MALVERN BANCORP, INC.
Form 10-Q/A
December 18, 2017

UNITED STATES OF AMERICA

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2017

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	**45-5307782**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

42 E. Lancaster Avenue, Paoli, Pennsylvania 19301

(Address of Principal Executive Offices) (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

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, 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 (Do not check if smaller reporting company)	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:	**6,572,684 shares**
(Title of Class)	(Outstanding as of August 7, 2017)

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EXPLANATORY NOTE

As previously reported in a Form 8-K filed on November 28, 2017 (the “Item 4.02 8-K”), on November 21, 2017, Malvern Bancorp, Inc. (the “Company”) was advised by BDO USA, LLP (“BDO”), its independent registered public accounting firm, that the Company should disclose that BDO’s audit report on the Company’s consolidated financial statements as of September 30, 2016 and 2015, and for each of the years in the two year period ended September 30, 2016, and BDO’s interim reviews of the Company’s consolidated interim financial statements as of and for the periods ended December 31, 2016, March 31, 2017 and June 30, 2017 (collectively, the “Specified Financial Statements”), should no longer be relied upon. As a result of the foregoing, the Company is restating the Specified Financial Statements. The audited annual financial statements for the fiscal years ended September 30, 2016 and 2015, each of the years in the two year period ended September 30, 2016, as included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2016, which was originally filed on December 14, 2016 (the “Original 10-K Filing”), have been restated as set forth in the Company’s Amendment No. 1 on Form 10-K/A (the “10-K Amendment”). Restatements of the Company’s consolidated interim financial statements for the periods ended December 31, 2016 and March 31, 2017 have been filed in amendments to the Company’s Quarterly Reports on Form 10-Q/A for such periods. The unaudited interim financial statements for the period ended June 30, 2017, as included in the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017, which was originally filed on August 9, 2017 (the “Original Third Quarter-Fiscal 2017 10-Q Filing”), have been restated as set forth in this Amendment No. 1 on Form 10-Q/A (this “Amendment”).

Also as previously reported in the Item 4.02 8-K, BDO also advised the Company that they have concluded that a material weakness in the Company’s internal controls over financial reporting existed, and that BDO’s report on the effectiveness of the Company’s internal control over financial reporting as of September 30, 2016 in Item 9A of the Original 10-K Filing that the Company’s internal control over financial reporting was effective as of September 30, 2016, should no longer be relied upon.

The matters described above relate to the Company’s income tax account balances. The effect of these matters is to increase net income for fiscal 2016 by approximately $208,000, fiscal 2015 by approximately $970,000 and fiscal 2014 by approximately $388,000. As of and for the three and nine months ended June 30, 2017, the net effect is a decrease to net income of approximately $360,000 and $796,000, respectively, and an increase in tax liability account of $360,000 and $796,000, respectively, For the three and nine months ended June 30, 2017. Please refer to the table below for an analysis of the impact on the consolidated balance sheets and income statements for the periods affected.

	For Year Ended September 30, 2014			2015			2016		
(In thousands)	As Filed	**Amount of Misstatement**	Restated Amount	As Filed	Amount of Misstatement	Restated Amount	As Filed	Amount of Misstatement	Restated Amount

Total Assets	$542,264	—	$542,264	$655,690	—	$655,690	$821,272	—	$821,272
Liabilities and Shareholders' Equity									
Other liabilities	2,604	(388)	2,216	3,575	(1,358)	2,217	4,549	(1,566)	2,983
Total Liabilities	465,492	(388)	465,104	574,299	(1,358)	572,941	726,681	(1,566)	725,115
Total Shareholders' Equity	76,772	388	77,160	81,391	1,358	82,749	94,591	1,566	96,157
Total Liabilities and Shareholders' Equity	$542,264	—	$542,264	$655,690	—	$655,690	$821,272	—	$821,272

	At December 31, 2016			At March 31, 2017			At June 30, 2017		
(In thousands)	As Filed	**Amount of Misstatement**	Restated Amount	As Filed	Amount of Misstatement	Restated Amount	As Filed	Amount of Misstatement	Restated Amount
Total Assets	$879,002	—	$879,002	$961,815	—	$961,815	$1,010,908	—	$1,010,908
Liabilities and Shareholders' Equity									
Other liabilities	3,662	(1,369)	2,293	3,206	(1,130)	2,076	4,697	(770)	3,927
Total Liabilities	783,267	(1,369)	781,898	864,351	(1,130)	863,221	911,245	(770)	910,475
Total Shareholders' Equity	95,735	1,369	97,104	97,464	1,130	98,594	99,663	770	100,433
Total Liabilities and Shareholders' Equity	$879,002	—	$879,002	$961,815	—	$961,815	$1,010,908	—	$1,010,908

	For Year Ended September 30, 2014			2015			2016		
(In thousands)	As Filed	**Amount of Misstatement**	Restated Amount	As Filed	Amount of Misstatement	Restated Amount	As Filed	Amount of Misstatement	Restated Amount
Income (Loss) before income tax expense	$334	—	$ 344	$3,698	—	$3,698	$5,976	—	$5,976
Income tax benefit (expense)	(21)	388	367	—	970	$970	5,966	208	$6,174
Net Income (Loss)	$323	388	711	$3,698	970	$4,668	$11,942	208	$12,150
Basic Earnings Per Share	$0.05	0.06	$ 0.11	$0.58	0.15	$0.73	$1.86	0.04	$1.90
Diluted Earnings Per Share	n/a	n/a	n/a	n/a	n/a	n/a	$1.86	0.04	$1.90

	For The Three Months Ended, December 31, 2016			March 31, 2017			June 30, 2017		
(In thousands)	As Filed	**Amount**	Restated Amount	As Filed	Amount of Misstatement	Restated Amount	As Filed	Amount of Misstatement	Restated Amount

		of Misstatement							
Income (Loss) before income tax expense	$1,462	—	$1,462	$1,758	—	$1,758	$2,582	—	$2,582
Income tax benefit (expense)	(292)	(197)	(489)	(349)	(239)	(588)	(503)	(360)	(863)
Net Income (Loss)	$1,170	(197)	$973	$1,409	(239)	$1,170	$2,079	(360)	$1,719
Basic Earnings Per Share	$0.18	(0.03)	$0.15	$0.22	(0.04)	$0.18	$0.32	(0.05)	$0.27
Diluted Earnings Per Share	$0.18	(0.03)	$0.15	$0.22	(0.04)	$0.18	$0.32	(0.05)	$0.27

These matters have no effect on the Company's cash position, net interest margin, pre tax income or the Company's operating expenses.

We are filing this Amendment to the Original Third Quarter-Fiscal 2017 10-Q filing in order to:

amend Item 1, "Financial Statements," to restate the unaudited consolidated interim financial statements previously issued in the Original Third Quarter-Fiscal 2017 10-Q Filing to make corrections described in the third paragraph of this Explanatory Note (as so restated, the "Restated Third Quarter-Fiscal 2017 Financials");

amend Item 1A, "Risk Factors", to refer to the Risk Factors included in the Original 10-K Filing, as amended by the 10-K Amendment;

make revisions to other sections of the Original Third Quarter-Fiscal 2017 10-Q Filing to account for corrections included in the Restated Third Quarter-Fiscal 20l7 Financials, in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations"; and

amend Item 4, "Controls and Procedures" with respect to our conclusions regarding the effectiveness of our disclosure controls and procedures and changes to our internal control over financial reporting.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), new certifications of the Company’s principal executive officer and principal financial officer are also being filed as exhibits to this Amendment. Similarly, revised XBRL exhibits are being filed as exhibits to this Amendment. As a result, Item 6, “Exhibits”, has also been modified.

This Amendment should be read in conjunction with the Original Third Quarter-Fiscal 2017 10-Q Filing, which continues to speak as of the date of the Original Third Quarter-Fiscal 2017 10-Q Filing. Except as specifically noted above, this Amendment does not modify or update disclosures in the Original Third Quarter-Fiscal 2017 10-Q Filing. Accordingly, this Amendment does not reflect events occurring after the filing of the Original Third Quarter-Fiscal 2017 10-Q Filing or modify or update any related or other disclosures.

All numbers in this Amendment reflect the restatements described above.

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 nine months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the full year ending September 30, 2017, or for any other interim period. The Malvern Bancorp, Inc. 2016 Annual Report on Form 10-K, as amended by Amendment No. 1 thereto on Form 10-K/A, should be read in conjunction with these financial statements.

Item 1. Financial Statements

MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	June 30, 2017	September 30, 2016
	(Dollars in thousands, except per share data)	
	(Restated - Note 3)	
Assets		
Cash and due from depository institutions	$ 1,622	$ 1,297
Interest bearing deposits in depository institutions	111,805	95,465
Cash and Cash Equivalents	113,427	96,762
Investment securities available for sale, at fair value	16,811	66,387
Investment securities held to maturity, at cost (fair value of $35,625 and $40,817, respectively)	36,027	40,551
Restricted stock, at cost	5,458	5,424
Loans receivable, net of allowance for loan losses of $7,917 and $5,434, respectively	800,337	574,160
Accrued interest receivable	2,837	2,558
Property and equipment, net	7,182	6,637
Deferred income taxes, net	7,912	8,827
Bank-owned life insurance	18,798	18,418
Other assets	2,119	1,548
Total Assets	$ 1,010,908	$ 821,272
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Deposits-noninterest-bearing	$ 50,097	$ 34,547
Deposits-interest-bearing	709,582	567,499
Total Deposits	759,679	602,046
FHLB advances	118,000	118,000
Subordinated debt	24,263	—
Advances from borrowers for taxes and insurance	3,546	1,659
Accrued interest payable	1,060	427
Other liabilities	3,927	2,983
Total Liabilities	910,475	

		725,115
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: 6,572,684 shares at June 30, 2017 and 6,560,403 shares at September 30, 2016	66	66
Additional paid-in-capital	60,670	60,461
Retained earnings	41,184	37,322
Unearned Employee Stock Ownership Plan (ESOP) shares	(1,520)	(1,629)
Accumulated other comprehensive income (loss)	33	(63)
Total Shareholders’ Equity	100,433	96,157
Total Liabilities and Shareholders’ Equity	$1,010,908	$821,272

See accompanying notes to unaudited consolidated financial statements.

MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except for per share data)	Three Months Ended June 30, 2017 (Restated - Note 3)	Three Months Ended June 30, 2016	Nine Months Ended June 30, 2017 (Restated - Note 3)	Nine Months Ended June 30, 2016
Interest and Dividend Income				
Loans, including fees	$8,246	$5,560	$21,926	$15,226
Investment securities, taxable	422	643	1,364	2,313
Investment securities, tax-exempt	100	192	422	577
Dividends, restricted stock	64	65	192	182
Interest-bearing cash accounts	141	70	349	129
Total Interest and Dividend Income	8,973	6,530	24,253	18,427
Interest Expense				
Deposits	1,645	1,180	4,393	3,305
Short-term borrowings	1	—	12	—
Long-term borrowings	545	570	1,615	1,631
Subordinated debt	383	—	604	—
Total Interest Expense	2,574	1,750	6,624	4,936
Net interest income	6,399	4,780	17,629	13,491
Provision for Loan Losses	645	472	2,302	847
Net Interest Income after Provision for Loan Losses	5,754	4,308	15,327	12,644
Other Income				
Service charges and other fees	233	227	730	665
Rental income-other	51	55	161	155
Gain on sale of investments, net	374	229	432	421
Gain on sale of loans, net	31	20	106	90
Earnings on bank-owned life insurance	125	128	380	387
Total Other Income	814	659	1,809	1,718
Other Expense				
Salaries and employee benefits	1,873	1,600	5,389	4,621
Occupancy expense	533	469	1,541	1,348
Federal deposit insurance premium	78	40	173	472
Advertising	67	26	191	81
Data processing	308	278	911	845
Professional fees	621	415	1,421	1,176
Other operating expenses	506	550	1,708	1,620
Total Other Expense	3,986	3,378	11,334	10,163
Income before income tax expense	2,582	1,589	5,802	4,199
Income tax expense	863	—	1,940	—

Net Income	$1,719	$1,589	$3,862	$4,199
Earnings Per Common Share:				
Basic	$0.27	$0.25	$0.60	$0.66
Diluted	$0.27	$0.25	$0.60	$0.66
Weighted Average Common Shares Outstanding:				
Basic	6,443,515	6,411,766	6,427,978	6,407,403
Diluted	6,445,288	6,411,804	6,428,426	6,407,433
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

(Unaudited)

(in thousands)	Three Months Ended June 30, 2017 (Restated - Note 3)	Three Months Ended June 30, 2016	Nine Months Ended June 30, 2017 (Restated - Note 3)	Nine Months Ended June 30, 2016
Net Income	$1,719	$1,589	$3,862	$4,199
Other Comprehensive Income, Net of Tax:				
Unrealized holding gains (losses) on available-for-sale securities	446	972	(299)	2,111
Tax effect	(152)	(330)	102	(718)
Net of tax amount	294	642	(197)	1,393
Reclassification adjustment for net gains arising during the period[1]	(374)	(229)	(432)	(421)
Tax effect	127	78	147	143
Net of tax amount	(247)	(151)	(285)	(278)
Accretion of unrealized holding losses on securities transferred from available-for-sale to held-to-maturity[2]	2	3	7	7
Tax effect	(1)	(1)	(2)	(2)
Net of tax amount	1	2	5	5
Fair value adjustments on derivatives	(151)	(278)	868	(527)
Tax effect	51	94	(295)	285
Net of tax amount	(100)	(184)	573	(242)
Total other comprehensive (loss) income	(52)	309	96	878
Total comprehensive income	$1,667	$1,898	$3,958	$5,077

[1] Amounts are included in gain on sale of investments, net on the Consolidated Statements of Operations in total other income.

[2] Amounts are included in interest and dividends on investment securities on the Consolidated Statements of Operations.

See accompanying notes to unaudited consolidated financial statements.

MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

	Common Stock	**Additional Paid-In Capital**	Retained Earnings	Unearned ESOP Shares	**Accumulated Other Comprehensive Income (Loss)**	Total Shareholders' Equity
	(in thousands, except share data) (Restated - Note 3)					
Balance, October 1, 2015	$66	$ 60,365	$25,172	$(1,775)	$ (1,079)	$ 82,749
Net Income	—	—	4,199	—	—	4,199
Other comprehensive income	—	—	—	—	878	878
Committed to be released ESOP shares (10,800 shares)	—	72	—	110	—	182
Balance, June 30, 2016	$66	$ 60,437	$29,371	$(1,665)	$ (201)	$ 88,008
Balance, October 1, 2016	$66	$ 60,461	$37,322	$(1,629)	$ (63)	$ 96,157
Net Income	—	—	3,862	—	—	3,862
Other comprehensive income	—	—	—	—	96	96
Committed to be released ESOP shares (10,800 shares)	—	115	—	109	—	224
Stock based compensation	—	94	—	—	—	94
Balance, June 30, 2017	$66	$ 60,670	$41,184	$(1,520)	$ 33	$ 100,433

See accompanying notes to unaudited consolidated financial statements.

MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Nine Months Ended June 30, 2017 (Restated - Note 3)	2016
Cash Flows from Operating Activities		
Net income	$3,862	$4,199
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	544	478
Provision for loan losses	2,302	847
Deferred income taxes expense	866	985
ESOP expense	224	182
Stock based compensation	94	—
Amortization of premiums and discounts on investment securities, net	711	967
(Accretions) amortization of loan origination fees and costs	(807)	930
Amortization of mortgage service rights	47	52
Net gain on sale of investment securities available-for-sale	(432)	(421)
Net gain on sale of secondary market loans	(106)	(90)
Proceeds on sale of secondary market loans	6,755	4,116
Originations of secondary market loans	(6,649)	(4,026)
Gain on sale of other real estate owned	—	(45)
Write down of other real estate owned	—	20
Earnings on bank-owned life insurance	(380)	(387)
Increase in accrued interest receivable	(279)	(230)
Increase in accrued interest payable	633	40
Increase (decrease) in other liabilities	944	(334)
Increase in other assets	(17)	(567)
Increase in income tax receivable	(179)	—
Net Cash Provided by Operating Activities	8,133	6,716
Cash Flows from Investing Activities		
Investment securities available-for-sale:		
Purchases	(250)	(2,115)
Sales	48,860	50,469
Maturities, calls and principal repayments	608	790
Investment securities held-to-maturity:		
Maturities, calls and principal repayments	4,326	11,193
(Loan originations) and principal collections, net	(227,672)	(164,745)
Proceeds from sale of other real estate owned	—	493
Proceeds from death benefit of bank-owned life insurance	—	1,049

Net increase in restricted stock	(34)	(783)
Purchases of property and equipment	(1,089)	(597)
Net Cash Used in Investing Activities	(175,251)	(104,246)
Cash Flows from Financing Activities		
Net increase in deposits	157,633	113,521
Proceeds from long-term borrowings	105,000	86,000
Repayment of long-term borrowings	(105,000)	(66,000)
Increase in advances from borrowers for taxes and insurance	1,887	2,129
Proceeds from issuance of subordinate debt	24,263	—
Net Cash Provided by Financing Activities	183,783	135,650
Net Increase in Cash and Cash Equivalents	16,665	38,120
Cash and Cash Equivalent – Beginning	96,762	40,263
Cash and Cash Equivalent – Ending	$113,427	$78,383
Supplementary Cash Flows Information		
Interest paid	$5,991	$4,896
Non-cash transfer of loans to loans held for sale	$—	$304

See accompanying notes to unaudited consolidated financial statements.

NOTES TO UNAUDITED 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 eight full service financial center offices in Chester and Delaware Counties, Pennsylvania and a Private Banking Loan Production headquarters office in Morristown, New Jersey. The Bank has one subsidiary, Strategic Asset Management Group, Inc. ("SAMG"), a Pennsylvania corporation. As of December 15, 2016, SAMG holds a 100% ownership interest in Malvern Insurance Associates, LLC ("Malvern Insurance"), a Pennsylvania limited liability company. Malvern Insurance is a licensed insurance broker under Pennsylvania law.

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 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 May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-09, "Scope of Modification Accounting", to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all the following are met: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this update. For public business entities, the amendments in this update become effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. An entity should apply the amendments in this update prospectively to an award modified on or after the adoption date. The Company is currently evaluating the impact of adopting the new guidance on the Consolidated Financial Statements, but it is not expected to have a material impact.

In March 2017, the FASB issued ASU No. 2017-08, "Premium Amortization on Purchased Callable Debt Securities." This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. Today, entities generally amortize the premium over the contractual life of the security. The new guidance does not change the accounting for purchased callable debt securities held at a discount; the discount continues to be amortized to maturity. ASU No. 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. The guidance calls for a modified retrospective transition approach under which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently evaluating the provisions of ASU No. 2017-08 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The new guidance requires that the service cost component of net benefit costs of pension and postretirement benefit plans be reported in the same line item as other compensation costs in the Consolidated Statements of Income. The other components of net benefit cost will be required to be presented in a separate line item. The guidance also specifies that only the service cost component will be eligible for capitalization. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting the new guidance on the Consolidated Financial Statements, but is not expected to have a material impact.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Recent Accounting Pronouncements – (continued)

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230) Restricted Cash". The new guidance requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. If restricted cash is presented separately from cash and cash equivalents on the balance sheet, companies will be required to reconcile the amounts presented on the statement of cash flows to the amounts on the balance sheet. Companies will also need to disclose information about the nature of the restrictions. The amendments in this update do not provide a definition of restricted cash or restricted cash equivalents. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting the new guidance on the Consolidated Financial Statements.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory". The ASU requires an entity to recognize the income tax consequences of intra-entity transfers of assets other than inventory at the time that the transfer occurs. Current guidance does not require recognition of tax consequences until the asset is eventually sold to a third party. ASU 2016-16 is effective for fiscal years, and interim periods within, beginning after December 15, 2017, with early adoption permitted as of the first interim period presented in a year. The Company is currently evaluating the impact of adopting the new guidance on the Consolidated Financial Statements, but it is not expected to have a material impact.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments." Current GAAP is unclear or does not include specific guidance on how to classify certain transactions in the statement of cash flows. This ASU is intended to reduce diversity in practice in how eight particular transactions are classified in the statement of cash flows. ASU No. 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, provided that all of the amendments are adopted in the same period. Entities will be required to apply the guidance retrospectively. If it is impracticable to apply the guidance retrospectively for an issue, the amendments related to that issue would be applied prospectively. As this guidance only affects the classification within the statement of cash flows, ASU No. 2016-15 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" which sets forth a "current expected credit loss" ("CECL") model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and will apply to the measurement of credit losses on financial assets measured at amortized cost and to some off-balance sheet credit exposures. This ASU will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company has begun collecting and evaluating data and system requirements to implement this standard. The adoption of this update could have a material impact on the Company's consolidated results of operations and financial condition. The extent of the impact is still unknown and will depend on many factors, such as the composition of the Company's loan portfolio and expected loss history at adoption.

In May 2016, the FASB issued ASU No. 2016-12 "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients." The guidance is intended to clarify the guidance previously issued in May 2014 related to the recognition of revenue from contracts with customers. The updated guidance includes narrow-scope improvements intended to address implementation issues and to provide additional practical expedients in the guidance. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Recent Accounting Pronouncements – (continued)

In April 2016, the FASB issued ASU No. 2016-10 "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing." The guidance is intended to clarify the guidance previously issued in May 2014 related to the recognition of revenue from contracts with customers. The updated guidance is intended to reduce the cost and complexity of applying the guidance on identifying promised goods or services in a contract and to improve the operability and understandability of the implementation guidance regarding the licensing of intellectual property. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." The guidance in this update supersedes the current lease accounting guidance for both the lessees and lessors under ASC 840, Leases. The new guidance requires lessees to evaluate whether a lease is a finance lease using criteria that are similar to what lessees use today to determine whether they have a capital lease. Leases not classified as finance leases are classified as operating leases. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. The lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to today's guidance for operating leases. The new guidance will require lessors to account for leases using an approach that is substantially similar to the existing guidance for sales-type, direct financing leases and operating leases. This new guidance will be effective for the Company for the first reporting period beginning after December 15, 2018, with earlier adoption permitted. Adoption of the amendment must be applied on a modified retrospective approach. The Company has several lease agreements, such as branch locations, which are currently considered operating leases, and therefore, not recognized on the Company's consolidated statements of condition. The Company expects the new guidance will require these lease agreements to now be recognized on the consolidated statements of condition as a right-of-use asset and a corresponding lease liability. Therefore, the Company's preliminary evaluation indicates the provisions of ASU No. 2016-02 are expected to impact the Company's consolidated statements of condition. However, the Company continues to evaluate the extent of potential impact the new guidance will have on the Company's Consolidated Financial Statements.

Note 3 - Correction of Error in Financial Statements

Subsequent to the issuance of the Company's Form 10-Q for the three and nine months ended June 30, 2017, the Company identified errors in its financial statements. Accordingly, the Company has restated the unaudited consolidated financial statements for the three and nine months ended June 30, 2017 to reflect the error corrections, the most significant of which are as follows:

Item 1 of Part I of this Amendment No. 1 on Form 10-Q/A includes unaudited consolidated financial statements at June 30, 2017 that have been restated to correct the manner in which the Company originally accounted for the Bank's tax account balances. The restated unaudited consolidated financial statements for the three and nine months ended June 30, 2017 contained in this Amendment No. 1 on Form 10-Q/A reflect a decrease in net income of approximately $360,000 and $796,000, respectively, as well as an increase in tax liability account of $360,000 and $796,000, respectively, For the three and nine months ended June 30, 2017, compared with the unaudited consolidated financial statements that were included in the Company's Report on Form 10-Q for the three and nine months ended June 30, 2017, as originally filed (the "Original Financial Statements"). The changes in Shareholder's Equity and Retained Earnings were also impacted by the corrections discussed in the Explanatory Note for the years ended September 30, 2016, 2015 and 2014. See the table below for an analysis of the impact on the unaudited consolidated balance sheets and income statements for the periods affected.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 3 - Correction of Error in Financial Statements – (continued)

For the three months ended June 30, 2017, the correction decreased Net Income from $2.1 million to $1.7 million and decreased Net Income from $4.7 million to $3.9 million for the nine months ended June 30, 2017 from the amount reported in the Unaudited Consolidated Statement of Income that was included in the Original Financial Statements (the “Original Income Statement”). The correction also changed the amount reported under “Income tax expense” in the Original Income Statement from $503,000 to $863,000 for the three months ended June 30, 2017 and from $1.1 million to $1.9 million for the nine months ended June 30, 2017. Total Liabilities at June 30, 2017, as reported in the Unaudited Consolidated Statement of Financial Condition included in the Original Financial Statements, decreased from $911.2 million to $910.5 million, due to the decrease in Other liabilities from $4.7 million to $3.9 million. Total Shareholders’ Equity at June 30, 2017, as reported in the Unaudited Consolidated Statement of Financial Condition included in the Original Financial Statements, increased from $99.7 million to $100.4 million due to the change in Retained Earnings from $40.4 million to $41.2 million.

More detailed information regarding the correction is provided below.

In addition to the restatement of the Company’s unaudited consolidated financial statements, certain information within the following notes to the unaudited consolidated financial statements has been restated to reflect the corrections of errors discussed above as well as other related changes and/or to add disclosure language as appropriate.

Note 4. Earnings Per Common Share

Note 7. Regulatory Capital Requirements

<u>Effects of the Restatement:</u>

The following tables summarize the effect of the restatement on certain key items of the Original Financial Statements:

Item 8: Financial Statement- Balance Sheet (in thousands)

	June 30, 2017			September 30, 2016		
	Original	Restated	Change	Original	Restated	Change
Other liabilities	$4,697	$3,927	$ (770)	$4,549	$2,983	$(1,566)
Total Liabilities	911,245	910,475	(770)	726,681	725,115	(1,566)
Retained earnings	40,414	41,184	770	35,756	37,322	1,566
Total Shareholders' Equity	99,663	100,433	770	94,591	96,157	1,566

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 3 - Correction of Error in Financial Statements – (continued)

Item 8: Financial Statement- Income Statement (in thousands)

	For the Three Months Ended June 30, 2017			**For the Nine Months Ended June 30, 2017**		
	Original	Restated	Change	Original	Restated	Change
Income tax expense	$503	$ 863	$ 360	$1,144	$ 1,940	$ 796
Net Income	2,079	1,719	(360)	4,658	3,862	(796)
Basic Earnings Per Share	$0.32	$ 0.27	(0.05)	$0.72	$ 0.60	(0.12)
Diluted Earnings Per Share	$0.32	$ 0.27	(0.05)	$0.72	$ 0.60	(0.12)

Item 8: Financial Statement - Comprehensive Income (in thousands)

	For the Three Months Ended June 30, 2017			**For the Nine Months Ended June 30, 2017**		
	Original	Restated	Change	Original	Restated	Change
Net Income	$2,079	$ 1,719	$ (360)	$4,658	$ 3,862	$ (796)
Total comprehensive Income	2,027	1,667	(360)	4,754	3,958	(796)

Item 8: Financial Statement - Changes in Shareholders Equity (in thousands)

	For the Nine Months Ended June 30, 2017			**For the Nine Months Ended June 30, 2016**		
	Original	Restated	Change	Original	Restated	Change
Net Income – Retained Earnings	$4,658	$3,862	$(796)	$4,199	$4,199	$—

Net Income – Total Shareholders' Equity	4,658	3,862	(796)	4,199	4,199	—
Beginning Retained Earnings Balance at	35,756	37,322	1,566	23,814	25,157	1,358
Ending Retained Earnings Balance at	40,414	41,184	770	28,013	29,371	1,358
Beginning Total Shareholders' Equity Balance at	94,591	96,157	1,566	81,391	82,749	1,358
Ending Total Shareholders' Equity Balance at	99,663	100,433	770	86,650	88,008	1,358

Item 8: Financial Statement - Cash Flows (in thousands)

	Nine Months Ended June 30, 2017		
	Original	Restated	Change
Net Income	$4,658	$ 3,862	$ (796)
Increase in other liabilities	148	944	796

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 ("CSEs") that would arise from the exercise of dilutive securities reduced by unearned ESOP shares. During the nine months ended June 30, 2017, the Company granted stock options to purchase 7,000 shares of common stock and 12,522 restricted shares, which are considered CSEs. For the three months ended June 30, 2017, options to purchase 7,000 shares of common stock were anti-dilutive. For the nine months ended June 30, 2017, options to purchase 7,000 shares of common stock and 9,359 restricted shares were anti-dilutive. During the nine months ended June 30, 2016, the Company granted stock options to purchase 5,000 shares of common stock and 2,240 restricted shares.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Earnings Per Share – (continued)

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 June 30, 2017 (Restated)	Three Months Ended June 30, 2016	Nine Months Ended June 30, 2017 (Restated)	Nine Months Ended June 30, 2016
Net Income	$1,719	$1,589	$3,862	$4,199
Weighted average shares outstanding	6,578,062	6,560,713	6,566,138	6,559,961
Average unearned ESOP shares	(134,547)	(148,947)	(138,160)	(152,558)
Basic weighted average shares outstanding	6,443,515	6,411,766	6,427,978	6,407,403
Plus: effect of dilutive options and restricted shares	1,773	38	448	30
Diluted weighted average common shares outstanding	6,445,288	6,411,804	6,428,426	6,407,433
Earnings per share:				
Basic	$0.27	$0.25	$0.60	$0.66
Diluted	$0.27	$0.25	$0.60	$0.66

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 Pentegra. Shares of the Company’s common stock purchased by the ESOP are held until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each such participant’s base compensation to the total base compensation of all eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to additional paid-in capital. During the period from May 20, 2008 to September 30, 2008, the ESOP purchased 241,178 shares of common stock for approximately $2.6 million, an average price of $10.86 per share, which was funded by a loan from Malvern Federal Bancorp, Inc. (the Company’s predecessor). The ESOP loan is being repaid principally from the Bank’s contributions to the ESOP. The loan, which bears an interest rate of 5%, is being repaid in quarterly installments through 2026. Shares are released to participants proportionately as the loan is repaid. During the three and nine months ended June 30, 2017 and 2016, there were 3,600 and 10,800 shares, respectively, committed to be released. At June 30, 2017, there were 132,765 unallocated shares and 126,453 allocated shares held by the ESOP which had an aggregate fair value of approximately $3.2 million.

Note 6 - Investment Securities

The Company's investment securities are classified as available-for-sale or held-to-maturity at June 30, 2017 and at September 30, 2016. Investment securities available-for-sale are reported at fair value with unrealized gains or losses included in equity, net of tax. Accordingly, the carrying value of such securities reflects their fair value at the balance sheet date. Fair value is based upon either quoted market prices, or in certain cases where there is limited activity in the market for a particular instrument, assumptions are made to determine their fair value.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Investment Securities – (continued)

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

The following tables present information related to the Company’s investment securities at June 30, 2017 and September 30, 2016.

	June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment Securities Available-for-Sale:				
State and municipal obligations	$9,205	$ 65	$ (5)	$9,265
Single issuer trust preferred security	1,000	—	(61)	939
Corporate debt securities	6,633	—	(276)	6,357
Mutual fund	250	—	—	250
Total	17,088	65	(342)	16,811
Investment Securities Held-to-Maturity:				
U.S. government agencies	$1,999	$ —	$ (6)	$1,993
State and municipal obligations	9,638	88	(9)	9,717
Corporate debt securities	3,842	—	(4)	3,838
Mortgage-backed securities:				
Collateralized mortgage obligations, fixed-rate	20,548	1	(472)	20,077
Total	$36,027	$ 89	$ (491)	$35,625
Total investment securities	$53,115	$ 154	$ (833)	$52,436

September 30, 2016

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment Securities Available-for-Sale:				
State and municipal obligations	$24,751	$ 557	$ (1)	$25,307
Single issuer trust preferred security	1,000	—	(122)	878
Corporate debt securities	40,189	347	(334)	40,202
Total	65,940	904	(457)	66,387
Investment Securities Held-to-Maturity:				
U.S. government agencies	$2,999	$ 16	$ —	$3,015
State and municipal obligations	9,826	167	(1)	9,992
Corporate debt securities	3,916	77	—	3,993
Mortgage-backed securities:				
Collateralized mortgage obligations, fixed-rate	23,810	102	(95)	23,817
Total	$40,551	$ 362	$ (96)	$40,817
Total investment securities	$106,491	$ 1,266	$ (553)	$107,204

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Investment Securities – (continued)

For the nine months ended June 30, 2017, proceeds of available-for-sale investment securities sold amounted to approximately $48.9 million. Gross realized gains on investment securities sold amounted to approximately $432,000 for the period. For the nine months ended June 30, 2016, proceeds of investment securities sold amounted to approximately $50.5 million. Gross realized gains on investment securities sold amounted to approximately $451,000, while gross realized losses amounted to approximately $30,000 for the period.

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

The following tables indicate gross unrealized losses not recognized in income and fair value, aggregated by investment category and the length of time individual securities have been in a continuous unrealized loss position at June 30, 2017 and September 30, 2016:

	June 30, 2017					
	Less than 12 Months		12 Months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair value	Unrealized Losses
	(In thousands)					
Investment Securities Available-for-Sale:						
State and municipal obligations	$1,014	$ (5)	$—	$ —	$1,014	$ (5)
Single issuer trust preferred security	—	—	939	(61)	939	(61)
Corporate debt securities	3,078	(55)	3,279	(221)	6,357	(276)
Total	$4,092	$ (60)	$4,218	$ (282)	$8,310	$ (342)
Investment Securities Held-to-Maturity:						
U.S. government agencies	1,993	(6)	—	—	1,993	(6)
State and municipal obligations	2,847	(9)	—	—	2,847	(9)
Corporate debt securities	3,838	(4)	—	—	3,838	(4)
Mortgage-backed securities:						

CMO, fixed-rate	12,953	(229)	6,940	(243)	19,893	(472)
Total	21,631	(248)	6,940	(243)	28,571	(491)
Total investment securities	$25,723	$ (308)	$11,158	$ (525)	$36,881	$ (833)

	September 30, 2016					
	Less than 12 Months		12 Months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair value	Unrealized Losses
	(In thousands)					
Investment Securities Available-for-Sale:						
State and municipal obligations	$501	$ (1)	$—	$ —	$501	$ (1)
Single issuer trust preferred security	—	—	878	(122)	878	(122)
Corporate debt securities	984	(9)	10,614	(325)	11,598	(334)
Total	$1,485	$ (10)	$11,492	$ (447)	$12,977	$ (457)
Investment Securities Held-to-Maturity:						
State and municipal obligations	1,193	(1)	—	—	1,193	(1)
Mortgage-backed securities:						
CMO, fixed-rate	4,342	(17)	6,283	(78)	10,625	(95)
Total	5,535	(18)	6,283	(78)	11,818	(96)
Total investment securities	$7,020	$ (28)	$17,775	$ (525)	$24,795	$ (553)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Investment Securities – (continued)

As of June 30, 2017, the estimated fair value of the securities disclosed above was primarily dependent upon the movement in market interest rates, particularly given the negligible inherent credit risk associated with these securities. These investment securities are comprised of securities that are rated investment grade by at least one bond credit rating service. Although the fair value will fluctuate as market interest rates move, management believes that these fair values will recover as the underlying portfolios mature and are reinvested in market rate yielding investments. As of June 30, 2017, the Company held two U.S. government agency securities, four municipal bonds, four corporate securities, 36 mortgage-backed securities and one single issuer trust preferred security which were in an unrealized loss position. The Company does not intend to sell and expects that it is not more likely than not that it will be required to sell these securities until such time as the value recovers or the securities mature. Management does not believe any individual unrealized loss as of June 30, 2017 represents other-than-temporary impairment.

Investment securities having a carrying value of approximately $493,000 and $552,000 at June 30, 2017 and September 30, 2016, respectively, were pledged to secure public deposits.

The following table presents information for investment securities at June 30, 2017, based on scheduled maturities. Actual maturities can be expected to differ from scheduled maturities due to prepayment or early call options of the issuer.

	June 30, 2017	
	Amortized Cost	Fair Value
	(in thousands)	
Investment Securities Available-for-Sale:		
Due in one year or less	$—	$—
Due after one year through five years	2,836	2,841
Due after five years through ten years	10,593	10,343
Due after ten years	3,659	3,627
Total	$17,088	$16,811
Investment Securities Held-to-Maturity:		
Due after one year through five years	$1,999	$1,992
Due after five years through ten years	5,861	5,918
Due after ten years	28,167	27,715
Total	$36,027	$35,625

Total investment securities	$53,115	$52,436

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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:

	June 30, 2017	September 30, 2016
	(in thousands)	
Residential mortgage	$190,788	$209,186
Construction and Development:		
Residential and commercial	36,530	18,579
Land	18,325	10,013
Total Construction and Development	54,855	28,592
Commercial:		
Commercial real estate	424,732	231,439
Farmland	1,734	—
Multi-family	21,547	19,515
Other	71,248	38,779
Total Commercial	519,261	289,733
Consumer:		
Home equity lines of credit	17,602	19,757
Second mortgages	23,658	29,204
Other	1,403	1,914
Total Consumer	42,663	50,875
Total loans	807,567	578,386
Deferred loan fees and cost, net	687	1,208
Allowance for loan losses	(7,917)	(5,434)
Total loans receivable, net	$800,337	$574,160

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Loans Receivable and Related Allowance for Loan Losses – (continued)

The following tables summarize the primary classes of the allowance for loan losses ("ALLL"), segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of June 30, 2017 and September 30, 2016. Activity in the allowance is presented for the three and nine months ended June 30, 2017 and 2016 and the year ended September 30, 2016, respectively.

Three Months Ended June 30, 2017

		Construction and Development			Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	**Commercial Real Estate**	Farmland	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
		(in thousands)										
Allowance for loan losses:												
Beginning balance	$1,042	$1,343	$128	$2,479	$—	$67	$369	$107	$415	$20	$1,211	$7,181
Charge-offs	—	—	—	—	—	—	—	—	(64)	—	—	(64)
Recoveries	2	—	—	9	—	—	2	15	123	4	—	155
Provision (Credit)	(24)	(660)	18	218	10	45	35	(25)	(98)	(7)	1,133	645
Ending Balance	$1,020	$683	$146	$2,706	$10	$112	$406	$97	$376	$17	$2,344	$7,917

Three Months Ended June 30, 2016

	Construction and Development		Commercial			Consumer				
Residential Mortgage	Residential and Commercial	Land	**Commercial Real Estate**	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
(in thousands)										

Allowance for loan losses:											
Beginning balance	$1,399	$74	$106	$1,529	$ 151	$193	$133	$ 580	$29	$ 743	$4,937
Charge-offs	—	(91)	—	—	—	—	—	—	(11)	—	(102)
Recoveries	(23)	39	—	—	—	—	1	15	4	—	36
Provision (Credit)	(150)	236	16	266	(13)	(37)	(9)	(72)	10	225	472
Ending Balance	$1,226	$258	$122	$1,795	$ 138	$156	$125	$ 523	$32	$ 968	$5,343

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Loans Receivable and Related Allowance for Loan Losses – (continued)

	Nine Months Ended June 30, 2017											
		Construction and Development		**Commercial**				**Consumer**				
	Residential Mortgage	**Residential and Commercial**	Land	**Commercial Real Estate**	Farmland	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocat	T
		(in thousands)										
Allowance for loan losses:												
Beginning balance	$1,201	$199	$97	$1,874	$—	$109	$158	$116	$467	$34	$1,179	$
Charge-offs	—	—	—	—	—	—	—	—	(185)	(5)	—	
Recoveries	2	90	—	39	—	—	8	17	205	10	—	
Provisions	(183)	394	49	793	10	3	240	(36)	(111)	(22)	1,165	
Ending Balance	$1,020	$683	$146	$2,706	$10	$112	$406	$97	$376	$17	$2,344	$
Ending balance: individually evaluated for impairment	$—	$—	$—	$—	$—	$—	$112	$—	$70	$—	$—	$
Ending balance: collectively evaluated for impairment	$1,020	$683	$146	$2,706	$10	$112	$294	$97	$306	$17	$2,344	$
Loans receivable:												
Ending balance	$190,788	$36,530	$18,325	$424,732	$1,734	$21,547	$71,248	$17,602	$23,658	$1,403		$
Ending balance: individually evaluated	$2,089	$97	$—	$744	$—	$—	$246	$10	$219	$—		$

for impairment											
Ending balance: collectively evaluated for impairment	$188,699	$36,433	$18,325	$423,988	$1,734	$21,547	$71,002	$17,592	$23,439	$1,403	$

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Loans Receivable and Related Allowance for Loan Losses – (continued)

	Nine Months Ended June 30, 2016										
		Construction and Development		Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	**Commercial Real Estate**	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
	(in thousands)										
Allowance for loan losses:											
Beginning balance	$1,486	$30	$35	$1,235	$104	$108	$139	$761	$24	$745	$4,667
Charge-offs	(9)	(91)	—	(99)	—	—	—	(255)	(54)	—	(508)
Recoveries	17	243	—	3	—	2	1	59	12	—	337
Provisions	(268)	76	87	656	34	46	(15)	(42)	50	223	847
Ending Balance	$1,226	$258	$122	$1,795	$138	$156	$125	$523	$32	$968	$5,343
Ending balance: individually evaluated for impairment	$—	$—	$—	$—	$—	$—	$—	$24	$—	$—	$24
Ending balance: collectively evaluated for impairment	$1,226	$258	$122	$1,795	$138	$156	$125	$499	$32	$968	$5,319
Loans receivable:											
Ending balance	$210,621	$14,050	$9,904	$211,516	$20,102	$37,091	$21,035	$31,752	$2,088		$558,159
Ending balance: individually evaluated	$787	$109	$—	$1,850	$—	$—	$20	$232	$—		$2,998

for impairment										
Ending balance: collectively evaluated for impairment	$209,834	$13,941	$9,904	$209,666	$20,102	$37,091	$21,015	$31,520	$2,088	$555,161

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Loans Receivable and Related Allowance for Loan Losses – (continued)

	Year Ended September 30, 2016										
		Construction and Development		Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	**Commercial Real Estate**	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
	(In thousands)										
Allowance for loan losses:											
Beginning balance	$1,486	$30	$35	$1,235	$104	$108	$139	$761	$24	$745	$4,667
Charge-offs	(9)	(91)	—	(99)	—	—	—	(291)	(70)	—	(560
Recoveries	17	243	—	3	—	3	1	100	13	—	380
Provisions	(293)	17	62	735	5	47	(24)	(103)	67	434	947
Ending Balance	$1,201	$199	$97	$1,874	$109	$158	$116	$467	$34	$1,179	$5,434
Ending balance: individually evaluated for impairment	$—	$—	$—	$—	$—	$—	$—	$23	$—	$—	$23
Ending balance: collectively evaluated for impairment	$1,201	$199	$97	$1,874	$109	$158	$116	$444	$34	$1,179	$5,411
Loans receivable:											
Ending balance	$209,186	$18,579	$10,013	$231,439	$19,515	$38,779	$19,757	$29,204	$1,914		$578,386
Ending balance: individually evaluated	$1,159	$109	$—	$2,039	$—	$—	$74	$277	$—		$3,658

for impairment											
Ending balance: collectively evaluated for impairment	$208,027	$18,470	$10,013	$229,400	$19,515	$38,779	$19,683	$28,927	$1,914		$574,728

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Loans Receivable and Related Allowance for Loan Losses – (continued)

The following table presents impaired loans in portfolio by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of June 30, 2017 and September 30, 2016.

	Impaired Loans With Specific Allowance		Impaired Loans With No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	(In thousands)				
June 30, 2017:					
Residential mortgage	$—	$ —	$ 2,089	$2,089	$ 2,222
Construction and Development:					
Residential and commercial	—	—	97	97	97
Commercial:					
Commercial real estate	—	—	744	744	754
Other	246	112	—	246	246
Consumer:					
Home equity lines of credit	—	—	10	10	11
Second mortgages	112	70	107	219	247
Total impaired loans	$358	$ 182	$ 3,047	$3,405	$ 3,577
September 30, 2016:					
Residential mortgage	$—	$ —	$ 1,159	$1,159	$ 1,225
Construction and Development:					
Residential and commercial	—	—	109	109	109
Commercial:					
Commercial real estate	—	—	2,039	2,039	2,039
Consumer:					
Home equity lines of credit	—	—	74	74	90
Second mortgages	31	23	246	277	451
Total impaired loans	$31	$ 23	$ 3,627	$3,658	$ 3,914

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Loans Receivable and Related Allowance for Loan Losses – (continued)

The following table presents the average recorded investment in impaired loans in portfolio and related interest income recognized for three and nine months ended June 30, 2017 and 2016.

(in thousands)	Three Months Ended June 30, 2017		Nine Months Ended June 30, 2017	
	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Residential mortgage	$2,099	$ 10	$2,091	$ 43
Construction and Development:				
Residential and commercial	104	2	107	4
Commercial:				
Commercial real estate	747	6	1,038	14
Other	248	2	111	2
Consumer:				
Home equity lines of credit	10	—	47	—
Second mortgages	205	1	190	2
Total	$3,413	$ 21	$3,584	$ 65

(in thousands)	Three Months Ended June 30, 2016		Nine Months Ended June 30, 2016	
	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Residential mortgage	$712	$ —	$641	$ —
Construction and Development:				
Residential and commercial	251	1	164	3
Commercial:				
Commercial real estate	1,593	17	1,534	48
Consumer:				

Home equity lines of credit	20	—	20	—
Second mortgages	222	—	204	—
Total	$2,798	$ 18	$2,563	$ 51

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Loans Receivable and Related Allowance for Loan Losses – (continued)

The following table presents the classes of the loan portfolio summarized by loans considered to be rated as pass and the categories of special mention, substandard and doubtful within the Company's internal risk rating system as of June 30, 2017 and September 30, 2016.

	June 30, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
	(in thousands)				
Residential mortgage	$188,265	$ 116	$ 2,407	$ —	$190,788
Construction and Development:					
Residential and commercial	36,433	—	97	—	36,530
Land	12,537	—	5,788	—	18,325
Commercial:					
Commercial real estate	417,197	5,361	2,174	—	424,732
Farmland	1,734	—	—	—	1,734
Multi-family	21,179	368	—	—	21,547
Other	70,346	—	902	—	71,248
Consumer:					
Home equity lines of credit	17,492	—	110	—	17,602
Second mortgages	22,886	114	658	—	23,658
Other	1,396	7	—	—	1,403
Total	$789,465	$ 5,966	$ 12,136	$ —	$807,567

	September 30, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
	(in thousands)				
Residential mortgage	$207,880	$ 122	$ 1,184	$ —	$209,186
Construction and Development:					
Residential and commercial	18,470	—	109	—	18,579
Land	10,013	—	—	—	10,013
Commercial:					
Commercial real estate	221,742	4,990	4,707	—	231,439
Multi-family	19,303	212	—	—	19,515
Other	37,848	259	672	—	38,779
Consumer:					

Home equity lines of credit	19,584	—	173	—	19,757
Second mortgages	27,843	119	1,242	—	29,204
Other	1,903	11	—	—	1,914
Total	$564,586	$ 5,713	$ 8,087	$ —	$578,386

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Loans Receivable and Related Allowance for Loan Losses – (continued)

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

	June 30, 2017	September 30, 2016
	(in thousands)	
Residential mortgage	$1,225	$ 1,072
Commercial:		
Commercial real estate	184	193
Consumer:		
Home equity lines of credit	10	74
Second mortgages	137	278
Total non-accrual loans	$1,556	$ 1,617

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 $6,000 and $12,000 for the three months ended June 30, 2017 and 2016, respectively, and was $33,000 and $29,000 for the nine months ended June 30, 2017 and 2016, respectively. At June 30, 2017 and September 30, 2016 there were approximately $321,000 and $696,000, respectively, of loans past due 90 days or more and still accruing interest.

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 June 30, 2017 and September 30, 2016.

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans Receivable	Accruing 90 Days or More Past Due

	(in thousands)						
June 30, 2017:							
Residential mortgage	$186,017	$2,968	$673	$1,130	$4,771	$190,788	$ 184
Construction and Development:							
Residential and commercial	36,530	—	—	—	—	36,530	—
Land	18,325	—	—	—	—	18,325	—
Commercial:							
Commercial real estate	424,181	551	—	—	551	424,732	—
Farmland	1,734	—	—	—	—	1,734	—
Multi-family	21,547	—	—	—	—	21,547	—
Other	71,248	—	—	—	—	71,248	—
Consumer:							
Home equity lines of credit	17,359	132	111	—	243	17,602	—
Second mortgages	22,590	764	104	200	1,068	23,658	137
Other	1,402	—	1	—	1	1,403	—
Total	$800,933	$4,415	$889	$1,330	$6,634	$807,567	$ 321

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Loans Receivable and Related Allowance for Loan Losses – (continued)

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans Receivable	Accruing 90 Days or More Past Due
	(in thousands)						
September 30, 2016:							
Residential mortgage	$204,816	$1,750	$1,345	$1,275	$4,370	$ 209,186	$ 509
Construction and Development:							
Residential and commercial	18,579	—	—	—	—	18,579	—
Land	10,013	—	—	—	—	10,013	—
Commercial:							
Commercial real estate	231,059	—	—	380	380	231,439	187
Multi-family	19,515	—	—	—	—	19,515	—
Other	38,433	346	—	—	346	38,779	—
Consumer:							
Home equity lines of credit	19,513	170	43	31	244	19,757	—
Second mortgages	27,933	473	566	232	1,271	29,204	—
Other	1,913	1	—	—	1	1,914	—
Total	$571,774	$2,740	$1,954	$1,918	$6,612	$ 578,386	$ 696

Restructured loans deemed to be troubled debt restructurings (“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 eleven and seven loans classified as TDRs with an aggregate outstanding balance of $2.0 million and $2.2 million at June 30, 2017 and September 30, 2016, respectively. At June 30, 2017, these loans were also classified as impaired. Eight of the TDR loans continue to perform under the restructured terms through June 30, 2017 and we continued to accrue interest on such loan through such date. The decrease in TDRs at June 30, 2017 compared to September 30, 2016 was primarily due to two commercial loans, with an aggregate outstanding balance of approximately $1.3 million being paid off during the first nine months of fiscal 2017. The decrease was offset by two residential mortgage loans with an aggregate outstanding balance of $653,000 and one second mortgage loan with an outstanding balance of approximately $54,000 being classified as performing TDRs during the first nine months of fiscal 2017. In addition, one residential mortgage loan with an outstanding balance of $225,000, one commercial real estate loan with an outstanding balance of $184,000 and one second mortgage loan with an outstanding balance of approximately $23,000 were classified as non-performing TDRs during the first nine months of fiscal 2017. All of such loans have been classified as TDRs since we modified the payment terms and in some cases interest rate from the original agreements and allowed the borrowers, who were experiencing financial difficulty, to make interest only payments for a period of time in order to relieve some of their overall cash flow burden. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and result in potential incremental losses. These potential incremental losses have been factored into our overall estimate of the allowance for loan losses. The level of any defaults will likely be affected by future economic conditions. A default on a troubled debt restructured loan for purposes of this disclosure occurs when the borrower is 90 days past due or a foreclosure or repossession of the applicable collateral has occurred.

Problem loans 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 OREO, which is included within other assets in the Consolidated Statements of Financial 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. The Company had $579,000 and $141,000 of residential real estate properties in the process of foreclosure at June 30, 2017 and September 30, 2016, respectively.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Loans Receivable and Related Allowance for Loan Losses – (continued)

The following table presents our TDR loans as of June 30, 2017 and September 30, 2016.

	Total Troubled Debt Restructurings				Troubled Debt Restructured Loans That Have Defaulted on Modified Terms Within The Past 12 Months			
	Number of Loans		Recorded Investment		Number of Loans		Recorded Investment	
	(Dollars in thousands)							
At June 30, 2017:								
Residential mortgage	5	$	1,117		1	$	225	
Construction and Development:								
Residential and commercial	1		97		—		—	
Commercial:								
Commercial real estate	3		744		1		184	
Consumer:								
Second mortgages	2		77		1		23	
Total	11	$	2,035		3	$	432	
At September 30, 2016:								
Residential mortgage	2	$	224		1	$	139	
Construction and Development:								
Residential and commercial	1		109		—		—	
Commercial:								
Commercial real estate	4		1,845		—		—	
Total	7	$	2,178		1	$	139	

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

	June 30, 2017	September 30, 2016

	Performing	Non-Performing	Performing	Non-Performing
	(In thousands)			
Residential mortgage	$892	$ 225	$85	$ 139
Construction and Development:				
Residential and commercial	97	—	109	—
Commercial:				
Commercial real estate	560	184	1,845	—
Consumer:				
Second mortgages	54	23	—	—
Total	$1,603	$ 432	$2,039	$ 139

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Loans Receivable and Related Allowance for Loan Losses – (continued)

The following table shows the activity in loans which were first deemed to be TDRs during the three and nine months ended June 30, 2017 and 2016.

	For the Three Months Ended June 30, 2017			2016		
	Restructured During Period					
	Number of Loans	Pre-Modifications Outstanding Recorded Investments	Post-Modifications Outstanding Recorded Investments	Number of Loans	Pre-Modifications Outstanding Recorded Investments	Post-Modifications Outstanding Recorded Investments
	(In thousands)					
Troubled Debt Restructurings:						
Commercial:						
Commercial real estate	—	$ —	$ —	1	$ 386	$ 386
Total	—	$ —	$ —	1	$ 386	$ 386

	For the Nine Months Ended June 30, 2017			2016		
	Restructured During Period					
	Number of Loans	Pre-Modifications Outstanding Recorded Investments	Post-Modifications Outstanding Recorded Investments	Number of Loans	Pre-Modifications Outstanding Recorded Investments	Post-Modifications Outstanding Recorded Investments
	(In thousands)					
Troubled Debt Restructurings:						
Residential mortgage	3	$ 889	$ 889	—	$ —	$ —
Commercial:						
Commercial real estate	1	193	193	1	386	386
Consumer:						
Second mortgages	2	81	81	—	—	—
Total	6	$ 1,163	$ 1,163	1	$ 386	$ 386

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.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 8 - Regulatory Matters – (continued)

In July of 2013, the respective U.S. federal banking agencies issued final rules implementing Basel III and the Dodd-Frank Act capital requirements to be fully phased in on a global basis on January 1, 2019. The new regulations establish a new tangible common equity capital requirement, increase the minimum requirement for the current Tier 1 risk-weighted asset ("RWA") ratio, phase out certain kinds of intangibles treated as capital and certain types of instruments and change the risk weightings of certain assets used to determine required capital ratios. The new common equity Tier 1 capital component requires capital of the highest quality – predominantly composed of retained earnings and common stock instruments. For community banks such as Malvern Federal Savings Bank, a common equity Tier 1 capital ratio 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 6.0% 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 2016 at 0.625% of risk-weighted assets and will increase by that amount each year until fully implemented in January 2019. An institution is also subject to limitations on paying dividends, engaging in share repurchases, 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 June 30, 2017, 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.

The subordinated debentures were structured to qualify as Tier 2 capital for regulatory purposes. The following table summarizes the Company's compliance with applicable regulatory capital requirements as of June 30, 2017 and September 30, 2016:

(Dollars in thousands)	(Restated) Actual Capital Amount	Ratio	For Capital Adequacy Purposes Capital Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Capital Amount	Ratio
As of June 30, 2017:						
Tier 1 Leverage (to average assets)	$98,085	10.05 %	$ 39,026	4.00 %	$ 48,783	5.00 %
Common Equity Tier 1 Capital (to risk weighted assets)	98,085	12.38 %	35,646	4.50 %	51,489	6.50 %
Tier 1 Capital (to risk weighted assets)	98,085	12.38 %	47,529	6.00 %	63,371	8.00 %
Total Capital (to risk weighted assets)	130,327	16.45 %	63,371	8.00 %	79,214	10.00 %
As of September 30, 2016:						
Tier 1 Leverage (to average assets)	$91,876	11.64 %	$ 31,561	4.00 %	$ 39,452	5.00 %
Common Equity Tier 1 Capital (to risk weighted assets)	91,876	15.37 %	26,894	4.50 %	38,847	6.50 %
Tier 1 Capital (to risk weighted assets)	91,876	15.37 %	35,859	6.00 %	47,812	8.00 %
Total Capital (to risk weighted assets)	97,372	16.29 %	47,812	8.00 %	59,765	10.00 %

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 8 - Regulatory Matters – (continued)

The following table summarizes the Bank’s compliance with applicable regulatory capital requirements as of June 30, 2017 and September 30, 2016:

(Dollars in thousands)	(Restated) Actual Capital Amount	Ratio	For Capital Adequacy Purposes Capital Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Capital Amount	Ratio
As of June 30, 2017:						
Tier 1 Leverage (to average assets)	$116,795	11.99 %	$ 38,980	4.00 %	$ 48,725	5.00 %
Common Equity Tier 1 Capital (to risk weighted assets)	116,795	14.79 %	35,532	4.50 %	51,324	6.50 %
Tier 1 Capital (to risk weighted assets)	116,795	14.79 %	47,376	6.00 %	63,168	8.00 %
Total Capital (to risk weighted assets)	124,775	15.80 %	63,168	8.00 %	78,960	10.00 %
As of September 30, 2016:						
Tier 1 Leverage (to average assets)	$86,596	10.98 %	$ 31,533	4.00 %	$ 39,417	5.00 %
Common Equity Tier 1 Capital (to risk weighted assets)	86,596	14.50 %	26,875	4.50 %	38,820	6.50 %
Tier 1 Capital (to risk weighted assets)	86,596	14.50 %	35,834	6.00 %	47,779	8.00 %
Total Capital (to risk weighted assets)	92,092	15.42 %	47,779	8.00 %	59,723	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 activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future uncertain cash amounts, the value of which are determined by interest rates.

The Company’s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income (Loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. At June 30, 2017, such derivatives were used to hedge the variable cash flows associated with FHLB advances. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. The Company’s derivatives did not have any hedge ineffectiveness recognized in earnings during the three and nine months ended June 30, 2017 and 2016.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Derivatives and Hedging Activities – (continued)

Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next twelve months, the Company estimates approximately $27,000 to be reclassified to earnings as an increase to interest expense. The Company is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of twenty months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Balance Sheet as of June 30, 2017 and September 30, 2016:

	June 30, 2017			
	Notional Amount	Fair Value	Balance Sheet Location	Expiration Date
	(dollars in thousand)			
Derivatives designated as hedging instruments				
Interest rate swaps by effective date:				
August 3, 2015	$15,000	$ 23	Other liabilities	August 3, 2020
February 5, 2016	20,000	350	Other assets	February 1, 2021

	September 30, 2016			
	Notional Amount	Fair Value	Balance Sheet Location	Expiration Date
	(dollars in thousand)			
Derivatives designated as hedging instruments				
Interest rate swaps by effective date:				
August 3, 2015	$15,000	$ 394	Other liabilities	August 3, 2020
February 5, 2016	20,000	148	Other liabilities	February 1, 2021

The tables below presents the net gains (losses) recorded in accumulated other comprehensive income (loss) and the Consolidated Statements of Operations relating to the cash flow derivative instruments for the three and nine months ended June 30, 2017 and 2016.

	For the Three Months Ended June 30, 2017		
	Amount of Gain (Loss) Recognized in OCI (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI to Interest Expense	Amount of Gain (Loss) Recognized in Other Non-Interest Income (Ineffective Portion)
	(in thousands)		
August 3, 2015	$(70)	$(25)	$—
February 5, 2016	(113)	(8)	—

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Derivatives and Hedging Activities – (continued)

	For the Nine Months Ended June 30, 2017		
	Amount of Gain (Loss) Recognized in OCI (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI to Interest Expense	Amount of Gain (Loss) Recognized in Other Non-Interest Income (Ineffective Portion)
	(in thousands)		
August 3, 2015	$280	$ (91)	$ —
February 5, 2016	451	(47)	—

	For the Three Months Ended June 30, 2016		
	Amount of Gain (Loss) Recognized in OCI (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI to Interest Expense	Amount of Gain (Loss) Recognized in Other Non-Interest Income (Ineffective Portion)
	(in thousands)		
August 3, 2015	$(139)	$ (44)	$ —
February 5, 2016	(215)	(34)	—

	For the Nine Months Ended June 30, 2016		
	Amount of Gain (Loss) Recognized	Amount of Gain (Loss) Reclassified from OCI to	Amount of Gain (Loss) Recognized in Other Non-Interest

	in OCI (Effective Portion)	Interest Expense	Income (Ineffective Portion)
	(in thousands)		
August 3, 2015	$(383)	$ (148)	$ —
February 5, 2016	(381)	(55)	—

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 June 30, 2017, the fair value of derivatives was in a net asset position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was zero. At September 30, 2016, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $586,000. At June 30, 2017 and September 30, 2016, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of zero and $800,000, respectively, against its obligations under these agreements. If the Company had breached any of these provisions at June 30, 2017 or at September 30, 2016, 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 due 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.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 10 – Fair Value Measurements – (continued)

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

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

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

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

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

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

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

The Company monitors and evaluates available data to perform fair value measurements on an ongoing basis and recognizes transfers among the levels of the fair value hierarchy as of the date event or a change in circumstances that affects the valuation method chosen. There were no changes in valuation technique or transfers between levels at June 30, 2017 or September 30, 2016.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 10 - Fair Value Measurements – (continued)

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

	June 30, 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
	(in thousands)			
Assets:				
Investment securities available-for-sale:				
Debt securities:				
State and municipal obligations	$9,265	$—	$9,265	$ —
Single issuer trust preferred security	939	—	939	—
Corporate debt securities	6,357	—	6,357	—
Mutual fund	250	250	—	—
Total investment securities available-for-sale	16,811	250	16,561	—
Derivative instruments	$350	$—	$350	$ —
Liabilities:				
Derivative instruments	$23	$—	$23	$ —

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Assets:				
Investment securities available-for-sale:				
Debt securities:				
State and municipal obligations	$25,307	$ —	$25,307	$ —
Single issuer trust preferred security	878	—	878	—
Corporate debt securities	40,202	—	40,202	—
Total investment securities available-for-sale	66,387	—	66,387	—
Liabilities:				
Derivative instruments	$542	$ —	$542	$ —

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 10 - Fair Value Measurements – (continued)

For assets measured at fair value on a nonrecurring basis that were still held at the end of the period, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at June 30, 2017 and September 30, 2016:

	June 30, 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
	(in thousands)			
Impaired loans[1]	$176	$ —	$ —	$176
Total	$176	$ —	$ —	$176

	June 30, 2017			
	Fair Value at June 30, 2017	**Valuation Technique**	**Unobservable Input**	**Range/(Weighted Average)**
	(dollars in thousands)			
Impaired loans[1]	$176	Appraisal of collateral[2]	Collateral discounts[3]	0%/(0%)
Total	$176			

(1) At June 30, 2017, consisted of four loans with an aggregate balance of $358,000 and with $182,000 in specific loan loss allowance.
(2) Fair value is generally determined through independent appraisals of the underlying collateral primarily using comparable sales.

(3) Appraisals may be adjusted by management for qualitative factors such as time, changes in economic conditions and estimated liquidation expense.

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Impaired loans(1)	$8	$ —	$ —	$ 8
Total	$8	$ —	$ —	$ 8

	September 30, 2016			
	Fair Value at September 30, 2016	Valuation Technique	Unobservable Input	Range/(Weighted Average)
	(dollars in thousands)			
Impaired loans(1)	$8	Appraisal of collateral(2)	Collateral discounts(3)	0%/(0%)
Total	$8			

(1) At September 30, 2016, consisted of one loan with an aggregate balance of $31,000 and with $23,000 in specific loan loss allowance.
(2) Fair value is generally determined through independent appraisals of the underlying collateral primarily using comparable sales.
(3) Appraisals may be adjusted by management for qualitative factors such as time, changes in economic conditions and estimated liquidation expense.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 10 - Fair Value Measurements – (continued)

During the nine months ended June 30, 2017 and 12 months ended September 30, 2016, the Company did not have any additions to our mortgage servicing assets. During the nine months ended June 30, 2017 and 12 months ended September 30, 2016, 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 June 30, 2017 and September 30, 2016. 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 June 30, 2017 and September 30, 2016 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) and held to maturity (carried at amortized cost) are measured at fair value on a recurring basis. Fair value measurements for these securities are typically obtained from independent pricing services that we have engaged for this purpose. When available, we, or our independent pricing service, use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, our independent pricing service's applications apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare evaluations. For each asset class, pricing applications and models are based on information from market sources and integrate relevant credit information. All of our securities available for sale are valued using either of the foregoing methodologies to determine fair value adjustments recorded to our financial statements. The fair value of the Level 1 security was $250,000 as of June 30, 2017 and zero as of September 30, 2016. The Company had no Level 3 securities as of June 30, 2017 or September 30, 2016.

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.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 10 - Fair Value Measurements – (continued)

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.

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

Short-Term Borrowings—Short-term borrowings that mature within six months and securities sold under agreements to repurchase have fair values which approximate carrying value.

Subordinated Debt—The fair value of subordinated debentures is estimated by discounting the estimated future cash flows, using market discount rates of financial instruments with similar characteristics, terms and remaining maturity.

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.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 10 - Fair Value Measurements – (continued)

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

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 10 - Fair Value Measurements – (continued)

The carrying amount and estimated fair value of the Company's financial instruments as of June 30, 2017 and September 30, 2016 are presented below:

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
June 30, 2017:					
Financial assets:					
Cash and cash equivalents	$113,427	$113,427	$113,427	$—	$—
Investment securities available-for-sale	16,811	16,811	250	16,561	—
Investment securities held-to-maturity	36,027	35,625	—	35,625	—
Loans receivable, net (including impaired loans)	800,337	801,893	—	—	801,893
Accrued interest receivable	2,837	2,837	—	2,837	—
Restricted stock	5,458	5,458	—	5,458	—
Mortgage servicing rights (included in Other Assets)	282	279	—	279	—
Derivatives (included in Other Assets)	350	350	—	350	—
Financial liabilities:					
Savings accounts	43,709	43,709	—	43,709	—
Checking and NOW accounts	155,536	155,536	—	155,536	—
Money market accounts	274,018	274,018	—	274,018	—
Certificates of deposit	286,416	288,367	—	288,367	—
FHLB advances	118,000	118,694	—	118,694	—
Subordinated debt	24,263	24,263	—	24,263	—
Derivatives (included in Other Liabilities)	23	23	—	23	—
Accrued interest payable	1,060	1,060	—	1,060	—
September 30, 2016:					
Financial assets:					
Cash and cash equivalents	$96,762	$96,762	$96,762	$—	$—
Investment securities available-for-sale	66,387	66,387	—	66,387	—
Investment securities held-to-maturity	40,551	40,817	—	40,817	—
Loans receivable, net (including impaired loans)	574,160	589,844	—	—	589,844
Accrued interest receivable	2,558	2,558	—	2,558	—
Restricted stock	5,424	5,424	—	5,424	—
Mortgage servicing rights (included in Other Assets)	328	308	—	308	—
Financial liabilities:					
Savings accounts	44,714	44,714	—	44,714	
Checking and NOW accounts	129,588	129,588	—	129,588	—

Money market accounts	177,486	177,486	—	177,486	—
Certificates of deposit	250,258	252,232	—	252,232	—
FHLB advances	118,000	119,946	—	119,946	—
Derivatives (included in Other Liabilities)	542	542	—	542	—
Accrued interest payable	427	427	—	427	—

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 11 – Income Taxes (As Restated)

In accordance with ASC Topic 740, the Company evaluates on a quarterly basis, all evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance for DTAs is needed. For the three and nine months ended June 30, 2017, the Company recorded income tax expense of $863,000 and $1.9 million, respectively, compared to no income tax expense for the three and nine months ended June 30, 2016.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – Comprehensive Income (Loss)

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

	June 30, 2017	September 30, 2016
	(In thousands)	
Net unrealized holding (losses) gains on available-for-sale securities	$(277)	$ 447
Tax effect	94	(152)
Net of tax amount	(183)	295
Fair value adjustments on derivatives	327	(542)
Tax effect	(111)	184
Net of tax amount	216	(358)
Total accumulated other comprehensive income (loss)	$33	$ (63)

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
Net unrealized holding gains (losses) on available-for-sale securities	$446	$972	$(299)	$2,111
Net realized gains on securities available-for-sale	(374)	(229)	(432)	(421)
Accretion of unrealized holding losses on securities available-for-sale transferred to held-to-maturity	2	3	7	7
Fair value adjustments on derivatives	(151)	(278)	868	(527)
Other comprehensive (loss) income before taxes	(77)	468	144	1,170
Tax effect	25	(159)	(48)	(292)
Total comprehensive (loss) income	$(52)	$309	$96	$878

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 June 30, 2017, there were 374,789 remaining shares available for future grants.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 13 – Equity Based Incentive Compensation Plan – (continued)

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.

During the nine months ended June 30, 2017 and 2016, stock options covering a total of 7,000 and 5,000 shares of common stock, respectively, were granted. The compensation expense related to stock options for the three and nine months ended June 30, 2017 was $3,000 and $5,000, respectively.

During the nine months ended June 30, 2017 and 2016, a total of 12,522 and 2,200 restricted shares, respectively, were awarded. The compensation expense related to restricted stock awards for the three and nine months ended June 30, 2017 was $87,000 and $88,000, respectively.

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 that have been 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 option activity as of June 30, 2017 and changes during the nine months ended June 30, 2017 were as follows:

	Shares	**Weighted**	**Aggregate**

		Weighted Average Exercise Price	**Average Remaining Contractual Term**	**Intrinsic Value**
			(In Years)	
Outstanding, beginning of fiscal year	5,000	$ 16.02		$ 1,980
Granted	7,000	21.00		—
Exercised	—	—		—
Forfeited/cancelled/expired	(1,000)	16.02		4,780
Outstanding, at June 30, 2017	11,000	19.19	9.381	52,370
Vested and exercisable, end of the period	800	16.02	8.750	6,344
Vested and unvested exercisable, end of the period	800	16.02	8.750	6,344
Vested and expected to vest, at June 30, 2017	11,000	$ 19.19	9.381	$ 52,370

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 13 – Equity Based Incentive Compensation Plan – (continued)

The table below summarizes the activity for the Company's restricted stock outstanding during the nine months ended at June 30, 2017:

	Shares	Weighted Average Fair Value
Nonvested at September 30, 2016	1,930	$ 17.40
Granted	12,522	20.79
Vested	(337)	21.15
Forfeited/cancelled/expired	(241)	17.40
Nonvested at June 30, 2017	13,874	$ 20.36

As of June 30, 2017, there was $202,000 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 9.52 years. As of June 30, 2017, there was $62,000 of total unrecognized compensation cost related to nonvested options to purchase 11,000 shares of common stock granted under the Plan. The cost is expected to be recognized over a weighted average period of 9.38 years.

Note 14 – Subordinated Debt

On February 7, 2017, the Company issued $25.0 million in aggregate principal amount of its 6.125% fixed-to-floating rate subordinated notes due 2027 (the "Notes"). The Notes have a stated maturity of February 15, 2027, are redeemable, in whole or in part, on or after February 15, 2022, and at any time upon the occurrences of certain events. The Notes bear interest at a fixed rate of 6.125% per year, from and including February 7, 2017 to, but excluding February 15, 2022. From and including February 15, 2022 to the maturity date or earlier redemption date, the interest rate will reset quarterly at a variable rate equal to the then current 3-month LIBOR plus 414.5 basis points. The Notes were structured to qualify as Tier 2 capital for regulatory purposes. The Company's net subordinated debt totaled $24.3 million (reported net of $737,000 in debt issuance costs) at June 30, 2017.

The Company may not redeem the Notes prior to February 15, 2022, except that the Company may redeem the Notes at any time, at its option, in whole but not in part, subject to obtaining any required regulatory approvals, if (i) a change or prospective change in law occurs that could prevent the Company from deducting interest payable on the Notes for U.S. federal income tax purposes, (ii) a subsequent event occurs that precludes the Notes from being recognized as Tier 2 capital for regulatory capital purposes, or (iii) the Company is required to register as an investment company under the Investment Company Act of 1940, as amended, in each case, at a redemption price equal to 100% of the principal amount of the Notes plus any accrued and unpaid interest through, but excluding, the redemption date.

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 June 30, 2017 and September 30, 2016. 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.

Reference is made to the Explanatory Note at the beginning of this Amendment, which is incorporated herein. Certain amounts in the Management’s Discussion and Analysis have been restated in accordance with adjustments reflected in the Explanatory Note.

Forward-Looking Statements

This Quarterly Report on Form 10-Q/A 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: ’‘believes,’’ ’‘expects,’’ ’‘anticipates,’’ ’‘plans,’’ ’‘trend,’’ ’‘objective,’’ ’‘continue,’’ ’‘ or words of similar meaning, or future or conditional terms such as ’‘will,’’ ’‘would,’’ ’’should,’’ ’‘could,’’ ’‘might,’’ ’‘can,’’ 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) a delayed or incomplete resolution of regulatory issues could adversely impact our planning; (9) 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; (10) 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 (11) the outcome of any 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 the term the "Bank" refers to Malvern Federal Savings Bank, a federally chartered savings bank and wholly owned subsidiary of the Company. In addition, unless the context otherwise requires, references to the operations of the Company include the operations of the Bank.

This report contains certain financial information determined by methods other than in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These measures include net interest income on a fully tax equivalent basis and net interest margin on a fully tax equivalent basis, 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 34% tax rate. Management believes that it is standard practice in the banking industry to present net interest income and net interest margin on a fully tax equivalent basis, and accordingly believes that providing these measures may be useful for peer comparison purposes. These disclosures should not be viewed as substitutes for the results determined to be in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be represented by other companies. Reconciliations of net interest income on a fully tax equivalent basis to net interest income and net interest margin on a fully tax equivalent basis to net interest margin are contained in the tables under "Earnings-Net Interest Income and Margin."

Critical Accounting Policies

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

The Company's accounting policies are fundamental to understanding Management's Discussion and Analysis ("MD&A") of financial condition and results of operations. The Company has identified the determination of the allowance for loan losses, other real estate owned, fair value measurements, deferred tax assets, the other-than-temporary impairment evaluation of securities 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 is provided below.

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

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

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

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

In addition, Federal bank regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not previously have been available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the level of the allowance for loan losses at June 30, 2017 was appropriate under GAAP.

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

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

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

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

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

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

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

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

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

Fair value measurements for assets where there exists limited or no observable market data and, therefore, are based primarily upon the Company's or other third-party's estimates, are often calculated based on the characteristics of the asset, the economic and competitive environment and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future valuations. At June 30, 2017, the Company had $176,000 of assets that were measured at fair value on a non-recurring basis using Level 3 measurements.

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

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

Our net deferred tax asset amounted to $7.9 million and $8.8 million at June 30, 2017 and at September 30, 2016, respectively.

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

Derivatives. The Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future uncertain cash amounts, the value of which are determined by interest rates. 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 activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. The Company primarily uses interest rate swaps as part of its interest rate risk management strategy.

Interest rate swaps are valued by a third party, using models that primarily use market observable inputs, such as yield curves, and are validated by comparison with valuations provided by the respective counterparties. The credit risk associated with derivative financial instruments that are subject to master netting agreements is measured on a net basis by counterparty portfolio. The significant assumptions used in the models, which include assumptions for interest rates, are independently verified against observable market data where possible. Where observable market data is not available, the estimate of fair value becomes more subjective and involves a high degree of judgment. In this circumstance, fair value is estimated based on management's judgment regarding the value that market participants would assign to the asset or liability. This valuation process takes into consideration factors such as market illiquidity. Imprecision in estimating these factors can impact the amount recorded on the balance sheet for a particular asset or liability with related impacts to earnings or other comprehensive income.

Earnings (As Restated)

Net income available to common shareholders for the three months ended June 30, 2017 amounted to $1.7 million, or $0.27 per fully diluted common share, an increase of $130,000, or 8.2 percent, as compared with net income of $1.6 million, or $0.25 per common share, for the quarter ended June 30, 2016. The annualized return on average assets was 0.70 percent for the three months ended June 30, 2017, compared to annualized return on average assets of 0.81 percent for three months ended June 30, 2016. The annualized return on average shareholders' equity was 6.90 percent for the three-month period ended June 30, 2017, compared to 7.41 percent in annualized return on average shareholders' equity for the three months ended June 30, 2016. Earnings per share for the quarter ended June 30, 2016 were favorably impacted by the tax position of the Company prior to the full recognition of the Bank's deferred tax asset. On a fully taxable basis, net income for the quarter ended June 30, 2016 would have been $1.3 million, and earnings per share for the quarter ended June 30, 2016 would have been $0.20.

Net income available to common shareholders for the nine months ended June 30, 2017 amounted to $3.9 million, or $0.60 per fully diluted common share, a decrease of $337,000, or 8.0 percent, as compared with net income of $4.2 million, or $0.66 per common share, for the nine months ended June 30, 2016. The annualized return on average assets was 0.57 percent for the nine months ended June 30, 2017, compared to annualized return on average assets of 0.76 percent for the nine months ended June 30, 2016. The annualized return on average shareholders' equity was 5.25 percent for the nine-month period ended June 30, 2017, compared to 6.67 percent in annualized return on average shareholders' equity for the nine months ended June 30, 2016. For the nine months ended June 30, 2016, earnings per share were favorably impacted by the tax position of the Company prior to the full recognition of the Bank's deferred tax asset. On a fully taxable basis, net income for the nine months ended June 30, 2016 would have been $3.4 million, and earnings per share for the nine months ended June 30, 2016 would have been $0.52.

Net Interest Income and Margin

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

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

Net Interest Income (tax-equivalent basis)

	Three Months Ended June 30,				Nine Months Ended June 30,			
(dollars in thousands)	2017	2016	Increase (Decrease)	Percent Change	2017	2016	Increase (Decrease)	Percent Change
Interest income:								
Loans, including fees	$8,248	$5,562	$ 2,686	48.29 %	$21,932	$15,233	$ 6,699	43.98 %
Investment securities	554	900	(346)	(38.44)	1,919	3,086	(1,167)	(37.82)
Dividends, restricted stock	64	65	(1)	(1.54)	192	182	10	5.49
Interest-bearing cash accounts	141	70	71	101.43	349	129	220	170.54
Total interest income	9,007	6,597	2,410	36.53	24,392	18,630	5,762	30.93
Interest expense:								
Deposits	1,645	1,180	465	39.41	4,393	3,305	1,088	32.92
Short-term borrowings	1	—	1	100.00	12	—	12	100.00
Long-term borrowings	545	570	(25)	(4.39)	1,615	1,631	(16)	(0.98)
Subordinated debt	383	—	383	100.00	604	—	604	100.00
Total interest expense	2,574	1,750	824	47.09	6,624	4,936	1,688	34.20
Net interest income on a fully tax-equivalent basis	6,433	4,847	1,586	32.72	17,768	13,694	4,074	29.75
Tax-equivalent adjustment (1)	(34)	(67)	33	(49.25)	(139)	(203)	64	(31.53)
Net interest income, as reported under GAAP	$6,399	$4,780	$ 1,619	33.87 %	$17,629	$13,491	$ 4,138	30.67 %

(1) Computed using a federal income tax rate of 34 percent for the three and nine months ended June 30, 2017 and 2016.

Net interest income on a fully tax-equivalent basis increased $1.6 million, or 32.7 percent, to $6.4 million for the three months ended June 30, 2017 as compared to the same period in fiscal 2016. For the three months ended June 30, 2017, the net interest margin (which is defined as net interest income as a percentage of total average interest-earnings assets) on a fully tax-equivalent basis increased 16 basis points to 2.72 percent from 2.56 percent during the three months ended June 30, 2016. For the three months ended June 30, 2017, an increase in the average yield on interest-earning assets of 33 basis points offset in part with an increase of 19 basis points in the average cost of interest-bearing liabilities resulted in an increase in the Company's net interest spread of 14 basis points for the period.

Net interest income on a fully tax-equivalent basis increased $4.1 million, or 29.8 percent, to $17.8 million for the nine months ended June 30, 2017 as compared to the nine months ended June 30, 2016. For the nine months ended June 30, 2017, the net interest margin on a fully tax-equivalent basis increased six basis points to 2.70 percent from 2.64 percent during the nine months ended June 30, 2016. For the nine months ended June 30, 2017, an increase in the average yield on interest-earning assets of 11 basis points was offset in part by an increase in the average cost of interest-bearing liabilities of eight basis points, resulting in an increase in the Company's net interest spread of three basis points for the period.

For the three-month period ended June 30, 2017, total interest income on a tax-equivalent basis increased by $2.4 million, or 36.5 percent, to $9.0 million, compared to the same three-month period in fiscal 2016. This increase in interest income was due primarily to 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 $249.2 million, to $792.1 million, from an average of $543.0 million in the three months ended June 30, 2016, primarily reflecting net increases in construction loans and commercial loans. Average loans represented approximately 83.8 percent of average interest-earning assets during the third quarter of fiscal 2017 compared to 71.6 percent in the same quarter in fiscal 2016. The average balance of investment securities decreased during the quarter ended June 30, 2017 by $58.5 million, to $82.8 million, compared to the third quarter of fiscal 2016.

For the nine-month period ended June 30, 2017, interest income on a tax-equivalent basis increased by $5.8 million, or 30.9 percent, to $24.4 million, compared to the nine months ended June 30, 2016. This increase in interest income was due primarily to a volume increase in loans. The average balance of the loan portfolio increased by $221.1 million, to $706.3 million during the first nine months of fiscal 2017, from an average of $485.2 million in the nine months ended June 30, 2016, reflecting net increases in construction loans and commercial loans in the loan portfolio. Average loans represented approximately 80.6 percent of average interest-earning assets during the nine months ended June 30, 2017 compared to 70.3 percent in the nine months ended June 30, 2016. The average balance of investment securities decreased during the nine months ended June 30, 2017 by $64.8 million, to $96.6 million, compared to the nine months ended June 30, 2016.

For the three months ended June 30, 2017, interest expense increased $824,000, or 47.1 percent, to $2.6 million, compared to the same three-month period in fiscal 2016. The average rate of total interest-bearing liabilities increased 19 basis points to 1.25 percent for the three months ended June 30, 2017, from 1.06 percent for the three months ended June 30, 2016. At the same time, the average balance of total interest-bearing liabilities increased by $166.9 million. This increase primarily reflects an increase in the average balance of deposits of $147.1 million and an increase in the average balance of subordinated debt of $25.0 million. The increase in the average balance of deposits consisted primarily of a $100.5 million increase in the average balance of money market accounts, a $39.7 million increase in the average balance of certificates of deposit accounts and a $7.9 million increase in the average balance of other interest-bearing deposit accounts. For the three months ended June 30, 2017, the Company’s net interest spread on a tax-equivalent basis increased to 2.56 percent, from 2.42 percent for the three months ended June 30, 2016.

For the nine months ended June 30, 2017, interest expense increased $1.7 million, or 34.2 percent, to $6.6 million, compared to the same nine-month period in fiscal 2016. The average rate of total interest-bearing liabilities increased eight basis points to 1.15 percent for the nine months ended June 30, 2017, from 1.07 percent for the nine months ended June 30, 2016. At the same time, the average balance of total interest-bearing liabilities increased by $149.7 million. This increase primarily reflects an increase in the average balance of deposits of $129.2 million, an increase in the average balance of borrowings of $4.7 million, an increase in the average balance of other short-term borrowings of $3.3 million and an increase in the average balance of subordinated debt of $12.5 million. The increase in the average balance of deposits consisted primarily of an $85.0 million increase in the average balance of money market accounts, a $33.0 million increase in the average balance of certificates of deposit accounts and a $12.4 million increase in the average balance of other interest-bearing deposit accounts. For the nine months ended June 30, 2017, the Company's net interest spread on a tax-equivalent basis increased to 2.56 percent, from 2.53 percent for the nine months ended June 30, 2016.

The following table quantifies the impact on net interest income on a tax-equivalent basis resulting from changes in average balances and average rates during the 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, in thousands)	**Three Months Ended June 30, 2017 and 2016 Increase (Decrease) Due to Change in:**			**Nine Months Ended June 30, 2017 and 2016 Increase (Decrease) Due to Change in:**		
	Average Volume	**Average Rate**	**Net Change**	**Average Volume**	**Average Rate**	**Net Change**
Interest-earning assets:						
Loans, including fees	$ 2,553	$ 133	$ 2,686	$ 6,941	$ (242)	$ 6,699
Investment securities	(373)	27	(346)	(1,239)	72	(1,167)
Interest-bearing cash accounts	(4)	75	71	98	122	220
Dividends, restricted stock	(1)	—	(1)	9	1	10
Total interest-earning assets	2,175	235	2,410	5,809	(47)	5,762
Interest-bearing liabilities:						
Money market deposits	156	185	341	391	315	706
Savings deposits	—	—	—	(1)	6	5
Certificates of deposit	146	(38)	108	361	(61)	300
Other interest-bearing deposits	4	12	16	13	64	77
Total interest-bearing deposits	306	159	465	764	324	1,088
Short-term borrowings	—	1	1	—	12	12
Long-term borrowings	(25)	—	(25)	67	(83)	(16)
Subordinated debt	—	383	383	—	604	604
Total interest-bearing liabilities	281	543	824	831	857	1,688
Change in net interest income	$ 1,894	$ (308)	$ 1,586	$ 4,978	$ (904)	$ 4,074

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

	Three Months Ended June 30,					
	2017			2016		
(tax-equivalent basis)	**Average Balance**	**Interest Income/ Expense**	**Average Yield/ Rate**	**Average Balance**	**Interest Income/ Expense**	**Average Yield/ Rate**
	(dollars in thousands)					
Assets						
Interest-earning assets:						
Loans, including fees(1)	$792,139	$ 8,248	4.16 %	$542,985	$ 5,562	4.10 %
Investment securities	82,832	554	2.68	141,292	900	2.55
Interest-bearing cash accounts	64,638	141	0.87	68,362	70	0.41
Dividends, restricted stock	5,457	64	4.69	5,550	65	4.68
Total interest-earning assets	945,066	9,007	3.81	758,189	6,597	3.48
Non interest-earning assets:						
Cash and due from banks	1,589			1,371		
Bank-owned life insurance	18,751			18,231		
Other assets	20,021			13,530		
Allowance for loan losses	(7,456)			(5,132)		
Total non interest-earning assets	32,905			28,000		
Total assets	$977,971			$786,189		
Liabilities and Shareholders’ Equity						
Interest-bearing liabilities:						
Money market deposits	$253,307	579	0.91 %	$152,833	$ 238	0.62 %
Savings deposits	43,950	9	0.08	44,877	9	0.08
Certificates of deposit	282,961	996	1.41	243,306	888	1.46
Other interest-bearing deposits	102,388	61	0.24	94,441	45	0.19
Total interest-bearing deposits	682,606	1,645	0.96	535,457	1,180	0.88
Short-term borrowings	220	1	1.82	—	—	—
Long-term borrowings	118,000	545	1.85	123,434	570	1.85
Subordinated debt	24,992	383	6.13	—	—	—
Total interest-bearing liabilities	825,818	2,574	1.25	658,891	1,750	1.06
Non interest-bearing liabilities:						
Demand deposits	45,173			34,360		
Other liabilities(3)	7,324			7,172		
Total non interest-bearing liabilities(3)	52,497			41,532		
Shareholders’ equity(3)	99,656			85,766		

Total liabilities and shareholders' equity	$977,971			$786,189		
Net interest income (tax equivalent basis)		6,433			4,847	
Net interest spread			2.56 %			2.42 %
Net interest margin (tax equivalent basis)			2.72 %			2.56 %
Tax equivalent effect			0.01 %			0.04 %
Net interest margin on a GAAP basis			2.71 %			2.52 %
Tax-equivalent adjustment (2)		(34)			(67)	
Net interest income		$ 6,399			$ 4,780	

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

(2) Computed using a federal income tax rate of 34 percent for the periods ended June 30, 2017 and 2016.

(3) Certain previously reported amounts have been restated to correct an error in the financial statements. See Footnote 3 to the unaudited consolidated statements included in part I, Item 1 on this Form 10-Q/A.

(tax-equivalent basis)	Nine Months Ended June 30, 2017 Average Balance	Interest Income/ Expense	Average Yield/ Rate	2016 Average Balance	Interest Income/ Expense	Average Yield/ Rate
	(dollars in thousands)					
Assets						
Interest-earning assets:						
Loans, including fees(1)	$706,261	21,932	4.14 %	$485,204	$15,233	4.19 %
Investment securities	96,587	1,919	2.65	161,379	3,086	2.55
Interest-bearing cash accounts	67,996	349	0.68	38,665	129	0.44
Dividends, restricted stock	5,427	192	4.72	5,155	182	4.71
Total interest-earning assets	876,271	24,392	3.71	690,403	18,630	3.60
Non interest-earning assets:						
Cash and due from banks	1,505			20,393		
Bank-owned life insurance	18,614			18,098		
Other assets	19,968			14,583		
Allowance for loan losses	(6,570)			(4,815)		
Total non interest-earning assets	33,517			48,259		
Total assets	$909,788			$738,662		
Liabilities and Shareholders’ Equity						
Interest-bearing liabilities:						
Money market deposits	$221,195	1,332	0.80 %	$136,149	$626	0.61 %
Savings deposits	43,751	27	0.08	44,950	22	0.07
Certificates of deposit	267,681	2,867	1.43	234,715	2,567	1.46
Other interest-bearing deposits	100,397	167	0.22	88,013	90	0.14
Total interest-bearing deposits	633,024	4,393	0.93	503,827	3,305	0.87
Short-term borrowings	3,342	12	0.48	—	—	—
Long-term borrowings	118,000	1,615	1.82	113,341	1,631	1.92
Subordinated debt	12,452	604	6.47	—	—	—
Total interest-bearing liabilities	766,818	6,624	1.15	617,168	4,936	1.07
Non interest-bearing liabilities:						
Demand deposits	38,640			30,598		
Other liabilities(3)	6,231			6,963		
Total non interest-bearing liabilities(3)	44,871			37,561		
Shareholders’ equity(3)	98,099			83,933		
Total liabilities and shareholders’ equity	$909,788			$738,662		
Net interest income (tax equivalent basis)		17,768			13,694	
Net interest spread			2.56 %			2.53 %
Net interest margin (tax equivalent basis)			2.70 %			2.64 %
Tax equivalent effect			0.02 %			0.03 %
Net interest margin on a GAAP basis			2.68 %			2.61 %
Tax-equivalent adjustment (2)		(139)			(203)	
Net interest income		$17,629			$13,491	

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

(2) Computed using a federal income tax rate of 34 percent for the periods ended June 30, 2017 and 2016.

(3) Certain previously reported amounts have been restated to correct an error in the financial statements. See Footnote 3 to the unaudited consolidated statements included in part I, Item 1 on this Form 10-Q/A.

Investment Portfolio

At June 30, 2017, the principal components of the investment portfolio were U.S. Government agency obligations, Federal agency obligations including mortgage-backed securities, obligations of U.S. states and political subdivision, corporate securities, trust preferred security and equity securities. At June 30, 2017, the total investment portfolio amounted to $52.8 million, a decrease of $54.1 million from September 30, 2016.

During the nine months ended June 30, 2017, approximately $48.9 million in investment securities were sold from the Company's available-for-sale portfolio. The cash flow from the sale of investment securities was primarily used to fund new loan volume.

For the three months ended June 30, 2017, the average balance of our investment securities decreased $58.5 million to approximately $82.8 million, or 8.8 percent of average interest-earning assets, from $141.3 million on average, or 18.6 percent of average interest-earning assets, for the comparable period in fiscal 2016. For the nine months ended June 30, 2017, the average balance of our investment securities decreased $64.8 million to approximately $96.6 million, or 11.0 percent of average interest-earning assets, from $161.4 million on average, or 23.4 percent of average interest-earning assets, for the comparable period in fiscal 2016.

During the three-month period ended June 30, 2017, the volume-related factors decreased investment revenue by approximately $373,000, while rate-related factors increased investment revenue by approximately $27,000 from the same period in fiscal 2016. The tax-equivalent yield on investments increased by 13 basis points to 2.68 percent for the three-month period ended June 30, 2017 as compared to the three-month period ended June 30, 2016 at 2.55 percent. The yield on the portfolio increased in fiscal 2017 compared to fiscal 2016 due primarily to higher rates earned on taxable securities.

During the nine-month period ended June 30, 2017, the volume-related factors decreased investment revenue by approximately $1.2 million, while rate-related factors increased investment revenue by approximately $72,000 from the same period in fiscal 2016. The tax-equivalent yield on investments increased by 10 basis points to 2.65 percent for the nine-month period ended June 30, 2017 as compared to the nine-month period ended June 30, 2016 at 2.55 percent. The yield on the portfolio increased in fiscal 2017 compared to fiscal 2016 due primarily to higher rates earned on taxable securities.

Loan Portfolio

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

The Company seeks to create growth in commercial lending by offering customer-focused products and competitive pricing and by capitalizing on the positive trends in its market area, which includes our two private banking/loan production offices in Villanova, Pennsylvania and Morristown, New Jersey that opened in fiscal 2016, as well as our new banking office in Quakertown, Pennsylvania that opened in the second quarter of fiscal 2017. 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 June 30, 2017, total gross loans amounted to $807.6 million, an increase of $229.2 million or 39.6 percent as compared to September 30, 2016. For the nine-month period ended June 30, 2017, an increase of $229.5 million in commercial loans and a $26.3 million increase in construction and development loans were partially offset by a $18.4 million decrease in residential mortgage loans and a $8.2 million reduction in consumer loans as compared to September 30, 2016. Total gross loans recorded in the nine months included $344.0 million of new loans and advances, which was partially offset by payoffs and principal payments of $114.8 million.

At June 30, 2017, the Company had $111.6 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. Included in the overall undisbursed commitments are the Company's "Approved, Accepted but Unfunded" pipeline, which includes approximately $17.8 million in construction and $21.6 million in commercial real estate loans, $22.7 million in commercial term loans and lines of credit and $1.2 million in residential mortgage loans expected to fund over the next 90 days.

Total average loan volume increased $249.2 million or 45.9 percent for the three months ended June 30, 2017, while the portfolio yield increased by six basis points compared to the same period in fiscal 2016. The increased total average loan volume was due in part to enhanced visibility in the Company's markets coupled with the aggressive business development activities of its sales team, the opening of the location in Villanova, Pennsylvania, and the opening of the Private Banking/Loan Production headquarters in Morristown, New Jersey. The volume related factors during the period contributed increased revenue of $2.6 million, while the average rate related changes increased revenue by $133,000 with a net interest yield of 4.16 percent for the quarter ended June 30, 2017, compared to $543.0 million with a yield of 4.10 percent for the quarter ended June 30, 2016.

Total average loan volume increased $221.1 million or 45.6 percent for the nine months ended June 30, 2017, while the portfolio yield decreased by five basis points compared to the same period in fiscal 2016. The volume related factors during the period contributed increased revenue of $6.9 million, while the average rate related changes decreased revenue by $242,000. Total average loan volume increased to $706.3 million with a net interest yield of 4.14 percent for the nine month ended June 30, 2017, compared to $485.2 million with a yield of 4.19 percent for the nine months ended June 30, 2016.

Allowance for Loan Losses and Related Provision

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

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

At June 30, 2017, the allowance for loan losses amounted to approximately $7.9 million, or 0.98 percent of total loans, compared to $5.4 million, or 0.94 percent of total loans, at September 30, 2016. We recorded $645,000 in provision for loan losses during the quarter ended June 30, 2017 compared to $472,000 for the quarter ended June 30, 2016. For the nine months ended June 30, 2017 we recorded $2.3 million in provision for loan losses compared to $847,000 for the nine months ended June 30, 2016. Provision expense was higher during fiscal 2017 due to the increase in loan volume. The net recoveries were $91,000 and $181,000 for the three and nine months ended June 30, 2017 compared to $66,000 and $171,000 in net charge-offs for the three and nine months ended June 30, 2016.

The level of the allowance for the respective periods of fiscal 2017 and fiscal 2016 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 June 30, 2017 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.

	Nine Months Ended June 30,	
	2017	2016
	(Dollars in thousands)	
Average loans outstanding	706,261	485,204
Total gross loans at end of period	807,567	558,159
Analysis of the Allowance of Loan Losses:		
Balance at beginning of period	$5,434	$4,667
Charge-offs:		
Residential mortgage	—	9
Construction and Development:		
Residential and commercial	—	91
Commercial:		
Commercial real estate	—	99
Consumer:		
Second mortgages	185	255
Other	5	54
Total charge-offs	190	508
Recoveries:		
Residential mortgage	2	17
Construction and Development:		
Residential and commercial	90	243
Commercial:		
Commercial real estate	39	3
Other	8	2
Consumer:		
Home equity lines of credit	17	1
Second mortgages	205	59
Other	10	12
Total recoveries	371	337
Net (recoveries) charge-offs	(181)	171
Provisions for loan loss	2,302	847
Balance at end of period	$7,917	$5,343
Ratios:		
Ratio of allowance for loan losses to non-performing loans	421.79 %	515.24 %
Ratio of net (recoveries) charge-offs to average loans outstanding in portfolio[1]	(0.03)%	0.05 %
Ratio of net (recoveries) charge-offs to total allowance for loan losses[1]	(3.05)%	4.27 %

[1] Annualized

Asset Quality

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

It is generally the Company's policy to discontinue interest accruals once a loan is past due as to interest or principal payments for a period of ninety days. When a loan is placed on non-accrual status, interest accruals cease and uncollected accrued interest is reversed and charged against current income. Payments received on non-accrual loans are applied against principal. A loan may be restored to an accruing basis when it again becomes well-secured, all past due amounts have been collected and the borrower continues to make payments for the next six months on a timely basis. Accruing loans past due 90 days or more are generally well-secured and in the process of collection. For additional information regarding loans, see Note 6 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 6 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.

	June 30, 2017	**September 30, 2016**
	(In thousands)	
Non-accrual loans	$1,556	$ 1,617
Accruing loans past due 90 days or more	321	696
Total non-performing loans	1,877	2,313
Other real estate owned	—	—
Total non-performing assets	$1,877	$ 2,313
Troubled debt restructured loans — performing	$1,603	$ 2,039

Non-accrual loans were $1.6 million at June 30, 2017 and at September 30, 2016 and $1.0 million at June 30, 2016. Other real estate owned (“OREO”) was zero at June 30, 2017 and September 30, 2016, and $700,000 at June 30, 2016, respectively. Total performing troubled debt restructured loans were $1.6 million at June 30, 2017, $2.0 million at September 30, 2016 and $2.0 million at June 30, 2016, respectively. The decrease in performing troubled debt restructured loans at June 30, 2017 compared to September 30, 2016 was primarily due to two commercial loans, with an aggregate outstanding balance of approximately $1.3 million, being paid off during the first nine months of fiscal 2017. These decreases were offset by two residential mortgage loans with an aggregate outstanding balance of $653,000 and one second mortgage loan with an outstanding balance of approximately $54,000 being classified as a performing TDR during first nine months of fiscal 2017, as well as one residential mortgage loan with an outstanding balance of $154,000 at June 30, 2017 returned to accruing status.

At June 30, 2017, non-performing assets totaled $1.9 million, or 0.19 percent of total assets, as compared with $2.3 million, or 0.28 percent, at September 30, 2016 and $1.7 million, or 0.22 percent, at June 30, 2016. Non-performing assets decreased by $436,000 at June 30, 2017 from September 30, 2016. The decrease in accruing loans past due 90 days or more during the first nine months of fiscal 2017, was primarily attributable to eight single residential loans to one borrower with an outstanding balance of approximately $508,000 at September 30, 2016, being consolidated into one loan and deemed a performing TDR, as well as one commercial real estate loan with an outstanding balance of approximately $187,000 at September 30, 2016, returning to performing status, offset in part by the addition of one single residential loan totaling approximately $184,000 and three consumer loans totaling approximately $137,000. In addition, we had approximately $72,000 in charge-offs, four loans were paid off with a balance of approximately $183,000, payments of $50,000 were received, one residential loan with an outstanding balance of $139,000 returned to accruing status, offset in part by the addition of three single residential loans (totaling approximately $323,000) and two second mortgage loans (totaling approximately $46,000) into non-accrual status.

Overall credit quality in the Bank’s loan portfolio at June 30, 2017 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 June 30, 2017, special mention loans were $6.0 million compared to $5.7 million at September 30, 2016. The increase in special mention loans of approximately $253,000 was attributable to two commercial real estate loans previously designated as a substandard loan with an aggregate outstanding balance of $1.1 million, two commercial real estate loans previously designated as a pass loan with an aggregate outstanding balance of $454,000 and one commercial real estate loan with an outstanding balance of $469,000 being classified as a special mention loan during fiscal 2017. The increase was offset by one commercial real estate loan designated with an outstanding balance of $331,000 at September 30, 2016 being classified as a pass loan, two commercial real estate loans with an aggregate outstanding balance of $706,000 at September 30, 2016 being paid off and one commercial loan with an outstanding balance of $259,000 at September 30, 2016 being classified as a substandard loan during fiscal 2017.

Substandard loans were $12.1 million and $8.1 million, respectively, at June 30, 2017 and September 30, 2016, respectively. The increase of approximately $4.0 million from September 30, 2016 to June 30, 2017, was attributable to a construction loan previously designated as pass loan with an outstanding balance of $5.7 million, one single family residential loan previously designated as pass loan with an outstanding balance of $184,000, two second mortgage loans previously designated as pass loan with an outstanding balance of $137,000 and one commercial loan previously designated as a special mention loan with an outstanding balance of $246,000 being moved to substandard rating at June 30, 2017. Additionally, seven new loans with an aggregate balance of $462,000 at June 30, 2017, were classified as substandard loans. The increase was offset by eight loans with an aggregate balance of $1.5 million at fiscal 2016 that were paid-off, two loans with an aggregate balance of $72,000 at fiscal 2016 that were fully charged-off and two loans with an aggregate outstanding balance of $1.1 million at fiscal 2016 that were classified as a special mention loan during fiscal 2017. The 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 June 30, 2017, 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 June 30, 2017	2016	Increase (Decrease)	Percent Change	Nine Months Ended June 30, 2017	2016	Increase (Decrease)	Percent Change
Service charges and other fees	$233	$227	$ 6	2.64 %	$730	$665	$ 65	9.77 %
Rental income-other	51	55	(4)	(7.27)	161	155	6	3.87
Gain on sale of investments, net	374	229	145	63.32	432	421	11	2.61
Gain on sale of loans, net	31	20	11	55.00	106	90	16	17.78
Earnings on bank-owned life insurance	125	128	(3)	(2.34)	380	387	(7)	(1.81)
Total other income	$814	$659	$ 155	23.52 %	$1,809	$1,718	$ 91	5.30 %

For the three months ended June 30, 2017, total other income amounted to $814,000, compared to total other income of $659,000 for the three months ended June 30, 2016. The increase of $155,000 was primarily the result of a $145,000 increase in net gains on sales of investment securities, an increase of $11,000 in net gain on sale of loans and a $6,000 increase in service charges and other fees. The increase was partially offset in part by a decrease in rental income of $4,000 and a decrease of $3,000 in earnings on bank-owned insurance. Excluding net investment securities gains, a non-GAAP measure, the Company recorded total other income of $440,000 for the three months ended June 30, 2017, compared to $430,000 for the three months ended June 30, 2016.

For the nine months ended June 30, 2017, total other income amounted to $1.8 million, compared to total other income of $1.7 million for the nine months ended June 30, 2016. The increase of $91,000 for the nine months ended June 30, 2017 was primarily as a result of a $65,000 increase in service charges and other fees, a $6,000 increase in rental income, an $11,000 increase in net gains on sales of investment securities and a $16,000 increase in net gain on sale of loans. The increase was partially offset by a $7,000 decrease in earnings on bank-owned insurance. Excluding net securities gains and losses, a non-GAAP measure, the Company recorded other income of $1.4 million for the nine months ended June 30, 2017 compared to $1.3 million for the comparable period in fiscal 2016, an increase of $80,000, or 6.2 percent.

Other Expense

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

	Three Months Ended June 30,				Nine Months Ended June 30,			
(dollars in thousands)	**2017**	**2016**	**Increase (Decrease)**	**Percent Change**	**2017**	**2016**	**Increase (Decrease)**	**Percent Change**
Salaries and employee benefits	$1,873	$1,600	$ 273	17.06 %	$5,389	$4,621	$ 768	16.62 %
Occupancy expense	533	469	64	13.65	1,541	1,348	193	14.32
Federal deposit insurance premium	78	40	38	95.00	173	472	(299)	(63.35)
Advertising	67	26	41	157.69	191	81	110	135.80
Data processing	308	278	30	10.79	911	845	66	7.81
Professional fees	621	415	206	49.64	1,421	1,176	245	20.83
Other operating expense	506	550	(44)	(8.00)	1,708	1,620	88	5.43
Total other expense	$3,986	$3,378	$ 608	18.00 %	$11,334	$10,163	$ 1,171	11.52 %

For the three months ended June 30, 2017, total other expense increased $608,000, or 18.0 percent, from the comparable three months ended June 30, 2016. For the nine months ended June 30, 2017, total other expense increased $1.2 million, or 11.5 percent, from the comparable nine months ended June 30, 2016.

Salaries and employee benefits expense for the three month ended June 30, 2017 increased $273,000, or 17.1 percent, compared to the three month ended June 30, 2016. For the nine months ended June 30, 2017, salaries and employee benefits expense increased $768,000, or 16.6 percent, compared to the nine months ended June 30, 2016. Increases for the three and nine month-period ended June 30, 2017, primarily reflected an increase in our workforce with the growth of the organization and new private banking locations. Full-time equivalent staffing levels were 81 at June 30, 2017 and 76 at June 30, 2016.

Occupancy expense for the three months ended June 30, 2017 increased $64,000 compared to the three months ended June 30, 2016. The increase for the three months ended June 30, 2017 compared to the same period in fiscal 2016, was primarily due to an increase in rent expense of $28,000, a $7,000 increase in utility expenses, a $28,000 increase in depreciation expense and a $9,000 increase in building and equipment maintenance expense. These increases were off by a decrease of $10,000 in real estate taxes. For the nine months ended June 30, 2017, occupancy expense increased $193,000 over the nine months ended June 30, 2016. The increase in the occupancy expense is due primarily to expansion of the Company over last year as well as continued growth during fiscal 2017.

Federal deposit insurance premium for the three months ended June 30, 2017 increased $38,000, or 95.0 percent, compared to the three months ended June 30, 2016. For the nine months ended June 30, 2017, federal deposit insurance premium decreased $299,000, or 63.4 percent, over the nine months ended June 30, 2016. The decrease in the federal deposit insurance premium is due to the new regulatory calculation.

Advertising for the three months ended June 30, 2017 increased $41,000, or 157.7 percent, compared to the three months ended June 30, 2016. For the nine months ended June 30, 2017, advertising increased $110,000, or 135.8 percent, over the nine months ended June 30, 2016.

Data processing expense for the three months ended June 30, 2017 increased $30,000, or 10.8 percent, compared to the three months ended June 30, 2016. For the nine months ended June 30, 2017, data processing expense increased $66,000, or 7.8 percent, over the nine months ended June 30, 2016.

Professional fee expense for the three months ended June 30, 2017 increased $206,000, or 49.6 percent, compared to the three months ended June 30, 2016. For the nine months ended June 30, 2017, professional fee expense increased $245,000, or 20.8 percent, compared to the nine months ended June 30, 2016.

Other operating expense for the three months ended June 30, 2017 decreased $44,000 compared to the same quarter of fiscal 2016. The decrease was primarily due to a $164,000 decease in other real estate expenses. The decrease was partially offset by a $24,000 increase related to office supplies, telephone expense and postage expense, a $15,000 increase associated with annual credit review such as appraisals and searches and a $12,000 increase in expenses related to education, subscriptions and dues, a $29,000 increase in OCC assessment fees and a $37,000 increase in meal and entertainment expenses. For the nine months ended June 30, 2017, other operating expense increased $88,000, or 5.4 percent, compared to the nine months ended June 30, 2016.

The Company’s efficiency ratio, a non-GAAP financial measure, was 57.0 percent for the third quarter of fiscal 2017 on an annualized based, compared to 64.0 percent in the third quarter of fiscal 2016. The Company’s efficiency ratio, a non-GAAP financial measure, was 58.5 percent for the nine months ended June 30, 2017 on an annualized based, compared to 67.1 percent in the nine months ended June 30, 2016. 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		**Nine Months Ended**	
	June 30,		**June 30,**	
	2017	2016	2017	2016
Other expense	$3,986	$3,378	$11,334	$10,163
Less: Non-core items[1]	72	—	130	111
Other expense, excluding non-core items	$3,914	$3,378	$11,204	$10,052
Net interest income (tax equivalent basis)	$6,433	$4,847	$17,768	$13,694
Other income, excluding net investment securities gains	440	430	1,377	1,297
Total	$6,873	$5,277	$19,145	$14,991
Efficiency ratio	57.0 %	64.0 %	58.5 %	67.1 %

1) Included in non-core items are costs which include expenses related to the Company’s corporate restructuring initiatives, such as professional fees, litigation and settlement costs, severance costs, and external payroll development costs related to such restructuring initiatives. The Company believes these adjustments are necessary to provide the most accurate measure of core operating results as a means to evaluated comparative results.

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 June 30,		**Nine Months Ended June 30,**	
	2017	**2016**	**2017**	**2016**
Efficiency ratio on a GAAP Basis	55.3%	62.1%	58.3%	66.8%

Provision for Income Taxes (As Restated)

For the three and nine months ended June 30, 2017, the Company recorded $863,000 and $1.9 million, respectively, in tax expense compared to no income tax expense for the three and nine months ended June 30, 2016. The effective tax rates for both the three and nine months ended June 30, 2017 was 33.4 percent and zero percent for both the three and nine months ended June 30, 2016.

Recent Accounting Pronouncements

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

Asset and Liability Management

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

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

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

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

At June 30, 2017, the Company reflected a positive interest sensitivity gap with an interest sensitivity ratio of 0.56:1.00 at the cumulative one-year position. Based on management's perception of interest rates remaining low through 2017, 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 condition risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Impact of Inflation and Changing Prices

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

Liquidity

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

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

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

At June 30, 2017, the Company had $113.4 million in cash and cash equivalent compared to $96.8 million at September 30, 2016. In addition, our available for sale investment securities amounted to $16.8 million at June 30, 2017 and $66.4 million at September 30, 2016. For the nine months ended June 30, 2017, proceeds of available-for-sale investment securities sold amounted to approximately $48.9 million. Gross realized gains on investment securities sold amounted to approximately $432,000 for the period.

Deposits

Total deposits increased to $759.7 million at June 30, 2017 from $602.0 million at September 30, 2016. Deposit growth in both periods 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 $567.5 million at September 30, 2016 to $709.6 million at June 30, 2017, an increase of $142.1 million or 25.0 percent. Interest-bearing demand, savings and time deposits under $100,000 increased $106.5 million to a total of $506.8 million at June 30, 2017 as compared to $400.4 million at September 30, 2016. Time deposits $100,000 and over increased $35.6 million as compared to September 30, 2016. Time deposits $100,000 and over represented 26.7 percent of total deposits at June 30, 2017 compared to 27.8 percent at September 30, 2016.

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 $473.3 million at June 30, 2017 increased by $121.5 million, or 34.5 percent, from September 30, 2016. Total demand deposits, savings and money market accounts were 62.3 percent of total deposits at June 30, 2017 and 58.4 percent at September 30, 2016. Alternatively, the Company uses a more stringent calculation for the management of its liquidity positions internally, which calculation consists of total demand, savings accounts and money market accounts (excluding money market accounts greater than $100,000 and time deposits) as a percentage of total deposits. This number increased by $25.5 million, or 8.6 percent, from $272.0 million at September 30, 2016 to $297.4 million at June 30, 2017 and represented 39.2 percent of total deposits at June 30, 2017 as compared with 45.2 percent at September 30, 2016.

The Company continues to place the main focus of its deposit gathering efforts in the maintenance, development, expansion and broadening 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 nine-month period of fiscal 2017.

The following table depicts the Company's core deposit mix at June 30, 2017 and September 30, 2016 based on the Company's alternative calculation:

	June 30, 2017			September 30, 2016			Dollar
	Amount	Percentage		Amount	Percentage		Change
	(Dollars in thousands)						
Non interest-bearing demand	$50,097	16.8	%	$34,547	12.7	%	$15,550
Interest-bearing demand	105,439	35.5		95,041	35.0		10,398
Savings	43,709	14.7		44,714	16.4		(1,005)
Money market deposits under $100,000	14,494	4.9		14,543	5.3		(49)
Certificates of deposits under $100,000	83,672	28.1		83,110	30.6		562
Total core deposits	$297,411	100.0	%	$271,955	100.0	%	$25,456
Total deposits	$759,679			$602,046			$157,633
Core deposits to total deposits		39.2	%		45.2	%	

Borrowings

Borrowings from the Federal Home Loan Bank ("FHLB") of Pittsburgh are available to supplement the Company's liquidity position, interest rate risk and, to the extent that maturing deposits do not remain with the Company, management may replace such funds with advances. As of June 30, 2017 and September 30, 2016, the Company's outstanding balance of FHLB advances totaled $118.0 million. Of these advances, $28.0 million represent long-term, fixed-rate advances maturing in 2020 that have terms enabling the FHLB to call the borrowing at their option prior to maturity. The remaining balance of long-term, fixed rate advances totaled $55.0 million, representing five separate advances maturing during fiscal year 2019. At June 30, 2017, there were two short-term FHLB advances totaling $35.0 million of fixed-rate borrowing with rollover of 90 days.

Subordinated Debt

On February 7, 2017 the Company completed a private placement of $25.0 million in aggregate principal amount of fixed-to-floating rate subordinated notes (the "Notes") to certain institutional investors. The Notes are non-callable for five years, have a stated maturity of February 15, 2027, and bear interest at a fixed rate of 6.125% per year, from and including February 7, 2017 to, but excluding February 15, 2022. From and including February 15, 2022 to the maturity date or earlier redemption date, the interest rate will reset quarterly at a variable rate equal to the then current 3-month LIBOR plus 414.5 basis points. Subordinated debt, net totaled $24.3 million (reported net of $737,000 in debt issuance costs) at June 30, 2017 and zero at September 30, 2016.

Payments Due Under Contractual Obligations

The following table presents information relating to the Company's payments due under contractual obligations as of June 30, 2017.

	Payments Due by Period				
	Less than One Year	One to Three Years	Three to Five Years	More than Five Years	Total
	(in thousands)				
Long-term debt obligations[1]	$35,035	$30,632	$55,874	$—	$121,541
Certificates of deposit[1]	200,520	47,680	20,993	16,949	286,142
Operating lease obligations	464	932	976	1,809	4,181
Total contractual obligations	$236,019	$79,244	$77,843	$18,758	$411,864

[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 (As Restated)

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 nine months ended June 30, 2017, cash and cash equivalents increased by $16.7 million as compared to the balance at September 30, 2016. Net cash of $8.1 million was provided by operating activities, primarily, net income as adjusted to net cash. Net income of $3.9 million was adjusted principally by amortization of premiums and accretion of discounts on investment securities net of $711,000 and an increase in other liabilities of $944,000. Net cash used by investing activities amounted to approximately $175.3 million, primarily reflecting a net increase in loans of $227.7 million. Net cash of $183.8 million was provided by financing activities, primarily from the increase in deposits of $157.6 million.

Shareholders' Equity (As Restated)

Total shareholders' equity amounted to $100.4 million, or 9.9 percent of total assets, at June 30, 2017, compared to $96.2 million or 11.7 percent of total assets at September 30, 2016. Book value per common share was $15.28 at June 30, 2017, compared to $14.66 at September 30, 2016.

	June 30, 2017	September 30, 2016
	(in thousands, except for share data)	
Shareholders' equity	$100,433	$ 96,157
Book value per common share	$15.28	$ 14.66

Capital (As Restated)

At June 30, 2017, the Bank's common equity tier 1 ratio was 14.79 percent, tier 1 leverage ratio was 11.99 percent, tier 1 risk-based capital ratio was 14.79 percent and the total risk-based capital ratio was 15.80 percent. At September 30, 2016, the Bank's common equity tier 1 ratio was 14.50 percent, tier 1 leverage ratio was 10.98 percent, tier 1 risk-based capital ratio was 14.50 percent and the total risk-based capital ratio was 15.42 percent. At June 30, 2017, the Bank was in compliance with all applicable regulatory capital requirements.

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. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this report, because of the material weakness described below.

As we previously disclosed, in November 2017, we were advised by BDO USA, LLP (“BDO”), our independent registered public accounting firm, that BDO had concluded that a material weakness in our internal controls over financial reporting existed, and that BDO’s report on the effectiveness of the Company’s internal control over financial reporting as of September 30, 2016 in Item 9A of the Company’s fiscal 2016 10-K that the Company’ internal control over financial reporting was effective as of September 30, 2016, should no longer be relied upon. BDO also informed us at that time that BDO’s audit report on the Company’s consolidated financial statements as of September 30, 2016 and 2015, and for each of the years in the two year period ended September 30, 2016, and BDO’s completed interim reviews of the Company’s consolidated interim financial statements as of and for the periods ended December 31, 2016, March 31, 2017 and June 30, 2017 (collectively, the “Specified Financial Statements”), should no longer be relied upon. We are restating the Specified Financial Statements, which are being included in amendments to the Company’s fiscal 2016 10-K and 10-Qs for the first three quarters of fiscal 2017 (including this Amendment to Form 10-Q).

The matters described above related to our income tax account balances. Management has implemented a more formal review and documentation process around the accounting for income tax which management believes will strengthen the Company's overall internal control over financial reporting.

Management concluded that because of the matters described above, the Company's internal control over financial reporting was not effective as of the end of the period covered by this report. Management believes that the material weakness described above has been remediated as of the filing of this Amendment to Form 10-Q.

Other than as described above, there have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A - Risk Factors

See Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K/A (Amendment No. 1) for the year ended September 30, 2016. There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K/A (Amendment No. 1) for the year ended September 30, 2016.

Item 6 - Exhibits

31.1 Rule 13a-14(a)/15d-14(a) Section 302 Certification

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

32.0 Section 1350 Certification

101.INS XBRL Instance Document.
101.SCH XBRL Taxonomy Extension Schema Document.
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF XBRL Taxonomy Extension Definitions Linkbase Document.

SIGNATURES

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

		MALVERN BANCORP, INC.
December 15, 2017	By:	/s/ Joseph D. Gangemi
		Joseph D. Gangemi
		Senior Vice President and CFO