

Section 1: 10-Q (10-Q)

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

FORM 10-Q

(Mark One)
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended December 31, 2018
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number: 000-54835

MALVERN BANCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania
(State or Other Jurisdiction of
Incorporation or Organization)

42 Lancaster Avenue, Paoli, Pennsylvania 19381
(Address of Principal Executive Offices) (Zip Code)
(610) 644-9400
(Registrant's Telephone Number, Including Area Code)

45-5307782
(ISS Employee
Identification No.)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
Common Stock, par value \$0.01 7,774,574 shares
(Title of Class) (Outstanding as of February 11, 2019)

PART I - FINANCIAL INFORMATION

The following unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 101 of Regulation S-K, and, accordingly, do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal and recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended December 31, 2018 are not necessarily indicative of the results that may be expected for the full year ending September 30, 2019, or for any other interim period. The Malvern Bancorp, Inc. Annual Report on Form 10-K for the fiscal year ended September 30, 2018 should be read in conjunction with these financial statements.

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

	December 31, 2018	<i>(Dollars in thousands, except for share data)</i>	September 30, 2018
ASSETS			
Cash and due from Depository institutions	\$ 1,777	\$	1,563
Interest bearing deposits in depository institutions	89,409		29,271
Cash and Cash Equivalents	93,276		30,834
Investment securities available for sale, at fair value (amortized cost of \$19,768 and \$28,904, respectively)		19,251	24,298
Investment securities held to maturity (fair value of \$28,557 and \$28,968, respectively)		28,253	30,062
Restricted stock, at cost		9,403	8,537
Loans receivable, net of allowance for loan losses of \$9,247 and \$9,021, respectively		924,639	905,136
Other real estate owned		5,796	-
Accrued interest receivable		3,724	3,800
Property and equipment, net		7,267	7,181
Deferred income taxes		3,967	3,195
Bank-owned life insurance		19,524	19,403
Other assets		4,452	4,474
Total Assets	\$ 1,128,492		\$ 1,033,991
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits:			
Deposits-noninterest-bearing		39,754	41,677
Deposits-interest-bearing		803,466	732,486
Total Deposits		843,200	774,163
FBI B advances		118,000	118,000
Other short-term borrowings		-	2,500
Subordinated debt		24,500	24,461
Advances from borrowers for taxes and insurance		2,142	1,305
Accrued interest payable		1,261	784
Other liabilities		3,729	8,615
Total Liabilities	\$ 992,832		\$ 929,318
Commitments and Contingencies		-	-
Shareholders' Equity			
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued		-	-
Common stock, \$0.01 par value, 50,000,000 shares authorized, issued and outstanding, 7,774,594 at December 31, 2018 and 6,580,879 shares at September 30, 2018		78	66
Additional paid-in-capital		84,481	63,099
Retained earnings		52,423	50,412
Unvested Employee Stock Ownership Plan (ESOP) shares		(1,362)	(1,318)
Accumulated other comprehensive (loss) income		10	58
Total Shareholders' Equity	\$ 135,660		\$ 104,673
Total Liabilities and Shareholders' Equity	\$ 1,128,492		\$ 1,033,991

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended December 31,	
	2018	2017
	(Dollars in thousands, except per share data)	
Interest and Dividend Income		
Loans, including fees	\$ 10,095	\$ 8,706
Investment securities, taxable	251	230
Investment securities, tax exempt	43	65
Dividends, restricted stock	135	69
Interest-bearing cash accounts	372	446
Total Interest and Dividend Income	<u>10,906</u>	<u>9,716</u>
Interest Expense		
Deposits	2,944	2,155
Short-term borrowings	5	19
Long-term borrowings	633	563
Subordinated Debt	383	392
Total Interest Expense	<u>4,065</u>	<u>3,129</u>
Net Interest Income	<u>6,841</u>	<u>6,587</u>
Provision for Loan Losses	<u>1,453</u>	<u>1,012</u>
Net Interest Income after Provision for Loan Losses	<u>5,388</u>	<u>5,575</u>
Other Income		
Service charges and other fees	940	271
Rental income, net	47	46
Net gains on sale of real estate	-	1,186
Net gains on sale of loans	14	47
Earnings on bank-owned life insurance	131	131
Total Other Income	<u>1,132</u>	<u>1,681</u>
Other Expenses		
Salaries and employee benefits	2,008	1,990
Occupancy expense	539	562
Federal deposit insurance premium	89	76
Advertising	30	54
Data processing	254	278
Professional fees	499	738
Other real estate owned expense, net	21	212
Other operating expenses	874	827
Total Other Expenses	<u>4,892</u>	<u>4,472</u>
Income before income tax expense	<u>5,627</u>	<u>6,784</u>
Income tax expense	<u>115</u>	<u>1,219</u>
Net Income	<u>5,512</u>	<u>5,565</u>
Earnings Per Common Share:		
Basic	\$ 0.27	\$ 0.26
Diluted	\$ 0.25	\$ 0.26
Weighted Average Common Shares Outstanding:		
Basic	20,000,000	20,445,264
Diluted	21,500,000	21,490,513

See accompanying notes to unaudited consolidated financial statements.

MILITARY BANK OF TEXAS AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Continued)

	For the Three Months Ended December 31,		
	2018	2018	2017
Net Income	\$	(in thousands)	403
Other Comprehensive Income (Loss), Net of Tax:			
Unrealized holding losses on available-for-sale securities		(31)	(83)
Tax effect		2	25
Net of tax amount		(29)	(58)
Acquisition of unrealized holding losses on securities transferred from available-for-sale to held-to-maturity		2	2
Tax effect		(1)	(1)
Net of tax amount		1	1
Fair value adjustments on derivatives		(79)	242
Tax effect		120	(21)
Net of tax amount		(59)	221
Total other comprehensive (loss), income		(87)	182
Total comprehensive income		\$	316

See accompanying notes to unaudited consolidated financial statements.

MALVERN Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

<i>(Dollars in thousands, except per share data)</i>	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned SBOV Shares	Accumulated Other Comprehensive Income, Net of Tax	Total Shareholders' Equity
Balance, October 1, 2017	66	60,776	43,179	(1,481)	62	102,532
Net Income	-	-	403	-	-	403
Other comprehensive income	-	-	-	-	-	-
Contributed to be released ESOP (shares (1,000 shares))	-	-	-	36	-	36
Stock based compensation	-	15	-	-	-	15
Balance, December 31, 2017	66	60,811	43,582	(1,447)	234	103,196
Balance, October 1, 2018	66	61,099	50,412	(1,258)	344	110,613
Net Income	-	-	2,011	-	-	2,011
Other comprehensive loss	-	-	-	-	(285)	(285)
Stock insurance (net of insurance of proceeds of \$25,000)	12	23,332	-	-	-	23,344
Contributed to be released ESOP (shares (1,000 shares))	-	-	-	36	-	36
Stock based compensation	-	14	-	-	-	14
Balance, December 31, 2018	78	84,441	52,423	(1,292)	(1)	135,879

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended December 31,	
	2018	2017
	(in thousands)	
Cash Flows from Operating Activities		
Net income	\$	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense		895
Provision for loan losses		2,455
Deferred income tax (benefit) expense		(295)
ESOP expense		72
Stock based compensation		14
Amortization of premiums and discounts on investments securities, net		209
(Accretion) amortization of loan origination fees and costs		(172)
Amortization of mortgage servicing rights		19
Net gain on sale of real estate		13
Net gain on sale of real estate		(1,186)
Net gain on sale of secondary market loans		(18)
Proceeds from sale of secondary market loans		1,544
Origination of secondary market loans		(1,252)
Payments on held-to-maturity securities		(121)
Decrease (increase) in accrued interest receivable		76
Increase in accrued interest payable		405
Increase in other liabilities		1,805
Increase in other assets		(2,493)
Amortization of subordinated debt		30
Net Cash Provided by Operating Activities		8,811
Cash Flows from Investing Activities		
Investment securities available-for-sale:		
Purchases		(5,000)
Sales		26
Maturities, calls and principal repayments		10,000
Investment securities held-to-maturity:		
Maturities, calls and principal repayments		912
(Loan originations) and principal collections, net		(29,569)
Net increase in investment stock		(956)
Proceeds from sale of real estate		1,318
Purchase of property and equipment		(78)
Net Cash Used in Investing Activities		(29,087)
Cash Flows from Financing Activities		
Net activities in deposits:		
Proceeds for long-term borrowings		69,027
Repayment of long-term borrowings		(6,000)
Repayment of other borrowed money		(10,000)
Increase in advances from borrowers for taxes and insurance		(2,800)
Net proceeds from issuance of common stock		827
Net Cash Provided by Financing Activities		49,754
Net Increase in Cash and Cash Equivalents		29,538
Cash and Cash Equivalents - Beginning		69,642
Cash and Cash Equivalents - Ending		99,180
Supplemental Cash Flows Information		
Interest paid	\$	\$
Income taxes paid		5,724
Non-cash transfer to other real estate owned		365
	\$	\$
	5,706	5,706

See accompanying notes to unaudited consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – The Company

Malvern Bancorp, Inc. (the “Company” or “Malvern Bancorp”), a Pennsylvania corporation, is a registered bank holding company under the Bank Holding Company Act of 1956, as amended (the “Holding Company Act”). Malvern Bancorp is the holding company for Malvern Bank, National Association (“Malvern Bank” or the “Bank”), a national bank that was originally organized in 1897 as a federally-chartered savings bank. Malvern Bank now serves as one of the oldest banks headquartered on the Philadelphia Main Line. For more than a century, the Bank has been committed to helping people build prosperous communities as a trusted financial partner, forging lasting relationships through teamwork, respect and integrity. Effective February 12, 2018, the Bank converted from a federal savings bank charter to a national bank charter and Malvern Bancorp converted from a savings and loan holding company to a bank holding company. On October 9, 2018, the Company closed an underwritten public offering of shares of our common stock for gross proceeds of \$25.0 million and net proceeds of approximately \$22.1 million (after deducting the underwriting discount and other estimated offering expenses).

The Bank conducts business from its headquarters in Paoli, Pennsylvania, a suburb of Philadelphia, and through its nine other banking locations in Chester, Delaware and Bucks counties, Pennsylvania, Palm Beach Florida, and Marlinton, New Jersey, its New Jersey regional headquarters. The Bank also maintains a representative office in Mountbain, Delaware. The Bank’s primary market niche is providing personalized service to its client base.

In preparing the unaudited consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the unaudited consolidated statements of condition and that affect the results of operations for the periods presented. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to change in the near term relate to the determination of the allowance for loan losses, other real estate owned, the evaluation of deferred tax assets, the other-than-temporary impairment evaluation of securities, and the valuation of derivative positions. The unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”).

Note 2 – Summary of Significant Accounting Policies

Basis of financial statement presentation. The unaudited condensed consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiary, Malvern Bank, National Association and the Bank’s wholly-owned subsidiary, Malvern Insurance Associates, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements present the Company’s financial position at December 31, 2018 and the results of operations for the three-month periods ended December 31, 2018 and 2017, and cash flows for the three-month periods ended December 31, 2018 and 2017. In management’s opinion, the unaudited condensed consolidated financial statements contain all adjustments, which include normal and recurring adjustments, necessary for a fair presentation of the financial position and results of operations as of the dates and for the interim periods presented. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and note disclosures included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on December 14, 2018. The consolidated statement of operations for the three-month periods ended December 31, 2018 and the consolidated statement of cash flows for the three-month periods ended December 31, 2018 are not necessarily indicative of the results of operations or cash flows for the full year ending September 30, 2019 or any other period.

There have been no significant changes to our Critical Accounting Policies as described in our 2018 Annual Report on Form 10-K.

Recently Issued Accounting Pronouncements

Financial Instruments. In June 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied currently will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies, this ASU will be effective for interim and annual periods beginning

after December 15, 2019. All entities may adopt the amendments in this Update earlier as of the fiscal year beginning after December 15, 2018, including interim periods within those fiscal years. The Company does not expect to early adopt these changes. The Bank has a software system in place to assist with the calculation of Current Expected Credit Losses ("CECL"). Data is being collected and refined and testing of the various models is in process. The Company is evaluating the impact of this new requirement to the consolidated financial statements.

Leases. In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The update requires lessees to recognize, as of the lease commencement date, assets and liabilities for all such leases with lease terms of more than 12 months, which is a change from the current GAAP requirement to recognize only capital leases on the balance sheet. Pursuant to the new standard, the liability initially recognized for the lease obligation is equal to the present value of the lease payments not yet made, discounted over the lease term at the implicit interest rate of the lease, if available, or otherwise at the lessee's incremental borrowing rate. The lessee is also required to recognize an asset for its right to use the underlying asset for the lease term, based on the liability subject to certain adjustments, such as for initial direct costs. Lessees are required to be classified as either operating or finance, with expense on operating leases recorded as a single lease cost on a straight-line basis. For finance leases, interest expense on the lease liability is required to be recognized separately from the straight-line amortization of the right-of-use asset. Quantitative disclosures are required for certain items, including the cost of leases, the weighted-average remaining lease term, the weighted-average discount rate and a maturity analysis of lease liabilities. Additional qualitative disclosures are also required regarding the nature of the leases, such as basis, terms and conditions of: (i) variable interest payments, (ii) extension and termination options, and (iii) residual value guarantees. For lessors, the standard modifies classification criteria and accounting for sales-type and direct financing leases and requires a lessee to derecognize the carrying value of the leased asset that is considered to have been transferred to a lessee and record a lease receivable and residual asset ("receivable and residual") approach. This Update is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect to early adopt this standard. The new standard allows for a cumulative effect adjustment in the year of adoption by applying the new guidance as of the beginning of the earliest comparative period presented, using a modified retrospective transition approach with certain optional practical expedients. The Company is in the process of evaluating the impact of this guidance but expects to report higher assets and liabilities as a result of including additional leases on the consolidated statement of financial condition.

Note 3 - Non-Interest Income

On October 1, 2018, the Company adopted the amendments of ASU 2014-09 - Revenue from Contracts with Customers (Topic 606) and all subsequent ASUs that modified Topic 606. A significant amount of the Company's revenues is derived from net interest income on financial assets and liabilities, which are excluded from the scope of the amended guidance. Some sources of revenue included within non-interest income fall within the scope of Topic 606, while other sources do not. The Company recognizes revenue when the performance obligations related to the transfer of goods or services under the terms of the contract are satisfied. Some obligations are satisfied at a point in time while others are satisfied over a period of time. Revenue is recognized as the amount of consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. When consideration includes a variable component, the amount of consideration attributable to variability is included in the transaction price only to the extent it is probable that significant revenue recognized will not be reversed when uncertainty associated with the variable consideration is subsequently resolved. The Company's contracts generally do not contain terms that require significant judgement to determine the variability impacting the transaction price. The Company has included the following table regarding the Company's non-interest income for the periods presented.

	Three Months Ended December 31,	
	2018	2017
	(Dollars in thousands)	
Rental income - other	\$	\$
Net gains on sale of real estate	47	66
Net gains on sale of loans	-	1,186
Earnings on bank-owned life insurance	18	87
Non-interest income within the scope of other GAAP topics	171	137
ATM fees	206	1,440
Credit card fee income	1	2
DDA fee income	6	6
DDA service fees	37	36
Debit card fees	19	18
Other loan fee income	40	56
Other fee income	764	65
	52	84

Other non-interest income				
Non-interest income from contracts with customers		\$	\$	\$
Total Non-Interest Income		\$	\$	\$

The majority of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loan loans, investment securities, derivatives as well as revenue related to BOLI, sales of investment securities, rental income, and gain on sale of loans. Revenue-generating activities that are within the scope of ASC 606, which are presented in our statements of operations as components of other income included certain fees such as credit card fee income, DDA service and fee income, and debit card fees. The increase in other loan fee income is primarily due to the recognition of approximately \$780,000 of net swap fees through the Bank's commercial loan hedging program.

Note 4 - Earnings Per Share

Basic earnings per common share is computed based on the weighted average number of shares outstanding reduced by unearned ESOP shares. Diluted earnings per share is computed based on the weighted average number of shares outstanding and common stock equivalents ("CSE") that would arise from the exercise of dilutive securities reduced by unearned ESOP shares. During the three months ended December 31, 2018, the Company granted 3,238 restricted shares, which are considered CSEs. The Company did not grant any stock options during the three months ended December 31, 2018.

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

	Three Months Ended December 31,		
	2018	2017	2016
Net Income	\$	\$	\$
Weighted average shares outstanding	2,012	1,965	1,965
Average unearned ESOP shares	(112,961)	(112,961)	(112,961)
Basic weighted average share outstanding	1,900	1,852	1,852
Plus: effect of potential dilutive common stock equivalents - stock options	150	150	150
Diluted weighted average common shares outstanding	2,050	2,002	2,002
Earnings per common share:			
Basic	\$	\$	\$
Diluted	\$	\$	\$

Note 5 - Employee Stock Ownership Plan

The Company established an employee stock ownership plan ("ESOP") for substantially all of its full-time employees. The current ESOP trustee is Prouty. Shares of the Company's common stock purchased by the ESOP are held until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each such participant's base compensation to the total base compensation of all eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to additional paid-in capital. During the period from May 30, 2008 to September 30, 2008, the ESOP purchased 241,178 shares of the common stock for approximately \$2.6 million, an average price of \$10.66 per share, which was funded by a loan from Midwestern Federal Bancorp, Inc. (the Company's predecessor). The ESOP loan is being repaid principally from the Bank's contributions to the ESOP. The loan, which bears an interest rate of 5%, is being repaid in quarterly installments through 2028. Shares are released to participants proportionately as the loan is repaid. During each of the three months ended December 31, 2018 and 2017, there were 3,600 shares committed to be released. At December 31, 2018, there were 111,165 unallocated shares and 148,053 allocated shares held by the ESOP. The unallocated shares had an aggregate fair value of approximately \$2.2 million at December 31, 2018.

Investment securities having a carrying value of approximately \$7.5 million and \$17.9 million at December 31, 2018 and September 30, 2018, respectively were pledged to secure deposits. In addition, no investment securities were pledged to secure short-term borrowings at December 31, 2018. Investment securities having a carrying value of \$3.1 million at September 30, 2018 were pledged to secure short-term borrowings. The following table presents information for investment securities at December 31, 2018, based on scheduled maturities. Actual maturities can be expected to differ from scheduled maturities due to prepayment or early call options of the issuer.

	Amortized Cost	(in thousands)	Fair Value
Available-for-Sale:			
Within 1 year	\$ 1,803		\$ 1,800
Over 1 year through five years	8,337		8,170
After 5 years through ten years	9,972		9,606
Over 10 years	66		65
Total	\$ 20,178		\$ 19,641
Hold-to-Maturity:			
Within 1 year	2,000		1,986
After 5 years through ten years	5,542		5,491
Over 10 years	5,271		6,353
Mortgage-backed securities:			
Collateralized mortgage obligations, fixed rate	15,518		14,827
Total	\$ 20,821		\$ 24,557
Total investment securities	\$ 40,999		\$ 44,198

Note 7 - Loans Receivable and Related Allowance for Loan Losses

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

	December 31, 2018	September 30, 2018
Residential mortgage	\$ 202,396	\$ 197,219
Construction and Development:		
Residential and commercial	41,148	37,433
Land	7,180	9,221
Total Construction and Development	48,328	46,654
Commercial:		
Commercial real estate	508,448	493,929
Farmland	13,654	12,066
Multi-family	44,989	45,182
Other	84,236	80,059
Total Commercial	649,327	631,236
Consumer:		
Home equity lines of credit	14,484	14,884
Second mortgages	16,674	16,763
Other	1,915	2,115
Total Consumer	33,073	33,762
Total loans	\$ 938,428	\$ 905,711
Deferred loan fees and costs, net	460	566
Allowance for loan losses	(18,247)	(18,021)
Total loans receivable, net	\$ 920,641	\$ 888,256

The following tables summarize the primary classes of the allowance for loan losses ("ALLL"), segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2018 and September 30, 2018. Activity in the allowance is presented for the three months ended December 31, 2018 and 2017 and the year ended September 30, 2018, respectively.

Allowance for loan losses:	Commercial			Commercial				Consumer			Total	
	Real Estate Mortgage	Real Estate and Construction	Lease	Commercial Real Estate	Equipment	Auto Fleet	Other (includes off-balance)	Home Equity Lines of Credit	Auto Mortgages	Other	Individual	Total
Three Months Ended December 31, 2018												
Beginning Balance	\$ 1,062	\$ 393	\$ 49	\$ 5,031	\$ 66	\$ 232	\$ 467	\$ 82	\$ 326	\$ 51	\$ 1,262	\$ 9,823
Charge-offs	(17)	-	-	(1,223)	-	-	-	-	-	(1)	-	(1,241)
Recoveries	-	-	-	3	-	-	2	-	8	1	-	14
Provisions	138	66	(6)	(1,552)	29	62	(23)	(2)	67	(7)	(25)	1,465
Ending balance	\$ 1,153	\$ 459	\$ 43	\$ 3,311	\$ 95	\$ 274	\$ 446	\$ 80	\$ 399	\$ 44	\$ 1,304	\$ 9,665
Ending balance individually evaluated for impairment	\$ -	\$ -	\$ -	\$ 338	\$ -	\$ -	\$ -	\$ -	\$ 179	\$ 26	\$ -	\$ 543
Ending balance collectively evaluated for impairment	\$ 1,153	\$ 459	\$ 43	\$ 3,000	\$ 95	\$ 274	\$ 446	\$ 80	\$ 220	\$ 18	\$ 411	\$ 9,122
Loans receivable:												
Ending balance	\$ 202,306	\$ 41,149	\$ 7,189	\$ 939,448	\$ 12,054	\$ 44,989	\$ 84,736	\$ 14,484	\$ 16,074	\$ 1,913	\$	\$ 933,626
Ending balance individually evaluated for impairment	\$ 3,427	\$ -	\$ 72	\$ 10,349	\$ -	\$ -	\$ -	\$ 34	\$ 469	\$ 26	\$ -	\$ 14,727
Ending balance collectively evaluated for impairment	\$ 198,879	\$ 41,149	\$ 7,118	\$ 929,099	\$ 12,054	\$ 44,989	\$ 84,736	\$ 14,450	\$ 1,605	\$ 1,889	\$	\$ 918,899

	Contractual and			Contractual				Contractual			Contractual		Unfunded	Total
	Residential Mortgage	Commercial and Commercial	Loans	Contractual Real Estate	Fixed	Multi-Family (Refer to footnote 4)	Other	Home Equity Lines of Credit	Fixed Mortgage	Other				
Allowance for Loan Losses:														
Three Months Ended December 31, 2017														
Beginning balance	\$ 1,004	\$ 523	\$ 132	\$ 3,561	\$ 9	\$ 224	\$ 541	\$ 90	\$ 402	\$ 27	\$ 1,972	\$ 8,405		
Charge-offs	-	-	-	-	-	-	-	-	(2)	-	-	(2)		
Revisions	2	-	-	9	-	-	3	1	10	2	-	16		
Provision	11	9	(2)	(3)	3	(24)	(9)	1	45	3	(68)	(68)		
Ending balance	\$ 1,026	\$ 532	\$ 130	\$ 3,567	\$ 12	\$ 200	\$ 445	\$ 92	\$ 453	\$ 30	\$ 1,918	\$ 8,407		
Ending balance individually evaluated for impairment	\$ -	\$ -	\$ -	\$ 156	\$ -	\$ -	\$ -	\$ -	\$ 156	\$ 1	\$ -	\$ 313		
Ending balance collectively evaluated for impairment	\$ 1,026	\$ 532	\$ 130	\$ 4,018	\$ 12	\$ 200	\$ 445	\$ 92	\$ 297	\$ 29	\$ 1,918	\$ 8,124		
 loans receivable:														
Ending balance	\$ 180,833	\$ 34,627	\$ 18,999	\$ 477,610	\$ 1,711	\$ 32,716	\$ 71,933	\$ 16,811	\$ 21,304	\$ 2,438	\$ 614,977			
Ending balance individually evaluated for impairment	\$ 2,438	\$ -	\$ 89	\$ 1,347	\$ -	\$ -	\$ 239	\$ 10	\$ 378	\$ 1	\$ 4,702			
Ending balance collectively evaluated for impairment	\$ 184,303	\$ 34,627	\$ 18,910	\$ 476,263	\$ 1,711	\$ 32,716	\$ 71,694	\$ 16,801	\$ 20,926	\$ 2,437	\$ 610,275			

	Construction and Development		Commercial					Consumer			Unallocated	Total
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Equipment	Auto Lease	Other (Offices to be sold)	Home Equity Lines of Credit	Auto Mortgages	Other		
Allowance for loan losses:												
Year Ended September 30, 2018												
Allowance for credit losses:												
Beginning Balance	\$ 1,004	\$ 523	\$ 132	\$ 3,581	\$ 9	\$ 224	\$ 541	\$ 90	\$ 402	\$ 27	\$ 1,872	\$ 8,406
Charge-offs	(60)	-	-	(726)	-	-	(45)	-	(83)	(2)	-	(671)
Recovery	58	-	-	11	-	-	-	1	52	7	-	133
Provisions	88	(130)	(82)	(754)	87	8	(25)	(20)	(40)	89	(100)	(58)
Ending balance	\$ 1,082	\$ 393	\$ 50	\$ 2,810	\$ 96	\$ 232	\$ 491	\$ 69	\$ 329	\$ 32	\$ 1,292	\$ 8,021
Ending balance individually evaluated for impairment	\$ -	\$ -	\$ -	\$ 1,448	\$ -	\$ -	\$ -	\$ -	\$ 103	\$ 26	\$ -	\$ 1,577
Ending balance collectively evaluated for impairment	\$ 1,082	\$ 393	\$ 50	\$ 1,362	\$ 96	\$ 232	\$ 491	\$ 69	\$ 226	\$ 6	\$ 1,292	\$ 6,444
Loan receivable:												
Ending balance	\$ 107,319	\$ 57,433	\$ 9,211	\$ 403,029	\$ 12,099	\$ 48,102	\$ 80,079	\$ 14,804	\$ 18,762	\$ 2,815	\$ -	\$ 608,801
Ending balance individually evaluated for impairment	\$ 3,148	\$ -	\$ 76	\$ 17,409	\$ -	\$ -	\$ -	\$ 38	\$ 635	\$ 26	\$ -	\$ 21,328
Ending balance collectively evaluated for impairment	\$ 104,171	\$ 57,433	\$ 9,135	\$ 485,620	\$ 12,099	\$ 48,102	\$ 80,079	\$ 14,804	\$ 17,727	\$ 2,789	\$ -	\$ 587,473

In assessing the adequacy of the ALL, it is recognized that the process, methodology and underlying assumptions require a significant degree of judgment. The estimation of credit losses is not precise; the range of factors considered is wide and is significantly dependent upon management's judgment, including the outlook and potential changes in the economic environment. At present, components of the commercial loan segments of the portfolio are new originations and the associated volumes continue to see increased growth. At the same time, historical loss levels have decreased as factors in assessing the portfolio. The combination of these factors has given rise to an increase in the unallocated level within the allowance. Any unallocated portion of the allowance is in conjunction with the quarterly review and changes to the qualitative factors to adjust for the risk due to current economic conditions, reflects management's estimate of probable inherent but unallocated losses within the portfolio due to uncertainties in economic conditions, regulatory requirements, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loan allocation factors.

The following table presents impaired loans in portfolio by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2018 and September 30, 2018.

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance		Total Impaired Loans		Unpaid Principal Balance
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Recorded Investment		
December 31, 2018							
Residential mortgage	\$ -	\$ -	\$ -	\$ -	\$ 3,627	\$ 3,627	\$ 3,782
Construction and Development:							
Land	-	-	-	-	72	72	72
Commercial:							
Commercial real estate	9,807	338	-	-	542	10,349	10,626
Consumer:							
Home equity lines of credit	-	-	-	-	34	34	35
Second mortgages	196	179	423	419	619	671	671
Other	26	26	-	-	26	26	26
Total impaired loans	\$ 10,029	\$ 543	\$ 423	\$ 419	\$ 4,609	\$ 14,727	\$ 15,212
September 30, 2018							
Residential mortgage	\$ -	\$ -	\$ -	\$ -	\$ 3,148	\$ 3,148	\$ 3,317
Construction and Development:							
Land	-	-	-	-	76	76	76
Commercial:							
Commercial real estate	16,343	1,448	-	-	1,066	17,409	17,685
Consumer:							
Home equity lines of credit	-	-	-	-	34	34	34
Second mortgages	120	101	515	515	635	730	730
Other	26	26	-	-	26	26	26
Total impaired loans	\$ 16,489	\$ 1,575	\$ 515	\$ 515	\$ 4,879	\$ 21,328	\$ 22,008

The following table presents the average recorded investment in impaired loans in portfolio and related interest income recognized for the three months ended December 31, 2018 and 2017.

	Three Months Ended December 31, 2018		Interest Income Recognized on Impaired Loans
	Average Impaired Loans	(in thousands)	
Residential mortgage	\$ -	\$ 3,563	\$ 27
Construction and Development:			
Land	-	73	1
Commercial:			
Commercial real estate	15,017	15,017	76
Consumer:			
Home equity lines of credit	-	45	-
Second mortgages	423	423	2
Other	26	26	-
Total	\$ 15,466	\$ 19,144	\$ 106

	Three Months Ended December 31, 2017		Interest Income Recognized on Financial Lease
	Average Original Loans	(in thousands)	
Residential mortgage	\$	2,300	12
Construction and Development:			
Land		91	1
Commercial:			
Commercial real estate		820	6
Other		241	3
Consumer:			
Home equity lines of credit		10	-
Second mortgages		95	2
Other		1	-
Total	\$	4,068	24

The following table presents the classes of the loan portfolios summarized by loans considered to be rated as past and the categories of special mention, substandard and doubtful within the Company's internal risk rating system as of December 31, 2018 and September 30, 2018.

	December 31, 2018									
	Past	Special Mention	Substandard (in thousands)	Doubtful	Total					
Residential mortgage	\$	197,816	\$	-	\$	4,490	\$	-	\$	202,306
Construction and Development:										
Residential and commercial		41,140	-	-	-	-	-	-	-	41,140
Land		7,068	-	-	72	-	-	-	-	7,140
Commercial:										
Commercial real estate		495,225	1,540	11,674	-	-	-	-	-	508,448
Farmland		12,654	-	-	-	-	-	-	-	12,654
Multi-family		84,980	-	-	-	-	-	-	-	84,980
Other		84,086	-	-	150	-	-	-	-	84,236
Consumer:										
Home equity lines of credit		14,353	-	-	131	-	-	-	-	14,484
Second mortgages		15,700	101	-	873	-	-	-	-	16,674
Other		1,652	-	-	27	-	-	-	-	1,679
Total	\$	914,530	\$	1,651	\$	17,417	\$	-	\$	933,608

	September 30, 2018									
	Past	Special Mention	Substandard (in thousands)	Doubtful	Total					
Residential mortgage	\$	193,584	\$	-	\$	3,635	\$	-	\$	197,219
Construction and Development:										
Residential and commercial		37,413	-	-	-	-	-	-	-	37,413
Land		9,146	-	-	75	-	-	-	-	9,221
Commercial:										
Commercial real estate		474,212	940	18,748	-	-	-	-	-	493,920
Farmland		12,066	-	-	-	-	-	-	-	12,066
Multi-family		45,182	-	-	-	-	-	-	-	45,182
Other		79,902	-	-	157	-	-	-	-	80,059
Consumer:										
Home equity lines of credit		14,707	-	-	177	-	-	-	-	14,884
Second mortgages		17,402	103	-	858	-	-	-	-	18,363
Other		2,222	-	-	26	-	-	-	-	2,248
Total	\$	885,861	\$	1,052	\$	23,676	\$	-	\$	909,539

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

	December 31, 2018	September 30, 2018
(in thousands)		
Non-accrual loans:		
Residential mortgage	\$ 1,763	\$ 1,817
Commercial:		
Commercial real estate	520	520
Consumer:		
Home equity lines of credit	34	34
Second mortgages	199	200
Other	26	26
Total non-accrual loans	\$ 2,542	\$ 2,607

Under the Bank's loan policy, once a loan has been placed on non-accrual status, we do not resume interest accruals until the loan has been brought current and has maintained a current payment status for not less than six consecutive months. Interest income that would have been recognized on nonaccrual loans had they been current in accordance with their original terms was approximately \$79,000 and \$10,000 for the three months ended December 31, 2018 and 2017, respectively. At December 31, 2018 and September 30, 2018 there were approximately \$79,000 and \$174,000, respectively, of loans past due 90 days or more and still accruing interest. At December 31, 2018, \$714,000 of loans past due 90 days or more and still accruing interest is attributed to one residential mortgage loan which is currently under 90 days delinquent for principal and interest due.

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by whether a loan payment is "current," that is, it is received from a borrower by the scheduled due date, or the length of time a scheduled payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories as of December 31, 2018 and September 30, 2018.

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days and More Past Due	Total Past Due	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
(in thousands)							
December 31, 2018:							
Residential mortgage	\$ 197,767	\$ 2,334	\$ 1,089	\$ 1,137	\$ 4,540	\$ 202,306	\$ 719
Construction and Development:							
Residential and commercial	41,140	-	-	-	-	41,140	-
Land	7,140	-	-	-	-	7,140	-
Commercial:							
Commercial real estate	506,909	948	-	-	520	508,448	-
Farmland	12,054	-	-	-	-	12,054	-
Multi-family	44,989	-	-	-	-	44,989	-
Other	84,256	-	-	-	-	84,256	-
Consumer:							
Home equity lines of credit	14,284	69	97	34	200	14,484	-
Second mortgages	16,327	187	25	135	347	16,674	39
Other	1,982	2	-	26	28	1,915	1
Total	\$ 626,441	\$ 3,550	\$ 1,184	\$ 1,482	\$ 6,500	\$ 633,420	\$ 769

	Current	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Loans Receivable	Loans Receivable > 90 Days and Accrual
September 30, 2018:							
Residential mortgage	\$ 193,727	\$ 450	\$ 1,056	\$ 2,028	\$ 3,492	\$ 197,219	\$ 379
Construction and Development:							
Residential and commercial	17,483	-	-	-	-	17,483	-
Land	9,221	-	-	-	-	9,221	-
Commercial:							
Commercial real estate	485,886	449	7,009	575	8,043	493,929	-
Financial	12,066	-	-	-	-	12,066	-
Multi-family	85,952	-	-	-	-	85,952	-
Other	80,059	-	-	-	-	80,059	-
Consumer:							
Home equity lines of credit	14,815	-	-	69	69	14,884	35
Special mortgages	17,528	121	160	211	492	18,020	-
Other	2,325	7	1	25	33	2,358	-
Total	\$ 898,514	\$ 1,027	\$ 8,136	\$ 2,606	\$ 12,672	\$ 910,001	\$ 714

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

The Company had twenty-two and eighteen loans classified as TDRs at December 31, 2018 and September 30, 2018, respectively, with an aggregate outstanding balance of \$12.7 million and \$18.9 million, respectively. At December 31, 2018, these loans were also classified as impaired. Eighteen of the TDR loans continue to perform under the restructured terms through December 31, 2018 and we continued to accrue interest on such loans through such date. As previously disclosed in the Company's Form 10-K filed on December 14, 2018, one TDR with an aggregate outstanding balance of approximately \$7.0 million ceased to perform under modified terms and as a result the Company accepted a deed in lieu of foreclosure. During the quarter ended September 30, 2018, the Company established a specific reserve of approximately \$1.3 million in its allowance for loan and lease losses as part of its quarterly credit review of the loan. The loan was performing under the terms of its modification agreement and had a letter of intent in place with an imminent national auction. During the quarter ended December 31, 2018, the Bank was alerted that the letter of intent fell through with a prospective national auction. Subsequently, the loan was charged down by \$1.2 million, to the appraised estimated fair market value less additional costs to sell the property, to a value of \$5.8 million and transferred to other real estate owned. The Bank has engaged with a national real estate broker to list and market the property.

The Company had a \$1.3 million provision for loan losses during the quarter ended December 31, 2018 compared to \$125,000 for the quarter ended September 30, 2018. Provision expense was higher during the first quarter fiscal 2019 due primarily to the TDR commercial real estate loan write-down of approximately \$1.2 million noted above and continued growth in the commercial loan portfolio during the quarter. At the same time the Company added a new qualitative factor, defined as Regulatory Oversight, to its allowance methodology to address the difference in the required allowance based on asset quality and the directionally consistent level of the allowance. Unique to the other factors, this is a single calculation figure which is subsequently applied to the loan portfolio by loan type (Commercial, Residential and Consumer) based upon the percent of each to total loans. It is derived from a review of a peer group consisting of 10 banks with similar asset size within the same general geographic area of Midwestern Bank. This new factor amounted for an additional \$390,000 added to the provision for the period.

Primarily, as a result of this transfer to other real estate owned, TDR loans at December 31, 2018 decreased by \$6.2 million compared to September 30, 2018 and total non-performing assets at December 31, 2018 increased by \$6.1 million compared to September 30, 2018.

All of such loans have been classified as TDRs since we modified the payment terms and in some cases interest rate from the original agreements and allowed the borrowers, who were experiencing financial difficulty, to make interest only payments for a period of time in order to relieve some of their overall cash flow burden. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and could result in potential incremental losses. These potential incremental losses have been factored into our overall estimate of the allowance for loan losses. The level of any defaults will likely be affected by future economic conditions. A default on a troubled debt restructured loan for purposes of this disclosure occurs when the borrower is 90 days past due or a foreclosure or repossession of the applicable collateral has occurred.

TDRs may arise in which, due to financial difficulties experienced by the borrower, the Company obtains through physical possession one or more collateral assets in satisfaction of all or part of an existing credit. Once possession is obtained, the Company reclassifies the appropriate portion of the remaining balance of the credit from loans to other real estate owned ("OREO"), which is included within other assets in the Consolidated Statements of Condition. For any residential real estate property collateralizing a consumer mortgage loan, the Company is considered to possess the related collateral only if legal title is obtained upon completion of foreclosure, or the borrower conveys all interest in the residential real estate property to the Company through completion of a deed in lieu of foreclosure or similar legal agreement. Excluding OREO, the Company had \$2.1 million and \$1.4 million of residential real estate properties in the process of foreclosure at December 31, 2018 and September 30, 2018, respectively.

	Total Troubled Debt Restructurings		Troubled Debt Restructured Loans That Have Been Replaced on Modified Terms Within The Past 12 Months	
	Number of Loans	Recorded Investment (Dollars in thousands)	Number of Loans	Recorded Investment
At December 31, 2018:				
Residential mortgage	14	\$ 2,537	4	\$ 500
Construction and Development:				
Land	1	72	-	-
Commercial:				
Commercial real estate	3	9,830	-	-
Consumer:				
Second mortgages	4	225	-	-
Total	22	\$ 12,661	4	\$ 500
At September 30, 2018:				
Residential mortgage	10	\$ 1,816	3	\$ 289
Construction and Development:				
Land	1	76	-	-
Commercial:				
Commercial real estate	4	16,889	-	-
Consumer:				
Second mortgages	3	148	-	-
Total	18	\$ 18,938	3	\$ 289

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

	December 31, 2018		September 30, 2018	
	Performing	Non-Performing (In thousands)	Performing	Non-Performing
Residential mortgage	\$ 2,037	\$ 500	\$ 1,527	\$ 289
Construction and Development:				
Land	72	-	76	-
Commercial:				
Commercial real estate	9,830	-	16,889	-
Consumer:				
Second mortgages	225	-	148	-
Total	\$ 12,164	\$ 500	\$ 18,440	\$ 289

The following table shows the new TDRs for the three months ended December 31, 2018 and 2017.

	For the Three Months Ended December 31,					
	2018			2017		
	Number of Contracts	Pay-Modifications Outstanding Reported Revisions	Pay-Modifications Outstanding Reported Revisions	Number of Contracts	Pay-Modifications Outstanding Reported Revisions	Pay-Modifications Outstanding Reported Revisions
Troubled Debt Restructurings:						
Residential mortgage	4	\$ 732	\$ 726	-	\$ -	\$ -
Consumer	1	\$ 80	\$ 79	-	\$ -	\$ -
Second mortgages	1	\$ 81	\$ 80	-	\$ -	\$ -
Total troubled debt restructurings	6	\$ 893	\$ 885	-	\$ -	\$ -

Note 8 - Regulatory Matters

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

In July of 2013, the respective U.S. federal banking agencies issued final rules implementing Basel III and the Dodd-Frank Act capital requirements to be fully phased in on a global basis on January 1, 2019. The new regulations establish a new tangible common equity capital requirement, increase the minimum requirement for the common Tier 1 risk-weighted asset ("RWA") ratio, phase out certain kinds of intangibles treated as capital and certain types of instruments and change the risk weightings of certain assets used to determine required capital ratios. The new common equity Tier 1 capital component requires capital of the highest quality - predominantly composed of retained earnings and common stock instruments. Tier common equity banks such as McVeyra Federal Savings Bank, a common equity Tier 1 capital ratio of 4.5% became effective on January 1, 2015. The new capital rules also increased the minimum Tier 1 capital ratio from 4.0% to 4.5% beginning on January 1, 2015. The rules also establish a capital conservation buffer of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and would result in the following minimum ratios: (1) a common equity Tier 1 capital ratio of 7.0%, (2) a Tier 1 capital ratio of 8.5%, and (3) a total capital ratio of 10.5%. The new capital conservation buffer requirement was phased in beginning in January 2017 at 0.625% of risk-weighted assets and increased by that amount each year until fully implemented in January 2019. An institution is also subject to limitations on paying dividends, repurchasing, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

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

As of December 31, 2018, the Company's and the Bank's current capital levels exceed the required capital amounts to be considered "well capitalized" and we believe they also meet the fully phased in minimum capital requirements, including the related capital conservation buffers, as required by the Basel III capital rules.

On October 9, 2018, the Company closed an underwritten public offering of shares of our common stock for gross proceeds of \$25.0 million and net proceeds of approximately \$23.3 million (after deducting the underwriting discount and other estimated offering expenses).

The following table summarizes the Company's compliance with applicable regulatory capital requirements as of December 31, 2018 and September 30, 2018.

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018						
Tier 1 Leverage (Core) Capital (to adjusted assets)	\$ 135,679	12.55%	\$ 43,246	4.00%	\$ 54,024	5.00%
Common Equity Tier 1 Capital (to risk weighted assets)	135,679	14.61%	41,793	4.50%	40,368	6.50%
Tier 1 Capital (to risk weighted assets)	135,679	14.61%	55,724	6.00%	74,299	8.00%
Total Risk Based Capital (to risk weighted assets)	169,494	18.25%	74,299	8.00%	92,874	10.00%
As of September 30, 2018						
Tier 1 Leverage (Core) Capital (to adjusted assets)	\$ 110,239	10.67%	\$ 41,491	4.00%	\$ 51,844	5.00%
Common Equity Tier 1 Capital (to risk weighted assets)	110,239	12.62%	39,322	4.50%	36,799	6.50%
Tier 1 Capital (to risk weighted assets)	110,239	12.62%	52,430	6.00%	60,906	8.00%
Total Risk Based Capital (to risk weighted assets)	141,787	16.45%	69,906	8.00%	87,383	10.00%

The following table summarizes the Bank's compliance with applicable regulatory capital requirements as of December 31, 2018 and September 30, 2018.

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018						
Tier 1 Leverage (Core) Capital (to adjusted assets)	\$ 144,216	13.35%	\$ 43,219	4.00%	\$ 54,024	5.00%
Common Equity Tier 1 Capital (to risk weighted assets)	144,216	15.54%	41,252	4.50%	40,368	6.50%
Tier 1 Capital (to risk weighted assets)	144,216	15.54%	55,670	6.00%	74,225	8.00%
Total Risk Based Capital (to risk weighted assets)	153,530	16.55%	74,225	8.00%	92,742	10.00%
As of September 30, 2018						
Tier 1 Leverage (Core) Capital (to adjusted assets)	\$ 131,746	12.71%	\$ 41,480	4.00%	\$ 51,842	5.00%
Common Equity Tier 1 Capital (to risk weighted assets)	131,746	15.09%	39,293	4.50%	36,756	6.50%
Tier 1 Capital (to risk weighted assets)	131,746	15.09%	52,290	6.00%	60,853	8.00%
Total Risk Based Capital (to risk weighted assets)	140,833	16.13%	69,853	8.00%	87,317	10.00%

Note 9 - Derivatives and Hedging Activities

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business

The tables below present the net gains (losses) recorded in accumulated other comprehensive income and the Consolidated Statements of Income relating to the cash flow derivative instruments for the three months ended December 31, 2018 and 2017.

	Three Months Ended December 31, 2018		Three Months Ended December 31, 2017	
	Amount of Gain (Loss) Recognized in OCI on Derivative	(Dollars in thousands)	Amount of Gain (Loss) Recognized in OCI on Derivative	(Dollars in thousands)
Interest rate swap agreements	\$ (62)	\$	\$ (62)	\$
Total derivatives	(62)		(62)	

	Three Months Ended December 31, 2018		Three Months Ended December 31, 2017	
	Amount of Gain (Loss) Recognized in OCI on Derivative	(Dollars in thousands)	Amount of Gain (Loss) Recognized in OCI on Derivative	(Dollars in thousands)
Interest rate swap agreements	\$ 21	\$	\$ 21	\$
Total derivatives	21		21	

The tables below present the effect of the Company's derivative financial instruments on the Consolidated Statements of Income for the quarter ended December 31, 2018 and December 31, 2017.

	Three Months Ended December 31, 2018		Three Months Ended December 31, 2017	
	Consolidated Statement of Income	(Dollars in thousands)	Consolidated Statement of Income	(Dollars in thousands)
Derivatives not designated as a hedging instrument:				
Interest rate swap agreement	Other income	\$ (3)		
Total		\$ (3)		

	Three Months Ended December 31, 2018		Three Months Ended December 31, 2017	
	Consolidated Statement of Income	(Dollars in thousands)	Consolidated Statement of Income	(Dollars in thousands)
Derivatives not designated as a hedging instrument:				
Interest rate swap agreement		\$ -		
Total		\$ -		

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

At December 31, 2018 and September 30, 2018, the fair value of derivatives was in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements. There were no adjustments for nonperformance risk at December 31, 2018 and September 30, 2018. At December 31, 2018 and September 30, 2018, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of zero for both periods, respectively, against its obligations under these agreements. If the Company had breached any of these provisions at December 31, 2018, it could have been required to settle its obligations under the agreements at the termination value and would have been required to pay any additional amounts that in excess of amounts previously posted as collateral with the respective counterparty.

Note 10 - Fair Value Measurements

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

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

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

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

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

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

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

The Company monitors and evaluates available data to perform fair value measurements on an ongoing basis and recognizes transfers among the levels of the fair value hierarchy as of the date event or a change in circumstances that affects the valuation method chosen. There were no changes in valuation technique or transfers between levels at December 31, 2018 or September 30, 2018.

	September 30, 2018			
	Total	Level 1	Level 2	Level 3
Impaired loans ⁽¹⁾	\$ (16,611)	\$ -	\$ -	\$ (16,611)
Total	\$ (16,611)	\$ -	\$ -	\$ (16,611)

	September 30, 2018		Range ⁽¹⁾ /Weighted Average
	Fair Value at September 30, 2018	Valuation Techniques	
Impaired loans ⁽¹⁾	\$ (16,611)	Appraisal of Collateral ⁽²⁾	8%-12% (7.9%)
Total	\$ (16,611)	Appraisal of Collateral ⁽²⁾	8%-12% (7.9%)

(1) As September 30, 2018, there were twelve loans with an aggregate balance of \$17.2 million and with \$1.6 million in specific loan loss allowance. Fair value is generally determined through independent appraisals of the underlying collateral primarily using comparable sales.

(2) Approach may be adjusted by management for qualitative factors such as time, changes in economic conditions and estimated liquidation expenses.

At December 31, 2018 and September 30, 2018, the Company did not have any additions to our mortgage servicing assets. At December 31, 2018 and September 30, 2018, the Company only sold loans with servicing released.

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

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2018 and September 30, 2018. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since December 31, 2018 and September 30, 2018 and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

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

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

Investment Securities—Investment and mortgage-backed securities available for sale (carried at fair value) are measured at fair value on a recurring basis. Fair value measurements for these securities are typically obtained from independent pricing services that we have engaged for this purpose. When available, we, or our independent pricing service, use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that incorporate available trade, bid and other market information and for structured securities, such as flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, our independent pricing service's applications apply available information through processes such as benchmark curves, bootstrapping of the securities, sector groupings and matrix pricing to prepare valuations. For each asset class, pricing applications and models are based on information from market sources and integrate relevant credit information. All of our securities available for sale are valued using either of the foregoing methodologies to determine fair value adjustments recorded to our financial statements.

Loans Receivable—We do not record loans at fair value on a recurring basis. As such, valuation techniques discussed herein for loans are primarily for estimating fair value for FASB ASC 825 disclosure purposes. However, from time to time, we record nonrecurring fair value adjustments to loans to reflect partial write-downs for impairment or the full charge-off of the loan carrying value. The valuation of impaired loans is discussed below. The fair value estimate for FASB ASC 825 purposes differentiates loans based on their financial characteristics, such as product classification, loan category, pricing features and remaining maturity.

Prepayment and credit loss estimates are evaluated by loan type and rate. The fair value of loans is estimated by discounting contractual cash flows using discount rates based on current industry pricing, adjusted for prepayment and credit loss estimates.

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

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

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

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

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

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

Subordinated Debt—The calculation of fair value in level 2 is based on observable market values where available.

Derivatives—The fair value of derivatives are based on valuation models using observable market data as of the measurement date (level 2). Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rate, and volatility factors to value the position. The majority of market inputs is actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

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

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

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

The carrying amount and estimated fair value of the Company's financial instruments as of December 31, 2018 and September 30, 2018 are presented below:

	December 31, 2018					
	Carrying Amount	Fair Value	Level 1 (All Assets)		Level 2	Level 3
Financial assets:						
Cash and cash equivalents	\$ 99,876	\$ 99,876	\$ 99,876	\$ 99,876	\$ -	\$ -
Investment securities available for sale	19,211	19,211	-	-	18,981	230
Investment securities held to maturity	29,223	28,527	-	-	28,527	-
Loans receivable, net (including impaired loans)	524,439	521,891	-	-	-	921,891
Accrued interest receivable	5,724	5,724	-	-	5,524	-
Restricted stock	9,493	9,493	-	-	9,493	-
Mortgage servicing rights (included in Other Assets)	213	241	-	-	241	-
Derivatives (included in Other Assets)	1,878	1,878	-	-	1,878	-
Financial liabilities:						
Reverse accounts	44,438	44,438	-	-	44,438	-
Checking and NOW accounts	300,759	300,759	-	-	300,759	-
Money market accounts	251,486	251,486	-	-	251,486	-
Certificates of deposit	244,867	245,770	-	-	245,770	-
Borrowings (including sub debt)	110,000	110,074	-	-	110,074	-
Subordinated debt	24,500	24,500	-	-	24,500	-
Derivatives (included in Other Liabilities)	1,344	1,344	-	-	1,344	-
Accrued interest payable	1,251	1,251	-	-	1,251	-
			September 30, 2018			
			(All Assets)			
Financial assets:						
Cash and cash equivalents	\$ 30,834	\$ 30,834	\$ 30,834	\$ 30,834	\$ -	\$ -
Investment securities available for sale	24,298	24,298	-	9,986	14,662	250
Investment securities held to maturity	30,992	28,968	-	-	28,968	-
Loans receivable, net (including impaired loans)	502,136	493,220	-	-	-	895,320
Accrued interest receivable	2,800	2,800	-	-	2,800	-
Restricted stock	6,537	6,537	-	-	6,537	-
Mortgage servicing rights (included in Other Assets)	223	268	-	-	268	-
Derivatives (included in Other Assets)	1,245	1,245	-	-	1,245	-
Financial liabilities:						
Reverse accounts	44,642	44,642	-	-	44,642	-
Checking and NOW accounts	225,750	225,750	-	-	225,750	-
Money market accounts	270,834	270,834	-	-	270,834	-
Certificates of deposit	232,937	234,398	-	-	234,398	-
Borrowings (including sub debt)	120,000	120,420	-	-	120,420	-
Subordinated debt	24,461	24,461	-	-	24,461	-
Accrued interest payable	784	784	-	-	784	-

Note 11 - Income Taxes

In the first quarter of 2018, the Company revised its estimated annual effective rate to reflect a change in the federal statutory rate from 35% to 21%, resulting from legislation that was enacted on December 22, 2017. The rate change was administratively effective at the beginning of our calendar year, using a blended rate for the annual period. As a result, the blended statutory tax rate for the year was 24.5%. The provisional amount recorded in the first quarter of fiscal 2018 is related to the re-measurement of our deferred tax asset was \$2.3 million, and no further adjustments were made.

A reconciliation from the expected federal income tax expense computed at the statutory federal income tax rate to the actual income tax expense included in the consolidated statements of income for the three months ended December 31, 2018 and 2017 is as follows:

	Three Months Ended December 31,					
	2018		2017			
	(In thousands)					
Tax at statutory rate	\$	535	21.0%	\$	878	24.5%
Increase/(reduction) in taxes resulting from:						
State tax, net of federal benefits		49	2.7%		170	4.5%
Tax exempt interest		(3)	(0.1)%		(11)	(0.3)%
Favorable on bank-owned life insurance		(78)	(1.8)%		(98)	(0.8)%
Other		(41)	(1.8)%		(27)	-%
Subtotal	\$	555	21.0%	\$	1,007	27.5%
Impact of change in tax law	\$	—	-%	\$	2,312	61.2%
Total	\$	555	21.0%	\$	2,319	88.9%

Note 12 – Comprehensive Income (Loss)

The components of accumulated other comprehensive income included in shareholders' equity are as follows:

	December 31,		September 30,	
	2018		2018	
(In thousands)				
Net unrealized holding losses on available-for-sale securities	\$	(177)	\$	(506)
Tax effect		111		106
Net of tax amount		(66)		(400)
Fair value adjustments on derivatives		555		1,247
Tax effect		(112)		(281)
Net of tax amount		443		966
Total accumulated other comprehensive (loss) income	\$	(18)	\$	(584)

Other comprehensive income (loss) and related tax effects are presented in the following table:

	December 31,		September 30,	
	2018		2017	
(In thousands)				
Net unrealized holding losses on available-for-sale securities	\$	(177)	\$	(83)
Amortization of unrealized holding losses on securities transferred from available-for-sale to held-to-maturity		2		2
Fair value adjustments on derivatives		(710)		342
Other comprehensive (loss) income, before taxes		(785)		161
Tax effect		767		8
Total comprehensive (loss) income	\$	(18)	\$	169

Note 13 – Equity Based Incentive Compensation Plan

The Company maintains the Malvern Bancorp, Inc. 2014 Long-Term Incentive Compensation Plan (the "2014 Plan"), which permits the grant of long-term incentive and other stock and cash awards. The purpose of the 2014 Plan is to promote the success of the Company and the Bank by providing incentives to officers, employees and directors of the Company and the Bank that will link their personal interests to the financial success of the Company and to growth in shareholder value. The maximum total number of shares of the Company's common stock available for grants under the 2014 Plan is 400,000. As of December 31, 2018, there were 358,360 remaining shares available for future grants.

Restricted stock and option awards granted vest in 20% increments beginning on the one year anniversary of the grant date, and accelerate upon a change in control of the Company. The options generally expire ten years from the date of grant. All issuances are subject to forfeiture if the recipient leaves or is terminated prior to the award's vesting. Shares of restricted stock have the same dividend and voting rights as common stock while options do not.

All awards are issued at fair value of the underlying shares at the grant date. The Company expenses the cost of the awards, which is determined to be the fair market value of the awards at the date of grant.

There were no stock options granted during the three months ended December 31, 2018. During the three months ended December 31, 2017, stock options covering a total of 4,664 shares of common stock were granted. Total compensation expense related to options granted under the 2014 Plan was approximately \$1,000 and \$4,000 for the three months ended December 31, 2018 and December 31, 2017, respectively.

During the three months ended December 31, 2018 and 2017 a total of 3,238 and 4,768 restricted shares were awarded, respectively. The compensation expense related to restricted stock awards was approximately \$13,000 during the three months ended December 31, 2018 and approximately \$11,000 during the three months ended December 31, 2017.

Stock-based compensation expense for the cost of the awards granted is based on the grant-date fair value. For stock option awards, the fair value is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Accordingly, while management believes that the Black-Scholes option-pricing model provides a reasonable estimate of fair value, the model does not necessarily provide the best single measure of fair value for the Company's employee stock options.

Stock Options

The following is a summary of stock option activity for the three months ended December 31, 2018:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contracted Term (in Years)	Aggregate Intrinsic Value
Outstanding, beginning of year				
Granted	15,996	\$ 22.21		\$ 41,490
Expired	-			\$ -
Forfeited/cancelled/expired	-			\$ -
Outstanding, end of year	15,996	\$ 22.21	8.381	\$ 41,490
Exerciseable, end of year	3,804	\$ 21.35	8.204	\$ 4,452
Nonvested, at end of year	12,192	\$ 22.65		

As of December 31, 2018, there was \$78,000 of total unrecognized compensation cost related to nonvested options under the Plan. The cost is expected to be recognized over a weighted average period of 2.01 years.

Restricted Stock Awards

The table below summarizes the activity for the Company's restricted stock outstanding during the three months ended December 31, 2018:

	Shares	Weighted Average Fair Value
Outstanding, beginning of year		
Granted	14,340	\$ 20.36
Expired	2,228	\$ 19.57
Forfeited/cancelled/expired	-	\$ -
Outstanding, end of year	17,578	\$ 22.33

As of December 31, 2018, there was \$320,000 of total unrecognized compensation cost related to nonvested shares of restricted stock granted under the Plan. The cost is expected to be recognized over a weighted average period of 2.18 years.

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

The purpose of this analysis is to provide the reader with information relevant to understanding and assessing the Company’s results of operations for the periods presented herein and financial condition as of December 31, 2018 and September 30, 2018. In order to fully understand this analysis, the reader is encouraged to review the consolidated financial statements and accompanying notes thereto appearing elsewhere in this report.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward looking statements (as defined in the Securities Exchange Act of 1934, as amended, and the regulations thereunder). Forward looking statements are not historical facts but instead represent only the beliefs, expectations or opinions of Malvern Bancorp, Inc. and its management regarding future events, many of which, by their nature, are inherently uncertain. Forward looking statements may be identified by the use of such words as: “believe,” “expect,” “anticipate,” “plan,” “intend,” “objective,” “estimate,” “remain,” “pursue,” or words of similar meaning, or future or conditional terms such as “will,” “would,” “should,” “could,” “might,” “can,” or “may.” Forward looking statements include, but are not limited to, financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations, products and services, and statements regarding future performance. Such statements are subject to certain risks, uncertainties and assumptions, many of which are difficult to predict and generally are beyond the control of Malvern Bancorp, Inc. and its management, that could cause actual results to differ materially from those expressed in, or implied or projected by, forward looking statements. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward looking statements: (1) competitive pressures among depository institutions may increase significantly; (2) changes in the interest rate environment may reduce interest margins; (3) prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions may vary substantially from period to period; (4) general economic conditions may be less favorable than expected; (5) political developments, wars or other hostilities may disrupt or increase volatility in securities markets or other economic conditions; (6) legislative or regulatory changes or actions may adversely affect the businesses in which Malvern Bancorp, Inc. is engaged; (7) changes and trends in the securities markets may adversely impact Malvern Bancorp, Inc.; (8) difficulties in integrating any businesses that we may acquire, which may increase our expenses and delay the achievement of any benefits that we may expect from such acquisitions; (9) the impact of reputation risk created by the developments discussed above on such matters as business generation and retention, funding and liquidity could be significant; and (10) the outcome of regulatory and legal investigations and proceedings may not be anticipated.

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

This report contains certain financial information determined by methods other than in accordance with accounting principles generally accepted in the United States of America (“GAAP”). These measures include net interest income on a fully tax equivalent basis and net interest margin on a fully tax equivalent basis, including the efficiency ratio. Our management uses these non-GAAP measures, together with the related GAAP measures, in its analysis of our performance and in making business decisions. Management also uses these measures for peer comparisons. The tax equivalent adjustment to net interest income recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a 21% and 24.5% federal income tax rate for the years ended December 31, 2018 and 2017, respectively. Management believes that it is standard practice in the banking industry to present net interest income and net interest margin on a fully tax equivalent basis, and accordingly believes that providing these measures may be useful for peer comparison purposes. These disclosures should not be viewed as a substitute for the results determined to be in accordance with GAAP nor are they necessarily comparable to non-GAAP performance measures that may be represented by other companies. Reconciliation of net interest income on a fully tax equivalent basis to net interest income and net interest margin on a fully tax equivalent basis to net interest margin are contained in the tables under “Earnings-Net Interest Income and Margin.”

Critical Accounting Policies

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

The Company's accounting policies are fundamental to understanding Management's Discussion and Analysis ("MD&A") of financial condition and results of operations. The Company has identified the determination of the allowance for loan losses, other real estate owned, fair value measurements, the evaluation of deferred tax assets, the other than-temporary impairment evaluation of securities, other real estate owned, and the valuation of our derivative positions to be critical because management must make subjective and/or complex judgments about matters that are inherently uncertain and could be most subject to revision as new information becomes available. Additional information on these policies can be found in our 2018 Annual Report on Form 10-K. There have been no significant changes to our Critical Accounting Policies as described in our 2018 Annual Report on Form 10-K.

Earnings

Net income available to common shareholders for the three months ended December 31, 2018 amounted to \$2.0 million, or \$0.27 per fully diluted common share, an increase of \$1.6 million, or 399.0 percent, as compared with net income of \$402,000, or \$0.06 per common share, for the quarter ended December 31, 2017. The annualized return on average assets was 0.74 percent for the three months ended December 31, 2018, compared to annualized return on average assets of 0.15 percent for three months ended December 31, 2017. The annualized return on average shareholders' equity was 6.50 percent for the three-month period ended December 31, 2018, compared to 1.55 percent in annualized return on average shareholders' equity for the three months ended December 31, 2017.

Net Interest Income and Margin on a Fully Tax-Equivalent Basis, Non-GAAP Financial Measure

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

The following table shows the Company's calculation of net interest income on a fully tax-equivalent basis, non-GAAP financial measure.

	For the Three Months Ended December 31,	
	2018	2017
Net interest income	\$ 6,967	\$ 6,382
Tax equivalent adjustment, investment income	10	10
Tax equivalent adjustment, loan interest	1	1
Net interest income on a fully tax-equivalent basis (Non-GAAP)	<u>\$ 6,978</u>	<u>\$ 6,393</u>

(1) Computed using a federal income tax rate of 21.0 and 24.25 percent for the years ended December 31, 2018 and 2017, respectively.

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

Net Interest Income (tax-equivalent basis)

	2018		2017		Increase (Decrease)	Percent Change
For the Three Months Ended December 31,						
Interest income:						
Loans, including fees	\$	10,096	\$	8,702	\$	1,394
Investment securities		322		305		17
Interest-bearing cash accounts		372		446		(74)
Dividends, restricted stock		133		69		64
Total interest income		10,923		9,522		1,401
Interest expense:						
Deposits		2,044		2,155		789
Short-term borrowings		5		19		(14)
Long-term borrowings		633		563		70
Subordinated debt		762		792		(30)
Total interest expense		3,444		3,537		(93)
Net interest income on a fully tax-equivalent basis		6,959		6,391		568
Tax equivalent adjustments ⁽¹⁾		(11)		(11)		—
Net interest income, as reported under GAAP	\$	6,907	\$	6,382	\$	565

(1) Computed using a federal income tax rate of 21.0 percent and 24.25 percent for the three months ended December 31, 2018 and 2017, respectively.

Net interest income on a fully tax-equivalent basis, a non-GAAP measure, increased \$565,000 or 8.8 percent to \$7.0 million for the three months ended December 31, 2018 as compared to the same period in fiscal 2017. For the three months ended December 31, 2018, the net interest margin (which is defined as net interest income as a percentage of total average interest-earning assets and is presented herein on an annualized basis) on a fully tax-equivalent basis, a non-GAAP measure, increased 18 basis points to 2.65 percent from 2.47 percent during the three months ended December 31, 2017. For the three months ended December 31, 2018, an increase in the annualized average yield on interest-earning assets of 48 basis points together with an increase of 39 basis points in the annualized average cost of interest-bearing liabilities, resulted in an increase in the Company's net interest spread of 9 basis points for the period.

For the three-month period ended December 31, 2018, total interest income on a tax-equivalent basis, a non-GAAP measure, increased by \$1.4 million or 14.7 percent, to \$10.9 million, compared to the same three-month period in fiscal 2017. This increase in interest income was primarily an increase in the average volume of interest-earning assets, due primarily to an increase in the average balances of the loan portfolio. The average balance of the loan portfolio increased by \$89.3 million, to \$912.3 million, from an average of \$822.9 million in the same quarter in fiscal 2017, primarily reflecting net increases in residential loans and commercial loans. Average loans represented approximately 86.9 percent of average interest-earning assets during the first quarter of fiscal 2019 compared to 79.5 percent in the same quarter in fiscal 2018. Average investment securities volume decreased during the first three months of fiscal 2019 by \$5.6 million, to \$53.9 million, compared to the first quarter of fiscal 2018.

For the three months ended December 31, 2018, interest expense increased \$836,000, or 26.7 percent, to \$4.0 million, compared to the same three-month period in fiscal 2017. The annualized average rate of total interest-bearing liabilities increased 39 basis points to 3.76 percent for the three months ended December 31, 2018, from 3.37 percent for the three months ended December 31, 2017. At the same time, the average balance of total interest-bearing liabilities decreased by \$12.5 million. This decrease primarily reflects a decrease in the average balance of total interest-bearing deposit accounts of \$7.3 million and a decrease in the average balance of borrowings of \$5.2 million. For the three months ended December 31, 2018, the Company's annualized net interest spread on a tax-equivalent basis, a non-GAAP measure, increased to 2.40 percent, from 2.31 percent for the three months ended December 31, 2017.

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

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

Tax-Equivalent Basis	Three Months Ended December 31,			
	2018 vs. 2017			
	Volume	Rate	Net Change	
		(In thousands)		
Interest Earning Assets:				
Loans, excluding fees	\$	\$	\$	\$
Investment securities	944	450	1,394	
Interest-bearing cash accounts	(29)	46	17	
Dividends, restricted stock	(213)	144	(79)	
Total interest-earning assets	702	630	72	
Interest-Bearing Liabilities:				
Money Market deposits	\$	\$	\$	\$
Savings deposits	(84)	317	233	
Certificates of deposits	(126)	289	163	
Other interest-bearing deposits	(8)	279	271	
Total interest-bearing deposits	(218)	905	687	
Borrowings	(65)	45	(20)	
Total interest-bearing liabilities	(283)	950	667	
Change in net interest income	\$	\$	\$	\$
	879	(320)	559	

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

Tax-Equivalent Basis ("TEB")	Three Months Ended December 31					
	2018			2017		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate
(Dollars in thousands)						
ASSETS						
Interest Earning Assets:						
Loans (including fees ⁽¹⁾):	\$ 962,259	\$ 10,096	4.47%	\$ 822,941	\$ 8,707	4.27%
Investment securities:	51,882	322	2.39%	59,453	305	2.05%
Interest-bearing cash accounts:	25,656	772	1.97%	147,291	446	1.21%
Dividends, restricted stock:	8,415	133	6.32%	5,782	69	4.77%
Total interest-earning assets ⁽¹⁾ :	1,050,012	10,922	4.16%	1,035,767	9,527	3.68%
Non interest-earning assets:						
Cash and due from banks:	1,353			1,531		
Bank-owned life insurance:	19,474			18,994		
Other assets:	18,252			20,117		
Other real estate owned:	693					
Allowance for loan losses:	(8,439)			(8,429)		
Total non interest-earning assets:	31,343			32,262		
Total assets:	1,081,355			1,068,029		
LIABILITIES & SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Money Market deposits:	\$ 259,123	1,074	1.66%	\$ 288,843	821	1.14%
Savings deposits:	44,514	10	0.09%	43,683	16	0.09%
Certificates of deposits:	241,873	1,217	2.01%	274,785	1,054	1.57%
Other interest-bearing deposits:	75,202	643	1.39%	128,814	278	0.68%
Total interest-bearing deposits:	\$ 598,812	2,944	1.55%	736,125	2,155	1.13%
Borrowings:	342,105	1,011	2.87%	167,492	974	2.84%
Total interest-bearing liabilities:	940,917	3,955	1.38%	903,617	3,129	1.27%
Non interest-bearing liabilities:						
Demand deposits:	40,420			42,740		
Other liabilities:	4,750			4,086		
Total non interest-bearing liabilities:	45,170			46,826		
Shareholders' equity:	134,068			118,172		
Total liabilities and shareholders' equity:	1,081,148			1,067,791		
Net interest income (tax equivalent basis):		\$ 6,968			\$ 6,393	
Net interest spread (tax equivalent):			2.40%			2.31%
Net interest margin ⁽²⁾ (tax equivalent):			2.65%			2.47%
Tax equivalent effect:			(0.01)%			(0.01)%
Net interest margin on a GAAP basis:			2.65%			2.46%
Tax equivalent adjustment:		(11)			(11)	
Net interest income (GAAP):		\$ 6,957			\$ 6,382	

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

(2) Computed using a federal income tax rate of 21.0 percent and 24.5 percent, respectively, for the three months ended December 31, 2018 and December 31, 2017.

Investment Portfolio

For the three months ended December 31, 2018, the average volume of investment securities decreased by \$5.6 million to approximately \$53.9 million or 2.1 percent of average earning assets, from \$59.5 million on average, or 3.7 percent of average earning assets, for the comparable period in fiscal 2018. As of December 31, 2018, the total investment portfolio amounted to \$48.6 million, a decrease of \$5.8 million, or 10.7 percent, from September 30, 2018. The decrease in the investment portfolio was primarily due to the maturation of U.S. treasury notes and the purchase of corporate bonds and notes during the first quarter of fiscal 2019. As of December 31, 2018, the principal components of the investment portfolio were government agency obligations, Federal agency obligations including mortgage-backed securities, obligations of U.S. states and political subdivisions, corporate bonds and notes, and equity securities.

During the three-month period ended December 31, 2018, the volume-related factors decreased investment revenue by approximately \$29,000, while rate-related factors increased investment revenue by approximately \$46,000 from the same period in fiscal 2018. The tax-equivalent yield on investments increased by 34 basis points to 2.39 percent for the three-month period ended December 31, 2018 as compared to the three-month period ended December 31, 2017 at 2.05 percent. The yield on the portfolio increased in fiscal 2019 compared to fiscal 2018 due primarily to rate-related factors.

Loan Portfolio

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

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

At December 31, 2018, total gross loans amounted to \$973.4 million, an increase of \$22.8 million or 2.5 percent as compared to September 30, 2018. For the three-month period ended December 31, 2018, there was an increase of \$18.6 million in commercial loans, a \$5.1 million increase in residential mortgage loans, a \$1.6 million increase in construction and development loans partially offset by a \$2.5 million reduction in consumer loans. Total gross loans recorded in the quarter ended December 31, 2018 included new loan volume \$64.7 million, which was offset by loan payoffs of \$16.8 million, prepayments totaling \$13.1 million, and amortization of \$12.0 million.

Even though the Company continues to be challenged by the competition for lending relationships that exist within its market, growth in volume has been achieved through successful lending sales efforts to build on continued customer relationships.

At December 31, 2018, the Company had \$140.8 million in overall undisbursed loan commitments, which consisted primarily of unused commercial lines of credit, home equity lines of credit and available usage from active construction facilities. The Company's current "Approved, Accepted but Unfunded" pipeline, includes approximately \$81.0 million in commercial and construction loans and \$3.0 million in residential mortgage loans expected to fund over the the following quarter.

The average balance of our total loans increased \$89.3 million or 10.9 percent for the three months ended December 31, 2018 as compared to the same period in fiscal 2018, while the average yield on loans increased 20 basis points for the three months ended December 31, 2018 compared with the same period in fiscal 2018. The increase in average total loan volume was due primarily to the volume of new loan originations. During the first quarter of fiscal 2019 compared to the same period fiscal 2018, the volume-related factors during the period contributed to an increase of interest income on loans of \$944,000, while the rate-related changes increased interest income on loans by \$450,000.

Allowance for Loan Losses and Related Provisions

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

Although management uses the best information available, the level of the allowance for loan losses remains an estimate, which is subject to significant judgment and short-term change. Various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to increase the allowance based on their analysis of information available to them at the time of their examination. Furthermore, the majority of the Company's loans are secured by real estate in the State of Pennsylvania. Future adjustments to the allowance may be necessary due to economic factors impacting Pennsylvania real estate and the economy in general, as well as operating, regulatory and other conditions beyond the Company's control.

For December 31, 2018 the allowance for loan losses amounted to approximately \$9.2 million, or 0.99 percent of total loans. For September 30, 2018, the allowance for loan losses amounted to approximately \$9.0 million, or 0.99 percent of total loans. The Company had a \$1.5 million provision for loan losses during the quarter ended December 31, 2018 compared to \$125,000 for the quarter ended September 30, 2018. We recorded no provision for loan losses during the quarter ended December 31, 2017. Provision expense was higher during the first quarter fiscal 2019 due primarily to the TDR commercial real estate loan write-down of approximately \$1.2 million and continued growth in the commercial loan portfolio during the quarter. At the same time the Company added a new qualitative factor, defined as Regulatory Oversight, to its allowance methodology to address the difference in the required allowance based on asset quality and the directionally consistent level of the allowance. Unique to the other factors, this is a single calculation figure which is subsequently applied to the loan portfolio by loan type (Commercial, Residential and Consumer) based upon the percent of each to total loans. It is derived from a review of a peer group consisting of 10 banks with similar asset size within the same general geographic area of Malvern Bank. This new factor amounted for an additional \$300,000 added to the provision for the period.

The net charge-offs were \$1.2 million for the three months ended December 31, 2018 compared to \$52,000 in net recoveries for the three months ended December 31, 2017. As previously disclosed in the Company's consolidated financial statements as of September 30, 2018 included in Form 10-K that was filed on December 14, 2018, one commercial real estate loan classified as a TDR with an aggregate outstanding balance of approximately \$7.0 million ceased to perform under modified terms and as a result the Company accepted a deed in lieu of foreclosure. During the quarter ended September 30, 2018 the Company established a specific reserve of approximately \$1.2 million in its allowance for loan and lease losses as part of a quarterly credit review of the loan. The loan was performing under the terms of its modification agreement and had a letter of intent in place with an interested national tenant. During the quarter ended December 31, 2018, the Bank was alerted that the letter of intent fell through with a prospective national tenant. Subsequently, the loan was charged down by \$1.2 million, to the appraised estimated fair market value less additional costs to sell the property, to a value of \$5.8 million and transferred to other real estate owned. The Bank has engaged with a national real estate broker to list and market the property.

The level of the allowance for the respective periods of fiscal 2019 and fiscal 2018 reflects the credit quality within the loan portfolio, the loan volume recorded during the periods, the changing composition of the commercial and residential real estate loan portfolios and other related factors. In management's view, the level of the allowance at December 31, 2018 was adequate to cover losses inherent in the loan portfolio. Actual results could differ materially from management's analysis, based principally upon the factors considered by management in establishing the allowance.

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

	For the Three Months Ended December 31			
	2018		2017	
Average loans outstanding	\$	932,259	\$	822,941
Total gross loans at end of period	\$	933,426	\$	814,577
Analysis of the Allowance for Loan Losses:				
Balance at beginning of period	\$	9,021	\$	8,405
Charge-offs:				
Residential Mortgage				
Commercial real estate		17		-
Consumer:		1,253		-
Other		-		2
Total charge-offs		1,270		2
Recoveries:				
Residential Mortgage				
Commercial real estate		-		2
Consumer:		3		9
Other		2		1
Total recoveries		5		12
Net charge-offs (recoveries)		1,265		(10)
Provision for loan losses		1,451		117
Balance at end of period	\$	9,247	\$	8,512
Ratios:				
Ratio of allowance for loan losses to non-performing loans		278.44%		326.14%
Ratio of net charge-offs (recoveries) to average loans outstanding (1)		0.56%		0.004%
Ratio of net charge-offs (recoveries) to total allowance for loan losses		13.5%		10.5%
(1) Annualized				

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

It is generally the Company's policy to discontinue interest accruals once a loan is past due as to interest or principal payments for a period of ninety days. When a loan is placed on non-accrual status, interest accruals cease and uncollected accrued interest is reversed and charged against current income. Payments received on non-accrual loans are applied against principal. A loan may be restored to an accruing basis when it again becomes well-accrued. All past due amounts have been collected and the borrower continues to make payments for the next six months on a timely basis. Accruing loans past due 90 days or more are generally well-secured and in the process of collection. For additional information regarding loans, see Note 7 of the Notes to the Unaudited Consolidated Financial Statements.

Non-Performing Assets and Troubled Debt Restructured Loans
Non-performing loans include non-accrual loans and accruing loans which are contractually past due 90 days or more. Non-accrual loans represent loans on which interest accruals have been suspended. In general, it is the policy of management to consider the charge-off of loans at the point they become past due in excess of 90 days, with the exception of loans that are both well-secured and in the process of collection. Non-performing assets include non-performing loans and other real estate owned. Troubled debt

restructured loans represent loans to borrowers experiencing financial difficulties on which a concession was granted, such as a reduction in interest rate which is lower than the current market rate for new debt with similar risks, or modified repayment terms, and are performing under the restructured terms. Such loans, as long as they are performing in accordance with their restructured terms, are not included within the Company's non-performing loans. For additional information regarding loans, see Note 7 of the Notes to the Unaudited Consolidated Financial Statements.

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

	December 31, 2018	September 30, 2018
Non-accrual loans	2,562	2,087
Accruing loans delinquent more than 90 days past due	759	324
Total non-performing loans	3,321	2,411
Other real estate owned	5,796	5,705
Total non-performing assets	9,117	8,116
TDR loans - performing	35,368	35,429

Non-accrual loans were \$2.6 million at December 31, 2018, as compared to \$2.7 million at September 30, 2018 and \$2.2 million at December 31, 2017. Other real estate owned ("OREO") was \$5.8 million at December 31, 2018, and zero at both September 30, 2018 and December 31, 2017. Total performing troubled debt restructured loans were \$12.2 million at December 31, 2018, \$18.6 million at September 30, 2018 and \$2.2 million at December 31, 2017. As stated above, one commercial real estate loan classified as a TDR with a value of \$5.8 million was transferred to other real estate owned. Primarily, as a result of this transfer to other real estate owned, total performing troubled debt restructured loans at December 31, 2018 decreased by \$6.4 million compared to September 30, 2018 and total non-performing assets at December 31, 2018 increased by \$6.1 million compared to September 30, 2018.

At December 31, 2018, non-performing assets totaled \$9.1 million, or 0.81 percent of total assets, as compared with \$3.1 million, or 0.30 percent, at September 30, 2018 and \$2.6 million, or 0.24 percent, at December 31, 2017. The increase in non-performing assets at December 31, 2018 compared to September 30, 2018 was primarily due to the transfer to OREO of one commercial real estate loan in the amount of \$5.8 million.

Overall credit quality in the Bank's loan portfolio at December 31, 2018 remained relatively strong. Credit quality risk ratings include categories of "pass," "special mention," "substandard" and "doubtful." Assets classified as "pass" are those protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. Assets which do not currently expose the insured institution to sufficient risk to warrant classification as substandard or doubtful but possess certain identified weaknesses are required to be designated "special mention." If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable."

At December 31, 2018, special mention loans were \$1.7 million compared to \$1.1 million at September 30, 2018. The increase of approximately \$600,000 in special mention loans was attributable to one commercial real estate loan being changed from a pass risk rating to a special mention loan during quarter ended December 31, 2018.

Substandard loans were \$17.4 million and \$23.7 million at December 31, 2018 and September 30, 2018, respectively. The decrease of approximately \$6.3 million from September 30, 2018 to December 31, 2018, was primarily due to the transfer to OREO of one commercial real estate loan. Our loans which have been identified as specially mentioned or substandard are considered potential problem loans due to a variety of changing conditions affecting the credits, including general economic conditions and/or conditions applicable to the specific borrowers. The Company has no foreign loans.

At December 31, 2018, other than the loans set forth above, the Company is not aware of any loans which present serious doubts as to the ability of its borrowers to comply with present loan repayment terms and which are expected to fall into one of the categories set forth in the tables or descriptions above.

Other Income

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

(Dollars in thousands)	Three Months Ended December 31			
	2018	2017	Increase (Decrease)	Percent Change
Service charges and other fees	\$ 140	\$ 271	\$ 69	246.43%
Rental income—other	66	1	1	1.52%
Net gains on sale of real estate	—	1,186	(1,186)	(100.00)%
Net gains on sale of loans	18	67	(49)	(73.13)%
Earnings on bank-owned life insurance	121	121	—	—%
Total other income	\$ 1,145	\$ 727	\$ 418	57.49%

For the three months ended December 31, 2018, total other income amounted to \$1.1 million, compared to total other income of \$1.7 million for the same period in fiscal 2017. This was primarily as a result of a \$1.2 million net gain on the sale of the Exton, Pennsylvania branch location in the first fiscal quarter of 2017. Other items contributing to the decrease of \$565,000 for the three months ended December 31, 2018 was a \$49,000 decrease in net gains on sale of loans, partially offset by a \$669,000 increase in service charges and other fees. The increase in service charges and other fees is primarily due to the recognition of approximately \$706,000 of net swap fees through the Bank's commercial loan hedging program.

Excluding net gains on sale of real estate, a non-GAAP measure, the Company recorded total other income of \$525,000 for the three months ended December, 2017.

Other Expense

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

(Dollars in thousands)	Three Months Ended December 31			
	2018	2017	Increase (Decrease)	Percent Change
Salaries and employee benefits	\$ 2,008	\$ 1,990	\$ 18	0.90%
Occupancy expense	530	562	(32)	(4.98)%
Federal deposit insurance premium	69	76	(7)	(9.21)%
Advertising	30	54	(24)	(64.44)%
Data processing	254	278	(24)	(6.63)%
Professional fees	499	788	(289)	(36.69)%
Other real estate owned expense, net	21	—	21	100.00%
Other operating expenses	674	723	(49)	(6.78)%
Total other expense	\$ 4,094	\$ 4,421	\$ (327)	(7.42)%

For the three months ended December 31, 2018, total other expense decreased \$327,000, or 7.4 percent, from the comparable three months ended December 31, 2017. The decrease primarily due to a \$289,000 decrease in professional fees, a \$49,000 decrease in other operating expense, a \$24,000 decrease in data processing expense, a \$24,000 decrease in advertising expense, a \$23,000 decrease in occupancy expense, and \$7,000 decrease in federal deposit insurance premium, partially offset by a \$21,000 increase in net other real estate owned expense, and a \$15,000 increase in salaries and employee benefits. The decrease in professional fees was primarily due to lower legal expense. Professional fees reflect increased legal and accounting fees for the 2018 fiscal year related to prior period restatements, which the Company does not expect to continue into future periods. The increase in salaries and employee benefits primarily reflects higher compensation to officers and employees to support overall franchise growth.

The Company's efficiency ratio, a non-GAAP financial measure, was 48.1 percent for the first quarter of fiscal 2019 on an annualized basis, compared to 64.0 percent in the first quarter of fiscal 2018. The decrease in the efficiency ratio reflects an increase in other expense, excluding non-core items, as well as an increase in total income.

The "efficiency ratio" is defined as other expense, excluding certain non-core items, as a percentage of net interest income on a tax equivalent basis plus other income, excluding net securities gains, calculated as follows:

	Three Months Ended December 31,		
	2018	2017	
Other expense	\$ 4,094	\$ 4,471	
Less: Non-core items(1)	138	—	
Other expense, excluding non-core items, non-GAAP	3,956	4,471	
Net interest income (tax equivalent basis), non-GAAP	6,791	6,791	
Non-core items(2)	177	—	
Net interest income (tax equivalent basis), excluding non-core items, non-GAAP	7,085	6,885	
Other income, excluding net investment securities gains and gains on sale of real estate	1,168	1,175	
Total	\$ 8,253	\$ 8,060	
Efficiency ratio	48.1%	54.9%	

(1) Non-core items for the quarter ended December 31, 2018 consisted of expense arising out of the dismissal of the Company's Contingent Accountant, as previously announced in the Company's Form 8-K filed on July 9, 2018, which required issuance of consent on previously audited consolidated financial statements. The Company believes these adjustments are necessary to provide the most accurate measure of core operating results as a means to evaluate comparative results.

(2) Included in non-core items such as accelerated payoffs and non-accrued interest amounts.

The Company's efficiency ratio, calculated on a GAAP basis without excluding net investment securities gains and without deducting non-core items from other expense, follows:

	Three Months Ended December 31,		
	2018	2017	
Efficiency ratio on a GAAP Basis	50.6%	52.5%	

Provision for Income Taxes

The Company recorded \$335,000 in income tax expense during the three months ended December 31, 2018 compared to \$3.2 million in income tax expense during the three months ended December 31, 2017. The effective tax rates for the Company for the three months ended December 31, 2018 and 2017 were 21.0 percent and 88.9 percent, respectively. In the first quarter of fiscal 2018, the Company revised its estimated annual effective rate to reflect a change in the federal statutory rate from 34% to 21%, resulting from the Tax Cuts and Jobs Act that was enacted on December 22, 2017.

Recent Accounting Pronouncements

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

Asset and Liability Management

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

Short-term interest rate exposure analysis is supplemented with an interest sensitivity gap model. The Company utilizes interest sensitivity analysis to measure the responsiveness of net interest income to changes in interest rate levels. Interest rate risk arises when an earning asset matures or when its interest rate changes in a time period different than that of a supporting interest-bearing liability, or when an interest-bearing liability matures or when its interest rate changes in a time period different than that of an earning asset.

that it supports. While the Company matches only a small portion of specific assets and liabilities, total earning assets and interest-bearing liabilities are grouped to determine the overall interest rate risk within a number of specific time frames. The difference between interest-sensitive assets and interest-sensitive liabilities is referred to as the interest sensitivity gap. At any given point in time, the Company may be in an asset-sensitive position, whereby its interest-sensitive assets exceed its interest-sensitive liabilities, or in a liability-sensitive position, whereby its interest-sensitive liabilities exceed its interest-sensitive assets, depending in part on management's judgment as to projected interest rate trends.

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

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

At December 31, 2018, the Company reflected a positive interest sensitivity gap with an interest sensitivity ratio of 1.171.00 at the cumulative one-year position. Based on management's perception of interest rising through 2018, emphasis has been, and is expected to continue to be, placed on controlling liability costs while extending the maturities of liabilities in our efforts to insulate the net interest spread from rising interest rates in the future. However, no assurance can be given that this objective will be met.

Estimates of Fair Value

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

Impact of Inflation and Changing Prices

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

Liquidity

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

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

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

At December 31, 2018, the Company had \$99.9 million in cash and cash equivalent compared to \$10.8 million at September 30, 2018. In addition, our available for sale investment securities amounted to \$19.2 million at December 31, 2018 and \$24.3 million at September 30, 2018.

Deposits

Total deposits increased to \$843.2 million at December 31, 2018 from \$774.2 million at September 30, 2018. Deposit growth during the period is a result of business development efforts, expanded market, and the higher visibility of the Bank, which have resulted in increased deposits and a broadened depositor base. Total interest-bearing deposits increased from \$732.5 million at September 30, 2018 to \$803.5 million at December 31, 2018, an increase of \$71.0 million. Interest-bearing demand, savings and time deposits under \$100,000 increased \$58.2 million to a total of \$630.8 million at December 31, 2018 as compared to \$72.6 million at September 30, 2018. Time deposits \$100,000 and over increased \$12.8 million as compared to September 30, 2018. Time deposits \$100,000 and over represented 20.5 percent of total deposits at December 31, 2018 compared to 20.7 percent at September 30, 2018. We had brokered deposits totaling \$115.4 million at December 31, 2018 compared to \$103.7 million at September 30, 2018.

Core Deposits

The Company derives a significant proportion of its liquidity from its core deposit base. Total demand deposits, savings and money market accounts of \$398.6 million at December 31, 2018 increased by \$27.4 million, or 10.6 percent, from September 30, 2018. Total demand deposits, savings and money market accounts were 47.0 percent of total deposits at December 31, 2018 and 69.9 percent at September 30, 2018. Alternatively, the Company uses a more stringent calculation for the management of its liquidity position internally, which calculation consists of total demand, savings accounts and money market accounts (excluding money market accounts and certificates of deposits greater than \$100,000) as a percentage of total deposits. This number increased by \$7.1 million, or 20.5 percent, from \$356.4 million at September 30, 2018 to \$429.9 million at December 31, 2018 and represented 51.0 percent of total deposits at December 31, 2018 as compared with 46.1 percent at September 30, 2018.

The Company continues to place the main focus of its deposit gathering efforts in the maintenance, development, and expansion of its core deposit base. Management believes that the emphasis on serving the needs of our communities will provide a long-term relationship base that will allow the Company to efficiently compete for business in its market. The success of this strategy is reflected in the growth of deposits during the first three-month period of fiscal 2019.

The following table depicts the Company's core deposit mix at December 31, 2018 and September 30, 2018 based on the Company's alternative calculation.

	December 31, 2018			September 30, 2018		Dollar Change
	Amount	Percentage		Amount	Percentage	
Non-interest bearing	\$ 36,734	9.24%	\$ 41,677	11.7%	\$ (1,943)	
Interest bearing	261,625	60.71	184,073	51.6	76,952	
Savings	44,438	10.34	44,642	12.5	(204)	
Money market deposits under \$100,000	12,457	2.99	13,274	3.7	(817)	
Certificates of deposits under \$100,000	73,875	16.72	71,613	20.5	2,262	
Total core deposits	\$ 437,137	100.0%	\$ 386,279	100.0%	\$ 50,858	
Total deposits	\$ 843,200		\$ 774,183		\$ 69,017	
Core deposits to total deposits		51.0%		46.1%		

Borrowings

Borrowings from the Federal Home Loan Bank ("FHLB") of Pittsburgh are available to supplement the Company's liquidity position and, to the extent that maturing deposits do not remain with the Company, management may replace such funds with advances. As of December 31, 2018 and September 30, 2018, the Company's outstanding balance of FHLB advances, totaled \$118.0 million. Of the \$118.0 million in advances, \$28.0 million represent long-term, fixed-rate advances maturing in 2020. The remaining balance of long-term, fixed rate advances totaled \$25.0 million, representing three separate advances maturing during fiscal year 2019.

At December 31, 2018, there were three short-term FHLB advances totaling \$65.0 million of fixed-rate borrowing with rollover of 90 days.

During fiscal 2019 the Company did not purchase any securities sold under agreements to repurchase as a short-term funding source. At September 30, 2018, the Company had \$2.5 million in securities sold under agreements to repurchase at a rate of 2.5%.

Payments Due Under Contractual Obligations

The following table presents information relating to the Company's payments due under contractual obligations as of December 31, 2018.

	As December 31, 2018				
	Less Than One Year	Due to Three Years	Three to Five Years (In thousands)	More Than Five Years	Total
Living term debt obligations ⁽¹⁾	\$ 90,124	\$ 20,033	\$ -	\$ -	\$ 110,157
Certificate of deposit ⁽¹⁾	143,535	79,262	12,565	13,340	248,602
Operating lease obligations	525	923	929	1,332	3,709
Total Contractual Obligations	\$ 234,179	\$ 100,218	\$ 13,494	\$ 14,672	\$ 362,563

(1) Includes interest payments.

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

Cash Flows

The Consolidated Statements of Cash Flows present the changes in cash and cash equivalents resulting from the Company's operating, investing and financing activities. During the three months ended December 31, 2018, cash and cash equivalents increased by \$69.0 million from the balance at September 30, 2018. Net cash of \$3.4 million was provided by operating activities. Net cash used in investing activities amounted to approximately \$25.1 million and net cash of \$90.7 million was provided by financing activities.

Shareholders' Equity

Total shareholders' equity amounted to \$135.7 million, or 12.0 percent of total assets, at December 31, 2018, compared to \$108.8 million or 10.7 percent of total assets at September 30, 2018. Book value per common share was \$17.45 at December 31, 2018, compared to \$16.94 at September 30, 2018.

	December 31, 2018	September 30, 2018
	Amount	Amount
Shareholders' equity	\$ 135,679	\$ 108,823
Book value per common share	\$ 17.45	\$ 16.94

Capital

At December 31, 2018, the Bank's common equity tier 1 ratio was 15.34 percent, tier 1 leverage ratio was 13.35 percent, tier 1 risk-based capital ratio was 15.54 percent and the total risk-based capital ratio was 16.55 percent. At September 30, 2018, the Bank's common equity tier 1 ratio was 15.09 percent, tier 1 leverage ratio was 12.71 percent, tier 1 risk-based capital ratio was 15.09 percent and the total risk-based capital ratio was 16.13 percent. At December 31, 2018, the Bank was in compliance with all applicable regulatory capital requirements.

At December 31, 2018, the Company's common equity tier 1 ratio was 14.61 percent, tier 1 leverage ratio was 12.55 percent, tier 1 risk-based capital ratio was 14.61 percent and the total risk-based capital ratio was 18.25 percent. At September 30, 2018, the Company's common equity tier 1 ratio was 12.62 percent, tier 1 leverage ratio was 10.63 percent, tier 1 risk-based capital ratio was 12.62 percent and the total risk-based capital ratio was 14.61 percent.

12.62 percent and the total risk-based capital ratio was 16.45 percent. At December 31, 2018, the Company was in compliance with all applicable regulatory capital requirements.

On October 9, 2018, the Company closed an underwritten public offering of shares of our common stock for gross proceeds of \$25.0 million and net proceeds of approximately \$23.3 million (after deducting the underwriting discount and other estimated offering expenses).

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

For a discussion of the Company's asset and liability management policies as well as the methods used to manage its exposure to the risk of loss from adverse changes in market prices and rates market, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset and Liability Management" in the Company's Annual Report on Form 10-K for the year ended September 30, 2018. There has been no material change in the Company's asset and liability position since September 30, 2018.

Item 4. Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and that such information is accumulated and communicated to management including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2018.

Item 1 - Legal Proceedings
Not applicable.

Item 1A - Risk Factors
See Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended September 30, 2018. There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2018.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds
Not applicable.

Item 3 - Defaults Upon Senior Securities
Not applicable.

Item 4 - Mine Safety Disclosure
Not applicable.

Item 5 - Other Information
Not applicable.

Item 6 - Exhibits

31.1	Rule 13c-1(a)(1)-(4) Section 302 Certification
31.2	Rule 13c-1(a)(1)-(4) Section 302 Certification
32.6	Section 1503 Certification
01.INS	XIBL Instance Document
01.SCH	XIBL Taxonomy Extension Schema Document
01.CAL	XIBL Taxonomy Extension Calculation Linkbase Document
01.LAB	XIBL Taxonomy Extension Label Linkbase Document
01.PRE	XIBL Taxonomy Extension Presentation Linkbase Document
01.DEF	XIBL Taxonomy Extension Definitions Linkbase Document

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

SIGNATURES

MALVERN Bancorp, INC.

By: /s/ Anthony C. Weagley
Anthony C. Weagley
President and Chief Executive Officer

By: /s/ Joseph D. Gangemi
Joseph D. Gangemi
Senior Vice President and Chief Financial Officer

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February 11, 2019

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Section 2: EX-31.1 (EX-31.1)

EXHIBIT 31.1

I, Anthony Weagley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Malvern Bancorp, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2019

/s/ Anthony C. Weagley
Anthony C. Weagley
President and Chief Executive Officer

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Section 3: EX-31.2 (EX-31.2)

CERTIFICATION

EXHIBIT 31.2

I, Joseph Gangemi certify that:

1. I have reviewed this quarterly report on Form 10-Q of Malvern Bancorp, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2019

/s/ Joseph D. Gangemi
Joseph D. Gangemi
Senior Vice President and Chief Financial Officer

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Section 4: EX-32 (EX-32)

SECTION 1503 CERTIFICATION OF THE
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

EXHIBIT 32.0

In connection with the Quarterly Report of Malvern Bancorp, Inc. (the "Company") on Form 10-Q for the period ended December 31, 2018, each of the undersigned, Anthony C. Weagley, President and Chief Executive Officer of the Company, and Joseph D. Gangemi, Senior Vice President and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 11, 2019

By: /s/ Anthony C. Weagley
Anthony C. Weagley
President and Chief Executive Officer

By: /s/ Joseph D. Gangemi
Joseph D. Gangemi
Senior Vice President and Chief Financial Officer

Date: February 11, 2019

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to Malvern Bancorp, Inc. and will be retained by Malvern Bancorp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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