

MALVERN BANCORP, INC.  
Form 424B3  
August 21, 2012

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Registration No. 333-181798

**PROSPECTUS OF MALVERN BANCORP, INC.**  
**(A NEW PENNSYLVANIA CORPORATION)**  
**AND**  
**PROXY STATEMENT OF MALVERN FEDERAL BANCORP, INC.**  
**(A FEDERAL CORPORATION)**

Malvern Federal Bancorp, Inc., a federal corporation (which we refer to as Malvern Federal Bancorp), Malvern Federal Savings Bank and Malvern Federal Mutual Holding Company are converting from the mutual holding company structure to a fully public ownership structure. Currently, Malvern Federal Mutual Holding Company owns 55.5% of the issued and outstanding shares of Malvern Federal Bancorp's common stock. The remaining 44.5% of Malvern Federal Bancorp's outstanding shares of common stock is owned by other shareholders, who are referred to as the public shareholders. As a result of the conversion, Malvern Bancorp, Inc., a Pennsylvania corporation which was recently formed by Malvern Federal Savings Bank (which we refer to as Malvern Bancorp New), will become the parent holding company for Malvern Federal Savings Bank.

Shares of Malvern Federal Bancorp's common stock owned by the public will be exchanged for between 1,877,961 and 2,540,771 shares of common stock of Malvern Bancorp New (subject to increase to 2,921,887 shares as a result of market demand, regulatory considerations or changes in financial markets) so that Malvern Federal Bancorp's existing public shareholders will own approximately the same percentage of the common stock of Malvern Bancorp New as they owned of the common stock of Malvern Federal Bancorp immediately prior to the conversion. The actual number of shares that you will receive will depend on the exchange ratio, which will depend on the percentage of Malvern Federal Bancorp's common stock held by the public at the completion of the conversion, the final independent appraisal of Malvern Bancorp New and the number of shares of common stock of Malvern Bancorp New stock sold in the offering described in the following paragraph. It will not depend on the market price of common stock. See The Conversion and Offering Effect of the Conversion on Public Shareholders for a discussion of the exchange ratio. Based on the \$8.74 per share closing price of Malvern Federal Bancorp's common stock as of the date of this proxy statement/prospectus, unless at least 2,957,507 shares of common stock of Malvern Bancorp New are sold in the offering (which is between the midpoint and maximum of the offering range), the initial value of the Malvern Bancorp New common stock you receive in the share exchange would be less than the market value of the Malvern Federal Bancorp common stock that you currently own. See Risk Factors The Market Value of Malvern Bancorp New Common Stock Received in the Share Exchange May be Less than the Market Value of Malvern Federal Bancorp Common Stock Exchanged.

Concurrently with the exchange offer, we are offering up to 3,162,500 shares of common stock of Malvern Bancorp New, representing the 55.5% ownership interest of Malvern Federal Mutual Holding Company in Malvern Federal Bancorp, for sale to eligible depositors and certain borrowers of Malvern Federal Savings Bank and the public at a price of \$10.00 per share. We may increase the maximum number of shares that we sell in the offering, without notice to persons who have subscribed for shares, by up to 15%, to 3,636,875 shares, as a result of market demand, regulatory considerations or changes in financial markets. The conversion of Malvern Federal Mutual Holding Company and the offering and exchange of common stock by Malvern Bancorp New are referred to herein as the conversion and offering. After the conversion and offering are completed, Malvern Federal Savings Bank will be a wholly-owned subsidiary of Malvern Bancorp New, and both Malvern Federal Mutual Holding Company and Malvern Federal Bancorp will cease to exist.

Malvern Federal Bancorp's common stock 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 offering. Thereafter, the trading symbol will be MLVF.

The conversion and offering cannot be completed unless the shareholders of Malvern Federal Bancorp approve the plan of conversion and reorganization. The plan of conversion and reorganization must be approved by the affirmative vote of (i) the holders of a majority of the outstanding shares of common stock of Malvern Federal Bancorp, other than Malvern Federal Mutual Holding Company, and (ii) the holders of two-thirds of the votes eligible to be cast by shareholders of Malvern Federal Bancorp, including Malvern

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Federal Mutual Holding Company. Malvern Federal Mutual Holding Company, which owns 55.5% of the outstanding common stock of

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Malvern Federal Bancorp, intends to vote for the plan of conversion and reorganization. Malvern Federal Bancorp is holding a special meeting of shareholders at the Sheraton Great Valley Hotel, located at 707 East Lancaster Avenue, Frazer, Pennsylvania, on Tuesday, October 2, 2012 at 1:00 p.m., Eastern time, to consider and vote upon:

1. The Plan of Conversion and Reorganization of Malvern Federal Mutual Holding Company, Malvern Federal Bancorp, Malvern Bancorp New and Malvern Federal Savings Bank;

2. The following informational proposals:

2A Approval of a provision in the articles of incorporation of Malvern Bancorp New providing for the authorized capital stock of 50,000,000 shares of common stock and 10,000,000 shares of serial preferred stock compared to 15,000,000 shares of common stock and 5,000,000 shares of preferred stock in the charter of Malvern Federal Bancorp;

2B Approval of a provision in the articles of incorporation of Malvern Bancorp New requiring a super-majority shareholder approval for mergers, consolidations and similar transactions, unless they have been approved in advance by at least two-thirds of the board of directors of Malvern Bancorp New;

2C Approval of a provision in the articles of incorporation of Malvern Bancorp New requiring a super-majority shareholder approval of amendments to certain provisions in the articles of incorporation and bylaws of Malvern Bancorp New; and

2D Approval of a provision in the articles of incorporation of Malvern Bancorp New to limit the acquisition of shares in excess of 10% of the outstanding voting securities of Malvern Bancorp New.

3. The adjournment of the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the special meeting to approve the plan of conversion and reorganization; and

4. Any other matters that may properly come before the special meeting or any adjournment or postponement thereof (management is not aware of any such matters).

The board of directors of Malvern Federal Bancorp unanimously recommends that shareholders vote FOR the plan of conversion and reorganization, FOR the informational proposals and FOR the proposal to adjourn the special meeting, if necessary, to solicit additional proxies.

The provisions of the articles of incorporation which are summarized as informational proposals 2A through 2D were approved as part of the process in which the board of directors of Malvern Federal Bancorp approved the plan of conversion and reorganization. These proposals are informational in nature only because the Board of Governors of the Federal Reserve System regulations governing mutual to stock conversion do not provide for votes on matters other than the plan of conversion and reorganization. While we are asking shareholders of Malvern Federal Bancorp to vote with respect to each of the informational proposals, shareholders are not being asked to approve the proposed provisions for which an informational vote is requested and the proposed provisions will become effective if shareholders approve the plan of conversion and reorganization, regardless of whether shareholders vote to approve any or all of the informational proposals.

This document serves as the proxy statement for the special meeting of shareholders of Malvern Federal Bancorp and the prospectus for the shares of common stock of Malvern Bancorp New to be issued in exchange for shares of Malvern Federal Bancorp's common stock. We urge you to read this entire document carefully. You can also obtain information about our companies from documents that we have filed with the Securities and Exchange Commission and the Board of Governors of the Federal Reserve System. This document does not serve as the prospectus relating to the offering by Malvern Bancorp New of its shares of common stock in the subscription offering and any community offering, syndicated community offering or underwritten public offering, which will be made pursuant to a separate prospectus.

**This investment involves a degree of risk, including the possible loss of principal. Please read Risk Factors beginning on page 18.**

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*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.*

*None of the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System or any state securities regulator has approved or disapproved of these securities or determined if this proxy statement/prospectus is accurate or complete. Any representation to the contrary is a criminal offense.*

Please read this entire proxy statement/prospectus, including the section titled **Questions and Answers for Shareholders of Malvern Federal Bancorp**. Questions about voting may be directed to our Proxy Information Agent, Phoenix Advisory Partners, by calling toll-free 1-(800) 283-2170, Monday through Friday from 9:00 a.m. to 10:00 p.m., Eastern time. Questions about the stock offering may be directed to the Stock Information Center by calling 1-(877) 643-8196, 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.

The date of this proxy statement/prospectus is August 10, 2012, and is first being mailed to shareholders of Malvern Federal Bancorp, Inc. on or about August 22, 2012.

*Important Notice Regarding the Availability of Proxy Materials for the Special Meeting to Be Held on October 2, 2012.* This proxy statement/prospectus as well as driving directions to the special meeting are available on our website at [www.malvernfederal.com](http://www.malvernfederal.com) under the *Investor Relations* tab.

#### REFERENCE TO ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about Malvern Bancorp New, Malvern Federal Bancorp, Malvern Federal Savings Bank and Malvern Federal Mutual Holding Company from other documents that are not included in, or delivered with, this proxy statement/prospectus, including the plan of conversion and reorganization. This information is available to you without charge upon your written or oral request. You can obtain these documents relating to Malvern Bancorp New, Malvern Federal Bancorp, Malvern Federal Savings Bank or Malvern Federal Mutual Holding Company by requesting them in writing or by telephone from:

Malvern Federal Bancorp, Inc.  
42 East Lancaster Avenue  
Paoli, Pennsylvania 19301  
Attention: Investor Relations  
(610) 644-9400

**If you would like to request documents, you must do so no later than September 25, 2012 in order to receive them before Malvern Federal Bancorp's special meeting of shareholders. You will not be charged for any of these documents that you request.**

For additional information, please see the section entitled **Where You Can Find Additional Information** beginning on page 168 of this proxy statement/prospectus. A copy of the plan of conversion and reorganization is available for inspection at each of Malvern Federal Savings Bank's banking offices.

**For information on submitting your proxy, please refer to the instructions on the enclosed proxy card.**

i

You should rely only on the information contained in this proxy statement/prospectus or to which we have referred you. We have not authorized anyone to provide you with information that is different. This proxy statement/prospectus does not constitute an offer to sell, or the solicitation of an offer to buy, any of the securities offered hereby to any person in any jurisdiction in which such offer or solicitation would be unlawful. The affairs of Malvern Bancorp New, Malvern Federal Mutual Holding Company, Malvern Federal Bancorp and Malvern Federal Savings Bank and their subsidiaries may change after the date of this proxy statement/prospectus. Delivery of this proxy statement/prospectus and the exchange of shares of common stock of Malvern Federal Bancorp New made hereunder does not mean otherwise.

#### TABLE OF CONTENTS

	<b>Page</b>
Questions and Answers for Shareholders of Malvern Federal Bancorp	1
Summary	4
Risk Factors	18
Information About the Special Meeting of Shareholders	26
Proposal 1. Approval of the Plan of Conversion and Reorganization	28

	<b>Page</b>
Proposal 2. Informational Proposals Related to the Articles of Incorporation of Malvern Bancorp New	33
Informational Proposal 2A	33
Informational Proposal 2B	33
Informational Proposal 2C	34
Informational Proposal 2D	35
Proposal 3. Adjournment of the Special Meeting	36
Selected Consolidated Financial and Other Data	37
Recent Developments of Malvern Federal Bancorp	39
Forward-Looking Statements	51
Use of Proceeds	52
Our Dividend Policy	53
Market for Our Common Stock	54
Regulatory Capital Requirements	55
Our Capitalization	56
Pro Forma Data	57
Management's Discussion and Analysis of Financial Condition and Results of Operations	60
Business	81
Regulation	109
Taxation	119
Management	121
Beneficial Ownership of Common Stock	127
Proposed Management Purchases	129
Interests of Certain Persons in Matters to be Acted Upon	130
The Conversion and Offering	131
Comparison of Shareholder Rights	156
Restrictions on Acquisition of Malvern Bancorp New and Malvern Federal Savings Bank and Related Anti-Takeover Provisions	164
Description of Our Capital Stock	167
Experts	168
Transfer Agent, Exchange Agent and Registrar	168
Legal and Tax Opinions	168
Registration Requirements	168
Where You Can Find Additional Information	168
Shareholder Proposals for the 2013 Annual Meeting	169
Index to Consolidated Financial Statements	F-1

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**MALVERN FEDERAL BANCORP, INC.**  
**42 East Lancaster Avenue**  
**Paoli, Pennsylvania 19301**  
**(610) 644-9400**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**  
**To Be Held on October 2, 2012**

NOTICE IS HEREBY GIVEN that a special meeting of shareholders of Malvern Federal Bancorp, Inc., a federal corporation (which we refer to as Malvern Federal Bancorp ) will be held at the Sheraton Great Valley Hotel, located at 707 East Lancaster Avenue, Frazer, Pennsylvania on Tuesday, October 2, 2012 at 1:00 p.m., Eastern time, to consider and vote upon:

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1. The approval of a Plan of Conversion and Reorganization and the transactions contemplated thereby pursuant to which, among other things, Malvern Bancorp, Inc., a newly formed Pennsylvania corporation (which we refer to as Malvern Bancorp New ), will offer for sale shares of its common stock, and shares of common stock of Malvern Federal Bancorp currently held by shareholders other than Malvern Federal Mutual Holding Company (which we refer to as the public shareholders ) will be exchanged for shares of common stock of Malvern Bancorp New upon the conversion of Malvern Federal Mutual Holding Company, Malvern Federal Savings Bank and Malvern Federal Bancorp from the mutual holding company structure to the stock holding company form;

2. The following informational proposals:

2A Approval of a provision in the articles of incorporation of Malvern Bancorp New providing for the authorized capital stock of 50,000,000 shares of common stock and 10,000,000 shares of serial preferred stock compared to 15,000,000 shares of common stock and 5,000,000 shares of preferred stock in the charter of Malvern Federal Bancorp;

2B Approval of a provision in the articles of incorporation of Malvern Bancorp New requiring a super-majority shareholder approval for mergers, consolidations and similar transactions, unless they have been approved in advance by at least two-thirds of the board of directors of Malvern Bancorp New;

2C Approval of a provision in the articles of incorporation of Malvern Bancorp New requiring a super-majority shareholder approval of amendments to certain provisions in the articles of incorporation and bylaws of Malvern Bancorp New; and

2D Approval of a provision in the articles of incorporation of Malvern Bancorp New to limit the acquisition of shares in excess of 10% of the outstanding voting securities of Malvern Bancorp New;

3. The adjournment of the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the special meeting to approve the plan of conversion and reorganization; and

4. Any other matters that may properly come before the special meeting or an adjournment or postponement thereof. Management is not aware of any such other business at this time.

The provisions of the articles of incorporation which are summarized as informational proposals 2A through 2D were approved as part of the process in which the board of directors of Malvern Federal Bancorp approved the plan of conversion and reorganization. These proposals are informational in nature only because the Board of Governors of the Federal Reserve System ( Federal Reserve Board or FRB ) regulations governing mutual to stock conversion do not provide for votes on matters other than the plan of conversion and reorganization. While we are asking shareholders of Malvern Federal Bancorp to vote with respect to each of the informational proposals, we are not required to receive the separate approval of the proposed provisions for which an informational vote is requested. The proposed provisions will become effective if shareholders approve the plan of conversion and reorganization, regardless of whether shareholders vote to approve any or all of the informational proposals.

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The board of directors has fixed August 9, 2012, as the record date for the determination of shareholders entitled to notice of and to vote at the special meeting and at an adjournment or postponement thereof.

**Upon written request addressed to the Secretary of Malvern Federal Bancorp at the address given above, shareholders may obtain an additional copy of this proxy statement/prospectus and/or a copy of the plan of conversion and reorganization. In order to assure timely receipt of the additional copy of the proxy statement/prospectus and/or the plan of conversion and reorganization, the written request should be received by Malvern Federal Bancorp, Inc. by September 25, 2012. In addition, all such documents may be obtained by calling our Stock Information Center at 1-(877) 643-8196.**

**BY ORDER OF THE BOARD OF DIRECTORS**

Shirley Stanke  
Corporate Secretary

Paoli, Pennsylvania  
August 10, 2012

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## QUESTIONS AND ANSWERS

### FOR SHAREHOLDERS OF MALVERN FEDERAL BANCORP, INC.

**You should read this document and the plan of conversion and reorganization for more information about the conversion and offering. The application for conversion has been conditionally approved by our regulators.**

**Q. What are shareholders being asked to approve?**

**A.** Malvern Federal Bancorp's shareholders as of August 9, 2012 are being asked to vote on the plan of conversion and reorganization. Under the plan of conversion and reorganization, Malvern Federal Savings Bank will convert from the mutual holding company form of ownership to the fully public stock holding company form of ownership, and as part of such conversion, a new Pennsylvania company, Malvern Bancorp New, will offer for sale, in the form of shares of its common stock, Malvern Federal Mutual Holding Company's 55.5% ownership interest in Malvern Federal Bancorp. In addition to the shares of common stock to be issued to those who purchase shares in the stock offering, public shareholders of Malvern Federal Bancorp as of the completion of the conversion, will receive shares of common stock of Malvern Bancorp New in exchange for their existing shares. In addition, informational proposals relating to the articles of incorporation of Malvern Bancorp New are also described in this proxy statement/prospectus. Due to Federal Reserve Board regulations, the proposed provisions of the articles of incorporation described in the informational proposals will become effective if shareholders approve the plan of conversion and reorganization, regardless of whether shareholders vote to approve any or all of the informational proposals.

**Q. What is the conversion?**

**A.** Malvern Federal Savings Bank, Malvern Federal Bancorp and Malvern Federal Mutual Holding Company are converting from a mutual holding company structure to a fully-public ownership structure. Currently, Malvern Federal Mutual Holding Company owns 55.5% of Malvern Federal Bancorp's common stock. The remaining 44.5% of common stock is owned by public shareholders. As a result of the conversion, our newly formed Pennsylvania company, Malvern Bancorp, Inc., will become the parent of Malvern Federal Savings Bank.

Shares of common stock of Malvern Bancorp New, representing the current 55.5% ownership interest of Malvern Federal Mutual Holding Company in Malvern Federal Bancorp, are being offered for sale to eligible depositors and certain borrowers of Malvern Federal Savings Bank and to the public. At the completion of the conversion and offering, public shareholders of Malvern Federal Bancorp will exchange their shares of Malvern Federal Bancorp common stock for shares of common stock of Malvern Bancorp New.

After the conversion and offering are completed, Malvern Federal Savings Bank will become a wholly-owned subsidiary of Malvern Bancorp New. Upon consummation of the conversion and offering, the outstanding shares of Malvern Bancorp New will be owned by the former public shareholders of Malvern Federal Bancorp, who will exchange their shares for shares of Malvern Bancorp New, as well as those persons who purchase shares in the offering for the purchase price of \$10.00 per share. As a result of the conversion and offering, Malvern Federal Mutual Holding Company and Malvern Federal Bancorp will cease to exist.

See The Conversion and Offering beginning on page 131 of this proxy statement/prospectus, for more information about the conversion.

**Q. What will shareholders receive for their existing Malvern Federal Bancorp shares?**

**A.** As more fully described in the section entitled The Conversion and Offering, depending on the number of shares sold in the stock offering, each share of common stock that you own upon completion of the conversion and stock offering will be exchanged for between 0.6908 new shares at the minimum and 0.9346 new shares at the maximum of the offering range (cash will be paid in lieu of fractional shares). For

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example, if you own 100 shares of Malvern Federal Bancorp common stock and the exchange ratio is 0.8127, after the conversion you will receive 81 shares of Malvern Bancorp New common stock and \$0.27 in cash, the value of the fractional share, based on the \$10.00 per share offering price. Shareholders who hold shares in street-name at a brokerage firm will receive these funds in their brokerage account. Shareholders who have stock certificates will receive checks. The number of shares you will get will depend on the number of shares sold in the offering and 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 exchange ratio will adjust based on the number of shares sold in the offering. It will not depend on the market price of the common stock Malvern Federal Bancorp.

**Q. What are the reasons for the conversion and offering?**

**A.** 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:

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 (although Malvern Federal Savings Bank is deemed to be well-capitalized ) and support our ability to operate in accordance with our business plan in the future.

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.

**Q. Why should I vote?**

**A.** You are not required to vote, but your vote is very important. In order for us to implement the plan of conversion and reorganization, we must receive the affirmative vote of the holders of a majority of the outstanding shares of Malvern Federal Bancorp common stock, other than shares held by Malvern Federal Mutual Holding Company, in addition to the approval of two-thirds of all the outstanding shares. **The board of directors of Malvern Federal Bancorp recommends that you vote FOR approval of the plan of conversion and reorganization.**

**Q. What happens if I don't vote?**

**A.** **Your prompt vote is very important. Not voting will have the same effect as voting Against the plan of conversion and reorganization.** Without sufficient favorable votes for the conversion, we will not proceed with the conversion and offering.

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**Q. How do I vote?**

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**A.** You should sign your proxy card and return it in the enclosed proxy reply envelope. You may also vote by telephone or via the internet by following the instructions on the proxy card. **Please vote promptly. Not voting has the same effect as voting Against the plan of conversion and reorganization.**

**Q.** **If my shares are held in street name, will my broker automatically vote on my behalf?**

**A.** No. Your broker will not be able to vote your shares without instructions from you. You should instruct your broker to vote your shares, using the directions that your broker provides to you.

**Q.** **What if I do not give voting instructions to my broker?**

**A.** Your vote is important. If you do not instruct your broker to vote your shares by proxy, each unvoted share will have the same effect as a vote against the plan of conversion and reorganization.

**Q.** **How will my existing Malvern Federal Bancorp shares be exchanged?**

**A.** The conversion of your shares of common stock Malvern Federal Bancorp into the right to receive shares of common stock of Malvern Bancorp New will occur automatically on the effective date of the conversion, although you will need to exchange your stock certificate(s) if you hold shares in certificate form. As soon as practicable after the effective date of the conversion and reorganization, our exchange agent will send a transmittal form to you. The transmittal forms are expected to be mailed promptly after the effective date and will contain instructions on how to submit the stock certificate(s) representing existing shares of Malvern Federal Bancorp common stock. No fractional shares of Malvern Bancorp New common stock will be issued to you when the conversion is completed. For each fractional share that would otherwise be issued to a shareholder who holds a certificate, you will be paid by check an amount equal to the product obtained by multiplying the fractional share interest to which you would otherwise be entitled by \$10.00. If your shares are held in street name, you will automatically receive cash in lieu of fractional shares.

**Q.** **Should I submit my stock certificates now?**

**A.** No. If you hold your certificate(s), instructions for exchanging the shares will be sent to you after completion of the conversion and offering. If your shares are held in street name, rather than in certificate form, the share exchange will occur automatically upon completion of the conversion and offering.

**Q.** **May I place an order to purchase shares in the offering, in addition to the shares that I will receive in the exchange?**

**A.** Yes. If you would like to receive a prospectus and stock order form, you may call the Stock Information Center, toll free, at 1-(877) 643-8196, Monday through Friday between 10:00 a.m. and 4:00 p.m., Eastern time. The Stock Information Center will be closed weekends and bank holidays.

**Further Questions?**

For answers to other questions, please read this proxy statement/prospectus. Questions about voting may be directed to our Proxy Information Agent, Phoenix Advisory Partners, by calling toll-free 1-(800) 283-2170, Monday through Friday from 9:00 a.m. to 10:00 p.m., Eastern Time. Questions about the stock offering may be directed to the Stock Information Center by calling 1-(877) 643-8196, 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.



**SUMMARY**

*The following summary highlights the material information from this proxy statement/prospectus and may not contain all the information that is important to you. You should read this entire document carefully, including the sections entitled Risk Factors and The Conversion and Offering and the consolidated financial statements and the notes to the consolidated financial statements.*

**What This Document Is About**

The boards of directors of Malvern Federal Bancorp, Malvern Federal Mutual Holding Company, Malvern Federal Savings Bank and Malvern Bancorp New have adopted a plan of conversion and reorganization pursuant to which Malvern Federal Savings Bank will reorganize from a mutual holding company structure to a stock form holding company structure. As part of the conversion, Malvern Federal Savings Bank formed Malvern Bancorp New. Public shareholders of Malvern Federal Bancorp will receive shares in Malvern Bancorp New in exchange for their shares of Malvern Federal Bancorp common stock based on an exchange ratio. This conversion to a stock holding company structure also includes the offering by Malvern Bancorp New of shares of its common stock to eligible depositors and certain borrowers of Malvern Federal Savings Bank in a subscription offering and, if necessary, to the public in a community offering and either a syndicated community offering or underwritten public offering. Following the conversion and offering, Malvern Federal Mutual Holding Company and Malvern Federal Bancorp will no longer exist and Malvern Bancorp New will be the parent company of Malvern Federal Savings Bank.

The conversion and offering cannot be completed unless the shareholders of Malvern Federal Bancorp approve the plan of conversion and reorganization. Malvern Federal Bancorp's shareholders will vote on the plan of conversion and reorganization at the special meeting of shareholders of Malvern Federal Bancorp. This document is the proxy statement used by Malvern Federal Bancorp's board of directors to solicit proxies for the special meeting. It is also the prospectus of Malvern Bancorp New regarding the shares of common stock of Malvern Bancorp New to be issued to Malvern Federal Bancorp's shareholders in the share exchange. This document does not serve as the prospectus relating to the offering by Malvern Federal Bancorp New of its shares of common stock in the subscription offering and any community offering, syndicated community offering or underwritten public offering, which will be made pursuant to a separate prospectus.

In addition, informational proposals relating to the articles of incorporation of Malvern Bancorp New are also described in this proxy statement/prospectus, but, due to Federal Reserve Board regulations, we are not required to be approved if shareholders approve the plan of conversion and reorganization. While we are asking shareholders of Malvern Federal Bancorp to vote with respect to each of the informational proposals, we are not required to receive the separate approval of shareholders of the proposed provisions for which an informational vote is requested. The proposed provisions will become effective if shareholders approve the plan of conversion and reorganization, regardless of whether shareholders vote to approve any or all of the informational proposals.

**The Malvern Federal Bancorp Special Meeting**

**Date, Time and Place.** Malvern Federal Bancorp will hold its special meeting of shareholders to consider and vote on the plan of conversion and reorganization at the Sheraton Great Valley Hotel, located at 707 East Lancaster Avenue, Frazer, Pennsylvania on October 2, 2012 at 1:00 p.m., Eastern time.

**Record Date.** The record date for shareholders entitled to vote at the special meeting of shareholders is August 9, 2012. On the record date, shares of Malvern Federal Bancorp common stock were outstanding and entitled to vote at the special meeting.

**The Proposals.** Shareholders will be voting on the following proposals at the special meeting:

1. Approval of the plan of conversion and reorganization;
2. The following informational proposals:

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2A Approval of a provision in the articles of incorporation of Malvern Bancorp New providing for the authorized capital stock of 50,000,000 shares of common stock and 10,000,000 shares of serial preferred stock compared to 15,000,000 shares of common stock and 5,000,000 shares of preferred stock in the charter of Malvern Federal Bancorp;

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2B Approval of a provision in the articles of incorporation of Malvern Bancorp New requiring a super-majority shareholder approval for mergers, consolidations and similar transactions, unless they have been approved in advance by at least two-thirds of the board of directors of Malvern Bancorp New;

2C Approval of a provision in the articles of incorporation of Malvern Bancorp New requiring a super-majority shareholder approval of amendments to certain provisions in the articles of incorporation and bylaws of Malvern Bancorp New; and

2D Approval of a provision in the articles of incorporation of Malvern Bancorp New to limit the acquisition of shares in excess of 10% of the outstanding voting securities of Malvern Bancorp New;

3. The adjournment of the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the special meeting to approve the plan of conversion and reorganization; and

4. Any other matters that may properly come before the special meeting or any adjournment or postponement thereof (management is not aware of any such matters).

**The Informational Proposals.** The provisions of the articles of incorporation of Malvern Bancorp New which are summarized as informational proposals 2A through 2D were approved as part of the process in which the board of directors of Malvern Federal Bancorp approved the plan of conversion and reorganization. These proposals are informational in nature only because the Federal Reserve Board regulations governing mutual to stock conversion do not provide for votes on matters other than the plan of conversion and reorganization. The proposed provisions described in the informational proposals will become effective if shareholders approve the plan of conversion and reorganization, regardless of whether shareholders vote to approve any or all of the informational proposals.

### Vote Required

**Proposal 1: Approval of the Plan of Conversion and Reorganization.** We must obtain the affirmative vote of (i) the holders of a majority of the outstanding shares of common stock of Malvern Federal Bancorp, other than Malvern Federal Mutual Holding Company, and (ii) the holders of two-thirds of the votes eligible to be cast by shareholders of Malvern Federal Bancorp, including Malvern Federal Mutual Holding Company.

**Informational Proposals 2A through 2D Related to the Articles of Incorporation of Malvern Bancorp New.** While we are asking you to vote with respect to each of the informational proposals, the proposed provisions will become effective if shareholders approve the plan of conversion and reorganization, regardless of whether shareholders vote to approve any or all of the informational proposals.

**Proposal 3: Adjournment of the special meeting, if necessary, to solicit additional proxies.** We must obtain the affirmative vote of a majority of the total votes present at the special meeting in person and by proxy to approve the proposal to adjourn the special meeting, if necessary, to solicit additional proxies.

**Other Matters.** We must obtain the affirmative vote of a majority of the total votes present at the special meeting in person or by proxy to approve other proposals.

As of the voting record date, the directors and executive officers of Malvern Federal Bancorp owned 72,815 shares, or approximately 1.2% of the outstanding shares of Malvern Federal Bancorp common stock and Malvern Federal Mutual Holding Company owned 3,383,875 shares, or approximately 55.5% of the outstanding shares of Malvern Federal Bancorp common stock. Malvern Federal Mutual Holding Company is expected to vote all of its shares FOR the plan of conversion and reorganization, FOR each of the informational proposals and FOR the proposal to adjourn the special meeting, if necessary, to solicit additional proxies.

### *Solicitation of Proxies*

This proxy statement/prospectus and the accompanying proxy card are being furnished to you in connection with the solicitation of proxies for the special meeting by the board of directors of Malvern Federal Bancorp. Malvern Federal Bancorp will pay the costs of soliciting proxies from its shareholders. To the extent necessary to permit approval of the plan of conversion and reorganization and the other proposals being

considered, Phoenix Advisory Partners, our independent proxy solicitor, and directors, officers or employees of Malvern Federal Bancorp and Malvern Federal Savings Bank may solicit proxies by mail, telephone and other forms of communication. We will reimburse such persons for their reasonable out-of-pocket expenses incurred in connection with such solicitation. For its services as shareholder information agent and shareholder proxy solicitor, we will pay Phoenix Advisory Partners \$3,000 for shareholder solicitation services and \$1,500 for shareholder information agent services, plus reasonable out-of-pocket expenses and charges for telephone calls made and received in connection with the solicitation.

We will also reimburse banks, brokers, nominees and other fiduciaries for the expenses they incur in forwarding the proxy material to you.

**The board of directors of Malvern Federal Bancorp unanimously recommends that you vote FOR approval of the plan of conversion and reorganization and FOR the other proposals described above.**

## **The Companies**

### **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

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Malvern Federal Mutual Holding Company entered into Supervisory Agreements with the Office of Thrift Supervision (the OTS ) (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 (the OCC ) (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**

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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 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 proxy statement/prospectus.

8

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

9

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Following our conversion and this 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.

**Terms of the Conversion and Offering**

The boards of directors of Malvern Federal Mutual Holding Company, Malvern Federal Bancorp and Malvern Federal Savings Bank unanimously adopted the plan of conversion and reorganization in January 2012. An application for conversion, including the plan of conversion and reorganization, has been approved by the Federal Reserve Board, subject to, among other things, approval of the plan of conversion and reorganization by the members of Malvern Federal Mutual Holding Company (who are the depositors and certain borrowers of Malvern Federal Savings Bank) and the shareholders of Malvern Federal Bancorp. The special meeting of shareholders has been called for this purpose on October 2, 2012.

The conversion to a stock holding company structure also includes the offering by Malvern Bancorp New of its outstanding shares to qualifying members of Malvern Federal Mutual Holding Company (who are the depositors and certain borrowers of Malvern Federal Savings Bank) in a subscription offering and to certain other persons in a community offering and either a syndicated community offering or underwritten public offering. The plan of conversion and reorganization has been included as an exhibit to the registration statement filed with the Securities and Exchange Commission See Where You Can Find Additional Information in this proxy statement/prospectus.

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

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. 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	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

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	Shares to be sold in the offering		Shares of Malvern Bancorp New stock to be issued in exchange for Malvern Federal Bancorp common stock					
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 our common stock will be issued to any public shareholder of Malvern Bancorp upon consummation of the conversion. For each fractional share that would otherwise be issued, we will pay 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 subscription price. For further information, see The Conversion and Offering Effect of the Conversion and Offering on Public Shareholders.

#### Dissenters Rights

Under federal law and regulations, current public shareholders of Malvern Federal Bancorp do not have dissenters rights or appraisal rights.

#### Reasons for the Conversion

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:

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.

### 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 outstanding shares of Malvern Federal Bancorp common stock held by public shareholders;

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

We receive the final approval of the Federal Reserve Board 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 the voting record date, directors and executive officers of Malvern Federal Bancorp and their associates beneficially owned 72,815 shares of common stock of Malvern Federal Bancorp or 1.2% of the outstanding shares. They intend to vote those shares in favor of the plan of conversion and reorganization.

### How We Determined the Price Per Share, the Offering Range and the Exchange

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,



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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.

Company Name and Ticker Symbol	Exchange	Headquarters	Total Assets (in millions)
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 proxy statement/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;

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.

	<u>Price to Earnings Multiple</u>	<u>Price to Book Value Ratio</u>	<u>Price to Tangible Book Value Ratio</u>
<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 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.

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, Pro Forma Data, and The Conversion and Offering How We Determined the Price Per Share, The Offering Range and the Exchange Ratio.

#### 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.

**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.**

### **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.

### **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 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 not determined whether we will seek to pay dividends on the common stock of Malvern Bancorp New after 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.

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

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

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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, approval of the Federal Reserve Board 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.

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

### **Common Stock Purchase Limitation**

The number of shares of Malvern Bancorp New common stock that you may purchase in the offering individually, and together with associates or persons acting in concert, plus any exchange shares you and they receive may not exceed 9.9% of the total shares of Malvern Bancorp New common stock to be issued and outstanding at the completion of the conversion and offering, provided, however, that you will not be required to divest any of your Malvern Bancorp New shares or be limited in the number of exchange shares you may receive.

### **Differences in Shareholders Rights**

As a result of the conversion and offering, each shareholder of Malvern Federal Bancorp will become a shareholder of Malvern Bancorp New. Certain rights of shareholders of Malvern Bancorp New will differ from the rights Malvern Federal Bancorp's shareholders currently have. See Informational Proposals Relating to the Articles of Incorporation of Malvern Bancorp New and Comparison of Shareholders Rights for a discussion of these differences.

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

Questions about voting may be directed to our Proxy Information Agent, Phoenix Advisory Partners, by calling toll-free 1-(800) 283-2170, Monday through Friday, from 9:00 a.m. to 10:00 p.m., Eastern time.

Questions about the stock offering may be directed to the Stock Information Center by calling 1-(877) 643-8196, 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.

## RISK FACTORS

*You should consider carefully the following risk factors in deciding how to vote.*

### 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-accruing 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.

#### **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.

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.

20

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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 (the FDIC) resolution costs and led to a significant reduction in the balance of the Deposit Insurance Fund. As a result, the FDIC 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 FDIC 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 FDIC 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

21

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than temporary impairment charges, and constrained access to debt markets at attractive rates. While the 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 the Conversion and the Exchange Offering**

#### **The Market Value of Malvern Bancorp New Common Stock Received in the Share Exchange May Be Less than the Market Value of Malvern Federal Bancorp Common Stock Exchanged**

The number of shares of Malvern Bancorp New common stock you receive will be based on an exchange ratio which will be determined as of the date of completion of the conversion and offering. The exchange ratio will be based on the percentage of Malvern Federal Bancorp common stock held by the public prior to the conversion, the final independent appraisal of Malvern Bancorp New common stock prepared by RP Financial and the number of shares of common stock sold in the offering. The exchange ratio will ensure that existing public shareholders of Malvern Federal Bancorp common stock will own approximately the same percentage of Malvern Bancorp New common stock after the conversion and offering as they owned of Malvern Federal Bancorp common stock immediately prior to completion of the conversion and offering, exclusive of the effect of their purchase of additional shares in the offering and the receipt of cash in lieu of fractional shares. The exchange ratio will not depend on the market price of Malvern Federal Bancorp's common stock.

The exchange ratio ranges from a minimum of 0.6908 to a maximum of 0.9346 shares of Malvern Bancorp New common stock per share of Malvern Federal Bancorp common stock. Under certain circumstances, the pro forma market value can be adjusted upward by 15.0% to reflect changes in market conditions, and, at the adjusted maximum, the exchange ratio would be 1.0748 shares of Malvern Bancorp New common stock per share of Malvern Federal Bancorp common stock. Shares of Malvern Bancorp New common stock issued in the share exchange will have an initial value of \$10.00 per share. The exchange ratio and the number of shares of Malvern Bancorp New you would receive in exchange for your Malvern Federal Bancorp shares will be determined by the number of shares we sell in the offering. The higher the number of shares sold, the higher the exchange ratio. If the offering closes at the minimum of the offering range and you own 100 shares of Malvern Federal Bancorp common stock, you would receive 69 shares of Malvern Bancorp New common stock, which would have an initial value of \$690 based on the offering price, plus \$0.08 cash. If the offering closes at 15% above the maximum of the offering range, you would receive 107 shares of Malvern Bancorp New common stock for each 100 shares of Malvern Federal Bancorp stock, with an initial value of \$1,070 based on the offering price, plus \$0.48 cash. We cannot tell you today whether the offering will close at the minimum or some other point in the valuation range. Depending on the exchange ratio and the market value of Malvern Federal Bancorp common stock at the time of the exchange, the initial market value of the Malvern Bancorp New common stock that you receive in the share exchange could be less than the market value of the Malvern Federal Bancorp common stock that you currently own. Based on the \$8.74 per share closing price of Malvern Federal Bancorp common stock as of the date of this proxy statement/prospectus, unless at least 2,957,507 shares of Malvern Bancorp New common stock are sold in the offering (which is between the mid-point and maximum of the offering range), the initial value of the Malvern Bancorp New common stock you receive in the share exchange would be less than the market value of the Malvern Federal Bancorp common stock you currently own. See *The Conversion and Offering Delivery and Exchange of Share Certificates* and *The Conversion and Offering Effects of the Conversion and Offering on Public Shareholders*.

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#### **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 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;

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.

### **INFORMATION ABOUT THE SPECIAL MEETING OF SHAREHOLDERS**

**To Be Held on October 2, 2012**

#### **General**

This proxy statement/prospectus is being furnished to you in connection with the solicitation by the board of directors of Malvern Federal Bancorp of proxies to be voted at the special meeting of shareholders to be held at the Sheraton Great Valley Hotel, located at 707 East Lancaster Avenue, Frazer, Pennsylvania on Tuesday, October 2, 2012 at 1:00 p.m., Eastern time, and any adjournment or postponement thereof.

The purpose of the special meeting is to consider and vote upon the plan of conversion and reorganization of Malvern Federal Mutual Holding Company, Malvern Federal Bancorp, Malvern Federal Savings Bank and Malvern Bancorp New.

The plan of conversion and reorganization provides for a series of transactions, referred to as the conversion and offering, which will result in the elimination of the mutual holding company. The plan of conversion and reorganization will also result in the creation of a new stock form holding company which will own all of the outstanding shares of Malvern Federal Savings Bank, the exchange of shares of common stock of Malvern Federal Bancorp by shareholders other than Malvern Federal Mutual Holding Company, who are referred to as the public shareholders, for shares of the new stock holding company, Malvern Bancorp New, the issuance and the sale of additional shares to depositors of Malvern Federal Savings Bank and others in an offering. The conversion and offering will be accomplished through a series of substantially simultaneous and interdependent transactions as follows:

Malvern Federal Mutual Holding Company will convert from mutual to stock form and simultaneously merge with and into Malvern Federal Bancorp, pursuant to which the mutual holding company will cease to exist and the shares of Malvern Federal Bancorp common stock held by the mutual holding company will be canceled; and

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Malvern Federal Bancorp then will merge with and into the Malvern Bancorp New with Malvern Bancorp New being the survivor of such merger.

As a result of the above transactions, Malvern Federal Savings Bank will become a wholly-owned subsidiary of the new holding company, Malvern Bancorp New, and the outstanding shares of Malvern Federal Bancorp common stock will be converted into the shares of common stock of Malvern Bancorp New pursuant to the exchange ratio, which will result in the public shareholders owning in the aggregate approximately the same percentage of the common stock of Malvern Bancorp New to be outstanding upon the completion of the conversion and offering as the percentage of common stock of Malvern Federal Bancorp owned by them in the aggregate immediately prior to consummation of the conversion and offering before giving effect to (a) the payment of cash in lieu of issuing fractional exchange shares, and (b) any shares of common stock purchased by public shareholders in the offering.

This proxy statement/prospectus, together with the accompanying proxy card, is first being mailed or delivered to shareholders of Malvern Federal Bancorp on or about August 22, 2012.

**Voting in favor of or against the plan of conversion and reorganization includes a vote for or against the conversion of Malvern Federal Mutual Holding Company to a stock form holding company as contemplated by the plan of conversion and reorganization. Voting in favor of the plan of conversion and reorganization will not obligate you to purchase any common stock in the offering and will not affect the balance, interest rate or federal deposit insurance of any deposits at Malvern Federal Savings Bank.**

### Record Date and Voting Rights

You are entitled to one vote at the special meeting for each share of Malvern Federal Bancorp common stock that you owned of record at the close of business on August 9, 2012 (the Record Date. ) On the Record Date, there were 6,102,500 shares of common stock outstanding.

26

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You may vote your shares at the special meeting in person or by proxy. To vote in person, you must attend the special meeting and obtain and submit a ballot, which we will provide to you at the special meeting. To vote by proxy, you must complete, sign and return the enclosed proxy card. If you properly complete your proxy card and send it to us in time to vote, your proxy (the board of directors of Malvern Federal Bancorp) will vote your shares as you have directed. **If you sign the proxy card but do not make specific choices, your proxy will vote your shares FOR the proposals identified in the Notice of Special Meeting.** You may also vote by telephone or via the internet by following the instructions on the proxy card.

If any other matter is presented, your proxy will vote the shares represented by all properly executed proxies on such matters as a majority of the board of directors determines. As of the date of this proxy statement/prospectus, we know of no other matters that may be presented at the special meeting, other than those listed in the Notice of Special Meeting.

### Quorum

A quorum of shareholders is necessary to hold a valid meeting. If the holders of at least a majority of the total number of the outstanding shares of common stock entitled to vote are represented in person or by proxy at the special meeting, a quorum will exist. We will include proxies marked as abstentions and broker non-votes to determine the number of shares present at the special meeting.

### Vote Required

**Proposal 1: Approval of the Plan of Conversion and Reorganization.** We must obtain the affirmative vote of (i) the holders of a majority of the outstanding shares of common stock of Malvern Federal Bancorp, other than Malvern Federal Mutual Holding Company, and (ii) the holders of two-thirds of the votes eligible to be cast by shareholders of Malvern Federal Bancorp, including Malvern Federal Mutual Holding Company.

**Informational Proposals 2A-2D: Related to Certain Provisions in the Articles of Incorporation of Malvern Bancorp New.** The provisions of the articles of incorporation of Malvern Bancorp New which are summarized as informational proposals 2A through 2D were approved by the board of directors of Malvern Federal Bancorp as part of the process to approve the plan of conversion and reorganization. These proposals are informational in nature only because the Federal Reserve Board regulations governing mutual to stock conversion do not provide for votes on matters other than the plan of conversion and reorganization. While we are asking you to vote with respect to each of the informational proposals, we are not required to receive the separate approval of shareholders of the proposed provisions for which an informational vote is

being requested. The proposed provisions will become effective if shareholders approve the plan of conversion and reorganization, regardless of whether shareholders vote to approve any or all of the informational proposals.

**Proposal 3: Adjournment of the special meeting, if necessary, to solicit additional proxies.** We must obtain the affirmative vote of a majority of the total votes present at the special meeting in person and by proxy to approve the proposal to adjourn the special meeting, if necessary, to solicit additional proxies.

**Other Matters.** We must obtain the affirmative vote of a majority of the total votes present at the special meeting in person or by proxy to approve other proposals.

We expect that Malvern Federal Mutual Holding Company will vote all of the shares of Malvern Federal Bancorp common stock that it owns in favor of the proposals to approve the plan of conversion and reorganization, the informational proposals and the proposal to adjourn the special meeting, if necessary, to solicit additional proxies.

#### **Effect of Abstentions and Broker Non-Votes**

If you do not instruct your broker how to vote on the proposals, your broker is not permitted to vote on the proposal to approve the plan of conversion and reorganization or the informational proposals on your behalf and this will constitute a broker non-vote. Broker non-votes and abstentions will have the same effect as a vote Against the proposal to approve the plan of conversion and reorganization and the other proposals. Malvern Federal Mutual Holding Company is expected to vote all of its shares to approve the plan of conversion and reorganization and the other proposals.

27

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#### **Revoking Your Proxy**

You may revoke your proxy at any time before it is voted by:

filing a written revocation of the proxy with the corporate secretary of Malvern Federal Bancorp;

submitting a signed proxy card bearing a later date; or

attending and voting in person at the special meeting, but you also must file a written revocation at the meeting with the corporate secretary of Malvern Federal Bancorp prior to the voting.

If your shares are not registered in your own name, you will need appropriate documentation from your shareholder of record to vote personally at the special meeting. Examples of such documentation include a broker's statement, letter or other document that will confirm your ownership of shares of Malvern Federal Bancorp.

#### **Solicitation of Proxies**

This proxy statement/prospectus and the accompanying proxy card are being furnished to you in connection with the solicitation of proxies for the special meeting by the Malvern Federal Bancorp board of directors. Malvern Federal Bancorp will pay the costs of soliciting proxies from its shareholders. To the extent necessary to permit approval of the plan of conversion and reorganization and the other proposals being considered, Phoenix Advisory Partners, our independent proxy solicitor, and directors, officers or employees of Malvern Federal Bancorp and Malvern Federal Savings Bank may solicit proxies by mail, telephone and other forms of communication. We will reimburse such persons for their reasonable out-of-pocket expenses incurred in connection with such solicitation. For its services as shareholder information agent and shareholder proxy solicitor, we will pay Phoenix Advisory Partners \$3,000 for shareholder solicitation services and \$1,500 for shareholder information agent services, plus reasonable out-of-pocket expenses and charges for telephone calls made and received in connection with the solicitation. We will also reimburse banks, brokers, nominees and other fiduciaries for the expenses they incur in forwarding the proxy material to you.

**The board of directors of Malvern Federal Bancorp recommends that you promptly sign, date and mark the enclosed proxy card in favor of the adoption of the plan of conversion and reorganization and promptly return it in the enclosed self-addressed,**

postage-prepaid proxy reply envelope. Returning the proxy card will not prevent you from voting in person at the special meeting.

Your prompt vote is very important. Failure to vote will have the same effect as voting against the plan of conversion and reorganization.

#### **PROPOSAL 1 APPROVAL OF THE PLAN OF CONVERSION AND REORGANIZATION**

The Boards of Directors of Malvern Federal Bancorp, Malvern Bancorp New, Malvern Federal Mutual Holding Company and Malvern Federal Savings Bank all have approved the plan of conversion and reorganization. The Federal Reserve Board also has conditionally approved the application for conversion, including the plan of conversion and reorganization, subject to approval of the plan of conversion and reorganization by the depositors and certain borrowers of Malvern Federal Savings Bank and the shareholders of Malvern Federal Bancorp. Such approval by the Federal Reserve Board, does not constitute a recommendation or endorsement of the plan of conversion and reorganization by such agency.

#### **General**

The boards of directors of Malvern Federal Bancorp, Malvern Bancorp New, Malvern Federal Mutual Holding Company and Malvern Federal Savings Bank unanimously adopted the plan of conversion and reorganization on January 17, 2012. The Federal Reserve Board also has conditionally approved the application for conversion, including the plan of conversion and reorganization, subject to, among other things, approval of the plan of conversion and reorganization by the members of Malvern Federal Mutual Holding Company (who are the depositors and certain borrowers of Malvern Federal Savings Bank) and the

28

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shareholders of Malvern Federal Bancorp. The special meetings of members and of shareholders have been called for this purpose on October 2, 2012.

The second-step conversion that we are now undertaking involves a series of transactions by which we will convert our organization from the partially public mutual holding company form to the fully public stock holding company structure. Under the plan of conversion and reorganization, Malvern Federal Savings Bank will convert from the mutual holding company form of organization to the stock holding company form of organization and become a wholly-owned subsidiary of Malvern Bancorp New, a newly formed Pennsylvania corporation. Shareholders of Malvern Federal Bancorp, other than Malvern Federal Mutual Holding Company, will receive shares of common stock of the new holding company, Malvern Bancorp, Inc., in exchange for their existing shares of Malvern Federal Bancorp common stock. Following the conversion and offering, Malvern Federal Bancorp and Malvern Federal Mutual Holding Company will no longer exist.

A copy of the plan of conversion and reorganization is available for inspection at each banking office of Malvern Federal Savings Bank. The plan of conversion and reorganization also is filed as an exhibit to the registration statement of which this document is a part, copies of which may be obtained from the Securities and Exchange Commission. The plan of conversion and reorganization also is included as an exhibit to the application for the conversion filed with the Federal Reserve Board. See [Where You Can Find Additional Information](#).

#### **Purposes of the Conversion and Offering**

Malvern Federal Mutual Holding Company, as a mutual holding company, does not have shareholders and has no authority to issue capital stock. As a result of the conversion and offering, Malvern Federal Savings Bank will be structured in the form used by holding companies of commercial banks, most business entities and most stock savings institutions. The conversion to the fully public form of ownership will remove the uncertainties associated with the mutual holding company structure created by the recently enacted financial reform legislation. The conversion and offering will also be important to our future performance by providing a larger capital base to support our operations. Although Malvern Federal Bancorp currently has the ability to raise additional capital through the sale of additional shares of Malvern Federal Bancorp common stock, that ability is limited by the mutual holding company structure which, among other things, requires that Malvern Federal Mutual Holding Company always hold a majority of the outstanding shares of Malvern Federal Bancorp's common stock.

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.

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.

29

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.

In light of the foregoing, the boards of directors of Malvern Federal Mutual Holding Company, Malvern Federal Bancorp and Malvern Federal Savings Bank as well as Malvern Bancorp New believe that it is in the best interests of such companies, the depositors and other customers of Malvern Federal Savings Bank and shareholders of Malvern Federal Bancorp to continue to implement our strategic business plan, and that the most feasible way to do so is through the conversion and offering.

### Effect of the Conversion and Offering on Public Shareholders

Federal regulations provide that in a conversion of a mutual holding company to stock form, the public shareholders of Malvern Federal Bancorp will be entitled to exchange their shares of common stock for common stock of the new holding company. Each publicly held share of Malvern Federal Bancorp common stock will, on the date of completion of the conversion and offering, be automatically converted into and become the right to receive a number of shares of common stock of the new holding company determined pursuant to the exchange ratio, which we refer to as the exchange shares. The public shareholders of Malvern Federal Bancorp common stock will own the same percentage of common stock in the new holding company after the conversion and offering as they held in Malvern Federal Bancorp prior to the completion of the conversion, subject to any additional shares purchased by them in the offering and their receipt of cash in lieu of fractional exchange shares.

Based on the independent valuation, the 55.5% of the outstanding shares of Malvern Federal Bancorp common stock held by Malvern Federal Mutual Holding Company as of the date of the independent valuation and the 44.5% public ownership interest of Malvern Federal Bancorp, the following table sets forth, at the minimum, midpoint, maximum, and adjusted maximum of the offering range:

the total number of shares of common stock to be issued in the conversion and offering;

the total shares of common stock outstanding after the conversion and offering;

the exchange ratio; and

the number of shares an owner of 100 shares of Malvern Federal Bancorp common stock will receive in the exchange, adjusted for the number of shares sold in the offering, and the assumed value of each of such shares.

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	Exchange ratio	100 shares of	Equivalent Per Share
Amount	Percent	Amount	Percent				



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	Shares to be sold in the offering		Shares of Malvern Bancorp New stock to be issued in exchange for Malvern Federal Bancorp common stock		Bancorp New common stock to be outstanding after the conversion	Malvern Federal Bancorp common stock would be exchanged for the following number of shares of Malvern Bancorp New(1)	Value(2)	
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.

As indicated in the table above, the exchange ratio ranges 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. Under certain circumstances, the pro forma market value may be adjusted upward to reflect changes in market conditions, and, at the adjusted maximum, the exchange ratio would be 1.0748 shares of Malvern Bancorp New common stock for each share of Malvern Federal Bancorp common stock. Shares of Malvern

Bancorp New common stock issued in the share exchange will have an initial value of \$10.00 per share. Depending on the exchange ratio and the market value of Malvern Federal Bancorp common stock at the time of the exchange, the initial market value of the Malvern Bancorp New common stock that Malvern Federal Bancorp shareholders receive in the share exchange could be less than the market value of the Malvern Federal Bancorp common stock that such persons currently own. If the conversion and offering is completed at the minimum of the offering range, each share of Malvern Federal Bancorp would be converted into 0.6908 shares of Malvern Bancorp New common stock with an initial value of \$6.91 based on the \$10.00 offering price in the conversion. This compares to the closing sale price of \$8.74 per share price for Malvern Federal Bancorp common stock on August 10, 2012, as reported on the Nasdaq Global Market. In addition, as discussed in Effect on Stockholders Equity per Share of the Shares Exchanged below, pro forma stockholders equity per share following the conversion and offering will range between \$19.76 and \$15.99 at the minimum and the maximum of the offering range, respectively.

**Ownership of Malvern Bancorp New After the Conversion and Offering**

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The following table shows information regarding the shares of common stock that Malvern Bancorp New will issue in the conversion and offering. The table also shows the number of shares that will be owned by Malvern Bancorp public shareholders at the completion of the conversion and offering who will receive the new holding company's common stock in exchange for their shares of Malvern Bancorp common stock. The number of shares of common stock to be issued is based, in part, on our independent appraisal.

	2,337,500 shares issued at minimum of offering range		2,750,000 shares issued at midpoint of offering range		3,162,500 shares issued at maximum of offering range		3,636,875 shares issued at adjusted maximum of offering range(1)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Purchasers in the stock offering	2,337,500	55.5%	2,750,000	55.5%	3,162,500	55.5%	3,636,875	55.5%
Malvern Federal Bancorp public shareholders in the exchange	1,877,961	44.5	2,209,336	44.5	2,540,771	44.5	2,921,887	44.5
Total shares outstanding after the conversion and offering	4,215,461	100.0%	4,959,366	100.0%	5,703,271	100.0%	6,558,762	100.0%

- (1) As adjusted to give effect to an increase in the number of shares that could occur due to an increase in the offering range of 15% to reflect changes in market and financial conditions before the conversion and offering is completed.

**Effect on Stockholders' Equity per Share of the Shares Exchanged.** As adjusted for the exchange ratio, the conversion and offering will increase the stockholders' equity per share of the current shareholders of Malvern Federal Bancorp common stock. At March 31, 2012, the stockholders' equity per share of Malvern Federal Bancorp common stock including shares held by Malvern Federal Mutual Holding Company was \$10.14. Based on the pro forma information set forth for March 31 2012, in Pro Forma Data, pro forma stockholders' equity per share following the conversion and offering will be \$19.76, \$17.59, \$15.99, and \$14.60 at the minimum, midpoint, maximum and adjusted maximum, respectively, of the offering range. As adjusted at that date for the exchange ratio, the effective stockholders' equity per share for current shareholders would be \$13.65, \$14.30, \$14.94 and \$15.69 at the minimum, midpoint, maximum and adjusted maximum, respectively, of the offering range.

**Effect on Earnings per Share of the Shares Exchanged.** As adjusted for exchange ratio, the conversion and offering will also increase the pro forma earnings per share attributable to the shares held by public shareholders. For the six months ended March 31, 2012, basic earnings per share of Malvern Federal Bancorp common stock was \$0.25, which equates to net income of \$0.11 per share to the 44.5% of the outstanding

shares held by public shareholders. Based on the pro forma information set forth for the three months ended March 31, 2012, in Pro Forma Data, annualized earnings per share of common stock following the conversion and offering will range from \$0.74 to \$0.48, respectively, for the minimum to the adjusted maximum of the offering range. As adjusted at that date for the exchange ratio, the effective annualized earnings per share for current shareholders would range from \$0.51 to \$0.52, respectively, for the minimum to the adjusted maximum of the offering range.

**Effect on the Market and Appraised Value of the Shares Exchanged.** The aggregate subscription price of the shares of common stock received in exchange for the publicly held shares of Malvern Federal Bancorp common stock is \$18.8 million, \$22.1 million, \$25.4 million, and \$29.2 million at the minimum, midpoint, maximum and adjusted maximum, respectively, of the offering range. The last trade of Malvern Federal Bancorp common stock on January 13, 2012, the last trading day on which a trade occurred immediately preceding the announcement of the conversion and offering, was \$6.23 per share, and the price at which Malvern Federal Bancorp common stock last traded on August 10, 2012 was \$8.74 per share. The equivalent price per share for each share of Malvern Bancorp New exchanged by shareholders will be \$6.91, \$8.13, \$9.35 and \$10.75 at the minimum, midpoint, maximum and adjusted maximum, respectively, of the offering range.

**Dissenters and Appraisal Rights.** Neither the depositors or borrowers of Malvern Federal Savings Bank nor the public shareholders of Malvern Federal Bancorp common stock have dissenters' rights or appraisal rights in connection with the conversion and offering.

#### **Exchange of Shares**

The conversion of your shares of common stock of Malvern Federal Bancorp into the right to receive shares of common stock of Malvern Bancorp New will occur automatically on the effective date of the conversion, although you will need to exchange your stock certificate(s) if you hold shares in certificate form. As soon as practicable after the effective date of the conversion, our exchange agent will send a transmittal form to you. The transmittal forms are expected to be mailed promptly after the effective date and will contain instructions on how to submit the stock certificate(s) representing existing shares of common stock of Malvern Federal Bancorp. Please do not forward common stock certificates to the exchange agent until you have received the transmittal form. Upon completion of the conversion, shares of Malvern Federal Bancorp which are held in street name will be exchanged within your brokerage account without any action on your part.

No fractional shares of common stock of Malvern Bancorp New will be issued to you when the conversion is completed. For each fractional share that would otherwise be issued to a shareholder who holds a certificate, you will be paid by check an amount equal to the product obtained by multiplying the fractional share interest to which you would otherwise be entitled by \$10.00. If your shares are held in street name, you will automatically receive cash in lieu of fractional shares. For more information regarding the exchange of your shares see The Conversion and Offering Delivery and Exchange of Stock Certificates Exchange Shares.

#### **Conditions to the Conversion and Offering**

Consummation of the conversion and stock offering are subject to the receipt of all requisite regulatory approvals, including various approvals of the Federal Reserve Board. No assurance can be given that all regulatory approvals will be received. Receipt of such approvals from the Federal Reserve Board will not constitute a recommendation or endorsement of the plan of conversion and reorganization or the stock offering by the Federal Reserve Board. Consummation of the conversion and stock offering also are subject to approval by the shareholders of Malvern Federal Bancorp at the special meeting of shareholders of Malvern Federal Bancorp and of members of Malvern Federal Mutual Holding Company (who are the depositors and certain borrowers of Malvern Federal Savings Bank) at a special meeting of members to be held the same day as the special meeting of shareholders.

**The board of directors of Malvern Federal Bancorp unanimously recommends that you vote FOR approval of the plan of conversion and reorganization.**

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#### **PROPOSALS 2A TO 2D INFORMATIONAL PROPOSALS RELATED TO THE ARTICLES OF INCORPORATION OF MALVERN BANCORP NEW**

By their approval of the plan of conversion and reorganization as set forth in Proposal 1, the board of directors of Malvern Federal Bancorp has approved each of the informational proposals numbered 2A through 2D, all of which relate to provisions included in the articles of incorporation of Malvern Bancorp New. Each of these informational proposals is discussed in more detail below.

As a result of the conversion, the public shareholders of Malvern Federal Bancorp, whose rights are presently governed by the charter and bylaws of Malvern Federal Bancorp, will become shareholders of Malvern Bancorp New, whose rights will be governed by the articles of incorporation and bylaws of Malvern Bancorp New. The following informational proposals address the material differences between the governing documents of the two companies. This discussion is qualified in its entirety by reference to the charter of Malvern Federal Bancorp and the articles of incorporation of Malvern Bancorp New. See Where You Can Find Additional Information for procedures for obtaining a copy of those documents.

The provisions of the articles of incorporation of Malvern Bancorp New which are summarized as informational proposals 2A through 2D were approved as part of the process in which the board of directors of Malvern Federal Bancorp approved the plan of conversion and reorganization. These proposals are informational in nature only, because the Federal Reserve Board regulations governing mutual to stock conversion do not provide for votes on matters other than the plan of conversion and reorganization. While we are asking shareholders of Malvern Federal Bancorp to vote with respect to each of the informational proposals, shareholders are not being asked to approve the proposed provisions for which an informational vote is requested and the proposed provisions will become effective if shareholders approve the plan of conversion and reorganization, regardless of whether shareholders vote to approve any or all of the informational proposals.

**Informational Proposal 2A Approval of a Provision in the Articles of Incorporation of Malvern Bancorp New Providing for the Authorized Capital Stock of 50,000,000 shares of Common Stock and 10,000,000 Shares of Serial Preferred Stock Compared to 15,000,000 Shares of Common Stock and 5,000,000 Shares of Preferred Stock in the Charter of Malvern Federal Bancorp.**

Malvern Federal Bancorp's authorized capital stock consists of 15,000,000 shares of common stock and 5,000,000 shares of preferred stock. The articles of incorporation of Malvern Bancorp New authorize 50,000,000 shares of common stock and 10,000,000 shares of serial preferred stock.

At March 31, 2012, there were 6,102,500 issued and outstanding shares of common stock of Malvern Federal Bancorp and no outstanding shares of preferred stock. At the maximum of the offering range, we expect to issue an aggregate of 5,703,271 shares of common stock of Malvern Bancorp New in the offering and as exchange shares.

All authorized and unissued shares of common stock of Malvern Bancorp New and preferred stock following the conversion and offering will be available for issuance without further action of the shareholders, unless such action is required by applicable law or the listing standards of The Nasdaq Stock Market or the listing standards of any other stock exchange on which securities of Malvern Bancorp New may then be listed. The board of directors of Malvern Bancorp New currently has no plans for the issuance of additional shares of common stock, other than the issuance of shares of pursuant to the terms of the proposed new stock option plan.

This increase in the number of authorized shares of capital stock may have the effect of deterring or rendering more difficult attempts by third parties to obtain control of Malvern Bancorp New, if such attempts are not approved by the board of directors. In the event that a tender offer or other takeover attempt is threatened, the board of directors could issue shares of stock from authorized and unissued shares in order to dilute the stock ownership of persons seeking to take control of the company.

**Informational Proposal 2B Approval of a Provision in the Articles of Incorporation of Malvern Bancorp New Requiring a Super-Majority Shareholder Approval for Mergers, Consolidations and Similar Transactions, Unless They Have Been Approved in Advance by at Least Two-Thirds of the Board of Directors of Malvern Bancorp New.**

33

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The charter of Malvern Federal Bancorp does not provide for a super-majority vote for approval of mergers, consolidations or similar transactions. However, federal regulations currently require the approval of two-thirds of the board of directors of Malvern Federal Bancorp and the holders of two-thirds of the outstanding stock of Malvern Federal Bancorp entitled to vote thereon for mergers, consolidations and sales of all or substantially all of its assets.

For a merger, consolidation, sale of assets or other similar transaction to occur, the Pennsylvania Business Corporation Law of 1988, which we refer to as the PBCL in this proxy statement/prospectus, generally requires the approval of the board of directors and the affirmative vote of the holders of a majority of the votes cast by all shareholders entitled to vote thereon. The articles of incorporation of Malvern Bancorp New provides that mergers, consolidations, share exchanges, asset sales, voluntary dissolutions and other similar transactions must be approved by the affirmative vote of 75% of the shares entitled to vote in an election, unless the action has been recommended by at least two-thirds of the board of directors, in which case a vote of a majority of the votes cast by shareholders would be sufficient. The board of directors of Malvern Bancorp New believes that these types of fundamental transactions generally should be first considered and approved by the board of directors as the board generally believes that it is in the best position to make an initial assessment of the merits of any such transactions. This provision in the articles of incorporation of Malvern Bancorp New makes an acquisition, merger or other similar corporate transaction less likely to occur, even if such transaction is supported by most shareholders, unless it is supported by two-thirds of the board of directors of Malvern Bancorp New. Thus, it may be deemed to have an anti-takeover effect.

**Informational Proposal 2C Approval of a Provision in the Articles of Incorporation of Malvern Bancorp New Requiring a Super-Majority Shareholder of Amendments to Certain Provisions in the Articles of Incorporation and Bylaws of Malvern Bancorp New.**

No amendment of the current charter of Malvern Federal Bancorp may be made unless it is first proposed by the board of directors, then preliminarily approved by the Federal Reserve Board, and thereafter approved by the holders of a majority of the total votes eligible to be cast at a legal meeting. The articles of incorporation of Malvern Bancorp New generally provide that no amendment of the articles of incorporation may be made unless it is first approved by the board of directors and thereafter approved by the holders of a majority of the shares entitled to vote generally in an election of directors, voting together as a single class, as well as such additional vote of the preferred stock as may be required by the provisions of any series thereof, provided, however, any amendment which is inconsistent with Articles VI (directors), VII (meetings of shareholders, actions without a meeting), VIII (liability of directors and officers), IX (restrictions on offers and acquisitions), XI (shareholder approval of mergers and other actions) and XII (amendments to the articles of incorporation and bylaws) must be approved by the affirmative vote of the holders of not less than 75% of the voting power of the shares entitled to vote thereon unless approved by the affirmative vote of 80% of the directors of Malvern Bancorp New then in office.

The current bylaws of Malvern Federal Bancorp may be amended by a majority vote of the full board of directors or by a majority vote of the votes cast by the shareholders at any legal meeting. The bylaws of Malvern Bancorp New may similarly be amended by the majority vote of the full board of directors at a regular or special meeting of the board of directors or by a majority vote of the shares entitled to vote generally in an election of directors, voting together as a single class, as well as such additional vote the preferred stock as may be required by the provisions of any series thereof, provided, however, that the shareholder vote requirement for any amendment to the bylaws which is inconsistent with Sections 2.10 (shareholder proposals), 3.1 (number of directors and powers), 3.2 (classifications and terms of directors), 3.3 (director vacancies), 3.4 (removal of directors) and 3.12 (nominations of directors) and Article VI (indemnification) is the affirmative vote of the holders of not less than 75% of the voting power of the shares entitled to vote thereon.

These limitations on amendments to specified provisions of the articles of incorporation and bylaws of Malvern Bancorp New are intended to ensure that the referenced provisions are not limited or changed upon a simple majority vote. While this limits the ability of shareholders of Malvern Bancorp New to amend those provisions, Malvern Federal Mutual Holding Company, as a 55.5% shareholder of Malvern Federal

Bancorp, currently can effectively block any shareholder proposed change to the charter or bylaws of Malvern Federal Bancorp.

These provisions in the articles of incorporation of Malvern Bancorp New could have the effect of discouraging a tender offer or other takeover attempt where to ability to make fundamental changes through amendments to the articles of incorporation or bylaws is an important element of the takeover strategy of the potential acquirer. The board of directors believes that the provisions limiting certain amendments to the articles of incorporation and bylaws will put the board of directors in a stronger position to negotiate with third parties with respect to transactions potentially affecting the corporate structure of Malvern Bancorp New and the fundamental rights of its shareholders, and to preserve the ability of all shareholders to have an effective voice in the outcome of such matters.

**Informational Proposal 2D Approval of a Provision in the Articles of Incorporation of Malvern Bancorp New to Limit the Acquisition of More than 10% of the Equity Securities of Malvern Bancorp New.**

The articles of incorporation of Malvern Bancorp New provide that no person shall directly or indirectly offer to acquire or acquire the beneficial ownership of (a) more than 10% of the issued and outstanding shares of any class of an equity security of Malvern Bancorp New or (b) any securities convertible into, or exercisable for, any equity securities of Malvern Bancorp New if, assuming conversion or exercise by such person of all securities of which such person is the beneficial owner which are convertible into, or exercisable for such equity securities, such person would be the beneficial owner of more than 10% of any class of an equity security of Malvern Bancorp New. The term person is broadly defined in the articles of incorporation to prevent circumvention of this restriction.

The foregoing restrictions do not apply to (a) any offer with a view toward public resale made exclusively to Malvern Bancorp New by underwriters or a selling group acting on its behalf, (b) any employee benefit plan established by Malvern Bancorp New or Malvern Federal Savings Bank and (c) any other offer or acquisition approved in advance by the affirmative vote of 80% of the board of directors. In the event that shares are acquired in violation of this restriction, all shares beneficially owned by any person in excess of 10% will not be counted as shares entitled to vote and will not be voted by any person or counted as voting shares in connection with any matters submitted to shareholders for a vote, and the board of directors may cause the excess shares to be transferred to an independent trustee for sale.

The current charter of Malvern Federal Bancorp contains a provision which restricts voting rights of certain 10% shareholders in the manner set forth above for a period of five years following the reorganization and formation of the mid-tier holding company structure in May 2008, which will expire in May 2013.

This provision in the articles of incorporation of Malvern Bancorp New is intended to limit the ability of any person to acquire a significant number of shares of common stock of Malvern Bancorp New and thereby gain sufficient voting control so as to cause Malvern Bancorp New to effect a transaction that may not be in the best interests of Malvern Bancorp New and its shareholders generally. This provision will not prevent a shareholder from seeking to acquire a controlling interest in Malvern Bancorp New, but it will prevent a shareholder from voting more than 10% of the outstanding shares of common stock unless that shareholder has first persuaded the board of directors of the merits of the course of action proposed by the shareholder. The board of directors of Malvern Bancorp New believes that fundamental transactions generally should be first considered and approved by the board of directors as the board generally believes that it is in the best position to make an initial assessment of the merits of any such transactions and that the board of directors' ability to make the initial assessment could be impeded if a single shareholder could acquire a sufficiently large voting interest so as to control a shareholder vote on any given proposal. This provision in the articles of incorporation of Malvern Bancorp New makes an acquisition, merger or other similar corporate transaction less likely to occur, even if such transaction is supported by most shareholders, because it can prevent a holder of shares in excess of the 10% limit from voting the excess shares in favor of the transaction. Thus, it may be deemed to have an anti-takeover effect.

**The board of directors of Malvern Federal Bancorp unanimously recommends that you vote FOR approval of the Informational Proposals 2A through 2D.**

35

### PROPOSAL 3 ADJOURNMENT OF THE SPECIAL MEETING

If there are not sufficient votes to constitute a quorum or to approve the plan of conversion and reorganization at the time of the special meeting, the plan of conversion and reorganization may not be approved unless the special meeting is adjourned to a later date or dates in order to permit further solicitation of proxies. In order to allow proxies that have been received by Malvern Federal Bancorp at the time of the special meeting to be voted for an adjournment, if necessary, Malvern Federal Bancorp has submitted the question of adjournment to its shareholders as a separate matter for their consideration. If it is necessary to adjourn the special meeting, no notice of the adjourned special meeting is required to be given to shareholders (unless the adjournment is for more than 30 days or if a new record date is fixed), other than an announcement at the special meeting of the hour, date and place to which the special meeting is adjourned.

**The board of directors of Malvern Federal Bancorp recommends that you vote FOR approval of the adjournment of the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve the proposal to approve the plan of conversion and reorganization.**

36

### 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 proxy statement/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 proxy statement/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	
<b>Selected Financial Condition Data:</b>						
(Dollars in thousands)						
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

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At September 30,

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
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

(footnotes on following page)

37

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

**Selected Financial Ratios and Other Data (1):**

**Performance Ratios:**

0.44%	(1.57)%	(0.90)%	(0.45)%	0.15%	0.25%	0.45%
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	Six Months Ended March 31,		Year Ended September 30,				
Return on assets (ratio of net income to average total assets)							
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)	2.74	2.83	2.88	2.78	2.13	2.18	2.25
Net interest margin (3)	2.86	2.96	3.02	2.98	2.46	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	9.50	8.90	9.04	9.19	10.10	10.76	7.98



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Six Months Ended  
March 31,

Year Ended September 30,

to total assets

**Other Data:**

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) 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.

38

**RECENT DEVELOPMENTS OF MALVERN FEDERAL BANCORP**

The following tables contain certain information concerning the financial position and results of operations of Malvern Federal Bancorp at and for the three months and nine months ended June 30, 2012 as well as the prior comparison periods. You should read this information in conjunction with the audited financial statements included in this proxy statement/prospectus. The financial information as of June 30, 2012 and for the three months and nine months ended June 30, 2012 and 2011 are unaudited and are derived from our interim condensed consolidated financial statements. The selected financial condition data as of September 30, 2011 is derived from Malvern Federal Bancorp's audited consolidated financial statements. In the opinion of management, financial information at June 30, 2012 and for the three months and nine months ended June 30, 2012 and 2011 reflect all adjustments, consisting only of normal recurring accruals, which are necessary to present fairly the results for such periods. Results for the three-month and nine-month periods ended June 30, 2012 may not be indicative of operations of Malvern Federal Bancorp for the fiscal year ending September 30, 2012.

	At June 30, 2012	At September 30, 2011
(Dollars in thousands)		
<b>Selected Financial Condition Data</b>		
Total assets	\$654,051	\$666,568
Loans receivable, net	465,618	506,019
Securities held to maturity	679	3,797
Securities available for sale	84,795	74,389
FHLB borrowings	48,340	49,098
Deposits	538,245	554,455
Shareholders' equity	62,204	60,284
Allowance for loan losses	7,983	10,101

	At June 30, 2012	At September 30, 2011
Non-accrual loans	10,628	12,915
Non-performing assets	14,844	21,236
Performing troubled debt restructurings	8,258	10,340
Non-performing assets and performing troubled debt restructurings	23,102	31,576

For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
2012	2011	2012	2011

(Dollars in thousands, except per share amounts)

<b>Selected Operating Data</b>				
Total interest and dividend income	\$ 6,321	\$ 7,430	\$ 19,667	\$ 22,548
Total interest expense	2,016	2,428	6,420	7,839
Net interest income	4,305	5,002	13,247	14,709
Provision for loan losses	335	600	360	10,642
Net interest income after provision for loan losses	3,970	4,402	12,887	4,067
Total other income	506	434	2,374	1,305
Total other expenses	4,172	4,476	12,899	13,434
Income tax (benefit) expense	32	(4)	620	(2,983)
Net (loss) income	\$ 272	\$ 364	\$ 1,742	\$ (5,079)
Earnings (loss) per share	\$ 0.05	\$ 0.06	\$ 0.29	\$ (0.86)

*(continued on next page)*

As of or For the Three Months Ended June 30,		As of or For the Nine Months Ended June 30,	
2012	2011	2012	2011

**Selected Financial Ratios and Other Data (1):**

**Performance Ratios:**

Return on assets (ratio of net income to average total assets)	0.17%	0.22%	0.35%	(0.99)%
Return on average equity (ratio of net income to average equity)	1.74	2.39	3.75	(10.36)
Interest rate spread (2)	2.67	3.03	2.70	2.89
Net interest margin (3)	2.80	3.16	2.84	3.03
Non-interest expenses to average total assets	2.57	2.67	2.62	2.61
Efficiency ratio (4)	86.72	82.34	82.58	83.89

**Asset Quality Ratios:**

Non-accrual loans as a percent of gross loans	2.26%	3.51%	2.26%	3.51%
Non-performing assets as a percent of total assets	2.27	3.65	2.27	3.65
Non-performing assets and performing troubled debt restructurings as a percent of total assets	3.53	5.42	3.53	5.42

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	As of or For the Three Months Ended June 30,		As of or For the Nine Months Ended June 30,	
Allowance for loan losses as a percent of gross loans	1.69	1.91	1.69	1.91
Allowance for loan losses as a percent of non-accrual loans	75.11	54.57	75.11	54.57
Net charge-offs to average loans outstanding	0.09	0.18	0.68	2.18
<b>Capital Ratios (5):</b>				
Total risk-based capital to risk weighted assets	14.13%	12.03%	14.13%	12.03%
Tier 1 risk-based capital to risk weighted assets	12.87	10.77	12.87	10.77
Tangible capital to tangible assets	8.39	7.62	8.39	7.62
Tier 1 leverage (core) capital to adjusted tangible assets	8.39	7.62	8.39	7.62
Shareholders' equity to total assets	9.51	9.03	9.51	9.03
Tangible shareholders' equity to total assets	9.51	9.03	9.51	9.03
<b>Other Data:</b>				
Number of full service financial center offices	8	8	8	8

- (1) With the exception of end of period ratios, all ratios are based on average monthly balances during the period and have been annualized where appropriate.
- (2) 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.

**Comparison of Financial Condition at June 30, 2012 and September 30, 2011**

The Company's total assets amounted to \$654.1 million at June 30, 2012 compared to \$666.6 million at September 30, 2011. The primary reasons for the \$12.5 million decrease in assets during the first nine months of fiscal 2012 were a decrease of \$40.4 million in net loans receivable and a \$4.1 million reduction in other real estate owned (REO). These decreases were partially offset by an aggregate \$26.7 million increase in cash and cash equivalents and a \$7.3 million increase in investment securities. The decrease in loans receivable during the first nine months of fiscal 2012 was due to a \$10.7 million loan sale securitization, as well as decreased demand from consumers, the internal lending restrictions we adopted early in fiscal 2010, and the restrictions imposed by the Supervisory Agreement that the Bank entered into with the OTS in October 2010. The \$4.1 million reduction in REO at June 30, 2012 compared to September 30, 2011, was due to \$4.4 million of net sales in REO properties, at a net loss of \$70,000, and \$812,000 in reductions to REO fair values, which is included in other real estate owned expense during the first nine months of fiscal 2012. The Company's total REO amounted to \$4.2 million at June 30, 2012 compared to \$8.3 million at September 30, 2011.

Our total liabilities at June 30, 2012, amounted to \$591.8 million compared to \$606.3 million at September 30, 2011. The \$14.5 million, or 2.4% decrease in total liabilities was due primarily to a decrease in total deposits of \$16.2 million, which was partially offset by \$2.5 million increase in total escrow advances for taxes and insurance in the first nine months of fiscal 2011. Our total deposits amounted to \$538.2 million at June 30, 2012 compared to \$554.5 million at September 30, 2011. There was a \$758,000 reduction in our FHLB advances during the nine months ended June 30, 2012.

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Total shareholders' equity increased by \$1.9 million to \$62.2 million at June 30, 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 June 30, 2012. Retained earnings increased by \$1.7 million to \$38.4 million at June 30, 2012 primarily as a result of the \$1.7 million of net income during the first nine months of fiscal 2012. Our ratio of equity to assets was 9.51% at June 30, 2012.

41

**Asset Quality**

The following table sets forth our non-performing assets and performing troubled debt restructurings which are neither non-accruing nor more than 90 days past due and still accruing at the dates indicated.

	June 30, 2012	March 31, 2012	September 30, 2011
(Dollars in thousands)			
<b>Non-accruing loans:</b>			
<b>Residential mortgage</b>	\$ 4,118	\$ 4,425	\$ 2,866
<b>Construction and Development:</b>			
Residential and commercial	2,659	3,210	6,617
<b>Commercial:</b>			
Commercial real estate	2,814	2,822	1,765
Multi-family			
Other	201	201	229
<b>Consumer:</b>			
Home equity lines of credit	23	43	61
Second mortgages	813	1,029	1,377
Other			
Total non-accruing loans	10,628	11,730	12,915
<b>Accruing loans delinquent more than 90 days past due</b>			
<b>Real estate owned and other foreclosed assets:</b>			
<b>Residential mortgage</b>	\$ 1,341	\$ 1,374	\$ 3,872
<b>Construction and Development:</b>			
Residential and commercial			
Land	99	164	
<b>Commercial:</b>			
Commercial real estate	2,742	3,171	4,415
Multi-family			
Other	34	34	34
<b>Consumer:</b>			
Second mortgages			
Total	4,216	4,743	8,321
<b>Total non-performing assets</b>	<b>\$ 14,844</b>	<b>\$ 16,473</b>	<b>\$ 21,236</b>
<b>Performing troubled debt-restructurings:</b>			
<b>Residential mortgage</b>	870	876	1,049
<b>Construction and Development:</b>			
Land loans	1,151	1,154	1,160
<b>Commercial:</b>			
Commercial real estate	6,062	6,100	7,919
Multi-family			
Other	175	175	175

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	June 30, 2012	March 31, 2012	September 30, 2011
<b>Consumer:</b>			
Home equity lines of credit			37
Total performing troubled debt restructurings	8,258	8,305	10,340
<b>Total non-performing assets and performing troubled debt restructurings</b>	<b>\$23,102</b>	<b>\$24,778</b>	<b>\$31,576</b>
<b>Ratios:</b>			
Total non-accrual loans as a percent of gross loans	2.26%	2.48%	2.52%
Total non-performing assets as a percent of total assets	2.27%	2.53%	3.19%
Total non-performing assets and performing troubled debt restructurings as a percent of total assets	3.53%	3.80%	4.74%

42

During the quarter ended June 30, 2012, our total non-accruing loans decreased by \$1.1 million and amounted to \$10.6 million at June 30, 2012 compared to \$11.7 million at March 31, 2012. The primary reasons for the decrease in non-accruing loans was a \$512,000 repayment received 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. In addition, other real estate owned improved by \$527,000 in the quarter ended June 30, 2012 and amounted to \$4.2 million at such date compared to \$4.7 million at March 31, 2012. The primary reasons for such improvement in other real estate owned during the third quarter of fiscal 2012 were sales of \$589,000 and reductions in fair values of \$340,000, which were partially offset by \$402,000 in additions to other real estate owned during the quarter. Subsequent to June 30, 2012, we have sold an additional \$991,000 in other real estate owned at an aggregate gain of \$123,000. We also have entered into agreements of sale on \$662,000 of other real estate owned, and we expect the sales of such properties to be completed in the fourth quarter of fiscal 2012.

The following table sets forth information concerning delinquent loans as of June 30, 2012.

At June 30, 2012 Loans Delinquent For:									
31-89 Days			90 Days and Over			Total Delinquent Loans			
Number	Amount	Percent of Total Delinquent Loans 31-89 Days	Number	Amount	Percent of Total Delinquent Loans 90 Days and Over	Number	Amount	Percent of Total Delinquent Loans Greater Than 30 Days	
(Dollars in thousands)									
<b>Residential mortgage</b>	7	\$ 1,225	29.2%	17	\$ 4,118	38.8%	24	\$ 5,343	36.1%
<b>Construction and Development:</b>									
Residential and commercial	2	1,050	25.1	3	2,659	25.0	5	3,709	25.0
<b>Commercial:</b>									
Commercial real estate				3	2,814	26.5	3	2,814	19.0
Multi-family	1	587	14.0				1	587	4.0
Other				1	201	1.9	1	201	1.3

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### At June 30, 2012 Loans Delinquent For:

**Consumer:**

Home equity lines of credit	1	15	0.4	1	23	0.2	2	38	0.3
Second mortgages	19	1,313	31.3	11	813	7.6	30	2,126	14.3
Other									
<b>Total</b>	<b>30</b>	<b>\$4,190</b>	<b>100.00%</b>	<b>36</b>	<b>\$10,628</b>	<b>100.00%</b>	<b>66</b>	<b>\$14,818</b>	<b>100.00%</b>

The Bank's loans delinquent 31-89 days at June 30, 2012 included two loans to one borrower with an aggregate balance of \$1.1 million at such date for the acquisition and construction of a retail commercial use building in Delaware County, Pennsylvania. The Bank has a second lien position on the collateral property, which had an appraised value of \$1.7 million as of May 2012, behind a \$350,000 first mortgage held by another institution. Subsequent to June 30, 2012, these loans became more than 90 days past due and were placed on non-accrual status.

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

	June 30, 2012	March 31, 2012	September 30, 2011
	(Dollars in thousands)		
<b>Classified assets:</b>			
Substandard (1)	\$31,724	\$33,200	\$39,860
Doubtful		443	1,095
Loss			
Total classified assets	31,724	33,643	40,955
<b>Special mention assets</b>	19,960	11,267	12,685
Total classified and special mention assets	\$51,684	\$44,910	\$53,640

(1) Includes other real estate owned.

Our total classified assets were \$31.7 million at June 30, 2012, a \$1.9 million decrease in total classified assets from March 31, 2012 and a \$9.2 million decrease compared to total classified assets at September 30, 2011. During the quarter ended June 30, 2012, our total classified assets and assets designated special mention increased by \$6.8 million to \$51.7 million at June 30, 2012 compared to \$44.9 million at March 31, 2012. The reason for the increase in total classified and special mention assets during the third quarter of fiscal 2012 was due to a \$6.8 million increase in assets designated special mention (assets designated special mention are assets which do not currently expose the institution to risk sufficient to warrant classification as substandard, doubtful or loss but which are deemed to have certain weaknesses). During the quarter ended June 30, 2012, four construction and development loans to one borrower with an aggregate balance of \$8.4 million at such date, were designated as special mention. These four loans are for site development for a 190 unit residential townhouse community in Downingtown, Pennsylvania, and for the demolition and redevelopment for mixed use commercial and residential purposes of six duplex multi-family homes and nine parcels of vacant land on approximately 7 acres in Downingtown, Pennsylvania. These loans, which were originated in October 2007 through August 2009, have never been delinquent. However, in June 2012, we received an updated appraisal on the commercial/mixed use parcel which reflected that the value of a portion of the collateral securing this loan had declined since the previous appraisal. As a result, we are discussing with the borrower the potential for additional collateral to secure these loans, and we designated these projects as special mention in June 2012.

### Comparison of Results of Operations for the Three and Nine Months ended June 30, 2012 and June 30, 2011

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**General.** Our net income was \$272,000 for the three months ended June 30, 2012 compared to net income of \$364,000 for the three months ended June 30, 2011. On a per share basis, net income was \$0.05 per share for both the quarter ended June 30, 2012 and the quarter ended June 30, 2011. Our interest rate spread of 2.67% and net interest margin of 2.80% for the three months ended June 30, 2012 decreased when compared to a net interest spread of 3.03% and a net interest margin of 3.16% for the three months ended June 30, 2011.

Our net income was \$1.7 million for the nine months ended June 30, 2012 compared to a net loss of \$5.1 million for the nine months ended June 30, 2011. On a per share basis, net income was \$0.29 per share for the nine months ended June 30, 2012, compared to a net loss of \$0.86 per share for the nine months ended June 30, 2011. The primary reason for the \$6.8 million difference in our results of operations in the first nine months of fiscal 2012 compared to the comparable prior fiscal year period was a decrease in the provision for loan losses of \$10.3 million. Our interest rate spread of 2.70% and net interest margin of 2.84% for the nine months ended June 30, 2012 decreased when compared to a net interest spread of 2.89% and a net interest margin of 3.03% for the nine months ended June 30, 2011.

**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.

44

	Three Months Ended June 30,					
	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)	\$472,086	\$5,894	4.99%	\$525,058	\$7,034	5.36%
Investment securities	88,214	410	1.86	80,709	390	1.93
Deposits in other banks	50,695	16	0.13	22,265	6	0.11
FHLB stock	4,662	1	0.09	5,724		0.00
Total interest earning assets (1)	615,657	6,321	4.11	633,756	7,430	4.69
Non-interest earning assets	34,022			36,613		
Total assets	\$649,679			\$670,369		
<b>Interest Bearing Liabilities:</b>						
Demand and NOW accounts	\$93,715	60	0.26	\$93,432	123	0.53
Money market accounts	76,138	85	0.45	89,056	252	1.13
Savings accounts	47,791	12	0.10	46,570	22	0.19
Certificate accounts	294,654	1,432	1.94	306,684	1,600	2.09
Total deposits	512,298	1,589	1.24	535,742	1,997	1.49
Borrowed funds	48,468	427	3.52	49,476	431	3.48
Total interest-bearing liabilities	560,766	2,016	1.44	585,218	2,428	1.66
Non-interest bearing liabilities	26,364			24,260		
Total liabilities	587,130			609,478		
Shareholders' equity	62,549			60,891		
Total liabilities and shareholders' equity	\$649,679			\$670,369		
Net interest-earning assets	\$54,891			\$48,538		
Net interest income		\$4,305			\$5,002	
Net interest spread			2.67%			3.03%

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Three Months Ended June 30,

Net interest margin (2)		2.80%	3.16%
Average interest-earning assets to average interest-bearing liabilities	109.79%	108.29%	

- (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.

45

Nine Months Ended June 30,

	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)	\$482,023	\$18,352	5.07%	\$534,284	\$21,398	5.33%
Investment securities	85,690	1,279	1.99	77,183	1,125	1.95
Deposits in other banks	48,025	34	0.09	29,606	25	0.11
FHLB stock	4,934	2	0.05	6,063		0.00
Total interest earning assets (1)	621,672	19,667	4.21	647,136	22,548	4.64
Non-interest earning assets	35,782			38,190		
Total assets	\$657,454			\$685,326		
<b>Interest Bearing Liabilities:</b>						
Demand and NOW accounts	\$91,315	209	0.31	\$90,910	421	0.61
Money market accounts	82,326	370	0.60	87,370	732	1.12
Savings accounts	46,015	36	0.11	42,889	60	0.19
Certificate accounts	301,273	4,516	2.00	326,502	5,316	2.17
Total deposits	520,929	5,131	1.31	547,671	6,529	1.59
Borrowed funds	48,721	1,289	3.53	50,094	1,310	3.49
Total interest-bearing liabilities	569,650	6,420	1.51	597,765	7,839	1.75
Non-interest bearing liabilities	25,852			23,462		
Total liabilities	595,502			621,227		
Shareholders' equity	61,952			64,099		
Total liabilities and shareholders' equity	\$657,454			\$685,326		
Net interest-earning assets	\$52,022			\$49,371		
Net interest income		\$13,247			\$14,709	
Net interest spread			2.70%			2.89%
Net interest margin (2)			2.84%			3.03%
Average interest-earning assets to average interest-bearing liabilities	109.13%			108.26%		



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

**Interest and Dividend Income.** Our interest and dividend income decreased for the three months ended June 30, 2012 by \$1.1 million, or 14.9%, over the comparable 2011 period to \$6.3 million. Interest income decreased in the three months ended June 30, 2012 over the prior comparable period in fiscal 2011 due primarily to a \$1.1 million, or 16.2%, decrease in interest earned on loans. The decrease in interest earned on loans in the third quarter of fiscal 2012 was due primarily to both a \$53.0 million, or 10.1%, decrease in the average balance of our outstanding loans and a 37 basis point decrease in the average yield earned on our loan portfolio in the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011. Interest income on investment securities increased by \$20,000, or 5.1%, in the third quarter of fiscal 2012 compared to the comparable prior fiscal year period. The increase in interest income on investment securities in the third quarter of fiscal 2012 was due to a \$7.5 million, or 9.3%, increase in the average balance of our investment securities portfolio, which was partially offset by a seven basis point decrease in the average yield on investment securities to 1.86% for the three months ended June 30, 2012 from 1.93% for the same period in fiscal 2011. Our interest earned on deposits in other institutions increased by \$10,000 to \$16,000 in the third quarter of fiscal 2012 compared to \$6,000 in the third quarter of fiscal 2011. The primary reason for the

increase in the third quarter of fiscal 2012 was due to a \$28.4 million increase in the average balance of deposits in other banks.

Our interest and dividend income decreased for the nine months ended June 30, 2012 by \$2.9 million, or 12.8%, over the comparable fiscal 2011 period to \$19.7 million. Interest income on loans decreased in the nine months ended June 30, 2012 over the prior comparable period in fiscal 2011 by \$3.0 million, or 14.2%. The decrease in interest earned on loans in the first nine months of fiscal 2012 was due to both a \$51.3 million, or 9.6%, decrease in the average balance of our outstanding loans and a 26 basis point decrease in the average yield earned on our loan portfolio. Interest income on investment securities increased by \$154,000 in the first nine months of fiscal 2012 over the comparable period in fiscal 2011 due to an \$8.5 million, 11.0%, increase in the average balance of our investment securities portfolio, as well as a four basis point increase in the average yield on investment securities to 1.99% for the nine months ended June 30, 2012 from 1.95% for the same period in fiscal 2011. Our interest earned on deposits in other institutions increased by \$9,000 to \$34,000 in the first nine months of fiscal 2012 compared to \$25,000 in the first nine months of fiscal 2011. The primary reason for the increase in the first nine months of fiscal 2012 was due to a \$18.4 million, 62.2%, increase in the average balance compared to the comparable period in fiscal 2011.

**Interest Expense.** Our interest expense for the three-month period ended June 30, 2012 was \$2.0 million, a decrease of \$412,000 from the three-month period ended June 30, 2011. The primary reasons for the decrease in interest expense in the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011 were a 25 basis point decrease in average rate paid on total deposits together with a decrease in the average balance of our total deposits of \$23.4 million, or 4.4%, in the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011 due primarily to a \$12.0 million decrease in the average balance of certificates of deposit and a \$12.9 million decrease in money market accounts. The average rate paid on total deposits decreased to 1.24% for the third quarter of fiscal 2012 from 1.49% for the third quarter of fiscal 2011. Our expense on borrowings amounted to \$427,000 in the third quarter of fiscal 2012 compared to \$431,000 in the third quarter of fiscal 2011. The average balance of our borrowings decreased by \$1.0 million in the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011. The average rate paid on borrowed funds of increased to 3.52% in the third quarter of fiscal 2012 compared to 3.48% in the third quarter of fiscal 2011.

Our interest expense for the nine-month period ended June 30, 2012 was \$6.4 million, a decrease of \$1.4 million from the nine-month period ended June 30, 2011. The primary reasons for the decrease in interest expense in the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011 was a 28 basis point decrease in average rate paid on total deposits together with a decrease in the average balance of our total deposits of \$26.7 million, or 4.9%, in the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011 due primarily to a \$25.2 million decrease in the average balance of certificates of deposit. The average rate paid on total deposits decreased to 1.31% for the first nine months of fiscal 2012 from 1.59% for the first nine months of fiscal 2011. Our expense on borrowings amounted to \$1.3 million in the first nine months of fiscal 2012, which was substantially unchanged from the first nine months of fiscal 2011. The average balance of our borrowings decreased by \$1.4 million in the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011, however the average rate paid on borrowed funds of increased to 3.53% in the first nine months of fiscal 2012 compared to 3.48% in the first nine months of fiscal 2011.

**Provision for Loan Losses.** The provision for loan losses was \$335,000 and \$360,000 for the three and nine months ended June 30, 2012, respectively. The provision for loan losses was \$600,000 and \$10.6 million for the three and nine months ended June 30, 2011, respectively. The \$265,000 and \$10.3 million difference in the provision for loan losses for the three and nine months ended June 30, 2012, respectively, was due primarily to a \$1.1 million recovery to the allowance for loan losses during the first quarter of fiscal 2012 upon receipt of a \$2.5 million payment in full satisfaction of a \$1.4 million participation interest in a construction and development loan on a retirement community located in Montgomery County, Pennsylvania, as well as an overall improvement in the trend of our levels of delinquent, classified and non-performing loans. At June 30, 2012, our total past due loans amounted to \$14.8 million, an \$806,000, or 5.2%, improvement compared to September 30, 2011. Our total loans classified substandard and doubtful amounted to \$27.5 million at June 30, 2012, a \$5.1 million, or 15.7%, improvement compared to \$32.6 million at September 30, 2011. Our total non-accrual loans were \$10.6 million at June 30, 2012 compared to \$12.9 million at September 30, 2011, a \$2.3 million, or 17.7%, reduction.

47

Our net charge-offs to the allowance for loan losses for the three months ended June 30, 2012 amounted to \$428,000 compared to \$920,000 during the third quarter of fiscal 2011. Our net charge-offs to the allowance for loan losses for the nine months ended June 30, 2012 amounted to \$2.5 million compared to \$8.8 million during the first nine months of fiscal 2011. During the nine months ended June 30, 2012, our total charge-offs in the amount of \$3.7 million were partially offset by \$1.3 million in recoveries. Our ratio of net charge-offs to the allowance for loan losses was 41.4% for the nine months ended June 30, 2012 compared to 116.18% for the comparable period in fiscal 2011.

The following table summarizes changes in the allowance for loan losses and selected ratios for the periods presented.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
(Dollars in thousands)				
Balance at beginning of period	\$8,076	\$ 10,366	\$ 10,101	\$ 8,157
Provision for loan losses	335	600	360	10,642
<b>Charge-offs:</b>				
<b>Residential mortgage</b>	140	48	1,115	2,319
<b>Construction and Development:</b>				
Residential and commercial	199		611	107
<b>Commercial:</b>				
Commercial real estate		203	855	2,417
Multi-family				164
Other		278	88	278
<b>Consumer:</b>				
Home equity lines of credit	21	40	72	166
Second mortgages	110	386	975	3,366
Other		1	22	3
Total charge-offs	470	956	3,738	8,820
<b>Recoveries:</b>				
<b>Residential mortgage</b>		1		1
<b>Construction and Development:</b>				
Residential and commercial			1,139	
<b>Commercial:</b>				
Commercial real estate				1
Multi-family				1
Other		1	2	2
<b>Consumer:</b>				
Home equity lines of credit	1		1	3

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	Three Months Ended June 30,		Nine Months Ended June 30,	
Second mortgages	39	30	114	50
Other	2	4	4	9
Total recoveries	42	36	1,260	67
Net charge-offs	428	920	2,478	8,753
Balance at end of period	\$7,983	\$10,046	\$7,983	\$10,046
<b>Ratios:</b>				
Ratio of allowance for loan losses to non-accrual loans	75.11%	54.47%	75.11%	54.47%
Ratio of net charge-offs to average loans outstanding (1)	0.09%	0.18%	0.68%	2.18%
Ratio of net charge-offs to total allowance for loan losses (1)	21.45%	36.63%	41.39%	116.18%

(1) Annualized.

48

As of June 30, 2012, the balance of the allowance for loan losses was \$8.0 million, or 1.69% of gross loans and 75.11% 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. The \$335,000 provision for loan losses made in the third quarter of fiscal 2012 reflected management's assessment, based on the information available at the time, of the inherent level of estimable losses in our loan portfolio.

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 \$72,000, or 16.6%, to \$506,000 for the three months ended June 30, 2012 compared to \$434,000 for the three months ended June 30, 2011. The increase in other income during the third quarter of fiscal 2012 was due primarily to a \$104,000 increase in rental income on REO in the quarter ended June 30, 2012 compared to the quarter ended June 30, 2011. In addition, during the quarter ended June 30, 2012, we recorded a \$40,000 gain on the sale of \$3.9 million of investment securities compared to no such gain during the comparable quarter in fiscal 2011.

Our other, or non-interest, income increased by \$1.1 million, or 81.9%, to \$2.4 million for the nine months ended June 30, 2012 compared to \$1.3 million for the nine months ended June 30, 2011. The increase in other income during the first nine months of fiscal 2012 was due to a \$415,000 gain recorded on the securitization and sale of \$10.7 million of long-term, fixed-rate residential mortgage loans and a \$248,000 gain on the sale of \$11.5 million of investment securities. In addition, there was an increase in rental income on REO in the amount of \$503,000 in the nine months ended June 30, 2012.

Set forth below is additional detail regarding our other income for the periods indicated.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
(Dollars in Thousands)				
<b>Other Income:</b>				
Service charges and other fees	\$218	\$229	\$686	\$700

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	Three Months Ended June 30,		Nine Months Ended June 30,	
Rental income other real estate owned	104		503	
Rental income other	59	66	192	196
Gain on sale of investments, net	40		663	
(Loss) gain on sale of other real estate owned, net	(49)	3	(70)	(4)
Earnings on bank-owned life insurance	134	136	400	413
Total other income	\$506	\$434	\$2,374	\$1,305

**Other Expense.** Our other, or non-interest, expense decreased by \$304,000, or 6.8%, to \$4.2 million in the quarter ended June 30, 2012 compared to \$4.5 million for the three months ended June 30, 2011. The decrease in other operating expense in the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011 was due primarily to a \$106,000 decrease in other real estate owned expense, a \$154,000 decrease in professional fees and a \$109,000 decrease in federal deposit insurance premiums. These items were partially offset by a \$56,000, or 3.4% increase in salaries and employee benefits in the quarter ended June 30, 2012 compared to the quarter ended June 30, 2011.

Our other, or non-interest, expense decreased by \$535,000, or 4.0%, to \$12.9 million for the nine months ended June 30, 2012 compared to \$13.4 million for the nine months ended June 30, 2011. The decrease in other operating expenses in the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011 was due primarily to a \$326,000 decrease in other real estate owned expense and a \$359,000 decrease in federal deposit insurance premiums, due to a lower deposit base in fiscal 2012. These decreases were partially offset by a \$211,000, or 4.4% increase in salaries and employee benefits in the nine months ended June 30, 2012 compared to the nine months ended June 30, 2011.

49

Set forth below is additional detail regarding our other expense for the periods indicated.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
(Dollars in Thousands)				
<b>Other Expense:</b>				
Salaries and employee benefits	\$ 1,689	\$ 1,633	\$ 5,001	\$ 4,790
Occupancy expense	520	538	1,568	1,647
Federal deposit insurance premium	204	313	657	1,016
Advertising	159	160	581	585
Data processing	319	279	939	841
Professional fees	279	433	1,193	1,277
Other real estate owned expense	550	656	1,563	1,889
Other operating expenses	452	464	1,397	1,389
Total other expenses	\$4,172	\$4,476	\$12,889	\$13,434

**Income Tax Expense.** Our income tax expense was \$32,000 for the three months ended June 30, 2012, and was primarily due to the recognition of \$304,000 in pre-tax income during the quarter ended June 30, 2012. The application of the net operating loss carryforward in the comparable fiscal 2011 period and permanent book to tax differences applied to the \$360,000 pre-tax income in the third quarter of fiscal 2011, resulted in an income tax benefit of \$4,000 for the three months ended June 30, 2011. Our effective Federal tax rate was 10.4% and 1.1% for the three months ended June 30, 2012 and 2011, respectively.

Our income tax expense was \$620,000 for the nine months ended June 30, 2012 compared to an income tax benefit of \$3.0 million for the nine months ended June 30, 2011. The increased income tax expense for the nine months ended June 30, 2012 was primarily due to the recognition of \$2.4 million in pre-tax income during the nine months ended June 30, 2012 compared to an \$8.1 million pre-tax loss during the first nine months

of fiscal 2011. Our effective federal tax rate was 26.2% for the nine months ended June 30, 2012 with an effective tax benefit in the comparable period in fiscal 2011 of 37.0%.

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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 18 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 (the FASB ); 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 proxy statement/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.

### 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 at \$10.00 Per Share	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%	33,766	100.0%
Less:								
Proceeds contributed to Malvern Federal Savings Bank	14,904	70.0%	17,676	70.0%	20,448	70.0%	23,636	70.0%
Proceeds remaining for Malvern Bancorp New	\$ 6,388	30.0%	\$ 7,576	30.0%	\$ 8,764	30.0%	\$10,130	30.0%

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.

52

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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.

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 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.

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.

Quarter ended:	Stock Price Per Share		Cash Dividends Per Share
	High	Low	
September 30, 2012 (through August 10, 2012)	\$9.70	\$8.01	\$
June 30, 2012	9.00	7.76	
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
September 30, 2010	8.65	6.66	0.03
June 30, 2010	9.85	8.40	0.03
March 31, 2010	9.80	9.00	0.03
December 31, 2009	9.70	9.05	0.03

At January 13, 2012, the business day immediately preceding the public announcement of the conversion, and at August 10, 2012, the date of this proxy statement/prospectus, the closing prices of Malvern Federal Bancorp common stock as reported on the Nasdaq Global Market were \$6.23 per share and \$8.74 per share, respectively. At August 10, 2012, Malvern Federal Bancorp had approximately 560 shareholders of record.



## REGULATORY CAPITAL REQUIREMENTS

At March 31, 2012, Malvern Federal Savings Bank exceeded all of its regulatory capital requirements. The table below sets forth Malvern Federal Savings Bank's historical capital under accounting principles generally accepted in the United States of America and regulatory capital at March 31, 2012, and the pro forma capital of Malvern Federal Savings Bank after giving effect to the offering, based upon the sale of the number of shares shown in the table. The pro forma capital amounts reflect the receipt by Malvern Federal Savings Bank of 70% of the net offering proceeds. The pro forma risk-based capital amounts assume the investment of the net proceeds received by Malvern Federal Savings Bank in assets which have a risk-weight of 20% under applicable regulations, as if such net proceeds had been received and so applied at March 31, 2012.

	Malvern Federal Savings Bank Historical at March 31, 2012		Pro Forma at March 31, 2012							
			Minimum of Offering Range		Midpoint of Offering Range		Maximum of Offering Range		15% Maximum Offering Range	
			2,337,500 Shares At \$10.00 per Share		2,750,000 Shares At \$10.00 Per Share		3,162,500 Shares at \$10.00 Per Share		3,636,875 Shares at \$10.00	
(Unaudited)										
Amount	Percent of Assets (1)	Amount	Percent of Assets	Amount	Percent of Assets	Amount	Percent of Assets	Amount	Percent of Assets	
(Dollars in Thousands)										
GAAP capital	\$58,131	8.94%	\$73,135	11.00%	\$75,907	11.37%	\$78,679	11.73%	\$81,867	11.95%
Tier 1 capital:										
Actual	\$53,442	8.27%	\$68,446	10.36%	\$71,218	10.73%	\$73,990	11.10%	\$77,178	11.50%
Requirement	25,838	4.00	26,434	4.00	26,545	4.00	26,656	4.00	26,783	4.00
Excess	\$27,604	4.27%	\$42,012	6.36%	\$44,673	6.73%	\$47,334	7.10%	\$50,395	7.50%
Tier 1 risk-based capital:										
Actual	\$53,442	12.45%	\$68,446	15.83%	\$71,218	16.47%	\$73,990	17.07%	\$77,178	17.71%
Requirement	17,174	4.00	17,293	4.00	17,315	4.00	17,337	4.00	17,363	4.00
Excess	\$36,268	8.45%	\$51,153	11.83%	\$53,903	12.47%	\$56,653	13.07%	\$59,815	13.71%
Total capital:										
Actual	\$58,842	13.71%	\$73,846	17.08%	\$76,618	17.70%	\$79,390	18.32%	\$82,578	18.94%
Requirement	34,348	8.00	34,586	8.00	34,630	8.00	34,675	8.00	34,726	8.00
Excess	\$24,494	5.71%	\$39,260	9.08%	\$41,988	9.70%	\$44,715	10.32%	\$47,852	10.94%
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	
			\$15,004		\$17,776		\$20,548		\$23,736	

Pro forma  
increase in  
GAAP and  
regulatory  
capital

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

55

### 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.

	<b>Malvern Bancorp New Pro Forma Based Upon Sale at \$10.00 Per Share</b>				
	<b>Malvern Federal Bancorp Historical Capitalization</b>	<b>2,337,500 Shares (Minimum of Offering Range)</b>	<b>2,750,000 Shares (Midpoint of Offering Range)</b>	<b>3,162,500 Shares (Maximum of Offering Range)</b>	<b>3,636,875 Shares(1) (15% above Maximum of Offering Range)</b>
(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:					
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
	9.50%	12.38%	12.89%	13.40%	13.97%

Ratio of total shareholders' equity to total assets

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- (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.
- (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.

56

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#### PRO FORMA DATA

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 or underwritten public offering;

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 or, in the case of an underwritten public offering, the underwriting discount on the shares sold in the underwritten public offering will be equal to 6.0% of the aggregate purchase price of the shares sold in the underwritten public offering; and

Total expenses of the offering, excluding management fees and sales commissions or underwritten discounts, as the case may be, 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:

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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

57

common stock and may be different than amounts that would be available for distribution to shareholders in the event of liquidation.

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

	2,337,500 shares sold at \$10.00 per share (Minimum of range)	2,750,000 shares sold at \$10.00 per share (Midpoint of range)	3,162,500 shares sold at \$10.00 per share (Maximum of range)	3,636,875 shares sold at \$10.00 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

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At or For the Six Months Ended March 31, 2012

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
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

**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%
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 on page 59)

58

At or For the Year Ended September 30, 2011

	2,337,500 shares sold at \$10.00 per share (Minimum of range)	2,750,000 shares sold at \$10.00 per share (Midpoint of range)	3,162,500 shares sold at \$10.00 per share (Maximum of range)	3,636,875 shares sold at \$10.00 per share (15% above Maximum)
Gross proceeds	\$ 23,375	\$ 27,500	\$ 31,625	\$ 36,369
Less: estimated offering expenses	(2,083)	(2,248)	(2,413)	(2,603)

(Dollars in thousands, except per share amounts)

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At or For the Year Ended September 30, 2011

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
<b>Pro Forma Net Income:</b>				
Pro forma net loss:				
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)
Pro forma net loss per share:				
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
<b>Pro Forma Shareholders' Equity:</b>				
Pro forma shareholders' equity (book value):				
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
Pro forma shareholders' equity per share:				
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
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

- (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 (which is also referred to as the 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

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 proxy statement/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

62

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

*Allowance for Loan Losses.* The allowance for 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. Reserves for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated statement of financial condition. The allowance for loan losses 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.

63

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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

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

65

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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 Malvern Federal Savings Bank Lending Activities, Investment Activities and Sources of Funds.

66

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	<u>6 Months or Less</u>	<u>More than 6 Months to 1 Year</u>	<u>More than 1 Year to 3 Years</u>	<u>More than 3 Year to 5 Years</u>	<u>More than 5 Years</u>	<u>Total Amount</u>
(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

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 the first six months of fiscal 2012 was a decrease of \$39.0 million in net loans receivable and a \$3.6 million reduction in 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, was due to \$3.8 million

68

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 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 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,

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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 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.

69

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	46,696	18	0.08	33,276	19	0.12
FHLB stock	5,069	1	0.04	6,232		0.00
Total interest-earning assets (1)	625,073	13,346	4.32	653,825	15,118	4.62
Non-interest earning assets	36,247			38,979		
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
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	\$51,005			\$49,787		
Net interest income		\$8,942			\$9,707	
Net interest spread			2.74%			2.83%



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Six Months Ended March 31,

Net interest margin (2)		2.86%	2.96%
Average interest-earning assets to average interest-bearing liabilities	108.88%	108.24%	

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

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

70

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)

**Interest Earning Assets:**

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	32,024	31	0.10	31,218	38	0.12	20,018	65	0.33
FHLB stock	5,905		0.00	6,567		0.00	6,513		0.00
Total interest-earning assets (1)	646,573	29,726	4.60	655,592	33,148	5.06	652,268	34,701	5.32
Non-interest earning assets	34,654			35,379			27,690		
Total assets	\$ 681,227			\$ 690,971			\$ 679,958		

**Interest Bearing Liabilities:**

Demand and NOW accounts	\$ 90,674	519	0.57	\$ 87,240	845	0.97	\$ 76,407	1,321	1.72
Money Market accounts	87,329	915	1.05	63,788	648	1.02	58,167	960	1.65
Savings accounts	44,237	78	0.18	41,002	110	0.27	38,661	136	0.35
Certificate accounts	321,918	6,941	2.16	324,973	8,511	2.62	306,213	11,061	3.61
Total deposits	544,158	8,453	1.55	517,003	10,114	1.96	479,448	13,478	2.81
Borrowed funds	49,874	1,745	3.50	80,714	3,527	4.37	105,873	5,203	4.91
	594,032	10,198	1.72	597,717	13,641	2.28	585,321	18,681	3.13

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Year Ended September 30,

Total interest-bearing liabilities				
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	\$ 52,541	\$ 57,875	\$ 66,947	
Net interest income		\$ 19,528	\$ 19,507	\$ 16,020
Net interest spread		2.88%	2.78%	2.1%
Net interest margin		3.02%	2.98%	2.4%
Average interest-earning assets to average interest-bearing liabilities	108.84%	109.68%	111.44%	

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

71

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

Six Months Ended March 31, 2012 vs. 2011			Year Ended September 30,					
			2011 vs. 2010			2010 vs. 2009		
Volume	Rate	Net Change	Volume	Rate	Net Change	Volume	Rate	Net Change
(Dollars in thousands)								

**Interest Earning Assets:**

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Year Ended September 30,

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	15	(16)	(1)	1	(8)	(7)	36	(63)	(27)
FHLB stock		1	1						
Total interest-earning assets	\$ (2,490)	\$ 718	\$ (1,772)	\$ (1,593)	\$ (1,829)	\$ (3,422)	\$ (547)	\$ (1,006)	\$ (1,553)

**Interest Bearing Liabilities**

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	\$ (1,731)	\$ 966	\$ (765)	\$ (447)	\$ 468	\$ 21	\$ (276)	\$ 3,763	\$ 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 2.74% and our net interest margin was 2.86% for the six months ended March 31, 2012, compared to a net interest spread of 2.83% and a net interest margin of 2.96% 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

first six months of fiscal 2011. The primary reason for the decrease in the first six months of fiscal 2012 was a four 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

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.

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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 troubled debt restructuring ( 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 December 31, 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.

**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 two 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

75

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 20 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

76

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.

## 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 FHLB of Pittsburgh, of which we are a member. Under terms of the collateral agreement with the FHLB, we pledge residential mortgage loans and mortgage-backed securities as well as our stock in the FHLB 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

	Less than One Year	One to Three Years	Three to Five Years	More than Five Years	Total
(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

	Less than One Year	One to Three Years	Three to Five Years	More than Five Years	Total
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### At September 30, 2011 Payments Due by Period

	(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

78

### 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:

	March 31, 2012	September 30, 2011
	(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
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 International Financial Reporting Standards ( 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

79

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January 1, 2013. As the provisions of 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 IFRS*. ASU 2011-04 represents the converged guidance of the FASB and the International Accounting Standards Board (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.

80

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## BUSINESS

### Business of Malvern Bancorp-New

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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 holding 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 proxy statement/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

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

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

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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 Review 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 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.

83

**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,							
	Amount	Percent	2011		2010		2009		2008	
			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	

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	March 31,						September 30,		
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
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		2,935		3,272		3,872		3,816
Allowance for loan losses	(8,076)		(10,101)		(8,157)		(5,718)		(5,505)
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.

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

	March 31,		2011		2010		September 30,		2008	
	2012						2009			
	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	
Construction and Development:										
Residential and commercial	3,292	0.7	4,250	0.8	968	0.2	5,382	0.9	4,505	
Land loans			1,376	0.3	1,312	0.3	1,558	0.3	1,575	
Total fixed-rate construction and development	3,292	0.7	5,626	1.1	2,280	0.5	6,940	1.2	6,080	

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September 30,

	March 31,								
loans									
<b>Commercial:</b>									
Commercial real estate	43,089	9.1	40,231	7.8	40,833	7.4	56,126	9.4	52,406
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
Total fixed-rate commercial loans	45,260	9.6	42,806	8.3	43,516	7.9	63,443	10.6	56,847
<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
Other	531	0.1	552	0.1	822	0.1	867	0.2	960
Total fixed-rate consumer loans	72,719	15.4	86,433	16.9	106,647	19.2	114,810	19.3	104,701
Total fixed-rate loans	\$ 323,712	68.5	\$ 346,270	67.5	\$ 353,728	64.0	\$ 412,905	69.3	\$ 385,842
<b>Adjustable-Rate Loans:</b>									
<b>Residential mortgage</b>	\$ 17,770	3.8%	\$ 17,925	3.5%	\$ 29,681	5.4%	\$ 24,596	4.1%	\$ 29,904
<b>Construction and Development:</b>									
Residential and commercial	18,554	3.9	21,755	4.2	29,461	5.3	32,126	5.4	40,946
Land loans	632	0.1	1,346	0.3	1,677	0.3	1,679	0.3	2,955
Total adjustable-rate construction and development loans	19,186	4.0	23,101	4.5	31,138	5.6	33,805	5.7	43,901
<b>Commercial:</b>									
Commercial real estate	79,007	16.7	90,994	17.7	102,262	18.5	86,737	14.6	86,116
Multi-family	3,682	0.8	4,575	0.9	5,543	1.0	6,094	1.0	1,906
Other	8,252	1.7	9,349	1.8	9,665	1.8	11,849	2.0	12,819
Total adjustable-rate commercial loans	90,941	19.2	104,918	20.4	117,470	21.3	104,680	17.6	100,841
<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									
Other	290	0.1	236	0.1	264	0.1	276	0.1	344
Total adjustable-rate consumer loans	20,957	4.5	20,971	4.1	20,191	3.7	19,425	3.3	12,737
Total adjustable-rate loans	\$ 148,854	31.5%	\$ 166,915	32.5%	\$ 198,480	36.0%	\$ 182,506	30.7%	\$ 187,383
Total loans (1)	\$ 472,566	100.0%	\$ 513,185	100.0%	\$ 552,208	100.0%	\$ 595,411	100.0%	\$ 573,225

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

**Loan Maturity.** The following table presents the contractual maturity of our loans at March 31, 2012. The table does not include the effect of prepayments or scheduled principals amortization. Loans having no stated repayment schedule or maturity and overdraft loans are reported as being due in one year or less.

	Construction and Development			Commercial			Consumer			Total
	Residential Mortgage	Residential and Commercial	Land Loans	Commercial Real Estate	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	
(Dollars in thousands)										
<b>Amounts due in:</b>										
One year or less	\$ 684	\$12,403	\$632	\$ 7,668	\$ 131	\$ 468	\$ 300	\$ 117	\$ 26	\$ 22,429
After one year through two years	682			3,276		970		250	123	5,301
After two years through three years	523			9,424		657		482	171	11,257
After three years through five years	4,713	3,618		23,177	1,005	960	60	1,539	127	35,199
After five years through ten years	31,444	4,964		64,128	3,672	2,499		13,389		120,096
After ten years through fifteen years	34,205			7,487		1,344	5,186	23,297	5	71,524
Beyond fifteen years	147,960	861		6,936	562	1,837	15,121	33,114	369	206,760
<b>Total</b>	<b>\$ 220,211</b>	<b>\$ 21,846</b>	<b>\$ 632</b>	<b>\$ 122,096</b>	<b>\$ 5,370</b>	<b>\$ 8,735</b>	<b>\$ 20,667</b>	<b>\$ 72,188</b>	<b>\$ 821</b>	<b>\$ 472,566</b>
<b>Interest rate terms on amounts due after one year:</b>										
Fixed rate	\$ 202,302	\$ 3,292	\$	\$ 40,861	\$ 1,688	\$	\$	\$ 72,071	\$ 509	\$ 320,723
Adjustable rate	17,225	6,151		73,567	3,551	8,267	20,367		286	129,414
<b>Total</b>	<b>\$ 219,527</b>	<b>\$ 9,443</b>	<b>\$</b>	<b>\$ 114,428</b>	<b>\$ 5,239</b>	<b>\$ 8,267</b>	<b>\$ 20,367</b>	<b>\$ 72,071</b>	<b>\$ 795</b>	<b>\$ 450,137</b>

**Loan Originations, Purchases and Sales.** Our lending activities are subject to underwriting standards and loan origination procedures established by our board of directors and management. Loan originations are obtained through a variety of sources, primarily existing customers as well as new customers obtained from referrals and local advertising and promotional efforts. In addition, we rely on a network of approximately ten mortgage brokers with respect to production of new single-family residential mortgage loans, second mortgage loans and home equity lines of credit. We receive applications from such brokers on standardized documents meeting Federal Home Loan Mortgage



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Corporation ( FHLMC or Freddie Mac ) and Federal National Mortgage Association ( FNMA or Fannie Mae ) guidelines and, if we determine to acquire loans from such brokers, they are underwritten and approved pursuant to the policies and procedures of Malvern Federal Savings Bank. Depending upon our arrangements with the particular broker, loans obtained from our broker network are classified either as purchased, when the broker provides the loan funds at closing and closes the loan in its name, or as originated, when Malvern Federal Savings Bank disburses the loan funds at closing and the documents reflect Malvern Federal Savings Bank as the lender. Single-family residential mortgage loan applications and consumer loan applications are taken at any Malvern Federal Savings Bank financial center office. We also accept internet applications submitted to our website. Applications for other loans typically are taken personally by our loan officers or business development officers, although they may be received by a branch office initially and then referred to one of our loan officers or business development officers. All loan applications are processed and underwritten centrally at our main office.

All of our single-family residential mortgage loans are written on standardized documents used by Freddie Mac and Fannie Mae. We also utilize an automated loan processing and underwriting software system for our new single-family residential mortgage loans. Property valuations of loans secured by real estate are undertaken by an independent third-party appraiser approved by our board of directors. We do not originate, and at March 31, 2012 we had no, sub-prime loans in our portfolio.

As previously indicated, upon consideration of the increased levels of our non-performing and problem assets, we generally ceased originating new construction and development loans in October 2009, with certain exceptions, and we ceased originating new commercial real estate loans in August 2010. The Supervisory Agreements that we entered into in October 2010 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).

In addition to originating loans, we occasionally purchase participation interests in larger balance loans, typically commercial real estate or construction and development loans, from other financial institutions in our market area. Such participations are reviewed for compliance with our underwriting criteria before they are

86

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purchased. We actively monitor the performance of such loans through the receipt of regular reports from the lead lender regarding the loan's performance, physically inspecting the loan security property on a periodic basis, discussing the loan with the lead lender on a regular basis and receiving copies of updated financial statements from the borrower. At March 31, 2012, the largest loan participation interests from other institutions were comprised of seven loans to four borrowers and their affiliates, which had an aggregate outstanding balance of approximately \$9.9 million. Of those seven loans, three construction and development loans to two borrowers and their affiliates, which had an aggregate outstanding balance on our books of \$3.2 million at March 31, 2012, were impaired and on non-accrual status at such date. See Asset Quality Non-Performing Loans and Real Estate Owned.

In addition, we also occasionally sell whole loans or participation interests in loans we originate. We generally have sold participation interests in loans only when a loan would exceed our loans-to-one borrower limits. Our loans-to-one borrower limit, with certain exceptions, generally is 15% of Malvern Federal Savings Bank's unimpaired capital and surplus. At March 31, 2012, our five largest outstanding loans to one borrower and related entities amounted to \$8.9 million, \$8.4 million, \$8.3 million, \$7.0 million and \$5.5 million, respectively, and all of such loans were performing in accordance with their terms and complied with our loan-to-one borrower limit. In addition, in an effort to improve our interest rate risk exposure, on occasion, we sell long-term (20 or 30 year term) fixed-rate single family residential mortgage loans to Freddie Mac and Fannie Mae while retaining the loan servicing rights for such loans. We receive a fee for continuing to service such loans when they are sold, and such fees are recorded as non-interest income.

87

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

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

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	Six Months Ended March 31,		Year Ended September 30,		
	(Dollars in thousands)				
<b>Total gross loans at beginning of period</b>	\$ 513,185	\$ 552,208	\$ 552,208	\$ 595,411	\$ 573,225
<b>Originations by type:</b>					
<b>Residential mortgage</b>	17,870	24,804	35,378	26,422	37,842
<b>Construction and Development (1):</b>					
Residential and commercial	3,363	1,899	3,890	7,250	16,015
Land loans		23	36	40	318
<b>Commercial:</b>					
Commercial real estate	645	2,560	3,146	28,354	32,494
Multi-family	161	270	494	45	10,431
Other	912	2,562	3,426	3,836	5,105
<b>Consumer:</b>					
Home equity lines of credit (1)	5,319	5,656	11,289	10,965	19,309
Second mortgages	573	4,924	6,719	6,952	6,103
Other	431	355	608	1,139	884
Total originations	29,274	43,053	64,986	85,003	128,501
<b>Principal Repayments:</b>					
<b>Residential mortgage</b>	26,194	35,682	54,691	53,338	59,838
<b>Construction and Development:</b>					
Residential and commercial	7,521	4,281	7,750	13,244	23,763
Land loans	1,927	16	235	287	1,612
<b>Commercial:</b>					
Commercial real estate	9,535	1,723	7,387	25,519	24,167
Multi-family	297	296	1,335	3,095	2,727
Other	3,169	1,932	3,542	8,063	6,696
<b>Consumer:</b>					
Home equity lines of credit	5,452	5,157	10,034	10,313	12,595
Second mortgages	16,289	17,041	28,848	25,935	27,250
Other	398	571	882	1,196	1,044
Total principal repayments	70,782	66,699	114,704	140,990	159,692
Net loan originations and principal repayments	(41,508)	(23,646)	(49,718)	(55,987)	(31,191)
<b>Purchases:</b>					
<b>Residential mortgage (2)</b>	11,238	6,533	27,683	10,130	28,293
<b>Construction and Development:</b>					
Residential and commercial		125	125		
<b>Consumer:</b>					
Home equity lines of credit	66			131	58
Second mortgages	2,028	3,138	4,560	11,098	31,964
Total purchases	13,332	9,796	32,368	21,359	60,315
<b>Residential mortgage loans securitization and sale</b>	(10,671)				
<b>Other adjustments, net (3)</b>	(1,772)	(11,947)	(21,673)	(8,575)	(6,938)
Net increase (decrease)	(40,619)	(25,797)	(39,023)	(43,203)	22,186
Total gross loans at end of period	\$ 472,566	\$ 526,411	\$ 513,185	\$ 552,208	\$ 595,411

(1)

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Origination amounts for construction and development loans and line of credit loans reflect disbursements of loan proceeds during the period although loans may have been originated in a prior period.

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

88

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

**Residential Lending.** Residential mortgage originations are secured primarily by properties located in Malvern Federal Bancorp's primary market area and surrounding areas. At March 31, 2012, \$220.2 million, or 46.6%, of our total loans consisted of single-family residential mortgage loans.

Our single-family residential mortgage loans generally are underwritten on terms and documentation conforming to guidelines issued by Freddie Mac and Fannie Mae. Applications for one- to four-family residential mortgage loans are taken by our Business Development Officer and are accepted at any of our banking offices and are then referred to the lending department at our main office in order to process the loan, which consists primarily of obtaining all documents required by Freddie Mac and Fannie Mae underwriting standards, and completing the underwriting, which includes making a determination whether the loan meets our underwriting standards such that Malvern Federal Savings Bank can extend a loan commitment to the customer. We generally have retained for our portfolio a substantial portion of the single-family residential mortgage loans that we originate. We currently originate fixed-rate, fully amortizing mortgage loans with maturities of 10 to 30 years. We also offer adjustable rate mortgage ( ARM ) loans where the interest rate either adjusts on an annual basis or is fixed for the initial one, three or five years and then adjusts annually. However, due to market conditions, we have not originated a significant amount of ARM loans in recent years. At March 31, 2012, \$17.8 million, or 8.1%, of our one- to four-family residential loans consisted of ARM loans. We also offer balloon loans which are amortized on a 30 year schedule but become due at the fifth or seventh anniversary, bi-weekly mortgage loans and, until August 2008, for borrowers with credit scores exceeding 700, NINA loans. Our NINA loans amounted to \$1.8 million in the aggregate at March 31, 2012. One NINA loan with an outstanding balance of \$287,000 at March 31, 2012, was impaired and on non-accrual status at such date.

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

**Construction and Development Loans.** In October 2009, we ceased originating any new construction and development loans, with certain limited exceptions. During fiscal 2010, we originated a total of three commercial construction loans which had an outstanding balance of \$754,000 at March 31, 2012. Our only other new construction loans which we have made since we entered into the Supervisory Agreements in October 2010 have consisted of single-family residential construction loans which, by their terms, convert to permanent, long-term mortgage loans upon completion of construction ( construction/perm. loans). We had three of such construction/perm loans with an aggregate outstanding balance of \$861,000 at March 31, 2012. Prior to October 2009, we originated construction loans for residential and, to a lesser extent, commercial uses within its market area. We generally limited construction loans to builders and developers with whom we had an established relationship, or who were otherwise known to officers of Malvern Federal Savings Bank. The amount of our outstanding construction and development loans decreased to \$22.5 million or 4.7% of total

89

loans at March 31, 2012 compared to \$28.7 million or 5.6% of total loans at September 30, 2011 and \$33.4 million or 6.1% of total loans as of September 30, 2010. As previously indicated, our strategic plan includes the resumption of construction and development lending after completion of the conversion and offering and subject to the receipt of any necessary approvals or non-objections from the Office of the Comptroller of the Currency. Any such renewed construction and development lending is expected to be within our market area to homebuilders and developers with whom we are familiar and will be made in accordance with our strengthened loan underwriting policies and enhanced credit administration and review procedures.

Our construction and development loans currently in the portfolio typically have variable rates of interest tied to the prime rate which improves the interest rate sensitivity of our loan portfolio. At March 31, 2012, approximately 85.4% of our construction loans had variable rates of interest and 58.0% of such loans had two years or less in their remaining terms to maturity at such date.

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

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

Our construction loans also include loans for the acquisition and development of land for sale (i.e. roads, sewer and water lines). We typically made these loans only in conjunction with a commitment for a construction loan for the units to be built on the site. These loans are secured by a lien on the property and were limited to a loan-to-value ratio not exceeding 80% of the appraised value at the time of origination. The loans have a variable rate of interest and require monthly payments of interest. The principal of the loan is repaid as units are sold and released. We limited loans of this type to our market area and to developers with whom we had established relationships. In most cases, we also obtained personal guarantees from the borrowers.

Our loan portfolio included one loan secured by unimproved real estate and lots ( land loans ), with an outstanding balance of \$632,000, constituting 0.1% of total loans, at March 31, 2012. As previously indicated, we generally have ceased making any new land loans.

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

Construction and development loans generally are considered to involve a higher level of risk than one-to four-family residential lending, due to the concentration of principal in a limited number of loans and borrowers and the effect of economic conditions on developers, builders and projects. At March 31, 2012, the amounts outstanding on our five largest residential construction loans were approximately \$1.1 million, \$673,000, \$539,000, \$486,000 and \$362,000. At March 31, 2012, the amounts outstanding on our five largest commercial construction or development loans were \$3.4 million, \$3.3 million, \$3.0 million, \$1.6 million and \$1.3 million. The average size of our construction loans was approximately \$351,000 at March 31, 2012. Additional risk is also associated with construction lending because of the inherent difficulty in estimating both a property's value at completion and the estimated cost (including interest) to complete a project. The nature of these loans is such that they are more difficult to evaluate and monitor. In addition, speculative construction loans to a builder are not pre-sold and thus pose a greater potential risk than construction loans to individuals on their personal residences.

In order to mitigate some of the risks inherent to construction lending, we inspect properties under construction, review construction progress prior to advancing funds, work with builders with whom we have established relationships, require annual updating of tax returns and other financial data of developers and obtain personal guarantees from the principals. At March 31, 2012, \$830,000, or 10.3%, of our allowance for

loan losses was attributed to construction and development loans. Our non-performing construction and development loans amounted to \$3.2 million at March 31, 2012 compared to \$6.6 million and \$1.4 million at September 30, 2011 and 2010, respectively. During the fiscal year ended September 30, 2011, we charged off a total of \$1.3 million in construction and development loans including an \$800,000 partial charge-off on a \$3.0 million participation interest in two construction and development loans for the construction of 64 units of a proposed 198 unit age-restricted condominium community located in Delaware County. The remaining carrying value on such participation interest at March 31, 2012 and September 30, 2011 was \$1.6 million and \$1.9 million, respectively. In addition, we took a \$400,000 partial charge-off on a \$2.4 million participation interest in a 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 carrying value to \$2.0 million at September 30, 2011 (at March 31, 2012, the carrying value was \$1.6 million). See Asset Quality Non-Performing Loans and Real Estate Owned. In addition to our non-performing construction and development loans, at March 31, 2012 and September 30, 2011 and 2010, we had \$1.2 million in construction and development loans that were performing troubled debt restructurings.

**Commercial Lending.** In August 2010, Malvern Federal Bancorp generally ceased originating new commercial real estate, multi-family real estate mortgage loans, or commercial business loans and we are no longer purchasing whole loans or participation interests in commercial loans from other financial institutions. The Supervisory Agreement, which became effective in October 2010, prohibits Malvern Federal Savings Bank from originating or purchasing any new commercial real estate loans or commercial and industrial loans except for refinancing, extending or modifying existing loans where no new funds are advanced and except with the prior written non-objection of the OCC.

As previously indicated, our strategic plan includes the resumption of commercial real estate lending after completion of the conversion and offering and subject to the elimination of the lending restrictions contained in the Supervisory Agreements and the receipt of any other necessary approvals or non-objections from the Office of the Comptroller of the Currency. Any such renewed commercial real estate lending is expected to be within our market area and will be in accordance with our strengthened loan underwriting policies and enhanced credit administration and review procedures.

At March 31, 2012, our loans secured by commercial real estate amounted to \$122.1 million and constituted 25.8% of our total loans at such date. During the six months ended March 31, 2012 and the fiscal year ended September 30, 2011, the commercial real estate loan portfolio decreased by an aggregate of \$21.0 million, or 14.7% compared to \$143.1 million of commercial real estate loans at September 30, 2010. The reduction in our commercial loan portfolio was due primarily to our ceasing originations of new commercial real estate loans. As previously indicated, the Supervisory Agreement executed in October 2010 prevents us from making, investing in or purchasing any new multi-family residential loans, commercial real estate loans and/or commercial and industrial loans without the prior written non-objection of the OCC (or, prior to July 21, 2011, the OTS), other than with respect to any refinancing, extension or modification of an existing loan where no new funds are advanced. In addition to loan payoffs and normal amortization, the reduction of our commercial loan portfolio during the six months ended March 31, 2012 and fiscal 2011 reflects aggregate charge-offs of \$3.3 million of commercial real estate loans and the transfer of \$6.7 million in commercial real estate loans to REO during the 18 months ended March 31, 2012.

Our commercial real estate loan portfolio consists primarily of loans secured by office buildings, retail and industrial use buildings, strip shopping centers, mixed-use and other properties used for commercial purposes located in our market area. Loans in our commercial real estate portfolio tend to be in an amount less than \$3.0 million but will occasionally exceed that amount. At March 31, 2012, the average amount outstanding on our commercial real estate loans was \$427,000. The five largest commercial real estate loans outstanding were \$7.6 million, \$5.3 million, \$4.4 million, \$4.3 million and \$3.4 million at March 31, 2012, all of which were performing in accordance with their terms at such date. During the six months ended March 31, 2012, the average yield on our commercial real estate loans was 5.7% compared to 5.0% for our

single-family residential mortgage loans. Commercial real estate loans are much more likely to have adjustable interest rates than single-family residential mortgage loans, which adds to the interest rate sensitivity of commercial real estate loans and makes them attractive. At March 31, 2012, approximately 64.7% of our commercial real estate loans had adjustable interest rates compared to 8.1% of our single-family residential mortgage loans with adjustable rates at such date.

Although terms for commercial real estate and multi-family loans vary, our underwriting standards generally allow for terms up to 10 years with the interest rate being reset in the fifth year and with monthly amortization not greater than 25 years and loan-to-value ratios of not more than 75%. Interest rates are either fixed or adjustable, based upon the prime rate plus a margin, and fees ranging from 0.5% to 1.50% are charged to the borrower at the origination of the loan. Prepayment fees are charged on most loans in the event of early repayment. Generally, we obtain personal guarantees of the principals as additional collateral for commercial real estate and multi-family real estate loans.

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At March 31, 2012, our loan portfolio included \$5.4 million of multi-family (more than four units) loans, constituting 1.2% of our total loans at such date. The two largest multi-family loans, with outstanding balances of \$1.9 million and \$922,000, respectively, at March 31, 2012, comprised 52.4% of our multi-family loans at such date. These loans are for properties located in Chester County and Delaware County, Pennsylvania, respectively. As of March 31, 2012 we had no non-accruing multi-family loans.

Commercial and multi-family real estate loans generally present a higher level of risk than loans secured by one- to four-family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial and multi-family real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed, a bankruptcy court modifies a lease term, or a major tenant is unable to fulfill its lease obligations), the borrower's ability to repay the loan may be impaired. As of March 31, 2012, \$2.8 million or 2.3% of our commercial real estate mortgage loans were on non-accrual status and an aggregate of \$15.5 million of our commercial real estate loans at such date were classified for regulatory reporting purposes with \$15.0 million classified substandard and \$443,000 classified doubtful. See Asset Quality Asset Classification. As of March 31, 2012, \$3.8 million, or 47.2% of our allowance for loan losses was allocated to commercial real estate mortgage loans. In addition, at March 31, 2012 we held \$3.2 million of commercial real estate as real estate owned. See Asset Quality Non-Performing Assets and Real Estate Owned. During the six months ended March 31, 2012 and the fiscal year ended September 30, 2011, we charged-off \$855,000 and \$2.5 million, respectively, in commercial real estate loans. In addition to our non-performing commercial real estate loans and commercial real estate owned, we had \$6.1 million of commercial real estate loans deemed performing troubled debt restructurings at March 31, 2012 compared to \$7.9 million and \$7.7 million at September 30, 2011 and 2010, respectively.

At March 31, 2012, we had \$8.7 million in commercial business loans (1.8% of gross loans outstanding). Our commercial business loans generally are made to small to mid-sized businesses located in our market area. The commercial business loans in our portfolio assist us in our asset/liability management since they generally provide shorter maturities and/or adjustable rates of interest in addition to generally having higher rates of return which are designed to compensate for the additional credit risk associated with these loans. The commercial business loans which we originated may be either a revolving line of credit or for a fixed term of generally 10 years or less. Interest rates are adjustable, indexed to a published prime rate of interest, or fixed. Generally, equipment, machinery, real property or other corporate assets secure such loans. Personal guarantees from the business principals are generally obtained as additional collateral. At March 31, 2012, the average balance of our commercial business loans was \$203,000. As previously indicated, the Supervisory Agreement prevents us from making, investing in or purchasing any new commercial business loans (which are referred to as commercial and industrial loans in such agreement) without the prior written non-objection of the OTS (now, the OCC), other than with respect to any refinancing, extension or modification of an existing loan where no new funds are advanced.

92

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Generally, commercial business loans are characterized as having higher risks associated with them than single-family residential mortgage loans. As of March 31, 2012, we had one non-accruing commercial business loan with a balance of \$201,000. At such date, \$218,000 or 2.7% of the allowance for loan losses was allocated to commercial business loans.

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

**Consumer Lending Activities.** In our efforts to provide a full range of financial services to our customers, we offer various types of consumer loans. Our consumer loans amounted to \$93.7 million or 19.9% of our total loan portfolio at March 31, 2012. The largest components of our consumer loans are loans secured by second mortgages, consisting primarily of home equity loans, which amounted to \$72.2 million at March 31, 2012, and home equity lines of credit, which amounted to \$20.7 million at such date. Our consumer loans also include automobile loans, unsecured personal loans and loans secured by deposits. Consumer loans are originated primarily through existing and walk-in customers and direct advertising and, with respect to second mortgages and home equity lines of credit, through our broker network.

Our home equity lines of credit are variable rate loans tied to the prime rate. Our second mortgages may have fixed or variable rates, although they generally have had fixed rates in recent periods. Our second mortgages have a maximum term to maturity of 20 years. Both our second mortgages and our home equity lines of credit generally are secured by the borrower's primary residence. However, our security generally consists of a second lien on the property. Our lending policy provides that our home equity loans have loan-to-value ratios of 85% or less when

combined with any Malvern Federal Savings Bank's first mortgage. Our lending policy also provides that our home equity loans have loan-to-value ratios of 80% or less when combined with any first mortgage with any other financial institution. The maximum loan-to-value ratio on our home equity lines of credit is 80%. We offer home equity lines on a revolving line of credit basis, with interest tied to the prime rate. At March 31, 2012, the unused portion of our home equity lines of credit was \$23.9 million.

Consumer loans generally have higher interest rates and shorter terms than residential loans; however, they have additional credit risk due to the type of collateral securing the loan or in some case the absence of collateral. Our charge-offs of consumer loans, which have been due primarily to charge-offs of second mortgage loans, amounted to \$938,000 during the six months ended March 31, 2012 and to \$3.9 million and \$524,000, respectively, during the fiscal years ended September 30, 2011 and 2010. As a result of the recent declines in the market value of real estate and the deterioration in the overall economy, we are continuing to evaluate and monitor the credit conditions of our consumer loan borrowers and the real estate values of the properties securing our second mortgage loans as part of our on-going efforts to assess the overall credit quality of the portfolio in connection with our review of the allowance for loan losses. As of March 31, 2012, we had an aggregate of \$1.1 million of non-accruing second mortgage loans and home equity lines of credit, representing an improvement of \$366,000 and \$3.5 million, respectively, of the aggregate non-accruing second mortgage loans and home equity lines of credit at September 30, 2011 and 2010. At March 31, 2012, \$1.8 million of our consumer loans were classified as substandard and we had no doubtful consumer loans. At March 31, 2012, an aggregate of \$1.7 million of our allowance for loan losses was allocated to second mortgages and home equity lines of credit.

**Loan Approval Procedures and Authority.** Our board of directors establishes Malvern Federal Savings Bank's lending policies and procedures. Our Lending Policy Manual is reviewed on at least an annual basis by

our management team in order to propose modifications as a result of market conditions, regulatory changes and other factors. All loan modifications must be approved by our board of directors.

All loans in excess of \$200,000 and all loans which are approved as an exception to our standard loan underwriting policies and procedures must be approved by Malvern Federal Savings Bank's Board of Directors after such loans are recommended for approval by the Property and Loan Committee of the Board of Directors. Our Chief Lending Officer is authorized to approve residential mortgage loans up to \$200,000. Commercial loans in amounts up to \$200,000 must be approved by two designated commercial loan officers and consumer loans in excess of \$100,000 but not exceeding \$200,000 must be approved by a designated consumer loan officer and our Chief Lending Officer. Consumer loans under \$100,000 can be approved by one designated loan officer.

#### **Asset Quality**

**General.** One of our key objectives is to improve asset quality. Given the stagnant economy and its effects on our market area, the increased levels of our classified and non-performing assets and the provisions of the Supervisory Agreement, we have become much more proactive in our loan monitoring, collection and workout processes in dealing with delinquent or problem loans.

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

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

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

We account for our impaired loans under accounting principles generally accepted in the United States of America. An impaired loan generally is one for which it is probable, based on current information, that the lender will not collect all the amounts due under the contractual terms of the loan. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Loans collectively evaluated for impairment include smaller balance residential real estate loans and consumer loans. These loans are evaluated as a group because they have similar characteristics and performance experience. Larger commercial and construction loans are individually evaluated for impairment. Our total impaired loans amounted to \$13.5 million at March 31, 2012, compared to \$14.9 million and \$16.0 million at September 30, 2011 and 2010, respectively.

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

Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are required to be designated special mention.

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

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

We review and classify assets on a monthly basis and the board of directors is provided with monthly reports on our classified assets. We classify assets in accordance with the management guidelines described above. Loans classified as substandard and REO were \$33.2 million, in the aggregate, including \$4.7 million of other real estate owned, at March 31, 2012 compared to \$39.8 million, including \$8.3 million of other real estate owned, and \$38.2 million, at September 30, 2011 and 2010, respectively. We had \$443,000 of assets classified as doubtful at March 31, 2012 compared to \$1.1 million at September 30, 2011 and \$3.3 million at September 30, 2010. Assets designated as special mention totaled \$11.3 million at March 31, 2012 compared to \$12.7 million at September 30, 2011 and \$16.7 million at September 30, 2010. We attribute the improvement in the aggregate amount of our classified assets and assets designated special mention primarily to our enhanced loan monitoring, collection and charge-off efforts combined with the reduced size of our loan portfolio. Our efforts appear to have had some positive effect against the continuing impact of the lackluster economy on our borrowers, the increase in unemployment in the local economy and declining valuations in the collateral securing loans. We had no loans classified as loss at March 31, 2012 or at September 30, 2011 or 2010.

The Supervisory Agreements required us to develop and implement a written internal asset review and classification program to, among other things, require accurate and timely identification and reporting of all classified assets and to require an independent third party loan review consultant to review our commercial real estate, construction, multi-family and commercial loans not less than every six months.



**Delinquent Loans.** The following tables show the delinquencies in our loan portfolio as of the dates indicated.

**At March 31, 2012 Loans Delinquent For:**

	31-89 Days			90 Days and Over			Total Delinquent Loans		
	Number	Amount	Percent of Total Delinquent Loans 31-89 Days	Number	Amount	Percent of Total Delinquent Loans 90 Days and Over	Number	Amount	Percent of Total Delinquent Loans Greater Than 30 Days
(Dollars in thousands)									
<b>Residential mortgage</b>	8	\$ 984	34.0%	17	\$ 4,425	37.7%	25	\$ 5,409	37.0%
<b>Construction and Development:</b>									
Residential and commercial				3	3,210	27.4	3	3,210	22.0
<b>Commercial:</b>									
Commercial real estate	1	436	15.1	3	2,822	24.0	4	3,258	22.3
Multi-family									
Other				1	201	1.7	1	201	1.3
<b>Consumer:</b>									
Home equity lines of credit				2	43	0.4	2	43	0.3
Second mortgages	25	1,471	50.9	15	1,029	8.8	40	2,500	17.1
Other									
<b>Total</b>	<b>34</b>	<b>\$ 2,891</b>	<b>100.00%</b>	<b>41</b>	<b>\$ 11,730</b>	<b>100.0%</b>	<b>75</b>	<b>\$ 14,621</b>	<b>100.0%</b>

**At September 30, 2011 Loans Delinquent For:**

	31-89 Days			90 Days and Over			Total Delinquent Loans		
	Number	Amount	Percent of Total Delinquent Loans 31-89 Days	Number	Amount	Percent of Total Delinquent Loans 90 Days and Over	Number	Amount	Percent of Total Delinquent Loans Greater Than 30 Days
(Dollars in thousands)									
<b>Residential mortgage</b>	6	\$ 759	28.0%	13	\$ 2,866	22.2%	19	\$ 3,625	23.2%
<b>Construction and Development:</b>									
Residential and commercial				7	6,617	51.2	7	6,617	42.4
<b>Commercial:</b>									
Commercial real estate	1	195	7.2	3	1,765	13.7	4	1,960	12.5
Other	1	22	0.8	2	229	1.8	3	251	1.6
<b>Consumer:</b>									

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At September 30, 2011 Loans Delinquent For:

Home equity lines of credit	1	16	0.6	2	61	0.5	3	77	0.5
Second mortgages	24	1,701	62.8	17	1,377	10.6	41	3,078	19.7
Other	2	16	0.6				2	16	0.1
<b>Total</b>	<b>35</b>	<b>\$ 2,709</b>	<b>100.0%</b>	<b>44</b>	<b>\$ 12,915</b>	<b>100.0%</b>	<b>79</b>	<b>\$ 15,624</b>	<b>100.0%</b>

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

96

	Year Ended September 30,					
	March 31, 2012	2011	2010	2009	2008	2007
	(Dollars in thousands)					
<b>Non-accruing loans:</b>						
<b>Residential mortgage</b>	\$ 4,425	\$ 2,866	\$ 8,354	\$ 3,809	\$ 1,402	\$ 461
<b>Construction and Development:</b>						
Residential and commercial	3,210	6,617	1,393	7,086	1,695	
<b>Commercial:</b>						
Commercial real estate	2,822	1,765	4,476	785	4,050	661
Multi-family			1,093			
Other	201	229		35	561	780
<b>Consumer:</b>						
Home equity lines of credit	43	61	457	407	205	14
Second mortgages	1,029	1,377	4,085	2,072	672	351
Other			3	1		
<b>Total non-accruing loans</b>	<b>11,730</b>	<b>12,915</b>	<b>19,861</b>	<b>14,195</b>	<b>8,585</b>	<b>2,267</b>
<b>Accruing loans delinquent more than 90 days past due</b>						
<b>Real estate owned and other foreclosed assets:</b>						
<b>Residential mortgage</b>	1,374	3,872	1,538	1,568	230	227
<b>Construction and Development:</b>						
Residential and commercial			1,085	196		
Land	164					
<b>Commercial:</b>						
Commercial real estate	3,171	4,415	2,602	4,006		
Multi-family			70			
Other	34	34	20	20		
<b>Consumer:</b>						
Second mortgages				85		
<b>Total</b>	<b>4,743</b>	<b>8,321</b>	<b>5,315</b>	<b>5,875</b>	<b>230</b>	<b>227</b>
<b>Total non-performing assets</b>	<b>\$ 16,473</b>	<b>\$ 21,236</b>	<b>\$ 25,176</b>	<b>\$ 20,070</b>	<b>\$ 8,815</b>	<b>\$ 2,494</b>

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Year Ended September 30,

	March 31,					
<b>Performing troubled debt-restructurings:</b>						
<b>Residential mortgage</b>	876	1,049	2,277			
<b>Construction and Development:</b>						
Land loans	1,154	1,160	1,170			
<b>Commercial:</b>						
Commercial real estate	6,100	7,919	7,742	25	103	121
Multi-family			612			
Other	175	175	175			
<b>Consumer:</b>						
Home equity lines of credit		37				
Total performing troubled debt restructurings	8,305	10,340	11,976	25	103	121
<b>Total non-performing assets and performing troubled debt restructurings</b>	<b>\$24,778</b>	<b>\$31,576</b>	<b>\$37,152</b>	<b>\$20,095</b>	<b>\$8,918</b>	<b>\$2,615</b>
<b>Ratios:</b>						
Total non-accrual loans as a percent of gross loans	2.48%	2.52%	3.60%	2.38%	1.52%	0.51%
Total non-performing assets as a percent of total asset	2.53%	3.19%	3.49%	2.90%	1.38%	0.45%
Total non-performing assets and performing troubled debt restructurings as a percent of total assets	3.80%	4.74%	5.16%	2.91%	1.39%	0.47%

97

The Supervisory Agreement required Malvern Federal Savings Bank to develop and implement a written plan, with specific strategies, targets and timeframes, to reduce the amounts of its non-performing assets, real estate owned, classified assets and assets designated special mention (collectively, problem assets). Malvern Federal Savings Bank also is required to develop specific workout plans for each problem asset, or group of loans to any one borrower, in an amount of \$500,000 or greater. The Supervisory Agreement also required Malvern Federal Savings Bank to retain a qualified, full-time loan workout specialist to implement the above-described loan workout plans. During the fiscal year ended September 30, 2011, Malvern Federal Savings Bank established a *Credit Review Department* designed to improve the tracking, reporting and early recognition of problem assets. Additional staffing added during fiscal year 2011 included a chief credit officer, loss mitigation specialist and real estate owned coordinator.

At March 31, 2012, our total non-performing assets amounted to \$16.5 million, a reduction of \$4.8 million, or 22.4%, compared to total non-performing assets at September 30, 2011, and an \$8.7 million, or 34.6%, reduction compared to total non-performing assets at September 30, 2010. At March 31, 2012, the Company's total non-accruing loans amounted to \$11.7 million, or 2.48% of total loans, compared to \$12.9 million of non-accruing loans, or 2.52% of total loans, at September 30, 2011. Included in our non-performing assets at March 31, 2012 were 17 non-accruing single family residential mortgage loans with an aggregate outstanding balance of \$4.4 million at such date, and 17 non-accruing second mortgage loans and home equity loans, with an aggregate outstanding balance of \$1.1 million. Our non-performing loans at March 31, 2012, also included the following significant items.