

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

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

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FORM 10-Q

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(Mark One)

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

OR

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

Commission File Number: 000-54835

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MALVERN BANCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

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Pennsylvania  
(State or Other Jurisdiction of  
Incorporation or Organization)

45-5307782  
(IRS Employer  
Identification No.)

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

19301  
(Zip Code)

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

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

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

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

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

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, no par value:  
(Title of Class)

6,558,473 shares  
(Outstanding as of May 12, 2015)

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PART I – FINANCIAL INFORMATION

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

## Item 1. Financial Statements

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

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

Total Liabilities and Shareholders' equity	\$ 631,106	\$ 542,264
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See accompanying notes to unaudited consolidated financial statements.

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

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

See accompanying notes to unaudited consolidated financial statements.





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

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

See accompanying notes to unaudited consolidated financial statements.

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

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

See accompanying notes to unaudited consolidated financial statements.

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

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

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

See accompanying notes to unaudited consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 – Basis of Presentation

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

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

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

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

### Note 2 – Recent Accounting Pronouncements

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 – Earnings Per Share

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

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

(in thousands, except for share data)	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Net Income (Loss)				