the Bank revise and/or implement and monitor various identified policies, procedures and reports. Compliance efforts related to the Supervisory Agreements have increased our non-interest expense. In addition, the restrictions in the Supervisory Agreements preclude us from declaring or paying dividends and prohibit any repurchase of shares of our common stock without the prior written approval of Federal banking regulators may adversely affect the market value of our common stock.

**Higher Interest Rates Would Hurt Our Profitability**

Management is unable to predict fluctuations of market interest rates, which are affected by many factors, including inflation, recession, unemployment, monetary policy, domestic and international disorder and instability in domestic and foreign financial markets, and investor and consumer demand.

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Our primary source of income is net interest income, which is the difference between the interest income generated by our interest-earning assets (consisting primarily of single-family residential loans) and the interest expense generated by our interest-bearing liabilities (consisting primarily of deposits). The level of net interest income is primarily a function of the average balance of our interest-earning assets, the average balance of our interest-bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest-earning assets and our interest-bearing liabilities which, in turn, are impacted by such external factors as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve Board of Governors (the FOMC), and market interest rates.

A sustained increase in market interest rates could adversely affect our earnings. A significant portion of our loans have fixed interest rates and longer terms than our deposits and borrowings and our net interest income could be adversely affected if the rates we pay on deposits and borrowings increase more rapidly than the rates we earn on loans. In addition, the market value of our fixed-rate assets would decline if interest rates increase. For example, we estimate that as of March 31, 2012, a 300 basis point increase in interest rates would have resulted in our net portfolio value declining by approximately \$8.7 million or 13%. Net portfolio value is the difference between incoming and outgoing discounted cash flows from assets, liabilities and off-balance sheet contracts. See Management's Discussion and Analysis of Financial Condition and Results of Operations How We Manage Market Risk.

#### **The Ability to Realize Our Deferred Tax Asset May Be Reduced, Which May Adversely Impact Results of Operations**

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 \$6.9 million at March 31, 2012. Other than a \$296,000 allowance with respect to state net operating losses, we have not established a valuation allowance against our net deferred tax asset as we believe it is more likely than not that the remaining amount of the asset will be realized. In evaluating the need for a valuation allowance, we must estimate our taxable income in future years. Our deferred tax asset may be reduced in the future if estimates of future income or our tax planning strategies do not support the amount of the deferred tax asset. If it is determined that a valuation allowance with respect to our deferred tax asset is necessary, we may incur a charge to earnings and a reduction to regulatory capital for the amount included therein.

#### **The Loss of Senior Management Could Hurt Our Operations**

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

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

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

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#### **The Effects of the Current Economic Conditions Have Been Particularly Severe in Our Primary Market Areas**

Substantially all of our loans are to individuals, businesses and real estate developers in Chester County, Pennsylvania and neighboring areas in southern Pennsylvania and our business depends significantly on general economic conditions in these market areas. Severe declines in housing prices and property values have been particularly acute in our primary market areas. A further deterioration in economic conditions or a prolonged delay in economic recovery in our primary market areas could result in the following consequences, any of which could have a material adverse effect on our business:

Loan delinquencies may increase further;

Problem assets and foreclosures may increase further;

Demand for our products and services may decline;

The carrying value of our other real estate owned may decline further; and

Collateral for loans made by us, especially real estate, may continue to decline in value, in turn reducing a customer's borrowing power, and reducing the value of assets and collateral associated with our loans.

### **Increased and/or Special Federal Deposit Insurance Corporation Assessments Will Hurt Our Earnings**

There has been a high level of bank failures in recent years, which has dramatically increased Federal Deposit Insurance Corporation resolution costs and led to a significant reduction in the balance of the Deposit Insurance Fund. As a result, the Federal Deposit Insurance Corporation has significantly increased the initial base assessment rates paid by financial institutions for deposit insurance. Increases in the base assessment rate have increased our deposit insurance costs and negatively impacted our earnings. In addition, in May 2009, the Federal Deposit Insurance Corporation imposed a special assessment on all insured institutions. Our special assessment, which was reflected in earnings for the year ended September 30, 2009, was \$320,000. In lieu of imposing an additional special assessment, the Federal Deposit Insurance Corporation required all institutions to prepay their assessments for the fourth quarter of 2009 and all of 2010, 2011 and 2012. Additional increases in the base assessment rate or special assessments would negatively impact our earnings.

### **We Operate In a Highly Regulated Environment and We May Be Adversely Affected By Changes in Laws and Regulations**

We are subject to extensive regulation, supervision and examination by the Board of Governors of the Federal Reserve System, the primary federal regulator for Malvern Federal Bancorp and Malvern Federal Mutual Holding Company, the Office of the Comptroller of the Currency, the primary federal regulator for Malvern Federal Savings Bank, and by the Federal Deposit Insurance Corporation, as insurer of the deposits held at Malvern Federal Savings Bank. Such regulation and supervision governs the activities in which an institution and its holding company may engage and are intended primarily for the protection of the insurance fund and the depositors and borrowers of Malvern Federal Savings Bank rather than for holders of our common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations.

### **Federal Home Loan Bank of Pittsburgh May Not Pay Dividends Or Repurchase Capital Stock In The Future**

In 2008, the Federal Home Loan Bank of Pittsburgh ( FHLB ) announced that it would voluntarily suspend the payment of dividends and the repurchase of excess capital stock until further notice. The FHLB announced at that time that it expected its ability to pay dividends and add to retained earnings to be significantly curtailed due to low short-term interest rates, an increased cost of maintaining liquidity, other

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than temporary impairment charges, and constrained access to debt markets at attractive rates. While FHLB announced on February 22, 2012 that a dividend would be paid and capital stock repurchases would resume, capital stock repurchases from member banks are reviewed on a quarterly basis by the FHLB. Such dividends and capital stock repurchases may not continue in the future. As of March 31, 2012, we held \$4.8 million of FHLB capital stock.

### **The Fair Value of Our Investment Securities Can Fluctuate Due to Market Conditions Outside of Our Control**

As of March 31, 2012, the fair value of our investment securities portfolio was approximately \$82.4 million. We have historically taken a conservative investment strategy, with concentrations of securities that are backed by government sponsored enterprises. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these

securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could have a material adverse effect on us. The process for determining whether impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security.

**We Are Dependent On Our Information Technology and Telecommunications Systems and Third-Party Servicers, and Systems Failures, Interruptions or Breaches of Security Could Have a Material Adverse Effect On Us**

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on us.

In addition, we provide our customers with the ability to bank remotely, including over the Internet and over the telephone. The secure transmission of confidential information over the Internet and other remote channels is a critical element of remote banking. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security breaches. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, regulatory scrutiny, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could materially and adversely affect us.

Additionally, financial products and services have become increasingly technology-driven. Our ability to meet the needs of our customers competitively, and in a cost-efficient manner, is dependent on the ability to keep pace with technological advances and to invest in new technology as it becomes available. Many of our competitors have greater resources to invest in technology than we do and may be better equipped to market new technology-driven products and services. The ability to keep pace with technological change is important, and the failure to do so could have a material adverse impact on our business and therefore on our financial condition and results of operations.

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**Risks Related to this Offering**

**Our Stock Price May Decline When Trading Commences**

We cannot guarantee that if you purchase shares in the offering that you will be able to sell them at or above the \$10.00 purchase price. The trading price of the common stock will be determined by the marketplace, and will be influenced by many factors outside of our control, including prevailing interest rates, investor perceptions, securities analyst research reports and general industry, geopolitical and economic conditions. Publicly traded stocks, including stocks of financial institutions, often experience substantial market price volatility. These market fluctuations might not be related to the operating performance of particular companies whose shares are traded.

**There May Be a Limited Market For Our Common Stock, Which May Adversely Affect Our Stock Price**

Currently, shares of Malvern Federal Bancorp common stock are listed on the Nasdaq Global Market. Since Malvern Federal Bancorp common stock began trading in 2008, trading in our shares has been relatively limited. There is no guarantee that the offering will improve the liquidity of our stock. If an active trading market for our common stock does not develop, you may not be able to sell all of your shares of common stock in an efficient manner and the sale of a large number of shares at one time could temporarily depress the market price. There also may be a wide spread between the bid and asked price for our common stock. When there is a wide spread between the bid and asked price, the price at which you may be able to sell our common stock may be significantly lower than the price at which you could buy it at that time.

**Our Return on Equity May Negatively Impact Our Stock Price**

Return on equity, which equals net income (loss) divided by average equity, is a ratio used by many investors to compare the performance of a particular company with other companies. Our return on average equity was negative 9.64% and negative 4.53% for the fiscal years ended September 30, 2011 and 2010, respectively, and on an annualized basis, was 4.77% for the six months ended March 31, 2012. These returns are lower than returns on equity for many comparable publicly traded financial institutions. Upon completion of the offering, our return on average equity is expected to remain below that of many publicly traded financial institutions, due in part to our increased capital level upon completion of the offering. Consequently, you should not expect a competitive return on equity in the near future. Failure to attain a competitive return on equity ratio may make an investment in our common stock unattractive to some investors which might cause our common stock to trade at lower prices than comparable companies with higher returns on equity. The net proceeds from the stock offering, which may be as much as \$33.8 million, will significantly increase our shareholders' equity. On a pro forma basis and based on net income for the six months ended March 31, 2012, our annualized return on equity ratio, assuming shares are sold at the maximum of the offering range, would be approximately 3.07%. Based on trailing 12-month data for the most recent publicly available financial information (as of December 31, 2011), the ten companies comprising our peer group in the independent appraisal prepared by RP Financial and all publicly traded mutual holding companies had average ratios of returns on equity of 4.35% and 2.80%, respectively.

**We Have Broad Discretion in Allocating the Proceeds of the Offering, Our Failure to Effectively Utilize Such Proceeds Would Reduce Our Profitability**

We intend to contribute approximately 70% of the net proceeds of the offering to Malvern Federal Savings Bank. Malvern Bancorp New may use the portion of the proceeds that it retains to, among other things, invest in securities, pay cash dividends, subject to the receipt of prior written approval of the Federal Reserve Board, or repurchase shares of common stock, subject to regulatory restriction. Malvern Federal Savings Bank initially intends to use the net proceeds it retains to purchase investment and mortgage-backed securities. In the future, Malvern Federal Savings Bank may use the portion of the proceeds that it receives to fund new loans, invest in securities and expand its lending activities. Malvern Bancorp New and Malvern Federal Savings Bank may also use the proceeds of the offering to diversify their business activities, although we have no specific plans to do so at this time. We have not allocated specific amounts of proceeds for any of these purposes, and we will have significant flexibility in determining how much of the net proceeds we apply to different uses and the

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timing of such applications. There is a risk that we may fail to effectively use the net proceeds which could have a negative effect on our future profitability.

**We Intend to Remain Independent Which May Mean You Will Not Receive a Premium for Your Common Stock**

We intend to remain independent for the foreseeable future. Because we do not plan on seeking possible acquirors, it is unlikely that we will be acquired in the foreseeable future. Accordingly, you should not purchase our common stock with any expectation that a takeover premium will be paid to you in the near term.

**Our Stock Value May Suffer from Anti-Takeover Provisions That May Impede Potential Takeovers That Management Opposes**

Provisions in our corporate documents, as well as certain federal regulations, may make it difficult and expensive to pursue a tender offer, change in control or takeover attempt that our board of directors opposes. As a result, our shareholders may not have an opportunity to participate in such a transaction, and the trading price of our stock may not rise to the level of other institutions that are more vulnerable to hostile takeovers. Anti-takeover provisions contained in our corporate documents include:

restrictions on acquiring more than 10% of our common stock by any person and limitations on voting rights for positions of more than 10%;

the election of members of the board of directors to staggered three-year terms;

the absence of cumulative voting by shareholders in the election of directors;

provisions restricting the calling of special meetings of shareholders;

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advance notice requirements for shareholder nominations and new business;

removals of directors only for cause and by a majority vote of all shareholders;

requirement of a 75% vote of shareholders for certain amendments to the bylaws and certain provisions of the articles of incorporation;

a 75% vote requirement for the approval of certain business combinations not approved by two-thirds of our board of directors; and

our ability to issue preferred stock and additional shares of common stock without shareholder approval.

See [Restrictions on Acquisitions of Malvern Bancorp New and Malvern Federal Savings Bank and Related Anti-Takeover Provisions](#) for a description of anti-takeover provisions in our corporate documents and federal regulations.

### **Our Stock Value May Suffer From Federal Regulations Restricting Takeovers**

For three years following the offering, regulations of the Board of Governors of the Federal Reserve System prohibit any person from acquiring or offering to acquire more than 10% of our common stock without the prior written approval of the Federal Reserve Board. Accordingly, the likelihood that shareholders will be able to realize a gain on their investment through an acquisition of Malvern Bancorp New within the three year period following completion of the conversion is highly unlikely. See [Restrictions on Acquisitions of Malvern Bancorp New and Malvern Federal Savings Bank and Related Anti-Takeover Provisions Regulatory Restrictions](#) for a discussion of applicable Federal Reserve Board regulations regarding acquisitions.

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### **SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA**

The following tables contain certain information concerning the financial position and results of operations of Malvern Federal Bancorp. You should read this information in conjunction with the financial statements included in this prospectus. The data presented as of and for the years ended September 30, 2011 and 2010 has been derived in part from the audited financial statements included in this prospectus. The data presented at March 31, 2012 and for the six month periods ended March 31, 2012 and 2011 are derived from unaudited condensed consolidated financial statements, but in the opinion of management reflect all adjustments necessary to present fairly the results for these interim periods. The adjustments consist only of normal recurring adjustments. The results of operations for the six months ended March 31, 2012 are not necessarily indicative of the results of operations that may be expected for the year ending September 30, 2012 or for any other period.

	At September 30,					
	At March 31, 2012	2011	2010	2009	2008	2007
<b><u>Selected Financial Condition</u></b>						
<b>Data:</b> <span style="float: right;">(Dollars in thousands)</span>						
Total assets	\$ 651,604	\$ 666,568	\$ 720,506	\$ 691,639	\$ 639,509	\$ 551,932
Loans receivable, net	467,028	506,019	547,323	593,565	571,536	466,192
Securities held to maturity	696	3,797	4,716	4,842	2,870	1,479
Securities available for sale	81,701	74,389	40,719	27,098	21,969	29,098
FHLB borrowings	48,593	49,098	55,334	99,621	113,798	71,387
Deposits	537,029	554,455	596,858	516,511	453,493	433,488
Shareholders' equity	61,903	60,284	66,207	69,842	68,836	44,039
Allowance for loan losses	8,076	10,101	8,157	5,718	5,505	4,541
Non-accrual loans	11,730	12,915	19,861	14,195	8,585	2,267

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At September 30,

Non-performing assets	16,473	21,236	25,176	20,070	8,815	2,494
Performing troubled debt restructurings	8,305	10,340	11,976	25	103	121
Non-performing assets and performing troubled debt restructurings	24,778	31,576	37,152	20,095	8,918	2,615

Six Months Ended March 31,		Year Ended September 30,				
2012	2011	2011	2010	2009	2008	2007

**Selected Operating**

**Data:** (Dollars in thousands, except per share data)

Total interest and dividend income	\$ 13,346	\$ 15,118	\$ 29,726	\$ 33,148	\$ 34,701	\$ 33,592	\$ 32,769
Total interest expense	4,404	5,411	10,198	13,641	18,681	19,105	19,235
Net interest income	8,942	9,707	19,528	19,507	16,020	14,487	13,534
Provision for loan losses	25	10,042	12,392	9,367	2,280	1,609	1,298
Net interest income (loss) after provision for loan losses	8,917	(335)	7,136	10,140	13,740	12,878	12,236
Total other income	1,868	871	1,729	1,941	2,013	1,846	1,453
Total other expenses	8,727	8,958	18,556	17,105	14,501	12,642	10,154
Income tax (benefit) expense	588	(2,979)	(3,579)	(1,895)	242	630	1,123
Net (loss) income	\$ 1,470	\$ (5,443)	\$ (6,112)	\$ (3,129)	\$ 1,010	\$ 1,452	\$ 2,412
Earnings (loss) per share (1)	\$ 0.25	\$ (0.92)	\$ (1.04)	\$ (0.53)	\$ 0.17	\$ 0.05	N/A
Dividends per share	\$	\$ 0.03	\$ 0.03	\$ 0.12	\$ 0.14	\$ 0.04	N/A

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Six Months Ended March 31,		Year Ended September 30,				
2012	2011	2011	2010	2009	2008	2007

**Selected Financial Ratios and Other Data:**

**Performance Ratios:**

Return on assets (ratio of net income to average total assets)	0.44%	(1.57)%	(0.90)%	(0.45)%	0.15%	0.25%	0.45%
Return on average equity (ratio of net income to average equity)	4.77	(16.57)	(9.64)	(4.53)	1.46	2.78	5.76
Interest rate spread (2)	2.78	2.89	2.93	2.83	2.17	2.18	2.25

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	Six Months Ended March 31,		Year Ended September 30,				
Net interest margin (3)	2.90	3.00	3.06	3.01	2.47	2.61	2.65
Non-interest expenses to average total assets	2.64	2.59	2.72	2.48	2.13	2.19	1.92
Efficiency ratio (4)	80.73	84.69	87.29	79.75	80.42	77.40	67.75
<b>Asset Quality Ratios:</b>							
Non-accrual loans as a percent of gross loans	2.48	3.05	2.52	3.60	2.38	1.52	0.51
Non-performing assets as a percent of total assets	2.53	3.20	3.19	3.49	2.90	1.38	0.45
Non-performing assets and performing troubled debt restructurings as a percent of total assets	3.80	4.89	4.74	5.16	2.91	1.39	0.47
Allowance for loan losses as a percent of gross loans	1.71	1.97	1.97	1.48	0.96	0.96	0.97
Allowance for loan losses as a percent of non-accrual loans	68.85	64.50	78.21	41.07	40.28	64.12	200.31
Net charge-offs to average loans outstanding	0.84	2.91	1.97	1.19	0.35	0.12	0.03
<b>Capital Ratios (5):</b>							
Total risk-based capital to risk weighted assets	13.71	12.51	12.01	12.85	12.67	13.33	11.24
Tier 1 risk-based capital to risk weighted assets	12.45	11.25	10.76	11.83	11.96	12.40	10.36
Tangible capital to tangible assets	8.27	8.01	7.54	8.24	9.07	9.64	8.03
Tier 1 leverage (core) capital to adjusted tangible assets	8.27	8.01	7.54	8.24	9.07	9.64	8.03
Shareholders' equity to total assets	9.50	8.90	9.04	9.19	10.10	10.76	7.98
Tangible shareholders' equity to total assets	9.50	8.90	9.04	9.19	10.10	10.76	7.98
<b>Other Data:</b>							
Number of full service financial center offices	8	8	8	8	7	7	7

(1) Earnings per share for the fiscal year ended September 30, 2008, is for period from May 20, 2008, the date of Malvern Federal Bancorp's initial stock issuance, through September 30, 2008.

(2)

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Represents the difference between the weighted average yield on interest earning assets and the weighted average cost of interest bearing liabilities.

- (3) Net interest income divided by average interest earning assets.
- (4) Represents the ratio obtained from dividing non-interest expense by the sum of net interest income and total other income.
- (5) Other than shareholders' equity to total assets and tangible shareholders' equity to total assets, all capital ratios are for Malvern Federal Savings Bank only.

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#### **FORWARD-LOOKING STATEMENTS**

This document contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. These forward-looking statements include, but are not limited to:

- statements of goals, intentions and expectations;
- statements regarding prospects and business strategy;
- statements regarding asset quality and market risk; and
- estimates of future costs, benefits and results.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the factors discussed under the heading "Risk Factors" beginning at page 19 that could affect the actual outcome of future events and the following factors:

- general economic conditions, either nationally or in our market area, that are worse than expected;
- changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;
- increased competitive pressures among financial services companies;
- changes in consumer spending, borrowing and savings habits;
- legislative or regulatory changes that adversely affect our business;
- adverse changes in the securities markets;
- our ability to successfully manage our growth;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Securities and Exchange Commission or the Financial Accounting Standards Board; and
- our ability to successfully implement our branch expansion strategy, enter into new markets and/or expand product offerings successfully and take advantage of growth opportunities.



Any of the forward-looking statements that we make in this prospectus and in other public statements we make may turn out to be wrong because of inaccurate assumptions we might make, because of the factors illustrated above or because of other factors that we cannot foresee.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements and you should not rely on such statements.

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### USE OF PROCEEDS

We will contribute 70% of the net proceeds from the offering to Malvern Federal Savings Bank. The remaining 30% of the net offering proceeds will be retained by Malvern Bancorp New. The following table shows how we intend to use the net proceeds of the offering. The actual net proceeds will depend on the number of shares of common stock sold in the offering and the expenses incurred in connection with the offering. Payments for shares made through withdrawals from deposit accounts at Malvern Federal Savings Bank will reduce Malvern Federal Savings Bank's deposits and will not result in the receipt of new funds for investment. See Pro Forma Data for the assumptions used to arrive at these amounts.

	Minimum of Offering Range		Midpoint of Offering Range		Maximum of Offering Range		15% Above Maximum of Offering Range
	2,337,500 Shares at \$10.00 Per Share	Percent of Net Proceeds	2,750,000 Shares at \$10.00 Per Share	Percent of Net Proceeds	3,162,500 Shares at \$10.00 Per Share	Percent of Net Proceeds	3,636,875 Shares Percent of Net Proceeds
	(Dollars in thousands)						
Offering proceeds	\$23,375		\$27,500		\$31,625		\$36,369
Less: offering expenses	(2,083)		(2,248)		(2,413)		(2,603)
Net offering proceeds	21,292	100.0%	25,252	100.0%	29,212	100.0%	36,600.0%
Less:							
Proceeds contributed to Malvern Federal Savings Bank	14,904	70.0%	17,676	70.0%	20,448	70.0%	23,636.0%
Proceeds remaining for Malvern Bancorp New	\$ 6,388	30.0%	\$ 7,576	30.0%	\$ 8,764	30.0%	\$10,300.0%

Malvern Bancorp New intends to invest the portion of the net proceeds it retains from the offering initially in short-term, liquid investments. Although there can be no assurance that Malvern Bancorp New will invest the net proceeds in anything other than short-term, liquid investments, over time, Malvern Bancorp New may use the proceeds it retains from the offering:

to invest in securities;

to repurchase shares of its common stock, subject to regulatory restrictions;

to pay dividends or shares of its common stock, subject to regulatory restrictions; and

for general corporate purposes.

Under current regulations of the Federal Reserve Board, Malvern Bancorp New may not repurchase shares of its common stock during the first year following the offering, except to fund equity benefit plans or, with prior regulatory approval, when extraordinary circumstances exist. In the future, Malvern Bancorp-New may also use the portion of the net proceeds which it retains as a funding source to pay dividends to shareholders (in the event the Board of Directors of Malvern Bancorp New determines to declare a dividend), subject to the prior written approval of the Federal Reserve Board. The Supervisory Agreements entered into in October 2010 will prevent Malvern Bancorp New from paying any dividends or repurchasing any shares of common stock unless it has received the prior approval of the Federal Reserve Board.

Malvern Federal Savings Bank intends to initially use the net proceeds it receives to purchase investment and mortgage-backed securities. In the future, Malvern Federal Savings Bank may use the proceeds that it receives from the offering, which is shown in the table above as the amount contributed to Malvern Federal Savings Bank:

to fund new loans;

to invest in short-term investment securities and mortgage-backed securities; and

for general corporate purposes.

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Subsequent to the conversion and offering we plan to expand lending activities at Malvern Federal Savings Bank, with the resumption, on a modest basis and assuming we receive the necessary approvals or non-objections from the Office of the Comptroller of the Currency, commercial real estate lending and construction and development lending in our market area as well as to modestly grow our loan portfolio consistent with our business strategy. The portion of the net proceeds retained by Malvern Federal Savings Bank also may be used in the event we determine to increase our non-traditional banking activities, either through Malvern Federal Savings Bank's existing insurance agency subsidiary (which currently is inactive) or possibly, the expansion into other non-traditional business lines, such as wealth management, although we have no specific plans regarding expansion of our non-traditional products at this time. The proceeds to be contributed to Malvern Federal Savings Bank also will augment its capital and facilitate the ability of Malvern Federal Savings Bank to exceed its target regulatory capital ratios, which are higher than the thresholds required in order for a savings bank to be considered well-capitalized for regulatory purposes. Such higher capital levels at Malvern Federal Savings Bank will provide an extra cushion to protect it against loan risk and, thereby, will further support its lending activities.

Except as described above, neither Malvern Bancorp New nor Malvern Federal Savings Bank has any specific plans for the investment of the proceeds of this offering and has not allocated a specific portion of the proceeds to any particular use. For a discussion of our business reasons for undertaking the offering see The Conversion and Offering Purposes of the Conversion and Offering.

## **OUR DIVIDEND POLICY**

As a result of the October 2010 Supervisory Agreements, Malvern Federal Bancorp currently is precluded from declaring or paying any dividends without the prior written approval of the Board of Governors of the Federal Reserve System (as successor to the Office of Thrift Supervision). We have no current plans to pay dividends on the common stock of Malvern Bancorp New upon consummation of the conversion and offering. In addition to receiving any required prior approval of the Board of Governors of the Federal Reserve System, our ability to pay dividends will depend on a number of other factors, including regulatory capital requirements, Federal statutes and regulatory limitations and our results of operations and financial condition. We do not expect that we would seek to pay dividends on the common stock of Malvern Bancorp-New unless and until we achieve suitable core earnings over a sustained period of time and our capital levels, after giving effect to any such dividend and in light of our risk profile at the time, would support any such proposed dividend payment. We cannot assure you that we will pay dividends after the conversion and offering or that, if we commence paying dividends, that we will not reduce or eliminate them in the future.

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Currently, under the October 2010 Supervisory Agreement between Malvern Federal Savings Bank and the Office of Thrift Supervision, Malvern Federal Savings Bank will be prohibited from paying any dividends or distributions to Malvern Bancorp New without the prior written approval of the Office of the Comptroller of the Currency (as successor to the Office of Thrift Supervision). Malvern Federal Savings Bank's ability to pay any dividends to Malvern Bancorp New in the future also will be governed by the Home Owners Loan Act, as amended, and the regulations of the Office of the Comptroller of the Currency. In addition, the prior approval of the Office of the Comptroller of the Currency will be required for the payment of a dividend if the total of all dividends declared by Malvern Federal Savings Bank in any calendar year would exceed the total of its net profits for the year combined with its net profits for the two preceding years, less any required transfers to surplus or a fund for the retirement of any preferred stock. In addition, Malvern Federal Savings Bank will be prohibited from paying cash dividends to Malvern Bancorp New to the extent that any such payment would reduce Malvern Federal Savings Bank's regulatory capital below required capital levels or would impair the liquidation account to be established for the benefit of Malvern Federal Savings Bank's eligible account holders and supplemental eligible account holders. See The Conversion and Offering Liquidation Rights. See Regulation Regulation of Malvern Federal Savings Bank Restrictions on Capital Distributions. Dividends from Malvern Bancorp New may eventually depend, in part, upon receipt of dividends from Malvern Federal Savings Bank because the source for any dividends by Malvern Bancorp New initially will be limited to the net proceeds from the offering retained by Malvern Bancorp New and any earnings from the investment of such proceeds.

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Unlike Malvern Federal Savings Bank, Malvern Bancorp New is not subject to the above regulatory restrictions on the payment of dividends to its shareholders. Malvern Bancorp New is, however, subject to the requirements of Pennsylvania law, which generally limit the payment of dividends to amounts that will not have the effect of making a corporation unable to pay its debts as they become due in the ordinary course of business or if the corporation's total assets would be less than its total liabilities plus the amount, if any, needed to satisfy any preferential rights that shareholders may have if the corporation were dissolved.

### MARKET FOR OUR COMMON STOCK

Malvern Federal Bancorp's common stock is currently listed on the Nasdaq Global Market under the symbol MLVF, and there is an established market for such common stock. We have applied to have the common stock of Malvern Bancorp New listed for trading on the Nasdaq Global Market and we expect that the common stock will trade under the symbol MLVFD for a period of 20 trading days after completion of the offering. Thereafter, the trading symbol will be MLVF. In order to list our common stock on the Nasdaq Global Market, we are required to have at least three broker-dealers who will make a market in our common stock. We currently have more than six registered market makers.

Making a market may include the solicitation of potential buyers and sellers in order to match buy and sell orders. The development of a liquid public market depends upon the existence of willing buyers and sellers, the presence of which is not within our control or the control of any market maker. The number of active buyers and sellers of our common stock at any particular time may be limited, which may have an adverse effect on the price at which our common stock can be sold. You should view the common stock as a long-term investment. Furthermore, there can be no assurance that you will be able to sell your shares at or above the \$10.00 per share price in the offering.

The following table sets forth the high and low closing stock prices for Malvern Federal Bancorp common stock and cash dividends per share declared for the periods indicated.

<u>Quarter ended:</u>	<u>Stock Price Per Share</u>		<u>Cash Dividends Per Share</u>
	<u>High</u>	<u>Low</u>	
June 30, 2012 (through , 2012)	\$	\$	\$
March 31, 2012	8.93	5.90	
December 31, 2011	6.57	5.51	
September 30, 2011	7.75	6.53	
June 30, 2011	8.72	6.76	
March 31, 2011	8.99	7.10	
December 31, 2010	7.50	5.05	0.03



Pro Forma at March 31, 2012

Actual	\$58,842	13.71%	\$73,846	17.08%	\$76,618	17.70%	\$79,390	18.32%	\$82,578
Requirement	34,348	8.00	34,586	8.00	34,630	8.00	34,675	8.00	34,726
Excess	\$24,494	5.71%	\$39,260	9.08%	\$41,988	9.70%	\$44,715	10.32%	\$47,852
Reconciliation of capital infused into Malvern Federal Savings Bank:									
Net proceeds infused			\$14,904		\$17,676		\$20,448		\$23,636
Plus:									
Net assets received from mutual holding company			100		100		100		100
Pro forma increase in GAAP and regulatory capital			\$15,004		\$17,776		\$20,548		\$23,736

(1) Adjusted total or adjusted risk-weighted assets, as appropriate.

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### OUR CAPITALIZATION

The following table presents the historical capitalization of Malvern Federal Bancorp at March 31, 2012, and the pro forma consolidated capitalization of Malvern Bancorp New after giving effect to the conversion and offering, based upon the sale of the number of shares shown below and the other assumptions set forth under Pro Forma Data.

	Malvern Federal Bancorp Historical Capitalization	Malvern Bancorp New Pro Forma Based Upon Sale at \$10.00 Per Share			
		2,337,500 Shares (Minimum of Offering Range)	2,750,000 Shares (Midpoint of Offering Range)	3,162,500 Shares (Maximum of Offering Range)	3,636,875 Shares(1) (15% above Maximum of Offering Range)
(Dollars in thousands)					
Deposits (2)	\$537,029	\$537,029	\$537,029	\$537,029	\$537,029
Borrowings	48,593	48,593	48,593	48,593	48,593
Total deposits and borrowings	\$585,622	\$585,622	\$585,622	\$585,622	\$585,622
Shareholders' equity:	\$	\$	\$	\$	\$

**Malvern Bancorp New Pro Forma  
Based Upon Sale at \$10.00 Per Share**

Preferred stock, \$.01 par value, 10,000,000 shares authorized (post-offering); none to be issued					
Common stock, \$.01 par value, (post-offering) 50,000,000 shares authorized (post-offering); shares to be issued as reflected (3)	62	42	50	57	66
Additional paid-in capital (3)	25,861	47,173	51,125	55,078	59,623
Retained earnings (4)	38,107	38,107	38,107	38,107	38,107
Plus:					
Equity received from mutual holding company		100	100	100	100
Accumulated other comprehensive income	455	455	455	455	455
Less:					
Common stock held by the employee stock ownership plan	(2,105)	(2,105)	(2,105)	(2,105)	(2,105)
Treasury stock	(477)	(477)	(477)	(477)	(477)
Total shareholders' equity	\$ 61,903	\$ 83,295	\$ 87,255	\$ 91,215	\$ 95,769
Ratio of total shareholders' equity to total assets	9.50%	12.38%	12.89%	13.40%	13.97%

- (1) As adjusted to give effect to an increase in the number of shares which could occur due to an increase in the offering range of up to 15% to reflect changes in market and financial conditions before we complete the offering or to fill the order of our employee stock ownership plan.
- (2) Does not reflect withdrawals from deposit accounts for the purchase of common stock in the offering. Such withdrawals would reduce pro forma deposits by the amount of such withdrawals.
- (3) Our pro forma amounts of common stock and additional paid-in capital have been increased to reflect the number of shares of our common stock to be outstanding, which includes the exchange of all of the currently outstanding shares of Malvern Federal Bancorp common stock pursuant to the exchange ratio except for the shares earned by Malvern Federal Mutual Holding Company.
- (4) The retained earnings of Malvern Federal Savings Bank will be partially restricted after the offering.

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The actual net proceeds from the sale of Malvern Bancorp New common stock in the offering cannot be determined until the offering is completed. However, the net proceeds are currently estimated to be between \$21.3 million and \$29.2 million, or up to \$33.8 million in the event the offering range is increased by approximately 15%, based upon the following assumptions:

We will sell 40% of the shares of common stock in the subscription offering and community offerings with the remaining 60% of the shares sold in a syndicated community offering;

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Our employee stock ownership plan will not purchase any shares sold in the offering;

20,000 shares of common stock will be purchased by our employees, directors and their immediate families;

Stifel, Nicolaus & Company, Incorporated will receive an aggregate management fee equal to 1.0% of the aggregate purchase price of the shares sold in the subscription and community offerings, except that no fee will be paid with respect to shares purchased by our officers, directors and employees or members of their immediate families or by our employee stock ownership plan;

The sales commission and management fee for shares sold in the syndicated community offering will be equal to 6.0% of the aggregate purchase price of the shares sold in the syndicated community offering; and

Total expenses of the offering, excluding sales commissions and management fees referenced above, will be approximately \$1.2 million.

We have prepared the following table, which sets forth our historical consolidated net income and stockholders' equity prior to the conversion and offering and our pro forma consolidated net income and stockholders' equity following the conversion and offering. In preparing these tables and in calculating pro forma data, the following assumptions have been made:

Pro forma earnings have been calculated assuming the common stock had been sold at the beginning of the periods and the net proceeds had been invested at a yield of 1.04%, which represents the yield on the five-year U.S. Treasury Note as of March 31, 2012. We have used an assumed yield of 1.04% (0.62% after tax) in lieu of the arithmetic average method because we believe it more accurately reflects the yield that we will receive on the net proceeds of the offering.

A combined effective tax rate of 40.0%.

No withdrawals were made from Malvern Federal Savings Bank's deposit accounts for the purchase of shares in the offering.

Historical and pro forma per share amounts have been calculated by dividing historical and pro forma amounts by the indicated number of shares of stock, as adjusted in the pro forma net income per share to give effect to the purchase of shares by the employee stock ownership plan.

Pro forma stockholders' equity amounts have been calculated as if our common stock had been sold in the offering on September 30, 2011 and March 31, 2012, respectively, and, accordingly, no effect has been given to the assumed earnings effect of the transactions.

The following pro forma information may not be representative of the financial effects of the offering at the date on which the offering actually occurs and should not be taken as indicative of future results of operations. Pro forma stockholders' equity represents the difference between the stated amount of our assets and liabilities computed in accordance with generally accepted accounting principles. Stockholders' equity does not give effect to intangible assets in the event of a liquidation to Malvern Federal Savings Bank's bad debt reserve or to the liquidation accounts to be maintained by Malvern Federal Savings Bank and Malvern Bancorp New. The pro forma stockholders' equity is not intended to represent the fair market value of the common stock and may be different than amounts that would be available for distribution to shareholders in the event of liquidation.

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The tables on the following pages are based on the assumptions set forth above and in the tables and should not be used as a basis for projection of the market value of our common stock following the conversion and the offering.

**At or For the Six Months Ended March 31, 2012**

<b>2,337,500</b>	<b>2,750,000</b>	<b>3,162,500</b>	<b>3,636,875</b>
<b>shares sold</b>	<b>shares sold</b>	<b>shares sold</b>	<b>shares sold</b>
<b>at \$10.00</b>	<b>at \$10.00</b>	<b>at \$10.00</b>	<b>at \$10.00</b>

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At or For the Six Months Ended March 31, 2012

	per share (Minimum of range)	per share (Midpoint of range)	per share (Maximum of range)	per share (15% above Maximum)
(Dollars in thousands, except per share amounts)				
Gross proceeds	\$ 23,375	\$ 27,500	\$ 31,625	\$ 36,369
Less: estimated offering expenses	(2,083)	(2,248)	(2,413)	(2,603)
Estimated net proceeds	21,292	25,252	29,212	33,766
Plus: assets received from mutual holding company	100	100	100	100
Net proceeds, as adjusted	\$ 21,392	\$ 25,352	\$ 29,312	\$ 33,866

**Pro Forma Net Income:**

Pro forma net income:				
Historical	\$ 1,470	\$ 1,470	\$ 1,470	\$ 1,470
Pro forma income on net investable proceeds (1):	67	79	92	106
Pro forma net income	\$ 1,537	\$ 1,549	\$ 1,562	\$ 1,576
Pro forma net income per share:				
Historical (2)	\$ 0.36	\$ 0.31	\$ 0.27	\$ 0.23
Pro forma income on net investable proceeds:	0.02	0.02	0.02	0.02
Pro forma net income per share	\$ 0.38	\$ 0.33	\$ 0.29	\$ 0.25

Offering price as a multiple of pro forma net income per share	13.16x	15.15x	17.24x	20.00x
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Number of shares used to calculate pro forma net income per share (3)	4,082,187	4,802,538	5,522,890	6,351,382
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**Pro Forma Shareholders' Equity:**

Pro forma shareholders' equity (book value):				
Historical	\$ 61,903	\$ 61,903	\$ 61,903	\$ 61,903
Estimated net proceeds	21,292	25,252	29,212	33,766
Plus: equity increase from mutual holding company	100	100	100	100
Pro forma shareholders' equity	\$ 83,295	\$ 87,255	\$ 91,215	\$ 95,769

Pro forma shareholders' equity per share:				
Historical	\$ 14.69	\$ 12.48	\$ 10.85	\$ 9.44
Estimated net proceeds	5.05	5.09	5.12	5.15
Plus: equity increase from mutual holding company	0.02	0.02	0.02	0.01
Pro forma shareholders' equity per share	\$ 19.76	\$ 17.59	\$ 15.99	\$ 14.60

Offering price as a percentage of pro forma shareholders' equity per share	50.61%	56.85%	62.54%	68.49%
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Number of shares used to calculate pro forma shareholders' equity per share (3)	4,215,461	4,959,366	5,703,271	6,558,762
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(Footnotes begin on page 37)



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	<b>2,337,500 shares sold at \$10.00 per share (Minimum of range)</b>	<b>2,750,000 shares sold at \$10.00 per share (Midpoint of range)</b>	<b>3,162,500 shares sold at \$10.00 per share (Maximum of range)</b>	<b>3,636,875 shares sold at \$10.00 per share (15% above Maximum)</b>
<b>(Dollars in thousands, except per share amounts)</b>				
Gross proceeds	\$ 23,375	\$ 27,500	\$ 31,625	\$ 36,369
Less: estimated offering expenses	(2,083)	(2,248)	(2,413)	(2,603)
Estimated net proceeds	21,292	25,252	29,212	33,766
Plus: assets received from mutual holding company	100	100	100	100
Net proceeds, as adjusted	\$ 21,392	\$ 25,352	\$ 29,312	\$ 33,866

**Pro Forma Net Income:**

<b>Pro forma net loss:</b>				
Historical	\$ (6,112)	\$ (6,112)	\$ (6,112)	\$ (6,112)
Pro forma income on net investable proceeds (1):	133	158	183	211
Pro forma net loss	\$ (5,979)	\$ (5,954)	\$ (5,929)	\$ (5,901)
<b>Pro forma net loss per share:</b>				
Historical (2)	\$ (1.50)	\$ (1.27)	\$ (1.11)	\$ (0.96)
Pro forma income on net investable proceeds:	0.03	0.03	0.03	0.03
Pro forma net loss per share	\$ (1.47)	\$ (1.24)	\$ (1.08)	\$ (0.93)
Offering price as a multiple of pro forma net loss per share	N/M	N/M	N/M	N/M
Number of shares used to calculate pro forma net loss per share (3)	4,075,247	4,794,374	5,513,501	6,340,585

**Pro Forma Shareholders' Equity:**

<b>Pro forma shareholders' equity (book value):</b>				
Historical	\$ 60,284	\$ 60,284	\$ 60,284	\$ 60,284
Estimated net proceeds	21,292	25,252	29,212	33,766
Plus: equity increase from mutual holding company	100	100	100	100
Pro forma shareholders' equity	\$ 81,676	\$ 85,636	\$ 89,596	\$ 94,150
<b>Pro forma shareholders' equity per share:</b>				
Historical	\$ 14.30	\$ 12.16	\$ 10.57	\$ 9.19
Estimated net proceeds	5.05	5.09	5.12	5.15
Plus: equity increase from mutual holding company	0.02	0.02	0.02	0.01

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At or For the Year Ended September 30, 2011

Pro forma shareholders equity per share	\$ 19.37	\$ 17.27	\$ 15.71	\$ 14.35
Offering price as a percentage of pro forma shareholders equity per share	51.63%	57.90%	63.65%	69.69%
Number of shares used to calculate pro forma shareholders equity per share (3)	4,215,461	4,959,366	5,703,271	6,558,762

*(Footnotes begin on following page)*

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- (1) Pro forma income on net investable proceeds is equal to the net proceeds of the offering plus the assets received from Malvern Federal Mutual Holding Company, multiplied by the after-tax reinvestment rate. The after-tax reinvestment rate is equal to 0.62% based on the following assumptions: combined federal and state income tax rate of 40.0% and a pre-tax reinvestment rate of 1.04%.
- (2) The historical net income per share has been adjusted to reflect the exchange ratio of the additional shares to be issued by Malvern Bancorp New in exchange for the currently outstanding shares of Malvern Federal Bancorp common stock. As reported, the net income per share of Malvern Federal Bancorp for the six months ended March 31, 2012 was \$0.25, and the net loss per share for the fiscal year ended September 30, 2011 was \$1.04.
- (3) The number of shares used to calculate pro forma net income per share is equal to the weighted average number of shares outstanding during the period adjusted for the exchange ratio. The number of shares used to calculate pro forma stockholders equity per share is equal to the total number of shares to be outstanding upon completion of the offering.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Overview

Malvern Federal Bancorp was formed by Malvern Federal Savings Bank in connection with our reorganization into the mutual holding company form of organization in May 2008. Malvern Federal Bancorp's results of operations are primarily dependent on the results of Malvern Federal Savings Bank, which is a wholly owned subsidiary of Malvern Federal Bancorp. Malvern Federal Savings Bank currently operates eight financial center offices in Chester and Delaware Counties, which are located in southeastern Pennsylvania approximately 25 miles west of downtown Philadelphia. Malvern Federal Savings Bank's primary business consists of attracting deposits from the general public and using those funds together with funds we borrow to originate loans to our customers. At March 31, 2012, we had total consolidated assets of \$651.6 million, including \$467.0 million in net portfolio loans and \$82.4 million of investment securities, total deposits of \$537.0 million and total shareholders equity of \$61.9 million.

Our results of operations depend, to a large extent, on net interest income, which is the difference between the income earned on our loan and investment portfolios and interest expense on deposits and borrowings. Our net interest income is largely determined by our net interest spread,

which is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities, and the relative amounts of interest-earning assets and interest-bearing liabilities. Results of operations are also affected by our provision for loan losses, fee income and other, non-interest income and non-interest expenses. Our other, or non-interest, expenses principally consist of compensation and employee benefits, office occupancy and equipment expense, data processing, advertising and business promotion, professional fees, other real estate owned expense and other expense. Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable law, regulations or government policies may materially impact our financial conditions and results of operations.

## **Business Strategy**

Our business strategy currently is focused on reducing the level of our non-performing assets, monitoring and overseeing our performing classified assets and troubled debt restructurings in an effort to limit the amount of additional non-performing assets in future periods, complying with the provisions of the Supervisory Agreements and conducting our traditional community-oriented banking business within these constraints. Below are certain of the highlights of our business strategy in recent periods.

*Improving Asset Quality.* We are continuing in our efforts to improve asset quality. At March 31, 2012, our total non-performing assets amounted to \$16.5 million, or 2.53% of total assets, reflecting a reduction of \$8.7 million, or 34.6%, compared to \$25.2 million of total non-performing assets at September 30, 2010 (when total non-performing assets amounted to 3.49% of total assets). The relatively high levels of non-performing assets and other problem assets significantly impacted our results of operations in recent years as the high levels of provisions for loan losses and charge-offs and other expenses related to other real estate owned were the primary reasons that we reported net losses for the fiscal years ended September 30, 2011 and 2010. In our efforts to reduce the levels of our non-performing and other problem assets in recent periods, we have strengthened our loan underwriting policies and procedures and we have enhanced our loan administration and oversight policies and procedures. We have revised both our consumer loan policy and our commercial loan policy to strengthen certain of our minimum loan-to-value ratios, maximum gross debt ratio and minimum debt coverage ratio requirements. We have invested in and implemented a software which facilitates our ability to internally review and grade loans in our portfolio and to monitor loan performance. During the fiscal year ended September 30, 2011, we established a Credit Review Department (which is currently staffed by six persons). The primary focus of the Credit Review Department to date has been the resolution of our non-performing and other problem assets. In addition, as described below, we generally ceased originating new commercial real estate loans and

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construction and development loans during fiscal 2010, due to the increased risk elements inherent in such loans. We remain focused on continuing to reduce our non-performing and problem assets.

*Managing Our Loan Portfolio.* As part of our efforts to improve asset quality, we have been actively managing our loan portfolio in recent periods. In light of the increase in our non-performing assets and in order to reduce the risk profile of our loan portfolio, we generally ceased originating any new construction and development loans in October 2009, with certain exceptions, and, in August 2010, we generally ceased originating any new commercial real estate loans. In addition, the Supervisory Agreements that we entered into in October 2010 prohibit us from, among other things, originating new commercial real estate loans without the prior written non-objection of the Office of the Comptroller of the Currency, and limit our ability to grow our assets beyond the amount of net interest credited on our deposits in any quarter. These factors contributed to a \$122.8 million or 20.6%, reduction in our total loans outstanding at March 31, 2012 compared to September 30, 2009, with the bulk of such reduction centered in construction and development loans, second mortgage loans and commercial real estate loans. At March 31, 2012 compared to September 30, 2009, we have reduced our commercial real estate loans by \$20.8 million, or 14.5%, we have reduced our total construction and development loans by \$18.3 million, or 44.8%, and we have reduced our second mortgage loans by \$41.8 million, or 36.7%. Such reductions reflect lower volumes of loan originations and purchases in these portfolios.

*Increasing Capital.* In December 2011, based in part upon communications with staff of the Office of the Comptroller of the Currency and upon consideration of the risk elements inherent in our loan portfolio, the Boards of Directors of Malvern Federal Bancorp and Malvern Federal Savings Bank determined that it was prudent to increase the capital of Malvern Federal Savings Bank, although it exceeded the regulatory thresholds necessary to be deemed well-capitalized. Initially, Malvern Federal Bancorp made a \$3.2 million capital infusion into Malvern Federal Savings Bank in December 2011. While the December capital infusion increased capital at Malvern Federal Savings Bank, it depleted capital at Malvern Federal Bancorp. In January 2012, we adopted the plan of conversion and

reorganization as a means to further augment the capital at Malvern Federal Savings Bank and provide for stronger capital at our new holding company, Malvern Bancorp New. In addition, in January 2012, we decided to establish specific capital ratio targets for Malvern Federal Savings Bank which are higher than the regulatory thresholds necessary to be deemed well-capitalized. Our specific capital ratio targets are 8.5% for tier 1 core capital, 10.0% for tier 1 risk-based capital, and 12.0% for total risk-based capital. At March 31, 2012, our tier 1 core capital ratio was 8.27%, our tier 1 risk-based capital ratio was 12.45% and our total risk-based capital ratio was 13.71%. The conversion and offering will result in Malvern Federal Savings Bank exceeding all of the specific capital ratio targets which it has adopted. While Federal regulations require that a minimum of 50% of the net proceeds of the offering be contributed to Malvern Federal Savings Bank, we have determined to contribute 70% of the net offering proceeds. We believe that the maintenance of higher capital levels is appropriate in light of the current banking and economic environments and our risk profile. In addition, the increased capital will facilitate our ability to implement our business strategy.

*Seeking Relief from the Supervisory Agreements.* We entered into the Supervisory Agreements with the Office of Thrift Supervision in October 2010. Among other things, the Supervisory Agreements restrict our ability to make any new commercial real estate loans, limit our growth and require that we provide the Office of the Comptroller of the Currency with relatively extensive reports and data on our business and operations on a quarterly basis. Given the improvements we have seen in the levels of our non-performing and other problem assets, the enhancements we have made to our loan underwriting policies and procedures as well as our loan administration and oversight policies and procedures, and the increased capital that we will recognize as a result of the conversion and offering, we will seek relief from the Supervisory Agreements upon consummation of the conversion and offering. In the event that the Supervisory Agreements are not fully terminated, we will, at a minimum, seek the ability to resume making commercial real estate loans without the need to obtain specific approval from the Office of the Comptroller of the Currency and we will request that the asset growth limitations be removed.

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*Growing Our Loan Portfolio and Resuming Commercial Real Estate and Construction and Development Lending.* Upon consummation of the conversion and offering, we plan to resume, subject to the receipt of relief from the Supervisory Agreements and any other necessary approvals or non-objections from Federal banking regulators, on a relatively modest basis, the origination of commercial real estate loans and construction and development loans in our market area. Such loans will be underwritten in accordance with our strengthened loan underwriting standards and our enhanced credit review and administration procedures. We continue to believe that we can be a successful niche lender to small and mid-sized commercial borrowers and homebuilders in our market area. Upon receiving regulatory relief from the restrictions of the Supervisory Agreements, we also plan to resume modest growth of our loan portfolio commencing in fiscal 2013. We believe that a resumption of commercial real estate and construction and development lending in a planned, deliberative fashion with the loan underwriting and administration enhancements that we have implemented in recent periods, together with modest loan growth, should increase our interest income and our returns in future periods. However, no assurance can be given whether, or when, we will receive the necessary relief from the Supervisory Agreements and any other approvals or non-objections to engage in such expanded lending activities in the future.

*Increasing Market Share Penetration.* We operate in a competitive market area for banking products and services. In recent years, we have been working to increase our deposit share in Chester and Delaware Counties, and we increased our marketing and promotional efforts. However, as a result of the shrinkage of our balance sheet and the reduction in total deposits in fiscal 2011, our deposit market share in Chester and Delaware Counties decreased from 5.05% in 2010 to 4.84% in 2011. We are focused on continuing our efforts to increase market share. Subsequent to the conversion and offering, in our effort to increase market share as well as non-interest income, we plan to evaluate increasing our business in non-traditional products, such as insurance products through our existing insurance agency subsidiary, which currently is inactive, or, possibly, through the addition of other products and services, such as wealth management.

*Increasing Our Core Deposits.* We are attempting to increase our core deposits, which we define as all deposit products other than certificates of deposit. At March 31, 2012, our core deposits amounted to \$242.7 million, or 45.2% of total deposits, compared to \$239.9 million, or 43.3% of total deposits, at September 30, 2011 and \$225.2 million, or 37.7% of total deposits, at September 30, 2010. We have continued our promotional efforts to increase core deposits. We review our deposit products on an on-going basis and we are considering additional deposit products as well as more flexible delivery options, such as mobile banking, as part of our efforts to increase core deposits. We expect to increase our commercial checking accounts when we resume commercial lending and we plan to enhance our cross-marketing as part of our efforts to gain additional deposit relationships with our loan customers.

*Continuing to Provide Exceptional Customer Service.* As a community oriented savings bank, we take pride in providing exceptional customer service as a means to attract and retain customers. We deliver personalized service to our customers that distinguish us from the large regional banks operating in our market area. Our management team has strong ties to, and deep roots in, the community. We believe

that we know our customers banking needs and can respond quickly to address them.

### **Critical Accounting Policies**

In reviewing and understanding financial information for Malvern Federal Bancorp, Inc., you are encouraged to read and understand the significant accounting policies used in preparing our consolidated financial statements. These policies are described in Note 2 of the notes to our consolidated financial statements included elsewhere in this prospectus. The accounting and financial reporting policies of Malvern Federal Bancorp conform to accounting principles generally accepted in the United States of America ( U.S. GAAP ) and to general practices within the banking industry. Accordingly, the consolidated financial statements require certain estimates, judgments, and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the periods presented. The following accounting policies comprise those that management

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believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may affect our reported results and financial condition for the period or in future periods.

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

The allowance for credit losses is maintained at a level considered appropriate under U.S. GAAP 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 our past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, the composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

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

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 allowance for credit losses summary. Allowance for credit losses final schedules, calculations and the resulting evaluation process are reviewed quarterly by the Asset Classification Committee and the Board of Directors.

A loan is considered impaired when, based on current information and events, it is probable that we 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.

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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. Historically, our estimates of the allowance for loan losses have not required significant adjustments from management's initial estimates. In addition, the Office of the Comptroller of the Currency (and, previously, the Office of Thrift Supervision), as an integral part of its examination processes, periodically reviews our allowance for loan losses. The Office of the Comptroller of the Currency may require the recognition of adjustments to the allowance for loan losses based on their judgment of information available to them at the time of their examinations. To the extent that actual outcomes differ from management's estimates, additional provisions to the allowance for loan losses may be required that would adversely impact earnings in future periods.

*Fair Value Measurements.* We use 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, we 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 FASB ASC Topic 820, Fair Value Measurements, we group our 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 our own estimates of assumptions that market participants would use in pricing the asset.

Under FASB ASC Topic 820, we base our 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 our or a 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, 2012, we had \$7.2 million of assets that were measured at fair value on a nonrecurring basis using Level 3 measurements.

*Income Taxes.* We make estimates and judgments to calculate some of our tax liabilities and determine the recoverability of some of our deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenues and expenses. We also estimate a reserve for deferred tax

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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 \$6.9 million at March 31, 2012. Valuation allowances are provided to reduce deferred tax assets to an amount that is more likely than not to be realized. We have a valuation allowance against our net deferred tax asset for \$296,000 as of March 31, 2012. In evaluating the need for a valuation allowance, we must estimate our taxable income in future years and the impact of tax planning strategies. If we were to determine that we would not be able to realize a portion of our net deferred tax asset in the future for which there is no valuation allowance, an adjustment to the net deferred tax asset would be charged to earnings in the period such determination was made. Conversely, if we were to make a determination that it is more likely than not that the deferred tax assets for which we had established a valuation allowance would be realized, the related valuation allowance would be reduced and a benefit to earnings would be recorded.

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

## **How We Manage Market Risk**

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from the interest rate risk which is inherent in our lending and deposit taking activities. To that end, management actively monitors and manages interest rate risk exposure. In addition to market risk, our primary risk is credit risk on our loan portfolio. We attempt to manage credit risk through our loan underwriting and oversight policies.

The principal objective of our interest rate risk management function is to evaluate the interest rate risk embedded in certain balance sheet accounts, determine the level of risk appropriate given our business strategy, operating environment, capital and liquidity requirements and performance objectives, and manage the risk consistent with approved guidelines. We seek to manage our exposure to risks from changes in interest rates while at the same time trying to improve our net interest spread. We monitor interest rate risk as such risk relates to our operating strategies. We have established an ALCO Committee, which is comprised of

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our President and Chief Executive Officer, Chief Financial Officer, Chief Lending Officer and five outside directors, and which is responsible for reviewing our asset/liability and investment policies and interest rate risk position. The ALCO Committee meets on a regular basis. The extent of the movement of interest rates is an uncertainty that could have a negative impact on future earnings.

In recent years, we primarily have utilized the following strategies to manage interest rate risk:

we have attempted to match fund a portion of our loan portfolio with borrowings having similar expected lives;

we have attempted, where possible, to extend the maturities of our deposits and borrowings;

we have invested in securities with relatively short anticipated lives, generally one to three years, and we hold significant amounts of liquid assets; and

we have increased our outstanding shorter term loans particularly commercial real estate and construction loans (although we ceased originating any new commercial real estate and construction loans in fiscal 2010).

As part of our asset/liability management efforts, during the quarter ended December 31, 2011, we securitized and sold \$10.7 million of long-term, fixed-rate residential mortgage loans with the servicing retained. This securitization/sale transaction resulted in a gain of \$415,000.

**Gap Analysis.** The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are interest rate sensitive and by monitoring a bank's interest rate sensitivity gap. An asset and liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to affect adversely net interest income while a positive gap would tend to result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would tend to result in an increase in net interest income while a positive gap would tend to affect adversely net interest income. Our one-year cumulative gap was a negative 17.51% at March 31, 2012.

The following table sets forth the amounts of our interest-earning assets and interest-bearing liabilities outstanding at March 31, 2012, which we expect, based upon certain assumptions, to reprice or mature in each of the future time periods shown (the GAP Table). Except as stated below, the amount of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth the approximation of the projected repricing of assets and liabilities at March 31, 2012, on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable-rate loans and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans. Annual prepayment rates for single-family and other mortgage loans are assumed to range from 6.0% to 25.0%. The weighted average life for investment securities is assumed to range from 1.3 years to 6.2 years. Savings accounts and interest-bearing checking accounts are assumed to have annual rates of withdrawal, or decay rates, of 14.6% and 13.5%, respectively. See Business of Malvern Federal Savings Bank Lending Activities, Investment Activities and Sources of Funds.

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6 Months or Less	More than 6 Months to 1 Year	More than 1 Year to 3 Years	More than 3 Year to 5 Years	More than 5 Years	Total Amount
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	6 Months or Less	More than 6 Months to 1 Year	More than 1 Year to 3 Years	More than 3 Year to 5 Years	More than 5 Years	Total Amount
(Dollars in thousands)						
Interest-earning assets (1):						
Loans receivable (2)	\$ 121,898	\$ 57,709	\$ 159,952	\$ 78,123	\$ 57,422	\$ 475,104
Investment securities and restricted securities	19,425	5,717	17,968	24,009	19,415	86,534
Other interest-earning assets	49,158					49,158
Total interest-earning assets	190,481	63,426	177,920	102,132	76,837	610,796
Interest-bearing liabilities:						
Demand and NOW accounts	95,088					95,088
Money market accounts	79,248					79,248
Savings accounts	46,996					46,996
Certificate accounts	41,953	71,108	104,766	40,125	36,332	294,284
FHLB advances	23,000	10,593	10,000	5,000		48,593
Total interest-bearing liabilities	286,285	81,701	114,766	45,125	36,332	564,209
Interest-earning assets less interest-bearing liabilities	\$ (95,804)	\$ (18,275)	\$ 63,154	\$ 57,007	\$ 40,505	\$ 46,587
Cumulative interest-rate sensitivity gap (3)	\$ (95,804)	\$ (114,079)	\$ (50,925)	\$ 6,082	\$ 46,587	
Cumulative interest-rate gap as a percentage of total assets at March 31, 2012	(14.70)%	(17.51)%	(7.82)%	0.93%	7.15%	
Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities at March 31, 2012	66.54%	69.00%	89.45%	101.15%	108.26%	

- (1) Interest-earning assets are included in the period in which the balances are expected to be redeployed and/or repriced as a result of anticipated prepayments, scheduled rate adjustments and contractual maturities.
- (2) For purposes of the gap analysis, loans receivable includes non-performing loans gross of the allowance for loan losses, undisbursed loan funds, unamortized discounts and deferred loan fees.
- (3) Interest-rate sensitivity gap represents the net cumulative difference between interest-earning assets and interest-bearing liabilities.

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate loans, have features which restrict changes in interest rates both on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. Finally, the ability of many borrowers to service their adjustable-rate loans may decrease in the event of an interest rate increase.

**Net Portfolio Value and Net Interest Income Analysis.** Our interest rate sensitivity also is monitored by management through the use of models which generate estimates of the change in its net portfolio value ( NPV ) and net interest income ( NII ) over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest

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rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario.

The table below sets forth as of March 31, 2012 and September 30, 2011, the estimated changes in our net portfolio value that would result from designated instantaneous changes in the United States Treasury yield curve. Computations of prospective effects of hypothetical interest rates changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results.

Changes in Interest Rates (basis points) (1)	As of March 31, 2012			As of September 30, 2011		
	Amount	Dollar Change from Base	Percentage Change from Base	Amount	Dollar Change from Base	Percentage Change from Base
(Dollars in thousands)						
+300	\$60,027	\$ (8,704)	(13)%	\$63,164	\$(5,236)	(8)%
+200	67,077	(1,654)	(2)	67,755	(645)	(1)
+100	70,830	2,099	3	69,752	1,352	2
0	68,731			68,400		
100	58,582	(10,149)	(15)	65,900	(2,500)	(4)

(1) Assumes an instantaneous uniform change in interest rates. A basis point equals 0.01%.

In addition to modeling changes in NPV, we also analyze potential changes to NII for a twelve-month period under rising and falling interest rate scenarios. The following table shows our NII model as of March 31, 2012.

Changes in Interest Rates in Basis Points (Rate Shock)	Net Interest Income	\$ Change	% Change
(Dollars in thousands)			
200	\$ 19,486	\$ 1,724	9.71%
100	18,644	882	4.97
Static	17,762	(2,158)	(12.15)
(100)	17,096	(666)	(3.75)

As is the case with the GAP Table, certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV and NII require the making of certain assumptions which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the models presented assume that the composition of our interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and

liabilities. Accordingly, although the NPV measurements and net interest income models provide an indication of interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on net interest income and will differ from actual results.

## **Financial Condition**

### **Changes in Financial Condition at March 31, 2012 Compared to September 30, 2011**

Our total assets were \$651.6 million at March 31, 2012 compared to \$666.6 million at September 30, 2011. The primary reasons for the \$15.0 million decrease in assets during first six months of fiscal 2012 was a decrease of \$39.0 million in net loans receivable and a \$3.6 million reduction in other real estate owned ( REO ). These decreases were partially offset by an aggregate \$25.1 million increase in cash and cash equivalents and a \$4.2 million increase in investment securities. The decrease in loans receivable during the first six months of fiscal 2012 was due to a \$10.7 million loan sale securitization during the first six months of fiscal 2012, as well as decreased demand from consumers, the internal lending restrictions we adopted early in fiscal 2010, and the restrictions imposed by the Supervisory Agreements that we entered into with the OTS in October 2010. The \$3.6 million reduction in REO at March 31, 2012 compared to September 30, 2011,

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was due to \$3.8 million of net sales in REO properties, at a net loss of \$21,000, and \$472,000 in reductions to REO fair values, which are reflected as REO expense during the first six months of fiscal 2012. Our total REO amounted to \$4.7 million at March 31, 2012 compared to \$8.3 million at September 30, 2011.

Our total liabilities at March 31, 2012, were \$589.7 million compared to \$606.3 million at September 30, 2011. The \$16.6 million, or 2.7% decrease in total liabilities was due primarily to a decrease in total deposits of \$17.4 million, which was partially offset by \$1.6 million increase in total escrow advances for taxes and insurance in the first six months of fiscal 2012. Our total deposits were \$537.0 million at March 31, 2012 compared to \$554.5 million at September 30, 2011. There was a \$505,000 decrease in our FHLB advances during the six months ended March 31, 2012.

Total shareholders' equity increased by \$1.6 million to \$61.9 million at March 31, 2012 compared to \$60.3 million at September 30, 2011 primarily due to an increase in retained earnings and the effect of an increase in our accumulated other comprehensive income at March 31, 2012. Retained earnings increased by \$1.5 million to \$38.1 million at March 31, 2012 primarily as a result of the \$1.5 million net income during the first six months of fiscal 2012. Our ratio of equity to assets was 9.50% at March 31, 2012.

At March 31, 2012, our total non-performing assets were \$16.5 million, a \$4.8 million, or 22.4%, reduction from total non-performing assets at September 30, 2011. Our non-performing assets at March 31, 2012 consisted of \$11.7 million of non-accruing loans and \$4.7 million of other real estate owned ( REO ). During the six months ended March 31, 2012, our total non-accruing loans were reduced by \$1.2 million and our REO was reduced by \$3.6 million. During the six-months ended March 31, 2012, we sold \$3.8 million of REO, at a net loss of \$21,000, and we recorded \$472,000 in aggregate reductions in the carrying value of REO properties, which reductions in carrying value are reflected in other REO expense for the six months ended March 31, 2012.

### **Changes in Financial Condition at September 30, 2011 Compared to September 30, 2010**

Our total assets amounted to \$666.6 million at September 30, 2011, a \$53.9 million or 7.5% decrease over total assets at September 30, 2010. The primary reason for the decrease in assets during fiscal 2011 was a decrease in cash and cash equivalents in the amount of \$47.9 million, a \$41.3 million decrease in net loans receivable and a \$2.0 million decrease in other assets at September 30, 2011 due primarily to the prepayment of our deposit insurance assessment as mandated by the FDIC for all federally insured depository institutions. These decreases were partially offset by an aggregate \$32.8 million increase in the investment securities available for sale and held to maturity portfolios, a \$3.0 million increase in deferred income taxes and a \$3.0 million increase in other REO. The decrease in cash and cash equivalents was mostly due to the use of cash for purchases of \$71.3 million of available for sale investment securities during fiscal 2011. The decrease in loans receivable was due to decreased demand from consumers and internal lending restrictions which we adopted early in fiscal 2010 as well as the restrictions imposed by the October 2010 Supervisory Agreements. Our total REO amounted to \$8.3 million at September 30, 2011 compared to \$5.3 million at September 30, 2010. The \$3.0 million increase in REO was due to the transfer of \$12.5 million of loans to REO during fiscal 2011, which was partially offset by \$7.0 million in net sales and \$2.5 million in reductions in fair value, which reductions in fair value were reflected in other real estate owned expense during fiscal 2011. For additional information on our REO, see Business Asset Quality Non-Performing Loans and Real

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Estate Owned.

Our total liabilities at September 30, 2011, were \$606.3 million compared to \$654.3 million at September 30, 2010. The \$48.0 million or 7.3% decrease in total liabilities was due primarily to a decrease in total deposits of \$42.4 million in fiscal 2011. Our total deposits amounted to \$554.5 million at September 30, 2011 compared to \$596.9 million at September 30, 2010. During fiscal 2011, there was a \$6.2 million decrease in our FHLB advances. During fiscal 2011, given the reduction in our new loan originations, we chose to repay certain of our FHLB advances, which are long-term borrowings with a higher cost of funds compared to our core deposit products.

Our shareholders' equity decreased by \$5.9 million to \$60.3 million at September 30, 2011 compared to \$66.2 million at September 30, 2010 primarily due to a decrease in retained earnings. Retained earnings decreased by \$6.2 million to \$36.6 million as a result of the \$6.1 million net loss for fiscal 2011, and the

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aggregate amount of cash dividends paid of \$81,000 during the first quarter of fiscal 2011. Our ratio of equity to assets was 9.04% at September 30, 2011 compared to 9.19% at September 30, 2010.

At September 30, 2011, our total non-performing assets amounted to \$21.2 million, a \$3.9 million, or 15.7%, improvement compared to \$25.2 million of total non-performing assets at September 30, 2010. A \$6.9 million reduction in total non-accruing loans during fiscal 2011 was partially offset by a \$3.0 million increase in REO at September 30, 2011 compared to September 30, 2010.

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

#### Six Months Ended March 31,

	2012		2011			
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/ Rate
(Dollars in thousands)						
<b>Interest Earning Assets:</b>						
Loans receivable (1)	\$488,462	\$12,458	5.10%	\$538,897	\$14,364	5.33%
Investment securities	84,846	869	2.04	75,420	735	1.95
Deposits in other banks	38,607	18	0.10	25,526	19	0.15
FHLB stock	5,069	1	0.04	6,232		0.00
Total interest earning assets (1)	616,984	13,346	4.32	646,075	15,118	4.68
Non-interest earning assets	44,336			46,729		
Total assets	\$661,320			\$692,804		
<b>Interest Bearing Liabilities:</b>						
Demand and NOW accounts	\$ 90,122	149	0.34	\$ 89,649	298	0.66
Money Market accounts	85,403	285	0.66	86,527	480	1.11
Savings accounts	45,132	23	0.10	41,048	38	0.19
Certificate accounts	304,564	3,085	2.02	336,412	3,716	2.21
Total deposits	525,221	3,542	1.34	553,636	4,532	1.64

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Six Months Ended March 31,

Borrowed funds	48,847	862	3.52	50,402	879	3.49
Total interest-bearing liabilities	574,068	4,404	1.54	604,038	5,411	1.79
Non-interest bearing liabilities	25,597			23,064		
Total liabilities	599,665			627,102		
Shareholders' equity	61,655			65,702		
Total liabilities and shareholders equity	\$ 661,320			\$ 692,804		
Net interest-earning assets	\$ 42,916			\$ 42,037		
Net interest income						
Net interest spread		\$ 8,942	2.78%		\$ 9,707	2.89%
Net interest margin (2)			2.90%			3.00%
Average interest-earning assets to average interest-bearing liabilities	107.48%			106.96%		

(1) Includes non-accrual loans during the respective periods. Calculated net of deferred fees and discounts and allowance for loan losses.

(2) Equals net interest income divided by average interest-earning assets.

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Year Ended September 30,

	2011			2010			2009		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
(Dollars in thousands)									
<b>Interest Earning Assets:</b>									
Loans receivable (1)	\$ 530,497	\$ 28,185	5.31%	\$ 583,995	\$ 32,085	5.49%	\$ 597,744	\$ 33,711	5.63%
Investment securities	78,147	1,510	1.93	33,812	1,025	3.03	27,993	925	3.30
Deposits in other banks	24,100	31	0.13	24,497	38	0.16	15,158	65	0.43
FHLB stock	5,905		0.00	6,567		0.00	6,513		0.00
Total interest earning assets (1)	638,649	29,726	4.65	648,871	33,148	5.11	647,408	34,701	5.35
Non-interest earning assets	42,578			42,100			32,550		
Total assets	\$ 681,227			\$ 690,971			\$ 679,958		

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Year Ended September 30,

<b>Interest Bearing Liabilities:</b>									
Demand and NOW accounts	\$ 90,674	519	0.57	\$ 87,240	845	0.97	\$ 76,407	1,321	1.7
Money Market accounts	87,329	915	1.05	63,788	648	1.02	58,167	960	1.6
Savings accounts	44,237	78	0.18	41,002	110	0.27	38,661	136	0.3
Certificate accounts	321,918	6,941	2.16	324,973	8,511	2.62	306,213	11,061	3.6
Total deposits	544,158	8,453	1.55	517,003	10,114	1.96	479,448	13,478	2.8
Borrowed funds	49,874	1,745	3.50	80,714	3,527	4.37	105,873	5,203	4.9
Total interest-bearing liabilities	594,032	10,198	1.72	597,717	13,641	2.28	585,321	18,681	3.1
Non-interest bearing liabilities	23,764			24,126			25,443		
Total liabilities	617,796			621,843			610,764		
Shareholders equity	63,431			69,128			69,194		
Total liabilities and shareholders equity	\$ 681,227			\$ 690,971			\$ 679,958		
Net Interest-earning assets	\$ 44,617			\$ 51,154			\$ 62,087		
Net interest income		\$ 19,528			\$ 19,507			\$ 16,020	
Net interest spread			2.93%			2.83%			2.1
Net interest margin			3.06%			3.01%			2.4
Average interest earning assets to average interest-bearing liabilities	107.51%			108.56%			110.61%		

(1) Calculated net of deferred loan fees, loan discounts, loans in process and loss reserves.

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The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the increase related to higher outstanding balances and that due to the unprecedented levels and volatility of interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (i.e., changes in volume multiplied by old rate) and (ii) changes in rate (i.e., changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been

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allocated proportionately to the change due to volume and the change due to rate.

	Year Ended September 30,								
	Six Months Ended March 31, 2012 vs. 2011			2011 vs. 2010			2010 vs. 2009		
	Volume	Rate	Net Change	Volume	Rate	Net Change	Volume	Rate	Net Change
(Dollars in thousands)									
<b>Interest Earning Assets:</b>									
Loans receivable	\$ (2,689)	\$ 783	\$ (1,906)	\$ (2,937)	\$ (963)	\$ (3,900)	\$ (775)	\$ (851)	\$ (1,626)
Investment securities	184	(50)	134	1,343	(858)	485	192	(92)	100
Deposits in other banks	19	(20)	(1)	(1)	(6)	(7)	40	(67)	(27)
FHLB stock		1	1						
Total interest earning assets	\$ (2,486)	\$ 714	\$ (1,772)	\$ (1,595)	\$ (1,827)	\$ (3,422)	\$ (543)	\$ (1,010)	\$ (1,553)
<b>Interest Bearing Liabilities</b>									
Demand and NOW accounts	\$ 3	\$ (152)	\$ (149)	\$ 33	\$ (359)	\$ (326)	\$ 187	\$ (663)	\$ (476)
Money market accounts	(12)	(183)	(195)	240	27	267	93	(405)	(312)
Savings accounts	8	(23)	(15)	9	(41)	(32)	8	(34)	(26)
Certificate accounts	(704)	73	(631)	(80)	(1,490)	(1,570)	678	(3,228)	(2,550)
Total deposits	(705)	(285)	(990)	202	(1,863)	(1,661)	966	(4,330)	(3,364)
Borrowed funds	(54)	37	(17)	(1,348)	(434)	(1,782)	(1,236)	(440)	(1,676)
Total interest-bearing liabilities	\$ (759)	\$ (248)	\$ (1,007)	\$ (1,146)	\$ (2,297)	\$ (3,443)	\$ (270)	\$ (4,770)	\$ (5,040)
Net interest income	\$ (1,727)	\$ 962	\$ (765)	\$ (449)	\$ 470	\$ 21	\$ (273)	\$ 3,760	\$ 3,487

**Comparison of Operating Results for the Six Months Ended March 31, 2012 and 2011**

**General.** Our net income was \$1.5 million for the six months ended March 31, 2012 compared to a net loss of \$5.4 million for the six months ended March 31, 2011. On a per share basis, the net income was \$0.25 per share for the six months ended March 31, 2012, compared to net loss of \$0.92 per share for the six months ended March 31, 2011. The primary reason for the \$6.9 million improvement in our results of operations in the first six months of fiscal 2012 compared to the comparable prior fiscal year period was a reduction in the provision of loan losses of \$10.0 million, which was partially offset by a \$3.6 million increase in income tax expense and a \$765,000 decrease in net interest income. Our interest rate spread was 2.78% and our net interest margin was 2.90% for the six months ended March 31, 2012, compared to a net interest spread of 2.89% and a net interest margin of 3.00% for the six months ended March 31, 2011.

**Interest and Dividend Income.** Our interest and dividend income decreased for the six months ended March 31, 2012 by \$1.8 million or 11.7% over the comparable fiscal 2011 period to \$13.3 million. Interest income on loans decreased in the six months ended March 31, 2012 over the prior comparable period in fiscal 2011 by \$1.9 million, or 13.3%. The decrease in interest earned on loans in the first six months of fiscal 2012 was due to both a \$50.4 million, or 9.4%, decrease in the average balance of our outstanding loans and a 23 basis point decrease in the average yield earned on our loan portfolio in the first six months of fiscal 2012 compared to the first six months of fiscal 2011. Interest income on investment securities increased by \$134,000, or 18.2%, in the first six months of fiscal 2012 over the comparable prior fiscal year period. The

increase in interest income on investment securities in the first six months of fiscal 2012 was due to a \$9.4 million, or 12.5%, increase in the average balance of our investment securities portfolio as well as a nine basis point increase in the average yield on investment securities to 2.04% for the six months ended March 31, 2012 from 1.95% for the same period in fiscal 2011. Our interest earned on deposits in other institutions decreased by \$1,000 to \$18,000 in the first six months of fiscal 2012 compared to \$19,000 in the

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first six months of fiscal 2011. The primary reason for the decrease in the first six months of fiscal 2012 was a five basis point decrease in the average yield earned on deposits in other banks.

**Interest Expense.** Our interest expense for the six month period ended March 31, 2012 was \$4.4 million, a decrease of \$1.0 million from the six month period ended March 31, 2011. The reason for the decrease in interest expense in the first six months of fiscal 2012 compared to the first six months of fiscal 2011 was a 30 basis point decrease in average rate paid on total deposits together with a decrease in the average balance of our total deposits of \$28.4 million, or 5.1%, in the first six months of fiscal 2012 compared to the first six months of fiscal 2011 due primarily to a \$31.8 million decrease in the average balance of certificates of deposit. The average rate paid on total deposits decreased to 1.34% for the first six months of fiscal 2012 from 1.64% for the first six months of fiscal 2011. Our expense on borrowings amounted to \$862,000 in the first six months of fiscal 2012 compared to \$879,000 in the first six months of fiscal 2011. The average balance of our borrowings decreased by \$1.6 million in the first six months of fiscal 2012 compared to the first six months of fiscal 2011, however the average rate paid on borrowed funds increased to 3.52% in the first six months of fiscal 2012 compared to 3.49% in the first six months of fiscal 2011.

**Provision for Loan Losses.** Management has identified the evaluation of the allowance for loan losses as a critical accounting policy. This policy is significantly affected by our judgment and uncertainties and there is likelihood that materially different amounts would be reported under different, but reasonably plausible, conditions or assumptions. Our activity in the provision for loan losses, which are charges or recoveries to operating results, is undertaken in order to maintain a level of total allowance for losses that management believes covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. Our evaluation process typically includes, among other things, an analysis of delinquency trends, non-performing loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of our loans, the value of collateral securing the loan, the borrower's ability to repay and repayment performance, the number of loans requiring heightened management oversight, local economic conditions and industry experience. The establishment of the allowance for loan losses is significantly affected by management judgment and uncertainties and there is likelihood that different amounts would be reported under different conditions or assumptions. Various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to make additional provisions for estimated loan losses based upon judgments different from those of management.

The provision for loan losses was \$25,000 for the six months ended March 31, 2012, compared to \$10.0 million for the six months ended March 31, 2011. The \$10.0 million difference in the provision for loan losses for the six months ended March 31, 2012, among other things, reflects the overall improvement in the trend of our levels of delinquent, classified, impaired and non-performing loans. At March 31, 2012, our total past due loans amounted to \$14.6 million, a \$1.0 million, or 6.4%, improvement compared to September 30, 2011. Our total loans classified substandard and doubtful amounted to \$28.9 million at March 31, 2012, a \$3.7 million, or 11.4%, improvement compared to September 30, 2011. Our total impaired loans amounted to \$13.5 million at March 31, 2012, a \$1.4 million, or 9.2%, reduction compared to our impaired loans at September 30, 2011. Our total non-accrual loans were \$11.7 million at March 31, 2012 compared to \$12.9 million at September 30, 2011, a \$1.2 million, or 9.2%, reduction. In addition to the improvements in the levels of our delinquent, classified, impaired and non-performing loans during the six months ended March 31, 2012, the reduction in the provision for loan losses during the fiscal 2012 period also reflects the aggressive actions that we took in fiscal 2011 and 2010 to increase the oversight and resolution of our non-performing and problem loans as well as the significant increases to the allowance for loan losses made in fiscal 2011 and 2010 with respect to loans that remained in our portfolio or were resolved during the six months ended March 31, 2012. Our total charge-offs for the six months ended March 31, 2012 were \$3.3 million, a \$4.6 million, or 58.4%, improvement compared to \$7.9 million of charge-offs during the six months ended March 31, 2011. Of the \$3.3 million of charge-offs recorded during the six months ended March 31, 2012, in periods prior to fiscal 2012 we had specifically allocated \$2.4 million of the allowance for loan losses to such loans with respect to which charge-offs were recorded during the fiscal 2012 period. In addition, we recorded a \$1.1 million recovery to the allowance for loan losses during the six months ended March 31, 2012 upon receipt of a \$2.5 million payment in full satisfaction of a \$1.4 million participation



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interest in a construction and development loan on a retirement community located in Montgomery County, Pennsylvania.

Our charge-offs during the first six months of fiscal 2012 included an aggregate of \$975,000 in charge-offs taken on a total of 14 single-family residential mortgage loans as well as an aggregate of \$865,000 (which was partially offset by \$75,000 in recoveries) in charge-offs of consumer second-mortgage loans. These charge-offs of single-family residential mortgage loans and second mortgages during the first six months of fiscal 2012 primarily reflect the receipt of updated appraisals on non-accruing loans indicating a decline in the fair value of the collateral property securing the loans. In some cases, charge-offs reflect short sales of the underlying collateral properties (in a short sale the lender agrees that the borrower can sell the collateral property for an amount which is less than the amount necessary for the lender to be repaid in full on its loan). Our charge-offs and recoveries to the allowance for loan losses during the six months ended March 31, 2012 also included the following items.

A \$428,000 partial charge-off on a commercial real estate loan to one borrower secured by a first mortgage on a 420 unit self-storage facility on approximately four acres located in Delaware County, Pennsylvania, reducing the carrying value of this loan at March 31, 2012 to \$2.3 million based on a November 2011 appraisal. As of March 31, 2012, we had allocated \$392,000 of our allowance for loan losses to this loan, which was a performing TDR at such date.

A \$412,000 partial charge-off on a \$2.4 million participation interest in a non-performing construction and development loan for the development of commercial and mixed use facilities on approximately 40 acres located in Mount Laurel, New Jersey, reducing our loan carrying value to \$1.6 million at March 31, 2012 based on a October 2011 appraisal. During the December 31, 2011 quarter, we entered into a forbearance agreement with the borrower and other participants, which is expected to result in the disposition of such loan during the June 2012 quarter at no additional loss.

In February 2012, we recorded a \$353,000 partial charge-off on the short-sale of the office building securing a \$1.2 million commercial real estate loan to one borrower located in Philadelphia, Pennsylvania.

As of March 31, 2012, the balance of the allowance for loan losses was \$8.1 million, or 1.71% of gross loans and 68.85% of non-accruing loans, compared to an allowance for loan losses of \$10.1 million or 1.97% of gross loans and 78.21% of non-accruing loans at September 30, 2011.

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

**Other Income.** Our other, or non-interest, income increased by \$997,000, or 114.5%, to \$1.9 million for the six months ended March 31, 2012 compared to \$871,000 for the six months ended March 31, 2011. The increase in other income during the first six months of fiscal 2012 was due primarily to a \$623,000 gain recorded on the securitization and sale of \$10.7 million of long-term, fixed-rate residential mortgage loans and the sale of \$7.6 million of investment securities. In addition, there was an increase in rental income on REO in the amount of \$399,000 in the six months ended March 31, 2012.

**Other Expenses.** Our other, or non-interest, expenses decreased by \$231,000, or 2.6%, to \$8.7 million for the six months ended March 31, 2012 compared to \$9.0 million for the six months ended March 31, 2011. The decrease in other operating expenses in the first six months of fiscal 2012 compared to the first six months of fiscal 2011 was due primarily to a \$220,000 decrease in other real estate owned expense and a \$250,000 decrease in federal deposit insurance premiums, due to a lower deposit base in fiscal 2012. These decreases were partially offset by a \$155,000 increase in salaries and employee benefits and a \$70,000 increase in professional fees in the six months ended March 31, 2012 compared to the six months ended March 31, 2011. The increase in professional fees was primarily due to legal costs associated with work out efforts on troubled assets.

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**Income Tax Expense.** Our income tax expense was \$588,000 for the six months ended March 31, 2012 compared to an income tax benefit of \$3.0 million for the six months ended March 31, 2011. The increased income tax expense for the six months ended March 31, 2012 was

primarily due to the recognition of \$2.1 million in pre-tax income during the six months ended March 31, 2012 compared to an \$8.4 million pre-tax loss during the first six months of fiscal 2011. Our effective Federal tax rate was 28.6% and 35.4% for the six months ended March 31, 2012 and 2011, respectively.

As of March 31, 2012, management determined, based upon its review and analysis, that the net deferred tax asset, more likely than not, was realizable, and therefore no additional valuation allowance was required aside from the \$296,000 state net operating loss allowance.

### Comparison of Operating Results for the Years Ended September 30, 2011 and September 30, 2010

**General.** We reported a net loss of \$6.1 million for the year ended September 30, 2011 compared to net loss of \$3.1 million for the year ended September 30, 2010. The primary reasons for the \$3.0 million difference in our results of operations in fiscal 2011 compared to fiscal 2010 were increases in the provision of loan losses of \$3.0 million, as well as a \$1.5 million increase in other expenses, which was partially offset by a \$1.7 million increase in income tax benefit. The increase in other expenses in fiscal 2011 primarily was the result of a \$907,000 increase in other real estate owned expense and a \$795,000 increase in professional fees.

**Interest and Dividend Income.** Our total interest and dividend income amounted to \$29.7 million for the year ended September 30, 2011 compared to \$33.1 million for the year ended September 30, 2010. The primary reason for the \$3.4 million decrease in interest and dividend income in fiscal 2011 compared to fiscal 2010 was a \$3.9 million, or 12.2%, decrease in interest earned on loans. The decrease in interest earned on loans in fiscal 2011 was due to both a \$53.5 million, or 9.2%, decrease in the average balance of our outstanding loans and an 18 basis point decrease in the average yield earned on our loan portfolio in fiscal 2011 compared to fiscal 2010. Our interest earned on deposits in other institutions decreased by \$7,000 to \$31,000 in the fiscal year ended September 30, 2011 compared to \$38,000 in fiscal 2010. The primary reason for the decrease in fiscal 2011 was a three basis point decrease in the average yield earned on deposits in other banks. Interest income on investment securities increased by \$485,000, or 47.3%, in fiscal 2011 compared to fiscal 2010. The increase in interest income on investment securities in fiscal 2011 was due to a \$44.3 million, or 131.1%, increase in the average balance of our investment securities portfolio.

**Interest Expense.** Our total interest expense amounted to \$10.2 million for the year ended September 30, 2011 compared to \$13.6 million for the year ended September 30, 2010, a decrease of \$3.4 million or 25.2%. The reason for the decrease in interest expense in fiscal 2011 compared to fiscal 2010 was a 41 basis point decrease in average rate paid on total deposits. The average balance of our total deposits increased by \$27.2 million, or 5.3%, in fiscal 2011 compared to fiscal 2010 due primarily to our new Concordville, Delaware County branch which opened in mid-September 2010, along with a \$23.5 million increase in the average balance of money market accounts together with a \$3.4 million increase in the average balance of demand and NOW accounts. Our expense on borrowings amounted to \$1.7 million in fiscal 2011 compared to \$3.5 million in fiscal 2010, a decrease of \$1.8 million or 50.4%. The average balance of our borrowings decreased by \$30.8 million in fiscal 2011 compared to fiscal 2010, and the average cost of borrowed funds decreased by 87 basis points to 3.50% during the year ended September 30, 2011.

**Provision for Loan Losses.** During the year ended September 30, 2011, we made a \$12.4 million provision to our allowance for loan losses compared to a \$9.4 million provision in the year ended September 30, 2010. The increase in the provision for loan losses in fiscal 2011 was due primarily to the increased level of net loan charge-offs, which amounted to \$10.4 million in fiscal 2011 compared to \$6.9 million in fiscal 2010. At September 30, 2011, our total non-performing assets and performing troubled debt restructurings totaled \$31.6 million compared to \$37.2 million at September 30, 2010. As of September 30, 2011, the balance of the allowance for loan losses was \$10.1 million, or 1.97% of gross loans and 78.21% of non-accruing loans, compared to an allowance for loan losses of \$8.2 million at September 30, 2010 or 1.48% of gross loans and 41.07% of non-accruing loans at such date. See Business-Asset Quality Non-Performing Loans and Real Estate Owned . The \$12.4 million provision for loan losses made

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in fiscal 2011 reflected management's assessment, based on the information available at the time, of the inherent level of estimable losses in our loan portfolio.

**Other Income.** Our other, or non-interest, income decreased by \$212,000, or 10.9%, to \$1.7 million for the year ended September 30, 2011 compared to \$1.9 million for the year ended September 30, 2010. The decrease in other income during fiscal 2011 was due primarily to a \$387,000 decrease in service charges and other fees, primarily due to declining checking account related fees, as well as a decline in other loan fees. These items were partially offset by a \$165,000 improvement in the net gain/(loss) on the sale of REO. During fiscal year 2011, there was a net gain of \$23,000 on the net sale of REO compared to a \$142,000 net loss on the sale of REO in fiscal year 2010.

**Other Expenses.** Our other, or non-interest, expenses increased by \$1.5 million, or 8.5%, to \$18.6 million for the year ended September 30, 2011 compared to \$17.1 million for the year ended September 30, 2010. Other expenses increased in fiscal 2011 compared to fiscal 2010 primarily due to \$316,000 in additional occupancy expenses, a \$795,000 increase in professional fees, due primarily to the legal costs associated with work out efforts on troubled loans, and a \$907,000 increase in REO expense. The \$316,000 increase in occupancy expense was due to the addition of the Concordville branch in mid-September 2010. The increase in REO expense was primarily due to write-downs of REO properties to market values, as well as recurring expenses related to REO. These increases were partially offset by a \$332,000 decrease in data processing costs which was due to the change in our bank core processing vendor during the second quarter of fiscal 2010 and a \$250,000 reduction in federal deposit insurance premiums.

**Income Tax Expense.** We recorded an income tax benefit of \$3.6 million for the year ended September 30, 2011 compared to income tax benefit of \$1.9 million for the year ended September 30, 2010. The income tax benefit recorded in fiscal 2011 was due primarily to the decrease in pre-tax income. Our effective Federal tax rate was 36.9% for the year ended September 30, 2011 compared to 37.7% for the year ended September 30, 2010.

#### **Comparison of Operating Results for the Years Ended September 30, 2010 and September 30, 2009**

**General.** We reported a net loss of \$3.1 million for the year ended September 30, 2010 compared to net income of \$1.0 million for the year ended September 30, 2009. The primary reasons for the \$4.1 million decrease in our results of operations in fiscal 2010 compared to fiscal 2009 were increases in the provision for loan losses of \$7.1 million, as well as a \$2.6 million increase in other expenses, which was partially offset by a \$3.5 million increase in net interest income and a \$2.1 million reduction in income tax expense. The increase in other expenses in fiscal 2010 compared to fiscal 2009 primarily was the result of a \$1.8 million increase in other REO expense and a \$621,000 increase in federal deposit insurance premium.

**Interest and Dividend Income.** Our total interest and dividend income amounted to \$33.1 million for the year ended September 30, 2010 compared to \$34.7 million for the year ended September 30, 2009. The primary reason for the \$1.6 million decrease in interest and dividend income in fiscal 2010 compared to fiscal 2009 was a \$1.6 million, or 4.8%, decrease in interest earned on loans. The decrease in interest earned on loans in fiscal 2010 was due primarily to both a \$13.7 million, or 2.3%, decrease in average loans and a 15 basis point decrease in the average yield earned on our loan portfolio in fiscal 2010 compared to fiscal 2009. Our interest earned on deposits in other institutions decreased by \$27,000 to \$38,000 in the fiscal year ended September 30, 2010 compared to \$65,000 in fiscal 2009. The primary reason for the decrease in fiscal 2010 compared to fiscal 2009 was a 27 basis point decrease in the average yield earned on deposits in other banks. Interest income on investment securities increased by \$100,000, or 10.8%, in fiscal 2010 compared to fiscal 2009. The increase in interest income on investment securities in fiscal 2010 was due to a \$5.8 million, or 20.8%, increase in the average balance of our investment securities portfolio.

**Interest Expense.** Our total interest expense amounted to \$13.6 million for the year ended September 30, 2010 compared to \$18.7 million for the year ended September 30, 2009, a decrease of \$5.1 million or 27.0%. The reason for the decrease in interest expense in fiscal 2010 compared to fiscal 2009 was an 85 basis point decrease in average rate paid on total deposits. The average balance of our total deposits increased by \$37.6 million, or 7.8%, in fiscal 2010 compared to fiscal 2009 due primarily to an \$18.7 million increase in the average balance of certificates of deposit together with a \$10.8 million increase in the average balance of

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demand and NOW accounts. Our expense on borrowings amounted to \$3.5 million in fiscal 2010 compared to \$5.2 million in fiscal 2009, a decrease of \$1.7 million or 32.2%. The average balance of our borrowings decreased by \$25.2 million in fiscal 2010 compared to fiscal 2009, and the average cost of borrowed funds decreased by 55 basis points to 4.37% during the year ended September 30, 2010.

**Provision for Loan Losses.** During the year ended September 30, 2010, we made a \$9.4 million provision to our allowance for loan losses compared to a \$2.3 million provision in the year ended September 30, 2009. The provision in fiscal 2010 was due to the increased level of loan charge-offs, which amounted to \$6.9 million in fiscal 2010 compared to \$2.1 million in fiscal 2009, and the increased level of non-performing loans, which amounted to \$19.9 million at September 30, 2010 compared to \$14.2 million at September 30, 2009. The \$9.4 million provision for loan losses made in fiscal 2010 reflected management's assessment, based on the information available at the time, of the inherent level of estimable losses in our loan portfolio. Based upon our analysis of historical loss experience, we adjusted the loss factors with respect to commercial real estate and second-mortgage loans that we utilize in establishing our allowance for loan losses.

**Other Income.** Our other, or non-interest, income decreased by \$72,000, or 3.6%, to \$1.9 million for the year ended September 30, 2010 compared to \$2.0 million for the year ended September 30, 2009. The primary reasons for the decrease in other income in fiscal 2010 compared to fiscal 2009 were a \$165,000 decrease in DDA fee income. There was a \$48,000 decrease in other fee income which correlates with the 7.8% decrease in our loan portfolio. Additionally, there was a decrease of \$50,000 on gain on sale of investments and fixed assets. The decreases in these items of other income were partially offset by an increase of \$19,000 in debit card fees, a \$39,000 increase in REO rental income, a net increase of \$83,000 on gain/loss on sale of REO and a \$49,000 increase in bank owned life insurance ( BOLI ) income.

**Other Expenses.** Our other, or non-interest, expenses increased by \$2.6 million, or 18.0%, to \$17.1 million for the year ended September 30, 2010 compared to \$14.5 million for the year ended September 30, 2009. Other expenses increased in fiscal 2010 compared to fiscal 2009 primarily due to a \$1.8 million increase in other REO expense and a \$621,000 increase in FDIC insurance premiums. This was partially offset by a \$48,000 decrease in salary and employee benefits expenses and a \$30,000 decrease in occupancy expense. The other REO expense incurred in the fiscal year ended September 30, 2010 was due primarily to aggregate write-downs of \$2.1 million in the carrying value of certain parcels of REO. Our advertising expense increased by \$62,000, or 9.2%, to \$736,000 in the year ended September 30, 2010 compared to \$674,000 in the year ended September 30, 2009. We increased our marketing efforts in fiscal 2010 with added television and billboard advertising as well as increasing our newspaper and direct mail promotional efforts. Our data processing expenses increased by \$252,000 or 20.8% to \$1.5 million in the year ended September 30, 2010 compared to \$1.2 million in the year ended September 30, 2009. This increase primarily consisted of a \$160,000 increase in various software and maintenance costs associated with a conversion of the core processing function at Malvern Federal Savings Bank. In addition, our other operating expenses decreased by \$46,000, or 2.3%, in fiscal 2010 compared to fiscal 2009 primarily due to a \$153,000 decrease in new account opening costs associated with a high interest promotional checking account product offered during fiscal year 2009. During fiscal year 2010, the interest rate on this product was reduced to near market levels, resulting in a reduction in the number of new accounts opened, and the corresponding new account opening costs. This decrease was partially offset by an increase of \$41,000 in stationery, printing and office supplies associated with the opening of the Concordville branch and \$41,000 in regulatory assessments.

**Income Tax Expense.** We recorded an income tax benefit of \$1.9 million for the year ended September 30, 2010 compared to income tax expense of \$242,000 for the year ended September 30, 2009. The income tax benefit recorded in fiscal 2010 was due primarily to the decrease in pre-tax income. Our effective Federal tax rate was 37.7% for the year ended September 30, 2010 compared to 19.3% for the year ended September 30, 2009. During fiscal 2010, we further reduced our effective tax rate primarily through increased tax-exempt BOLI income and contributions to organizations for which we received a credit for purposes of our Pennsylvania income taxes, including the Malvern Federal Charitable Foundation.

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### **Liquidity and Capital Resources**

Our primary sources of funds are from deposits, FHLB borrowings, amortization of loans, loan prepayments and the maturity of loans, mortgage-backed securities and other investments, and other funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan prepayments can be greatly influenced by general interest rates, economic conditions and competition. We also maintain excess funds in short-term, interest-bearing assets that provide additional liquidity. At March 31, 2012, our cash and cash equivalents amounted to \$58.6 million. In addition, at such date our available for sale investment securities amounted to \$81.7 million.

We use our liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. At March 31, 2012, we had certificates of deposit maturing within the next 12 months amounting to \$113.1 million. Based upon historical experience, we anticipate that a significant portion of the maturing certificates of deposit will be redeposited with us. For the six months ended March 31, 2012, the average balance of our outstanding FHLB advances was \$48.8 million. At March 31, 2012, we had \$48.6 million in outstanding long-term FHLB advances and we had \$288.4 million in potential FHLB advances available to us. In addition, at March 31, 2012, we had a \$50.0 million line of credit with the FHLB, of which none was outstanding.

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

**Payments Due Under Contractual Obligations**

The following tables present information relating to our payments due under contractual obligations as of the dates indicated.

**At March 31, 2012 Payments Due by Period**

	<b>Less than One Year</b>	<b>One to Three Years</b>	<b>Three to Five Years</b>	<b>More than Five Years</b>	<b>Total</b>
(Dollars in thousands)					
Long-term debt obligations	\$	\$ 593	\$	\$48,000	\$ 48,593
Certificates of deposit	113,060	104,767	40,125	36,332	294,284
Operating lease obligations	279	558	410	4,714	5,961
Total contractual obligations	\$ 113,339	\$ 105,918	\$ 40,535	\$ 89,046	\$ 348,838

**At September 30, 2011 Payments Due by Period**

	<b>Less than One Year</b>	<b>One to Three Years</b>	<b>Three to Five Years</b>	<b>More than Five Years</b>	<b>Total</b>
(Dollars in thousands)					
Long-term debt obligations	\$	\$ 1,098	\$	\$48,000	\$ 49,098
Certificates of deposit	97,525	133,678	39,947	43,368	314,518
Operating lease obligations	279	558	451	4,763	6,051
Total contractual obligations	\$ 97,804	\$ 135,334	\$ 40,398	\$ 96,131	\$ 369,667

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**Table of Contents****Off-Balance Sheet Arrangements**

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with accounting principles generally accepted in the United States of America, are not recorded in its financial statements. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, lines of credit and letters of credit.

The contractual amounts of commitments to extend credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer defaults and the value of any existing collateral becomes worthless. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments. Financial instruments whose contract amounts represent credit risk at March 31, 2012 and at September 30, 2011 were as follows:

	<b>March 31, 2012</b>	<b>September 30, 2011</b>
(Dollars in thousands)		
Commitments to extend credit: (1)		
Future loan commitments	\$ 15,705	\$ 7,309
Undisbursed construction loans	5,066	7,698
Undisbursed home equity lines of credit	23,881	23,656
Undisbursed Commercial lines of credit	5,158	4,910

	March 31, 2012	September 30, 2011
Overdraft protection lines	845	823
Standby letters of credit	3,766	3,998
Total commitments	\$54,421	\$48,394

- (1) Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments may require payment of a fee and generally have fixed expiration dates or other termination clauses.

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

### Impact of Inflation and Changing Prices

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

### Recent Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures About Offsetting Assets and Liabilities*. This project began as an attempt to converge the offsetting requirements under U.S. GAAP and IFRS. However, as the Boards were not able to reach a converged solution with regards to offsetting requirements, the Boards developed convergent disclosure requirements to assist in reconciling differences in the offsetting requirements under U.S. GAAP and IFRS. The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. ASU No. 2011-11 also requires disclosure of collateral received and posted in connection with master netting arrangements or similar arrangements. ASU No. 2011-11 is effective for interim and annual reporting periods beginning on or after January 1, 2013. As the provisions of

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ASU No. 2011-11 only impact the disclosure requirements related to the offsetting of assets and liabilities, the adoption will have no impact on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*. The provisions of ASU No. 2011-05 allow an entity the option to present the total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both options, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. Under either method, entities are required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. ASU No. 2011-05 also eliminates the option to present the components of other comprehensive income as a part of the statement of changes in shareholders' equity but does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU No. 2011-05 was effective for interim reporting periods beginning on or after January 1, 2012, with retrospective application required. In December 2011, the FASB issued ASU No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. The provisions of ASU No. 2011-12 defer indefinitely the requirement for entities to present reclassification adjustments out of accumulated other

comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. ASU No. 2011-12, which shares the same effective date as ASU No. 2011-05, does not defer the requirement for entities to present components of comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. We adopted the provisions of ASU No. 2011-05 and ASU No. 2011-12 which resulted in a new statement of comprehensive income for the interim period ended March 31, 2012. We adopted the provisions of ASU No. 2011-05 and ASU No. 2011-12 which resulted in a new statement of comprehensive income (loss) for the interim period ended March 31, 2012. In addition, we have retroactively presented for all prior periods as required. The adoption of ASU No. 2011-05 and ASU No. 2011-12 had no impact on our statements of income and condition.

In May 2011 the FASB issued ASU No. 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurements. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and IFRS. The amendments in this ASU are required to be applied prospectively, and are effective for interim and annual periods beginning after December 15, 2011. We adopted the provisions of ASU No. 2011-04 effective January 1, 2012. Other than expanding the disclosure relating to fair value measurements, the fair value measurement provisions of ASU No. 2011-4 had no impact on our consolidated financial statements.

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### **BUSINESS**

#### **Business of Malvern Bancorp-New**

Malvern Bancorp New is a Pennsylvania corporation which was organized in May 2012. Upon completion of the conversion and offering, Malvern Bancorp New will become the holding company of Malvern Federal Savings Bank and will succeed to all of the business and operations and Malvern Federal Bancorp, and each of Malvern Federal Bancorp and Malvern Federal Mutual Holding Company will cease to exist.

Initially following the completion of the conversion and offering, Malvern Bancorp New will have no significant assets other than owning 100% of the outstanding common stock of Malvern Federal Savings Bank and the net proceeds it retains from the offering and it will have no significant liabilities. See Use of Proceeds. Malvern Bancorp New intends to use the support staff and offices of Malvern Federal Savings Bank. If Malvern Bancorp New expands or changes its business in the future, it may hire its own employees.

#### **Malvern Federal Bancorp-General**

Malvern Federal Bancorp is a federally chartered corporation that owns all of the outstanding shares of common stock of Malvern Federal Savings Bank. At March 31, 2012, Malvern Federal Bancorp had total consolidated assets of \$651.6 million, deposits of \$537.0 million and shareholders equity of \$61.9 million.

Malvern Federal Bancorp became the holder company for Malvern Federal Savings Bank when Malvern Federal Savings Bank reorganized into the two-tiered mutual holding company structure in 2008. Concurrently, Malvern Federal Bancorp sold 2,645,575 shares of its common stock to the public, representing 43% of the then-outstanding shares, at \$10.00 per share. Malvern Federal Bancorp issued 3,383,875 shares, or 55% of its then-outstanding shares, to Malvern Federal Mutual Holding Company, with the remaining 123,050 shares being issued to the Malvern Federal Charitable Foundation, which was formed in connection with the 2008 reorganization.

Malvern Federal Bancorp's headquarters is located at 42 East Lancaster Avenue, Paoli, Pennsylvania, and our telephone number is (610) 644-9400. We maintain a website at [www.malvernfederal.com](http://www.malvernfederal.com) and we provide our customers with on-line banking and telephone bank services. The information presented on our website, currently and in the future, is not considered to be part of this prospectus.

#### **Malvern Federal Savings Bank**

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

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

Historically, Malvern Federal Savings Bank was a traditional thrift institution which emphasized the origination of loans secured by one-to four-family, or single-family residential real estate located in its market area. At March 31, 2012, single-family residential real estate loans amounted to \$220.2 million, or 46.6% of our total loans. Approximately eight years ago, we decided to focus on increasing our originations of loans secured by non-residential or commercial real estate as well as construction and development loans and home equity loans and lines of credit. Such loans were deemed attractive due to their generally higher yields and

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shorter anticipated lives compared to single-family residential mortgage loans. However, commercial real estate loans, construction and development loans and home equity loans and lines of credit are all deemed to have a higher risk of default than single-family residential mortgage loans. At March 31, 2012, our commercial real estate loans amounted to \$122.1 million, or 25.8% of our total loans, our total home equity loans and lines of credit amounted to \$92.9 million, or 19.7% of our loan portfolio and our total construction and development loans amounted to \$22.5 million, or 4.7% of our total loan portfolio.

Largely mirroring the effects of the national recession on the local economy, our non-performing assets have increased significantly since September 30, 2007. The increase in our non-performing assets was due primarily to increased levels of non-performing commercial real estate loans and construction and development loans. Given the increase in non-performing assets and in light of the increased risk represented by such loans, we generally ceased originating any new construction and development loans in October 2009, with certain exceptions, and we ceased originating new commercial real estate loans in August 2010. In October 2010, Malvern Federal Savings Bank, Malvern Federal Bancorp and Malvern Federal Mutual Holding Company entered into Supervisory Agreements with the Office of Thrift Supervision (which was our primary Federal regulator until July 2011). Among other things, the terms of the Supervisory Agreements, which remain in effect:

prohibit us from making or acquiring any new commercial real estate loans and/or commercial and industrial loans without the prior written non-objection of the Office of the Comptroller of the Currency (as successor to the Office of Thrift Supervision);

required us to develop a plan to reduce our problem assets;

required us to develop enhanced policies and procedures for identifying, monitoring and controlling the risks associated with concentrations of commercial real estate loans;

required that an independent third party undertake reviews of our commercial real estate loans, construction and development loans, multi-family residential mortgage loans and commercial loans not less than once every six months; and

prohibit Malvern Federal Bancorp from declaring or paying dividends or making any other capital distributions, such as repurchases of common stock, without the prior written approval of the Board of Governors of the Federal Reserve System (as successor to the Office of Thrift Supervision).

In addition, as a result of the Supervisory Agreements, Malvern Federal Savings Bank is subject to certain additional restrictions, including a limit on its growth in assets in any quarter to an amount which does not exceed the amount of net interest credited on deposits during the quarter, a requirement that it provide the Office of the Comptroller of the Currency (as successor to the Office of Thrift Supervision) with prior written notice of any new director or senior executive officer and it generally may not enter into, renew, extend or revise any contractual agreements related to compensation or benefits with any director or officer. See Regulation The Supervisory Agreements for further information regarding



the Supervisory Agreements.

### **Market Area and Competition**

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

Our headquarters and seven of our eight financial centers are located in Chester County, which is in the Delaware Valley Region of southeastern Pennsylvania. The Delaware Valley Region includes Bucks, Chester, Delaware, Montgomery and Philadelphia Counties in Pennsylvania and several counties in New Jersey. According to U.S. census data, Chester County had an estimated 2010 population of approximately 505,000, and experienced substantial population growth in recent years. Chester County's population increased by 16.5% from 2000 to 2010, which was the highest growth among Pennsylvania's 20 most populous counties, and Chester County's population is projected to continue to grow over the next five years. Delaware County, which had an estimated 2010 population of approximately 558,000, which ranked fifth among all counties

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in Pennsylvania, experienced marginal population growth of 1.3% from 2000 to 2010 and its population is expected to decline slightly over the next five years.

The median household net worth in Chester County was approximately \$325,000 in 2010, compared to national and Pennsylvania net worth medians of approximately \$93,000 and \$111,000, respectively. The median 2010 household income in Chester County was approximately \$87,000, which ranked first among all Pennsylvania counties. While Delaware County, Pennsylvania, reflects a more diverse cross-section of working class, middle-class and upper class neighborhoods compared to Chester County, median household income and net worth levels in Delaware County in 2010 of approximately \$66,000 and \$178,000, respectively, were above state and national levels. The economy in our market area is relatively diverse with trade, transportation and utilities being the most prominent sectors as well as education and health services, financial services, bio-technology and pharmaceutical companies, health care and science and technology. The list of the largest employers in our market area includes the Vanguard Group, Boeing, Siemens, QVC, Inc. and Aetna U.S. Healthcare. The unemployment rates in Chester County and Delaware County in September 2011 were 5.9% and 8.0%, respectively, compared to 9.1% and 8.4%, respectively, for the United States and the Philadelphia metropolitan statistical area (MSA).

We face significant competition in originating loans and attracting deposits. This competition stems primarily from commercial banks, other savings banks and savings associations and mortgage-banking companies. Within our market area, we estimate that more than 76 other banks, credit unions and savings institutions are operating. There are several larger commercial banks which have a significant presence in our market area including Wells Fargo Bank, PNC Financial, TD Bank and Susquehanna Bank. We face additional competition for deposits from short-term money market funds and other corporate and government securities funds, mutual funds and from other non-depository financial institutions such as brokerage firms and insurance companies.

### **Lending Activities**

**General.** At March 31, 2012, our net loan portfolio totaled \$467.0 million or 71.7% of total assets. Historically, our principal lending activity has been the origination of loans collateralized by one- to four-family, also known as single-family residential real estate loans located in our market area. In light of the increased levels of our non-performing and problem assets, we have taken certain actions, commencing in the fiscal year ended September 30, 2010, in an effort to strengthen and enhance our loan underwriting policies and procedures and our loan administration and oversight policies and procedures. We have revised both our consumer loan policy and our commercial loan policy to strengthen certain of our minimum loan-to-value (LTV) ratios, maximum gross debt ratio and minimum debt coverage ratio policy requirements. We have invested in and implemented a software which facilitates our ability to internally review and grade loans in our portfolio and to monitor loan performance. During the fiscal year ended September 30, 2011, we established a Credit Review Department. The primary focus of the Credit Department to date has been the resolution of our non-performing and other problem assets. However, the Credit Review Department also participates in the loan underwriting and credit administration functions. Our Chief Credit Officer, who heads the Credit Review Department, also is the Chairman of the Malvern Federal Savings Bank Loan Committee. In addition, due to the increased risk associated with such loans, during fiscal 2010, we discontinued, with certain exceptions, the origination of any new commercial real estate loans and construction and

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development loans. Pursuant to the terms of the Supervisory Agreement, we may not make, invest in or purchase any new commercial real estate loans and/or commercial and industrial loans without the prior written non-objection of the OCC, other than with respect to any refinancing, extension or modification of an existing commercial real estate or commercial and industrial loan where no new funds are advanced. With respect to our consumer loans, which consist primarily of home equity lines of credit and second mortgage loans, we also have ceased offering certain products which we deemed to be of higher risk, including second mortgage loans on non-owner occupied or investment properties, second mortgage bullet loans which were amortized over 30 years but had a 15 year term and no income/no asset ( NINA ) loans.

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

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

	March 31, 2012		September 30,							
			2011		2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)										
<b>Residential mortgage (1)</b>	\$ 220,211	46.6%	\$ 229,330	44.7%	\$ 230,966	41.8%	\$ 252,308	42.4%	\$ 248,118	
<b>Construction and Development:</b>										
Residential and commercial	21,846	4.6	26,005	5.0	30,429	5.5	37,508	6.3	45,451	
Land loans	632	0.1	2,722	0.6	2,989	0.6	3,237	0.6	4,530	
Total construction and development loans	22,478	4.7	28,727	5.6	33,418	6.1	40,745	6.9	49,981	
<b>Commercial:</b>										
Commercial real estate	122,096	25.8	131,225	25.5	143,095	25.9	142,863	24.0	138,522	
Multi-family	5,370	1.2	5,507	1.1	6,493	1.2	9,613	1.6	1,906	
Other	8,735	1.8	10,992	2.1	11,398	2.1	15,647	2.6	17,260	
Total commercial loans	136,201	28.8	147,724	28.7	160,986	29.2	168,123	28.2	157,688	
<b>Consumer:</b>										
Home equity lines of credit	20,667	4.4	20,735	4.0	19,927	3.6	19,149	3.2	12,393	
Second mortgages	72,188	15.3	85,881	16.8	105,825	19.1	113,943	19.1	103,741	
Other	821	0.2	788	0.2	1,086	0.2	1,143	0.2	1,304	
Total consumer loans	93,676	19.9	107,404	21.0	126,838	22.9	134,235	22.5	117,438	
Total loans	472,566	100.0%	513,185	100.0%	552,208	100.0%	595,411	100.0%	573,225	
Deferred loan costs, net	2,538 (8,076)		2,935 (10,101)		3,272 (8,157)		3,872 (5,718)		3,816 (5,505)	

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	March 31,	September 30,			
Allowance for loan losses					
Loans receivable, net	\$ 467,028	\$ 506,019	\$ 547,323	\$ 593,565	\$ 571,536

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

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

	March 31,		September 30,							
	2012		2011		2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)										
<b>Fixed-Rate Loans:</b>										
Residential mortgage (1)	\$ 202,441	42.8%	\$ 211,405	41.2%	\$ 201,285	36.4%	\$ 227,712	38.2%	\$ 218,214	38.1%
Construction and Development:										
Residential and commercial	3,292	0.7	4,250	0.8	968	0.2	5,382	0.9	4,505	0.8
Land loans			1,376	0.3	1,312	0.3	1,558	0.3	1,575	0.2
Total fixed-rate construction and development loans	3,292	0.7	5,626	1.1	2,280	0.5	6,940	1.2	6,080	1.0
<b>Commercial:</b>										
Commercial real estate	43,089	9.1	40,231	7.8	40,833	7.4	56,126	9.4	52,406	9.1
Multi-family	1,688	0.4	932	0.2	950	0.2	3,519	0.6		
Other	483	0.1	1,643	0.3	1,733	0.3	3,798	0.6	4,441	0.8
Total fixed-rate commercial loans	45,260	9.6	42,806	8.3	43,516	7.9	63,443	10.6	56,847	9.9
<b>Consumer:</b>										
Home equity lines of credit										
Second mortgages	72,188	15.3	85,881	16.8	105,825	19.1	113,943	19.1	103,741	18.1
Other	531	0.1	552	0.1	822	0.1	867	0.2	960	0.2
Total fixed-rate consumer loans	72,719	15.4	86,433	16.9	106,647	19.2	114,810	19.3	104,701	18.3
Total fixed-rate loans	\$ 323,712	68.5	\$ 346,270	67.5	\$ 353,728	64.0	\$ 412,905	69.3	\$ 385,842	67.3
<b>Adjustable-Rate Loans:</b>										
	\$ 17,770	3.8%	\$ 17,925	3.5%	\$ 29,681	5.4%	\$ 24,596	4.1%	\$ 29,904	5.2%

September 30,

March 31,

**Residential  
mortgage  
Construction  
and  
Development:**  
Residential and  
commercial  
Land loans  
Total  
adjustable-rate  
construction  
and  
development  
loans

	18,554	3.9	21,755	4.2	29,461	5.3	32,126	5.4	40,946	7.1
	632	0.1	1,346	0.3	1,677	0.3	1,679	0.3	2,955	0.5
	19,186	4.0	23,101	&n						