

Malvern Federal Bancorp, Inc. MLVF (NAS)

Last Close	Industry	Sector
7.53 USD	Savings & Cooperative Banks	Financial Services

Profile

Pricing data through 09 Feb 2012

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Malvern Federal Bancorp, Inc. was incorporated in the United States. The Company through its subsidiary, Malvern Federal Savings Bank (the Bank) is primarily engaged in attracting deposits from the general public and using those funds to invest in loans and investment securities. The Bank's principal sources of funds are deposits, repayments of loans and investment securities, maturities of investments and interest-bearing deposits, other funds provided from operations and wholesale funds borrowed from outside sources such as the Federal Home Loan Bank (FHLB) of Pittsburgh. These funds are primarily used for the origination of various loan types including single-family residential mortgage loans, commercial real estate mortgage loans, construction and development loans, home equity loans and lines of credit and other consumer loans. It conducts business throughout Chester County, Pennsylvania. It faces significant competition in originating loans and attracting deposits. Malvern Federal Savings Bank, as a federally chartered savings association, is subject to federal regulation and oversight by the Office of Thrift Supervision (the OTS) extending to all aspects of its operations.

Malvern Federal Bancorp, Inc. MLVF

Sales USD Mil 21 **Mkt Cap USD Mil** 46 **Industry** Savings & Cooperative Banks **Sector** Financial Services

Located in Chester County, Pennsylvania, Malvern Federal Bancorp owns Malvern Federal Savings Bank, which operates several financial centers as well as an online banking site. The company provides checking and savings accounts, and in turn issues loans for commercial and residential real estate projects. Malvern's customer base consists of individual clients along with small and mid-sized businesses in the area.

42 E. Lancaster Avenue
Paoli, PA 19301
Phone: 1 610 644-9400
Website: <http://www.malvernfederal.com>

Employees: 96

Growth Rates Compound Annual		1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	-0.9	9.2	6.9	—	—
Operating Income %	—	—	—	—	—
Earnings/Share %	—	—	—	—	—
Dividends %	-75.0	-9.1	—	—	—
Book Value/Share %	-8.9	-4.1	—	—	—
Stock Total Return %	-5.9	-3.8	—	—	—
+/- Industry	3.8	-0.9	—	—	—
+/- Market	-8.3	-19.6	—	—	—

Profitability Analysis				
	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	-9.7	-0.9	0.6	22.3
Return on Assets %	-0.9	-0.1	0.1	9.5
Revenue/Employee USD K	221.4	208.6	—	1050.6
Compensation Exp/Rev	0.3	0.3	—	—
Operating Margin %	—	—	52.3	16.7
Net Margin %	-28.7	-2.5	1.9	11.2
Free Cash Flow/Rev %	—	—	8.1	0.1

Financial Position		
	09-10 USD Mil	09-11 USD Mil
Loans (Gross)	—	516
Less: Allowances	—	10
Net Loans	547	506
Securities	45	78
Trading Assets	—	—
Intangibles	—	—
Other	129	83
Total Assets	721	667
Deposits	597	554
Short-Term Debt	—	—
Long-Term Debt	55	49
Other	2	3
Total Liabilities	654	606
Preferred Stock	—	0
Total Equity	66	60

Valuation Analysis				
	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	—	—	144.9	14.6
Forward P/E	57.8	—	—	13.5
Price/Free Cash Flow	—	—	4.1	17.0
Dividend Yield %	0.4	—	3.7	2.0
Price/Book	0.8	—	0.9	2.0
Price/Sales	2.1	—	3.0	1.2
PEG Ratio	—	—	—	1.4

Morningstar Rating — **Last Price** 7.53 **Fair Value** — **Uncertainty** — **Economic Moat™** — **Stewardship Grade** —

per share prices in USD



2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	Stock Performance
—	—	—	—	—	—	—	5.7	-20.5	-21.3	27.6	Total Return %
—	—	—	—	—	—	—	-17.7	-33.3	-21.3	20.1	+/- Market
—	—	—	—	—	—	—	15.3	-17.0	-5.1	20.1	+/- Industry
—	—	—	—	—	—	0.9	1.4	1.6	0.5	0.4	Dividend Yield %
—	—	—	—	—	—	57	59	46	36	46	Market Cap USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Financials
—	9	9	12	14	14	14	16	20	20	20	Net Interest Inc USD Mil
—	1	1	1	2	1	2	2	2	2	2	Fee Income
—	—	10	13	15	—	—	—	—	—	—	Oper Income USD Mil
—	2	2	3	3	2	1	1	-3	-6	-6	Net Income USD Mil
—	—	0.00	0.00	0.00	—	0.05	0.17	-0.53	-1.04	-1.04	Earnings Per Share USD
—	—	—	—	—	—	0.04	0.14	0.12	0.03	0.03	Dividends USD
—	—	—	—	—	—	29	6	6	6	6	Shares Mil
—	—	—	—	—	—	11.27	11.36	10.59	9.88	9.88	Book Value Per Share USD
—	460	458	487	517	552	640	692	721	667	667	Assets USD Mil
—	35	36	38	41	44	69	70	66	60	60	Total Equity USD Mil
—	—	1	0	0	0	-23	0	1	0	0	Free Cash Flow

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Profitability
—	0.3	0.3	0.5	0.6	0.5	0.2	0.1	-0.4	-0.9	-0.9	Return on Assets %
—	4.4	4.5	6.8	8.0	5.6	2.6	1.5	-4.6	-9.7	-9.7	Return on Equity %
—	14.6	15.4	19.2	21.0	16.1	8.9	5.6	-14.6	-28.7	-28.7	Net Margin %
—	0.02	0.02	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	Asset Turnover
—	13.2	12.7	12.7	12.5	12.5	9.3	9.9	10.9	11.1	11.1	Financial Leverage

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	09-11	Financial Health
—	—	—	—	—	9	572	594	547	506	506	Net Loans USD Mil
—	—	—	—	—	64	114	100	55	49	49	Long-Term Debt USD Mil
—	356	365	385	402	433	453	517	597	554	554	Deposits USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Valuation
—	—	—	—	—	—	—	112.4	—	—	—	Price/Earnings
—	—	—	—	—	—	—	—	—	—	—	P/E vs. Market
—	—	—	—	—	—	15.6	3.0	2.1	1.6	2.1	Price/Sales
—	—	—	—	—	—	0.8	0.8	0.7	0.6	0.8	Price/Book

Quarterly Results						
Revenue USD Mil	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	5.2	5.4	5.4	5.2		
Prior Year Period	5.3	5.4	5.3	5.4		
Rev Growth %	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	-2.1	-0.4	2.3	-3.1		
Prior Year Period	17.4	23.4	19.6	15.6		
Earnings Per Share USD	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	-0.13	-0.80	0.06	-0.17		
Prior Year Period	0.00	-0.21	0.05	-0.38		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Malvern Federal Banc	46	21	—	-9.7
Public Financial Hol	—	—	—	—
New York Community B	5520	1484	10.7	9.3

Major Fund Holders	
	% of shares
	—
	—
	—

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.



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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
GEORGE E. STEINMETZ	Director	10,000	19 May 2008	-
RICHARD J. FUCHS	Senior VP, Subsidiary	5,500	09 Nov 2010	-
F. CLAIRE HUGHES, JR	Director	5,000	19 May 2008	-
JOHN B. YERKES, JR	Director	5,000	19 May 2008	-
JOSEPH E. PALMER, JR	Director	4,000	19 May 2008	-
CORDINE SCARTOZZI	Director	4,000	19 May 2008	-
DAVID R. PRIZER	Director	2,500	19 May 2008	-
THERESE WOODMAN	Director	1,717	30 Sep 2010	-
MR. STEPHEN P. SCARTOZZI	Director	1,622	22 Nov 2011	622

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
DFA US Micro Cap I	QQQ	0.10	0.00	0	30 Nov 2011
DFA US Small Cap I	QQQ	0.04	0.00	0	30 Nov 2011
DFA U.S. Small Cap Value II		0.03	0.00	0	30 Nov 2011
DFA US Core Equity 2 I	QQQ	0.01	0.00	0	30 Nov 2011
DFA US Vector Equity I	QQ	0.00	0.00	0	30 Nov 2011
Concentrated Holders					
DFA Global 25/75 I	QQQ	0.00	0.00	0	30 Nov 2011
DFA Global 60/40 I	QQQ	0.00	0.00	0	30 Nov 2011
DFA Tax-Managed US Targeted Value	QQ	0.00	0.00	0	30 Nov 2011
DFA U.S. Small Cap Value II		0.03	0.00	0	30 Nov 2011

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
DFA Global 60/40 I	QQQ	0.00	0.00	0	30 Nov 2011
DFA Global Equity I	QQQ	0.00	0.00	0	30 Nov 2011

Top 5 Sellers

NA	NA	NA	NA	NA
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Industry Focus: Banks

Michael Kon, CFA
Senior Stock Analyst

The market is discounting this firm's improving credit quality and attractive business model.

Wilshire Will Reward Those Banking on Its Turnaround

08 February 2012

Wilshire Bancorp WIBC is one of our favorite turnaround plays in regional banking. With a new management team at the helm, plenty of reserves for loan losses, and a record level of capital, Wilshire is positioned to return to high profitability. While its focus on the Korean-American market isolates it from the competitive pressures of mainstream banks, its low-cost operating model serves it well when competing with other ethnic banks. The stock trades nearly 40% below our fair value estimate, an unwarranted discount considering Wilshire's successful turnaround and the quality of its franchise.

Wilshire entered the financial crisis and the Great Recession in a slightly better shape than most California banks of a similar size. The bank had more capital and fewer problem loans than many peers and in June 2009 was even chosen by the FDIC to acquire the failed Mirae Bank, a privilege reserved only for banks that score high on periodic regulatory reviews.

However, in early 2009, the bank's nonperforming loans began to creep up and by 2010, the level of nonperforming loans exceeded that of most peers. While Mirae Bank came with a sizable portfolio of nonperforming loans, Wilshire's legacy loans also started to weaken, becoming a major cause for concern. What exacerbated the problem, in our view, was management's lack of action in light of the worsening credit quality. While Wilshire's peers were selling bad credit and jettisoning weak assets at market prices, management stayed put and failed to introduce a credible loan workout plan.

As a result of management's neglect to address the bank's problem loans, during the second half of 2009 and through 2010 nonperforming loans trended well above its ethnic peers and other California banks. Even more troubling was management's failure in managing the bank's capital. Despite the mounting credit problems, Wilshire's

management ignored the bank's growing need to raise capital and continued to argue that capital wasn't an issue because regulatory capital ratios were still above the official requirements. While nonperforming loans were rising, the bank's common equity plunged almost 40%.

To make matters worse, Wilshire was bleeding capital when most of its California peers were building their own. By the first quarter of 2011, Wilshire's tangible common equity deteriorated to half of the level reported by most peers, reaching 3.9% of total tangible assets--a troubling level, in our view. The bank's regulators noticed the deterioration in Wilshire's financial health and slapped it with a memorandum of understanding, a regulatory action reserved for banks that exhibit financial weakness.

Despite Credit Woes, Wilshire's Business Model Was Never Broken

Despite its credit woes, we think Wilshire still has a viable and attractive business model. Underwriting practices aside, Wilshire's focus on the Korean-American population in Southern California provides it with several advantages over mainstream banks: Unlike the general population, the bank's clients value the relationship with an ethnic bank and usually don't shop around for the best available rate. Wilshire's clients tend to be more entrepreneurial than the general population; the rate of small-business owners among the bank's clients is double the U.S. average. Most of the bank's clients live in proximity to one another, reducing the need to build many branches. The Korean-American population is more educated than the general U.S. population, which leads to a higher saving rate (double the U.S. average) among the bank's clients; since clients tend to keep a sizable portion of their savings in CDs, the bank benefits from a stable deposit base. Serving the Korean-American population enables Wilshire to benefit from trade with South Korea, America's sixth-largest trading partner. We think these advantages led Wilshire to earn higher returns on assets during the period that preceded the financial crisis and could help it return to profitability once credit issues are fully resolved.

Turnaround Efforts Bear Fruit

After sitting on its hands during 2010, Wilshire's board

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Industry Focus: Banks

finally woke up in early 2011 and launched an aggressive turnaround program to resolve its credit issues. In February, Wilshire replaced its CEO. Jae Whan Yoo joined Wilshire after successfully leading one of its largest competitors through a similar credit turnaround. In May, the bank raised \$100 million by issuing new shares to the public. This doubled the bank's common equity and boosted its capital ratios to record levels. In September, the bank appointed Jack Choi as its new chief credit officer.

Also during 2011, Wilshire changed its credit risk management: It separated the loan production and underwriting functions, established an enterprise risk management department, created a cross-team credit task force to improve credit quality and reduce problem assets, and increased its in-house lending limit to single borrowers. With these actions, Wilshire scrapped its previous underwriting practices and adopted a more robust credit culture. We think this had an immediate impact on the bank's performance. Nonperforming loans in the following quarters declined and the flow of new problem loans began to ebb.

While nonperforming loans dropped 50% from their peak, reserves for loan losses actually increased 33% during the same period and exceeded the level reported by peer ethnic banks and other competitors in California in the second half of 2011. Thanks to management's turnaround efforts, Wilshire ended the third quarter of 2011 with more capital, more reserves, and fewer problem loans than most of its main peers.

Wilshire still has work to do, as its nonperforming assets remain above 3%, higher than its historical levels, and returns on assets and equity still trend below past levels. That said, we believe the bank's comeback in 2011 will make the hurdles ahead of it seem not as hard to overcome.

While bank stocks came under pressure on fears of another recession and a spillover from the European sovereign debt crisis, Wilshire's stock cratered more than 50%. Ironically, this sell-off occurred as the bank's financial health strengthened and performance started to improve. We believe the market is ignoring Wilshire's successful turnaround and prospects. We value the stock at \$6 per share, while it trades around \$3.80--a decent discount,

especially given the successful credit turnaround and the quality of the bank's franchise.