

**United States  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year Ended December 31, 2020**

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 No. 001-37981

**HV Bancorp, Inc.**

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of  
incorporation or organization)

2005 South Easton Road, Suite 304, Doylestown, Pennsylvania

(Address of Principal Executive Offices)

46-4351868

(I.R.S. Employer  
Identification Number)

18901

(Zip Code)

(267) 280-4000

(Registrant's telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol (s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value	HVBC	The NASDAQ Stock Market, LLC

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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 Securities Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

As of June 30, 2020, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was \$22,449,607.

As of March 16, 2021, there were 2,272,125 shares issued and 2,175,548 shares outstanding of the Registrant's Common Stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

Proxy Statement for the Registrant's Annual Meeting of Stockholders (Part III).

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## PART I

### Item 1. Business

#### *Forward Looking Statements*

This annual report contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements concerning plans, objectives, future events or performance and assumptions and other statements that are other than statements of historical fact. Forward-looking statements may be identified by reference to a future period or periods or by use of forward-looking terminology such as “anticipates,” “believes,” “expects,” “intends,” “may,” “plans,” “pursue,” “views” and similar terms or expressions. Various statements contained in Item 7- “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” including, but not limited to, statements related to management’s views on the banking environment and the economy, competition and market expansion opportunities, the interest rate environment, credit risk and the level of future non-performing assets and charge-offs, potential asset and deposit growth, future non-interest expenditures and non-interest income growth, and borrowing capacity are forward-looking statements. HV Bancorp, Inc. (the “Company” or “HV Bancorp”) wishes to caution readers that such forward-looking statements reflect numerous assumptions and involve a number of risks and uncertainties that may adversely affect the Company’s future results. The following important factors, among others, could cause the Company’s results for subsequent periods to differ materially from those expressed in any forward-looking statement made herein: (i) changes in interest rates and changes in the duration of interest-earning assets and interest-bearing liabilities could negatively impact net interest income; (ii) adverse changes in the economy, either nationally or in our markets, including, without limitation, the adverse and ongoing effects of the COVID-19 pandemic on the global, national, and local economy, which may affect the Company’s credit quality, revenue, and business operations; and government and business responses there to, specifically the effect on loan customers to repay loans (iii) changes in the business cycle and downturns in the local, regional or national economies, including deterioration in the local real estate market, could negatively impact credit and/or asset quality and result in credit losses and increases in the Company’s allowance for loan losses and/or reduce valuations of foreclosed properties and real estate held for sale; (iv) changes in consumer spending could negatively impact the Company’s credit quality and financial results; (v) increasing competition from larger regional and out-of-state banking organizations as well as non-bank providers of various financial services could adversely affect the Company’s competitive position within its market area and reduce demand for the Company’s products and services; (vi) deterioration of securities markets could adversely affect the value or credit quality of the Company’s assets and the availability of funding sources necessary to meet the Company’s liquidity needs; (vii) changes in technology could adversely impact the Company’s operations and increase technology-related expenditures; (viii) increases in employee compensation and benefit expenses could adversely affect the Company’s financial results; (ix) changes in laws and regulations that apply to the Company’s business and operations, including without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the Jumpstart Our Business Startups Act (the “JOBS Act”) and the additional regulations that will be forthcoming as a result thereof, could adversely affect the Company’s business environment, operations and financial results; (x) changes in accounting standards, policies and practices, as may be adopted or established by the regulatory agencies, the Financial Accounting Standards Board (the “FASB”) or the Public Company Accounting Oversight Board (“PCAOB”) could negatively impact the Company’s financial results; (xi) our ability to enter new markets successfully and capitalize on growth opportunities; and (xii) future regulatory compliance costs, including any increase caused by new regulations imposed by the Consumer Finance Protection Bureau. Therefore, the Company cautions readers not to place undue reliance on any such forward-looking information and statements.

#### **HV Bancorp, Inc.**

HV Bancorp, Inc. is a Pennsylvania corporation and owns 100% of the common stock of Huntingdon Valley Bank (the “Bank”). On January 11, 2017, the Company completed its initial public offering of common stock in connection with the mutual-to-stock conversion of the Bank selling 2,182,125 shares of common stock at \$10.00 per share and raising \$21.8 million of gross proceeds. Since the completion of the initial public offering, the Company has not engaged in any significant business activity other than investment in securities and owning the common stock of the Bank and having deposits in the Bank. The Company’s shareholders approved the HV Bancorp, Inc. 2018 Equity Incentive Plan (the “Plan”) at a Special Meeting of Shareholders on June 13, 2018. An aggregate of 305,497 shares of authorized but unissued common stock of the Company was reserved for future grants of

incentive and non-qualified stock options, restricted stock awards and restricted stock units under the Plan (see Note 13 of the Audited Consolidated Financial Statements for further discussion). At December 31, 2020, HV Bancorp, Inc. had total consolidated assets of \$861.6 million, total consolidated deposits of \$730.8 million, and total consolidated shareholders' equity of \$38.9 million. Our executive offices are located at 2005 South Easton Road, Suite 304, Doylestown, Pennsylvania. Our telephone number at this address is (267) 280-4000.

On August 21, 2019, the Board of Directors of HV Bancorp, Inc. approved, in accordance with the Company's Bylaws, a change in the Company's fiscal year to begin January 1 and end on December 31 of each year. As a result of the change, this Form 10-K includes information for the six-month transition period from July 1, 2019 to December 31, 2019 sometimes referred to as the "transition period ended December 31, 2019"; and also contains unaudited information for the twelve-month period from January 1 to December 31, 2019, which compares more accurately to the 2020 presentation.

### **Huntingdon Valley Bank**

Huntingdon Valley Bank is a stock savings bank organized under the laws of the Commonwealth of Pennsylvania and is subject to comprehensive regulation and examination by the Federal Deposit Insurance Corporation (the "FDIC") and the Pennsylvania Department of Banking and Securities (the "Pennsylvania Department of Banking"). We have offices in Montgomery, Bucks and Philadelphia Counties, Pennsylvania and Mount Laurel, New Jersey and Wilmington, Delaware. We are a community-oriented bank offering a variety of financial products and services to meet the needs of our customers. We believe that our community orientation and personalized service distinguishes us from larger banks that operate in our market area.

Huntingdon Valley Bank was founded in 1871 as a building and loan association. In 1951, the association converted to a federal thrift charter, changed its name to "Huntingdon Valley Federal Savings & Loan Association" and became federally insured. In January 2000, we changed our corporate name to "Huntingdon Valley Bank." On July 1, 2003, Huntingdon Valley Bank converted from a federally chartered mutual savings bank to a Pennsylvania chartered mutual savings bank.

Our principal business consists of attracting retail deposits from the general public in our market area and investing those deposits, together with funds generated from operations and borrowings, primarily in one- to four-family residential mortgage loans, commercial real estate loans (including multi-family loans) and other commercial business, construction loans and, to a lesser extent, home equity loans and home equity lines of credit ("HELOCs") and consumer loans. Additionally, in 2020, we originated loans as participants in the Paycheck Protection Program ("PPP") as well as the Main Street Lending Program.

We retain our loans in portfolio depending on market conditions, but we primarily sell our fixed-rate one- to four-family residential mortgage loans in the secondary market. We also invest in various investment securities. Our revenue is derived principally from interest on loans and investments and loan sales. Our primary sources of funds are deposits, Federal Home Loan Bank advances, and principal and interest payments on loans and securities. Additionally, in 2020, we participated in the Federal Reserve Bank's Paycheck Protection Program Liquidity Facility ("PPPLF"), which provided funding for the origination of PPP loans.

Our website address is [www.myhvb.com](http://www.myhvb.com). Information on this website should not be considered a part of this annual report.

### **COVID-19 Pandemic**

In December 2019, a novel strain of coronavirus (COVID-19) was reported in China which has spread rapidly across the globe, and the outbreak was declared a pandemic by the World Health Organization in March 2020. The COVID-19 pandemic has adversely affected economic activity globally, nationally and locally. It has caused substantial disruption in international and U.S. economies, markets, and employment. For discussion regarding the impact of the COVID-19 pandemic on our financial results, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## Market Area

We are headquartered in Doylestown, Pennsylvania, which is located in the northeast suburban area of metropolitan Philadelphia. We primarily serve communities located in Montgomery, Bucks and Philadelphia Counties in Pennsylvania, Burlington County in New Jersey and New Castle County in Delaware.

Our markets are demographically attractive, close to the business and financial district of Center City Philadelphia, and within commuting distance of Northern New Jersey and New York City. Philadelphia, Montgomery, and Bucks Counties comprise the 1st, 3rd and 4th largest counties in Pennsylvania, respectively, Burlington County is the 3rd largest county in New Jersey and New Castle County is the largest county in Delaware. The following table shows key demographics for our markets.

	<u>Delaware</u>		<u>Pennsylvania</u>			<u>New Jersey</u>
	<u>New Castle</u>	<u>Philadelphia</u>	<u>Montgomery</u>	<u>Bucks County</u>	<u>Burlington</u>	
	<u>County</u>	<u>County</u>	<u>County</u>		<u>County</u>	
Unemployment (December 2020)	4.9%	9.7%	5.5%	5.7%	6.3%	
Median Household Income (2015-2019 United States Census)	\$ 73,892	\$ 45,927	\$ 91,546	\$ 89,139	\$ 87,416	
Estimated Population (United State Census 2019)	559,000	1,584,000	831,000	628,000	445,000	
Estimated Population Growth (2010-2019 United State Census)	3.8%	3.8%	3.9%	0.5%	(0.8)%	

As of 2017, the Philadelphia metropolitan area is the ninth largest total gross metropolitan product in the United States and is home to many universities and colleges. The economy of our market area is heavily based on education, life sciences and social services. The city of Philadelphia is home to many Fortune 500 companies, including pharmaceutical distributor, AmerisourceBergen; cable television and internet provider Comcast; insurance company Lincoln Financial Group; and food services company Aramark.

## Competition

We face significant competition within our market both in making loans and attracting deposits. Our market area has a high concentration of financial institutions, including large money centers and regional banks, community banks and credit unions. Banks owned by large bank holding companies such as PNC Financial Services Group, Inc., Wells Fargo & Company, TD Bank, Santander and Citizens Financial Group, Inc. also operate in our market area. Some of our competitors offer products and services that we currently do not offer, such as trust services and private banking. Our competition for loans and deposits comes principally from commercial banks, savings institutions, and mortgage banking firms, consumer finance companies and credit unions. We face additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies.

## Lending Activities

**General.** Our principal lending activity is the origination of one- to four-family residential real estate loans, commercial real estate loans, commercial business loans, home equity loans and home equity lines of credit, and, to a lesser extent, construction loans and consumer loans. Our primary business has been the origination of one- to four-family residential real estate loans, of which 52.7% were adjustable-rate loans and 47.3% were fixed-rate loans as of December 31, 2020 and the sale of one- to four-family residential real estate loans. We currently sell in the secondary market most of the fixed-rate conforming one- to four-family residential real estate loans that we originate, generally on a servicing-released, limited or no recourse basis, while retaining adjustable-rate one- to four-family residential real estate loans, primarily jumbo loans, in order to manage the duration and time to repricing of our loan portfolio.

**Loan Portfolio Composition.** The following tables sets forth the composition of our loan portfolio, by type of loan at the dates indicated, excluding loans held for sale.

	At December 31,			
	2020		2019	
	Amount	Percent	Amount	Percent
(Dollars in thousands)				
Residential:				
One- to four-family	\$ 141,891	44.74%	\$ 197,547	77.43%
Home equity & HELOCs	3,993	1.26	4,383	1.72
Commercial real estate	68,705	21.67	35,188	13.79
Commercial business	24,152	7.62	11,119	4.36
SBA PPP loans	64,380	20.30	—	—
Main Street Lending Program	1,556	0.49	—	—
Construction	7,299	2.30	784	0.31
Consumer and other:				
Medical education	5,105	1.61	6,097	2.39
Consumer	33	0.01	8	—
Total loans receivable	<u>317,114</u>	<u>100.00%</u>	<u>255,126</u>	<u>100.00%</u>
Deferred loan origination costs	(1,286)		1,343	
Allowance for loan losses	(2,017)		(1,437)	
Total loans receivable, net	<u>\$ 313,811</u>		<u>\$ 255,032</u>	

	At June 30,							
	2019		2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)								
Residential:								
One- to four-family	\$ 201,526	83.84%	\$ 182,234	85.97%	\$ 88,578	79.06%	\$ 71,980	76.75%
Home equity & HELOCs	4,158	1.73	4,921	2.32	5,466	4.88	6,448	6.87
Commercial real estate	16,460	6.85	10,804	5.10	12,191	10.88	11,620	12.39
Commercial business	9,728	4.05	4,059	1.91	3,801	3.39	558	0.59
SBA PPP loans	—	—	—	—	—	—	—	—
Main Street Lending Program	—	—	—	—	—	—	—	—
Construction	1,981	0.82	2,907	1.37	2,004	1.79	3,179	3.39
Consumer and other:								
Medical education	6,506	2.71	7,047	3.32	—	—	—	—
Consumer	3	—	31	0.01	5	—	10	0.01
Total loans receivable	<u>240,362</u>	<u>100.00%</u>	<u>212,003</u>	<u>100.00%</u>	<u>112,045</u>	<u>100.00%</u>	<u>93,795</u>	<u>100.00%</u>
Deferred loan origination costs	1,606		1,564		359		142	
Allowance for loan losses	(1,182)		(871)		(593)		(487)	
Total loans receivable, net	<u>\$ 240,786</u>		<u>\$ 212,696</u>		<u>\$ 111,811</u>		<u>\$ 93,450</u>	

**Loan Portfolio Maturities and Yields.** The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2020. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in the year ending December 31, 2021. Maturities are based on the final contractual payment date and do not reflect the impact of prepayments and scheduled principal amortization.

	One- to Four-Family Real Estate Loans	Home Equity & HELOCs	Commercial Real Estate Loans	Commercial Business Loans	SBA PPP Loans	Main Street Lending Program	Construction Loans	Medical education Loans	Consumer Loans	Total
(In thousands)										
Due During the Years Ending December 31,										
2021	\$ —	\$ 545	\$ 6,654	\$ 21,376	\$ —	\$ —	\$ 1,172	\$ —	\$ 33	\$ 29,780
2022	22	15	1,987	—	64,380	—	1,984	—	—	68,388
2023	172	—	2,815	347	—	—	—	—	—	3,334
2024 to 2025	44	105	23,574	1,247	—	1,556	1,253	—	—	27,779
2026 to 2030	4,651	141	26,749	684	—	—	711	1,396	—	34,332
2031 to 2035	4,218	374	2,343	—	—	—	1,281	3,709	—	11,925
2036 and beyond	132,784	2,813	4,583	498	—	—	898	—	—	141,576
Total	\$ 141,891	\$ 3,993	\$ 68,705	\$ 24,152	\$ 64,380	\$ 1,556	\$ 7,299	\$ 5,105	\$ 33	\$ 317,114

The following table sets forth our fixed and adjustable-rate loans at December 31, 2020 that are contractually due after December 31, 2021.

	Due After December 31, 2021		
	Fixed	Adjustable	Total
	(In thousands)		
<b>Residential:</b>			
One- to four-family	\$ 67,149	\$ 74,742	\$ 141,891
Home equity & HELOCs	408	3,040	3,448
Commercial real estate	37,618	24,433	62,051
Commercial business	1,920	856	2,776
SBA PPP loans	64,380	—	64,380
Main Street Lending Program	—	1,556	1,556
Construction	62	6,065	6,127
<b>Consumer and Other:</b>			
Medical education	—	5,105	5,105
Consumer	—	—	—
Total	\$ 177,540	\$ 109,794	\$ 287,334

**One- to Four-Family Residential Real Estate Lending.** At December 31, 2020, we had \$141.9 million of loans secured by one- to four-family residential real estate, representing 44.7% of our total loan portfolio. In addition, at December 31, 2020, we had \$83.5 million of residential mortgages held for sale. We originate fixed-rate one- to four-family residential real estate loans as well as adjustable-rate loans depending on market conditions and borrower preferences. At December 31, 2020, 47.3% of our one- to four-family residential real estate loans were fixed-rate loans, and 52.7% of such loans were adjustable-rate loans.

Our fixed-rate one- to four-family residential real estate loans typically have terms of 10 to 30 years and are generally underwritten according to Fannie Mae or Freddie Mac guidelines when the loan balance meets such guidelines, and we refer to loans that conform to such guidelines as “conforming loans.” We generally originate both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits, which as of December 31, 2020 was generally \$510,400 for single-family homes in our market area. We typically sell most of our fixed-rate conforming loans on a servicing-released basis. We also originate loans above the lending limit for conforming loans, which are referred to as “jumbo loans,” that we retain in our portfolio. Jumbo loans that we originate typically have 15 to 30 year terms and maximum loan-to-value ratios of 80%. At December 31, 2020, we had \$73.8 million in jumbo loans, which represented 52.0% of our one- to four-family residential real estate loans. Of the \$73.8 million in jumbo loans, 70.4% or \$52.0 million were variable jumbo loans and 29.6% or \$21.8 million were fixed jumbo loans. Our average loan size for jumbo loans was \$731,000 at December 31, 2020. We also offer FHA, USDA and VA loans, all of which we originate for sale on a servicing-released, non-recourse basis in accordance with FHA, USDA and VA guidelines. Most of our one- to four-family residential real estate loans are secured by properties located in our market area.

We generally limit the loan-to-value ratios of our mortgage loans without private mortgage insurance to 80% of the sales price or appraised value, whichever is lower. Loans where the borrower obtains private mortgage insurance may be made with loan-to-value ratios up to 95%.

Our adjustable-rate one- to four-family residential real estate loans carry terms to maturity ranging from 10 to 30 years and generally have fixed rates for initial terms of five or seven years, and adjust annually thereafter at a margin, which in recent years has been tied to a margin above the LIBOR and Treasury rate. The maximum amount by which the interest rate may be increased or decreased is generally 5% for the first adjustment period and 2% per adjustment period thereafter, with a lifetime interest rate cap of generally 5% over the initial interest rate of the loan. We typically hold in portfolio our adjustable-rate one- to four-family residential real estate loans.

Although adjustable-rate mortgage loans may reduce to an extent our vulnerability to changes in market interest rates because they periodically re-price, as interest rates increase the required payments due from the borrower also increase (subject to rate caps), increasing the potential for default by the borrower. At the same time, the ability of the borrower to repay the loan and the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustments of the contractual interest rate are also limited by our maximum periodic and lifetime rate adjustments. Moreover, the interest rates on most of our adjustable-rate loans do not adjust for up to seven years after origination. As a result, the effectiveness of adjustable-rate mortgage loans in compensating for changes in market interest rates generally may be limited.

We offer on a limited basis one- to four-family residential real estate loans secured by non-owner occupied properties. We require personal guarantees from the borrowers on these properties, and we will not make loans in excess of 85% loan-to-value on non-owner-occupied properties.

We may offer “interest only” mortgage loans on construction to permanent one- to four-family residential real estate loans (where the borrower pays interest for an initial period, after which the loan converts to a fully amortizing loan). We also have not offered and will not offer loans that provide for negative amortization of principal, such as “Option ARM” loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan. We have not had a “subprime lending” program for one- to four-family residential real estate loans (*i.e.*, loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios), or “Alt-A” loans (*i.e.*, loans that generally target borrowers with better credit scores who borrow with alternative documentation such as little or no verification of income).

We require title insurance on all of our one- to four-family residential real estate mortgage loans, and we also require that borrowers maintain fire and extended coverage casualty insurance (and, if appropriate, flood insurance) in an amount at least equal to the lesser of the loan balance or the replacement cost of the improvements. Substantially all of our residential real estate mortgage loans have a mortgage escrow account from which disbursements are made for real estate taxes and flood insurance. We do not conduct environmental testing on residential real estate mortgage loans unless specific concerns for hazards are identified by the appraiser used in



connection with the origination of the loan. If we identify an environmental problem on land that will secure a loan, the environmental hazard must be remediated before the closing of the loan.

When underwriting residential real estate loans, we review and verify each loan applicant's employment, income and credit history and, if applicable, our experience with the borrower. Our policy is to obtain credit reports and financial statements on all borrowers and guarantors, and to verify references. Properties securing real estate loans are appraised by board-approved independent appraisers. Appraisals are subsequently reviewed by our loan underwriting department.

**Home Equity Loans and Lines of Credit.** We also offer home equity loans and home equity lines of credit, both of which are secured by either first mortgages or second mortgages on owner occupied one- to four-family residences. At December 31, 2020, outstanding home equity loans and equity lines of credit totaled \$4.0 million, or 1.3% of total loans outstanding. At December 31, 2020, the unadvanced portion of home equity lines of credit totaled \$7.5 million. At December 31, 2020, \$2.5 million of our home equity loans and lines of credit were in a junior lien position.

The underwriting standards utilized for home equity loans and home equity lines of credit include a title review, the recordation of a lien, a determination of the applicant's ability to satisfy existing debt obligations and payments on the proposed loan, and the value of the collateral securing the loan. The loan-to-value ratio for our home equity loans and our lines of credit is generally limited to 80% when combined with the first security lien, if applicable. Home equity loans are offered with fixed rates of interest and with terms up to 20 years. Our home equity lines of credit generally have 30-year terms and adjustable-rates of interest, subject to a contractual floor, which are indexed to the prime rate.

**Commercial Real Estate Lending.** We also offer commercial real estate loans, including a limited amount of multi-family loans. At December 31, 2020, we had \$68.7 million in commercial real estate loans, representing 21.7% of our total loan portfolio. Our commercial real estate loans generally have initial terms of five years and amortization terms of 20 to 25 years, with a balloon payment due at the end of the initial term. The maximum loan-to-value ratio of our commercial real estate loans is generally 75-80%. Our commercial real estate loans are typically secured by medical, retail, industrial, warehouse, service, or other commercial properties. We originate multi-family loans generally secured by multi-family buildings. At December 31 2020, the average loan balance of our outstanding commercial real estate loans was \$493,000, and the largest of such loans was a \$3.7 million loan secured by three multi-family buildings. This loan was performing in accordance with its terms at December 31, 2020.

We consider a number of factors in originating commercial real estate loans. We evaluate the qualifications and financial condition of the borrower, including project-level and global cash flows, credit history, and management expertise, as well as the value and condition of the property securing the loan. When evaluating the qualifications of the borrower, we consider the financial resources of the borrower, the borrower's experience in owning or managing similar property and the borrower's payment history with us and other financial institutions. In evaluating the property securing the loan, the factors we consider include the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property and the debt service coverage ratio (the ratio of net operating income to debt service). We generally require a debt service ratio of at least 1.20x. All commercial real estate loans are appraised by outside independent appraisers and reviewed by an outside appraisal management firm, all of whom are reviewed by the board of directors.

Personal guarantees are generally obtained from the principals of commercial real estate loan borrowers, although this requirement may be waived in limited circumstances depending upon the creditworthiness of the tenant, loan-to-value ratio and the debt service ratio associated with the loan. We require property, casualty and title insurance and flood insurance if the property is in a flood zone area.

Commercial real estate loans entail greater credit risks compared to one- to four-family residential real estate loans because they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends on the successful operation of the property, as repayment of the loan generally is dependent, in large part, on sufficient

income from the property to cover operating expenses and debt service. Changes in economic conditions that are not in the control of the borrower or lender could affect the value of the collateral for the loan or the future cash flow of the property. Additionally, any decline in real estate values may be more pronounced for commercial and multi-family real estate than residential properties.

**Commercial Business Lending.** At December 31, 2020, we had \$24.2 million of commercial business loans, representing 7.6% of our total loan portfolio. We offer regular lines of credit and revolving lines of credit with terms of up to 12 months to small businesses in our market area to finance short-term working capital needs such as accounts receivable and inventory. Our commercial lines of credit are typically adjustable-rate generally based on the prime rate, as published in *The Wall Street Journal*, plus a margin. We generally obtain personal guarantees with respect to all commercial business lines of credit.

We typically originate commercial business loans on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business, the experience and stability of the borrower's management team, earnings projections and the underlying assumptions, and the value and marketability of any collateral securing the loan. Commercial business loans are generally secured by a variety of collateral, primarily accounts receivable, inventory and equipment. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself and the general economic environment in our market area. Therefore, commercial business loans that we originate have greater credit risk than one- to four-family residential real estate loans or, generally, consumer loans. In addition, commercial business loans often result in larger outstanding balances to single borrowers, or related groups of borrowers, and also generally require substantially greater evaluation and oversight efforts.

**Construction Lending.** We originate construction loans for the purchase of raw land and for the associated construction of commercial properties along with multi and single-family residences. Construction loans provide for the payment of interest only during the construction phase, which is usually twelve months with optional six month extensions. In many cases the project will include a cash interest reserve set aside in a bank-controlled deposit account to fund these payments through project completion. At the end of the construction phase, many of the loans convert to a permanent mortgage loan. Prior to making a commitment to fund a construction loan, we require an appraisal of the property by an independent appraiser and review by our third-party appraisal review firm. On construction loans greater than \$1 million, we generally require a plan and spec review by a qualified company to verify construction costs are within market costs and to limit project estimation errors. We also review and engage third-party inspectors to verify the completed work project prior to disbursement of funds during the term of the construction loan. At December 31, 2020, we had \$7.3 million of construction loans, representing 2.3% of our total loan portfolio. At December 31, 2020, our largest construction loan was a \$1.3 million loan participation that was performing in accordance with its original terms at December 31, 2020.

The maximum loan-to-value of these loans is the lesser of 80% of cost or appraised value for owner-occupied properties, and the lesser of 75% of cost or appraised value for investment properties. Personal guarantees are generally required on all such projects.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost proves to be inaccurate, we may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project proves to be inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment. Construction loans also expose us to the risks that improvements will not be completed on time in accordance with specifications and projected costs and that repayment will depend on the successful operation or sale of the properties. In addition, some of these borrowers have more than one outstanding loan, so an adverse development with respect to one loan or credit relationship can expose us to significantly greater risk of non-payment and loss.

**Small Business Association ("SBA") PPP.** In April 2020, we began accepting and processing applications for loans under the PPP implemented by the SBA with support from the Department of Treasury under the recently enacted Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). As of December 31, 2020, the

Company had received over 450 applications from new and existing customers with an outstanding balance of \$64.4 million. The PPP loans have a two-year term and earn interest at 1%. The SBA fully guarantees the principle and interest, unless the lender violated an obligation under the agreement. See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations for further discussion.”

**Main Street Lending Program.** In December 2020, the Company participated in the Main Street Lending Program established by the Federal Reserve to support lending to small and medium-sized for profit businesses and nonprofit organizations that were in sound financial condition before the onset of the COVID-19 pandemic. The program ended on January 8, 2021. At December 31, 2020, the Company funded approximately \$31.1 million in loans. The Company retained approximately 5% or \$1.6 million outstanding at December 31, 2020 as 95% of the originated loans were sold to the Federal Reserve of Boston as part of the program.

**Medical Education Lending.** In November 2017, the Bank entered into a loan purchase agreement with a broker to purchase a portfolio of private education loans made to American citizens attending American Medical Association (“AMA”) approved medical schools in Caribbean nations. The broker serves as a lender, holder, program designer and developer, administrator, and secondary market for the loan portfolios they generate. At December 31, 2020, the balance of the private education loans was \$5.1 million. The private student loans were made following a proven credit criteria and were underwritten in accordance with the Bank’s policies. At December 31, 2020, there were three loans with a balance of approximately \$81,000 that are past due 90 days or more. There are certain medical education loans for which a forbearance status has been granted and, while not past due, are classified as non-performing. Generally, the loan may be restored to accrual status when the obligation is in accordance with the contractual terms for a reasonable period of time, generally six months.

**Consumer Lending.** At December 31, 2020, our consumer loan portfolio totaled \$33,000 consisting of consumer overdraft accounts.

### **Loan Originations, Participations, Purchases and Sales**

Most of our loan originations are generated by our loan personnel and from referrals from existing customers and real estate brokers. All loans we originate are underwritten pursuant to our policies and procedures. While we originate both fixed-rate and adjustable-rate loans, our ability to generate each type of loan depends upon relative borrower demand and pricing levels established by competing banks, thrifts, credit unions, and mortgage banking companies. Our volume of loan originations is influenced significantly by market interest rates, and, accordingly, the volume of our loan originations can vary from period to period.

Consistent with our interest rate risk strategy, in the low interest rate environment that has existed in recent years, we have sold on a servicing-released basis most of the fixed-rate conforming one- to four-family residential mortgage loans that we have originated. We consider our Statement of Financial Condition as well as market conditions on an ongoing basis in making decisions as to whether to hold loans we originate for investment or to sell such loans to investors, choosing the strategy that is most advantageous to us from a profitability and risk management standpoint. For the year ended December 31, 2020, we sold \$600.8 million of residential one- to four-family real estate loans.

From time to time, we may purchase loan participations secured by properties within and outside of our primary lending market area in which we are not the lead lender. In these circumstances, we follow our customary loan underwriting and approval policies. At December 31, 2020, we had four participation loans for \$2.8 million in which we were not the lead lender, all of which were performing in accordance with the loans’ original terms at December 31, 2020. We also have participated out portions of loans from time to time that exceeded our loans-to-one borrower legal lending limit and for risk diversification.

In November 2017, we purchased a \$7.8 million portfolio of private education loans made to American citizens attending AMA approved medical schools in Caribbean nations. The private student loans were made following a proven credit criteria and were underwritten in accordance with the Bank’s policies. At December 31, 2020, the balance of the private education loans was \$5.1 million.

The following table shows our loan originations, sales and repayment activities for the year ended December 31, 2020, the six months ended December 31, 2019, and the years indicated for June 30, including loans held for sale.

	For the Year Ended December 31,	For the Six Months Ended December 31,	For the Year Ended June 30,			
	2020	2019	2019	2018	2017	2016
	(In thousands)					
Total loans at beginning of year (1)	\$ 293,002	\$ 274,110	\$ 225,561	\$ 124,829	\$ 118,471	\$ 100,040
Loan originations:						
Residential:						
One- to four-family (1)	647,913	190,760	176,070	170,479	202,503	182,962
Home equity & HELOCs	—	7	148	103	430	2,989
Commercial real estate	51,167	32	1,383	673	1,796	1,198
Commercial business	1,257	5,981	636	2,767	3,386	—
SBA PPP loans	76,080	—	—	—	—	—
Main Street Lending Program	31,112	—	—	—	—	—
Construction	2,098	—	2,446	5,384	—	2,970
Consumer loans	33	9	3	31	5	4
Total loans originated	809,660	196,789	180,686	179,437	208,120	190,123
Loans Purchased	—	—	15,991	88,180	—	—
Sales and loan principal repayments:						
Principal repayments	114,509	14,798	8,051	22,208	22,494	13,914
Loan sales	587,490	163,099	140,077	144,677	179,268	157,778
Net loan activity	107,661	18,892	48,549	100,732	6,358	18,431
Total loans at end of year (1)	\$ 400,663	\$ 293,002	\$ 274,110	\$ 225,561	\$ 124,829	\$ 118,471

(1) Includes loans held for sale.

**Loans to One Borrower.** Pursuant to applicable law, the aggregate amount of loans that we are permitted to make to any one borrower or a group of related borrowers is generally limited to 15% of the Bank's unimpaired capital and surplus (25% if the amount in excess of 15% is secured by "readily marketable collateral"). This 15% of unimpaired capital and surplus was approximately \$5.7 million as of December 31, 2020. At December 31, 2020, our largest credit relationship was \$4.4 million which consisted of a \$4.4 million commercial real estate loan secured by multi-family apartment buildings. At December 31, 2020, this loan was performing in accordance with its current terms.

**Loan Approval Procedures and Authority.** Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by the board of directors. In the approval process for residential loans, we assess the borrower's ability to repay the loan and the value of the property securing the loan. To assess the borrower's ability to repay, we review the borrower's income and expenses and employment and credit history. In the case of commercial real estate loans, we also review projected income, expenses and the viability of the project being financed. We generally require appraisals of all real property securing loans. Appraisals are performed by independent licensed appraisers who are approved by our board of directors. All real estate secured loans generally require fire, title and casualty insurance and, if warranted, flood insurance in amounts at least equal to the principal amount of the loan or the maximum amount available. Our loan approval policies and limits are also established by our board of directors. All loans originated by the Bank are subject to our underwriting guidelines.

The following limitations apply to originations of loans. An underwriter may approve loans up to \$417,000 or FHA loan limit, and an executive vice president, assistant vice president or senior underwriter officer may approve loans up to \$500,000. The Officer Loan Committee must approve "jumbo" loans (currently, loans between

\$500,000 to \$650,000), construction loans and any conventional loans not receiving automated underwriting system recommendation. The Executive Management Committee must approve loans in excess of \$650,000. The board of directors must approve loans in excess of \$900,000 that are exceptions to the Bank's lending policy.

**Delinquencies, Non-Performing Assets and Classified Assets**

***Delinquency Procedures.*** When a loan is 15 days past due, we send the borrower a late notice. We generally also contact the borrower by phone if the delinquency is not corrected promptly after the notice has been sent. When the loan is 30 days past due, we mail the borrower a letter reminding the borrower of the delinquency, and attempt to contact the borrower personally to determine the reason for the delinquency in order to ensure that the borrower understands the terms of the loan and the importance of making payments on or before the due date. If necessary, subsequent delinquency notices are issued and the account will be monitored on a regular basis thereafter. By the 90th day of delinquency, we will send the borrower a final demand for payment and may recommend foreclosure. Loans are charged off when we believe that the recovery of principal is improbable. A summary report of all loans 30 days or more past due is provided to the board of directors each month.

**Delinquent Loans.** The following table sets forth our loan delinquencies by type and amount at the dates indicated.

	Loans Delinquent For						Total	
	30-59 Days		60-89 Days		90 Days and Over		Number	Amount
	Number	Amount	Number	Amount	Number	Amount		
(Dollars in thousands)								
<b>At December 31, 2020</b>								
Residential:								
One- to four-family	4	\$ 543	2	\$ 186	7	\$ 571	13	\$ 1,300
Home equity & HELOCs	1	38	—	—	—	—	1	38
Commercial real estate	—	—	—	—	—	—	—	—
Commercial business	—	—	—	—	—	—	—	—
SBA PPP loans	—	—	—	—	—	—	—	—
Main Street Lending Program	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—
Medical education	4	169	8	951	3	81	15	1,201
Consumer	—	—	—	—	—	—	—	—
<b>Total</b>	<b>9</b>	<b>\$ 750</b>	<b>10</b>	<b>\$ 1,137</b>	<b>10</b>	<b>\$ 652</b>	<b>29</b>	<b>\$ 2,539</b>
<b>At December 31, 2019</b>								
Residential:								
One- to four-family	4	\$ 365	2	\$ 94	5	\$ 359	11	\$ 818
Home equity & HELOCs	—	—	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—	—	—
Commercial business	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—
Medical education	4	103	1	53	14	709	19	865
Consumer	—	—	—	—	—	—	—	—
<b>Total</b>	<b>8</b>	<b>\$ 468</b>	<b>3</b>	<b>\$ 147</b>	<b>19</b>	<b>\$ 1,068</b>	<b>30</b>	<b>\$ 1,683</b>
<b>At June 30, 2019</b>								
Residential:								
One- to four-family	3	\$ 321	3	\$ 179	9	\$ 1,407	15	\$ 1,907
Home equity & HELOCs	—	—	—	—	2	316	2	316
Commercial real estate	—	—	—	—	—	—	—	—
Commercial business	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—
Medical education	12	534	6	220	10	841	28	1,595
Consumer	—	—	—	—	—	—	—	—
<b>Total</b>	<b>15</b>	<b>\$ 855</b>	<b>9</b>	<b>\$ 399</b>	<b>21</b>	<b>\$ 2,564</b>	<b>45</b>	<b>\$ 3,818</b>
<b>At June 30, 2018</b>								
Residential:								
One- to four-family	3	\$ 595	5	\$ 412	5	\$ 800	13	\$ 1,807
Home equity & HELOCs	—	—	—	—	1	105	1	105
Commercial real estate	—	—	—	—	—	—	—	—
Commercial business	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—
Medical education	4	152	2	62	1	24	7	238
Consumer	—	—	—	—	—	—	—	—
<b>Total</b>	<b>7</b>	<b>\$ 747</b>	<b>7</b>	<b>\$ 474</b>	<b>7</b>	<b>\$ 929</b>	<b>21</b>	<b>\$ 2,150</b>

**Non-Performing Loans.** Loans are generally placed on non-accrual status when payment of principal or interest is more than 90 days delinquent. Loans are also placed on non-accrual status if collection of principal or interest in full is in doubt or if the loan has been restructured. Loans are classified as troubled debt restructurings when certain modifications are made to the loan terms and concessions are granted to the borrowers due to financial difficulty experienced by those borrowers. At December 31, 2020, we had no non-accruing troubled debt restructurings. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received. Generally, the loan may be restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, generally six months, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Interest income that would have been recorded for the year ended December 31, 2020 had non-accruing loans been current according to their original terms amounted to \$65,000. We recognized \$28,000 of interest income for these loans for the year ended December 31, 2020.

**Other Real Estate Owned.** Other real estate owned includes assets acquired through, or in lieu of, loan foreclosure and are held for sale and are initially recorded at fair value less estimated selling costs at the date of foreclosure establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the new cost basis or fair value less estimated selling costs. Revenue and expenses from operations and changes in the valuation allowance are included in operations. We had no other real estate owned at December 31, 2020 and 2019.

**Non-Performing Assets.** The following table sets forth the amounts and categories of our non-performing assets at the dates indicated. We had one loan accruing past due 90 days at June 30, 2018 and no accruing loans past due 90 days or more at December 31, 2020 and 2019, June 30, 2019, 2017 or 2016. Additionally, we had no non-accruing troubled debt restructurings at December 31, 2020 and 2019, June 30, 2019, 2018, 2017 or 2016.

	At December 31,		At June 30,			
	2020	2019	2019	2018	2017	2016
(Dollars in thousands)						
<b>Non-accrual loans:</b>						
Residential:						
One- to four-family	\$ 932	\$ 1,686	\$ 1,852	\$ 1,429	\$ 1,198	\$ 818
Home equity & HELOCs	—	308	316	105	110	227
Commercial:						
Commercial real estate	—	—	—	—	100	100
Commercial business	—	—	—	—	—	—
SBA PPP Loans	—	—	—	—	—	—
Main Street Lending Program	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Consumer:						
Medical education	1,322	1,710	1,108	—	—	—
<b>Total non-accrual loans</b>	<b>2,254</b>	<b>3,704</b>	<b>3,276</b>	<b>1,534</b>	<b>1,408</b>	<b>1,145</b>
<b>Loans accruing past 90 days:</b>						
Consumer and other:						
Medical education	—	—	—	24	—	—
<b>Total non-performing loans</b>	<b>2,254</b>	<b>3,704</b>	<b>3,276</b>	<b>1,558</b>	<b>1,408</b>	<b>1,145</b>
Real estate owned	—	—	—	—	—	115
Other non-performing assets	—	—	—	—	—	—
<b>Total non-performing assets</b>	<b>\$ 2,254</b>	<b>\$ 3,704</b>	<b>\$ 3,276</b>	<b>\$ 1,558</b>	<b>\$ 1,408</b>	<b>\$ 1,260</b>
<b>Ratios:</b>						
Total non-performing loans to total loans	0.71%	1.45%	1.36%	0.73%	1.26%	1.23%
Total non-performing loans to total assets	0.26%	1.04%	0.95%	0.52%	0.65%	0.63%
Total non-performing assets to total assets	0.26%	1.04%	0.95%	0.52%	0.65%	0.69%

Total non-performing loans decreased to \$2.3 million, or 0.71% of total loans, at December 31, 2020 from \$3.7 million, or 1.45% of total loans, at December 31, 2019 as a result of an decrease of \$754,000 in non-performing one- to four-family residential real estate loans, \$388,000 decrease in medical education loans and a \$308,000 decrease in non-performing home equity and HELOCs. Non-performing one- to four-family residential real estate loans totaled \$932,000 at December 31, 2020. Non-performing medical education loans totaled \$1.3 million at December 31, 2020. Included in the non-performing medical education loans are non-accrual loans that have been brought current through a status change to deferred status. The deferred status generally means the student is in medical residency. Generally, the loan may be restored to accrual status when the obligation is in accordance with the contractual terms for a reasonable period of time, generally six months. There were no non-performing commercial real estate loans, commercial business and construction loans at December 31, 2020.

**Classified Assets.** Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered by the FDIC to be of lesser quality, as “substandard,” “doubtful” or “loss.” An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the insured institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard,” with the added characteristic that



the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific allowance for loan losses is not warranted. Assets that do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated as “special mention” by our management. At December 31, 2020, we had \$194,000 of loans designated as “special mention.”

When an insured institution classifies problem assets as either substandard or doubtful, it may establish general allowances in an amount deemed prudent by management to cover losses that were both probable and reasonable to estimate. General allowances represent allowances which have been established to cover accrued losses associated with lending activities that were both probable and reasonable to estimate, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as “loss,” it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. An institution’s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the regulatory authorities, which may require the establishment of additional general or specific allowances.

In connection with the filing of our periodic regulatory reports and in accordance with our classification of assets policy, we regularly review the problem loans in our portfolio to determine whether any loans require classification in accordance with applicable regulations. Loans are listed on the “watch list” initially because of emerging financial weaknesses even though the loan is currently performing as agreed. Management reviews the status of each loan on our watch list on a quarterly basis with the full board of directors. If a loan deteriorates in asset quality, the classification is changed to “special mention,” “substandard,” “doubtful” or “loss” depending on the circumstances and the evaluation. Generally, loans 90 days or more past due are placed on nonaccrual status and classified “substandard.”

The following table sets forth our amounts of classified assets and assets designated as special mention as of December 31, 2020 and 2019, and June 30, 2019 or 2018. The classified assets total at December 31, 2020 includes \$2.3 million of non-performing loans.

	At December 31,		At June 30,	
	2020	2019	2019	2018
	(In thousands)			
Classified assets:				
Substandard	\$ 2,696	\$ 4,216	\$ 3,826	\$ 2,775
Doubtful	—	—	—	—
Loss	—	—	—	—
Total classified assets	\$ 2,696	\$ 4,216	\$ 3,826	\$ 2,775
Special Mention	\$ 194	\$ 204	\$ 208	\$ 216
Total criticized assets	\$ 2,890	\$ 4,420	\$ 4,034	\$ 2,991

The decrease in classified assets was due to a \$1.5 million decrease in substandard assets primarily due to a \$754,000 decrease in substandard one- to four-family residential real estate loans, \$388,000 decrease in substandard medical education loans and a decrease of \$308,000 in substandard home equity loans and HELOCs. Substandard assets at December 31, 2020 consisted of \$2.3 million in non-accrual loans and \$441,000 in loans that were performing.

#### Allowance for Loan Losses

**Analysis and Determination of the Allowance for Loan Losses.** The allowance for loan losses is established through a provision for loan losses. We maintain the allowance at a level believed, to the best of management’s knowledge, to cover all known and inherent losses in the portfolio that are both probable and reasonable to estimate at each reporting date. Management reviews the allowance for loan losses on no less than a quarterly basis in order to identify those inherent losses and to assess the overall collection probability for the loan portfolio. The evaluation process includes, among other things, an analysis of delinquency trends, non-performing loan trends, the level of

charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of the loans, the value of collateral securing the loan, the borrower's ability to repay and repayment performance, the number of loans requiring heightened management oversight, local economic conditions and industry experience. Such risk factors are periodically reviewed by management and revised as deemed appropriate. The establishment of the allowance for loan losses is significantly affected by management's judgment and uncertainties, and there is likelihood that different amounts would be reported under different conditions or assumptions. The Pennsylvania Department of Banking and the FDIC, as an integral part of their examination processes, periodically review the allowance for loan losses. These regulators may require us to make additional provisions for estimated loan losses based upon judgments different from those of management.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These significant factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting our primary lending areas, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, recent loss experience in particular segments of the portfolio, duration of the current business cycle and bank regulatory examination results.

We will continue to monitor and modify our allowance for loan losses as conditions dictate. No assurances can be given that the level of allowance for loan losses will cover all of the inherent losses on the loans or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the economic and other conditions used by management to determine the current level of the allowance for loan losses.

**Allowance for Loan Losses.** The following table sets forth activity in our allowance for loan losses at the dates indicated.

	At or for the Year	At or for the Six	At or For the Years Ended June 30,			
	Ended December	Months Ended	2019	2018	2017	2016
	31,	December 31,	(Dollars in thousands)			
	2020	2019	2019	2018	2017	2016
Balance at beginning of year	\$ 1,437	\$ 1,182	\$ 871	\$ 593	\$ 487	\$ 514
<b>Charge-offs:</b>						
Residential:						
One- to four-family	—	—	—	(11)	—	—
Home equity & HELOCs	—	—	—	—	(125)	—
Commercial:						
Commercial real estate	—	—	—	(23)	—	(34)
Commercial business	—	—	—	—	—	—
SBA PPP loans	—	—	—	—	—	—
Main Street Lending Program	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Consumer:						
Medical education	(529)	(121)	(305)	—	(4)	(3)
Other	—	—	—	—	—	—
Total charge-offs	<u>(529)</u>	<u>(121)</u>	<u>(305)</u>	<u>(34)</u>	<u>(129)</u>	<u>(37)</u>
<b>Recoveries:</b>						
Residential:						
One- to four-family	—	65	5	3	8	—
Home equity & HELOCs	—	—	—	—	—	—
Commercial real estate	—	28	—	43	25	—
Commercial business	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Consumer:						
Medical education	1	1	—	—	1	1
Total recoveries	<u>1</u>	<u>94</u>	<u>5</u>	<u>46</u>	<u>34</u>	<u>1</u>
Net (charge-offs) recoveries	(528)	(27)	(300)	12	(95)	(36)
Provision for loan losses	1,108	282	611	266	201	9
Balance at end of year	<u>\$ 2,017</u>	<u>\$ 1,437</u>	<u>\$ 1,182</u>	<u>\$ 871</u>	<u>\$ 593</u>	<u>\$ 487</u>
<b>Ratios:</b>						
Net charge-offs (recoveries) to average loans outstanding	0.18 %	0.01 %	0.13 %	(0.01) %	0.10 %	0.04
Allowance for loan losses to non-performing loans at end of year	89.49 %	38.80 %	36.08 %	56.78 %	42.15 %	42.53
Allowance for loan losses to total loans at end of year	0.64 %	0.56 %	0.49 %	0.41 %	0.53 %	0.52

**Allocation of Allowance for Loan Losses.** The following tables set forth the allowance for loan losses allocated by loan category and the percent of the allowance in each category to the total allocated allowance at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31,						At June 30,	
	2020			2019			2019	
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance
	(Dollars in thousands)							
Residential:								
One- to four-family	\$ 637	31.58%	44.74%	\$ 701	48.78%	77.43%	\$ 711	60.15%
Home equity & HELOCs	15	0.74	1.26	44	3.06	1.72	46	3.89
Commercial:								
Commercial real estate	519	25.73	21.67	229	15.94	13.79	99	8.37
Commercial business	280	13.88	7.62	122	8.49	4.36	108	9.14
SBA PPP Loans	—	—	20.30	—	—	—	—	—
Main Street Lending Program	27	1.34	0.49	—	—	—	—	—
Construction	74	3.67	2.30	8	0.56	0.31	8	0.68
Consumer and other:								
Consumer	—	—	0.01	—	—	—	—	—
Medical education	368	18.25	1.61	333	23.17	2.39	210	17.77
Total allocated allowance	1,920	95.19	100.00	1,437	100.00	100.00	1,182	100.00
Unallocated allowance	97	4.81	—	—	—	—	—	—
Total allowance for loan losses	\$ 2,017	100.00%	100.00%	\$ 1,437	100.00%	100.00%	\$ 1,182	100.00%

	At June 30, 2018			At June 30, 2017			At June 30, 2016		
	Amount	Percent of Allowance to Total (Dollars in thousands)	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total (Dollars in thousands)	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total (Dollars in thousand)	
<b>Residential:</b>									
One- to four-family	\$ 651	74.74%	85.97%	\$ 399	67.28%	79.06%	\$ 314	64.48%	
Home equity & HELOCs	39	4.48	2.32	38	6.41	4.88	18	3.70	
Commercial real estate	65	7.46	5.10	89	15.01	10.88	131	26.90	
Commercial business	65	7.46	1.91	58	9.78	3.39	23	4.72	
Construction	15	1.72	1.37	9	1.52	1.79	1	0.20	
<b>Consumer and other:</b>									
Consumer	1	0.12	0.01	—	—	—	—	—	
Medical education	35	4.02	3.32	—	—	—	—	—	
Total allocated allowance	871	100.00	100.00	593	100.00	100.00	487	100.00	
Unallocated allowance	—	—	—	—	—	—	—	—	
Total allowance for loan losses	\$ 871	100.00%	100.00%	\$ 593	100.00%	100.00%	\$ 487	100.00%	

At December 31, 2020, our allowance for loan losses represented 0.64% of total loans and 89.49% of non-performing loans. There were \$528,000 in net loan charge-offs during the year ended December 31, 2020.

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Because future events affecting borrowers and collateral cannot be predicted with certainty, the existing allowance for loan losses may not be adequate and management may determine that increases in the allowance are necessary if the quality of any portion of our loan portfolio deteriorates as a result. Furthermore, as an integral part of its examination process, the FDIC and the Pennsylvania Department of Banking will periodically review our allowance for loan losses. The FDIC and the Pennsylvania Department of Banking may require that we increase our allowance based on its judgments of information available to it at the time of its examination. Any material increase in the allowance for loan losses will adversely affect our financial condition and results of operations.

#### Investment Activities

**General.** Our investment policy is established by the board of directors. Our current investment policy authorizes us to invest in debt securities issued by the United States Government, agencies of the United States Government or United States Government-sponsored enterprises. The policy also permits investments in mortgage-backed securities, including pass-through securities, issued and guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae, as well as investments in federal funds and deposits in other insured institutions. In addition, management is authorized to invest in investment grade state and municipal obligations, commercial paper and corporate debt obligations within regulatory parameters. We do not engage in any investment hedging activities or trading activities, nor do we purchase any high-risk mortgage derivative products, corporate junk bonds, and certain types of structured notes.

The objectives of the policy are to:

- enhance profitability within our overall asset/liability management objectives;
- absorb funds when loan demand is low and infuse funds when demand is high;
- provide liquidity necessary to conduct our day-to-day business activities;

- add high credit quality assets to our balance sheet;
- improve our interest rate risk management by providing a method for maintaining an appropriate balance between the sensitivity to changes in interest rates of: 1) interest income from loans and investments; and 2) interest expense from deposits and borrowings;
- provide collateral for pledging requirements;
- generate a favorable return on investments without compromising other investment objectives; and
- evaluate and take advantage of opportunities to generate tax-exempt income when it is appropriate given our tax position.

Generally accepted accounting principles require that, at the time of purchase, we designate a security as held-to-maturity, available-for-sale, or trading, depending on our ability and intent to hold such security. Securities designated as available-for-sale are reported at fair value, while securities designated as held-to-maturity are reported at amortized cost. We do not maintain a trading portfolio. Establishing a trading portfolio would require specific authorization by the board of directors.

The available-for-sale portfolio, which is carried at fair value, totaled \$23.5 million, or 2.7% of total assets at December 31, 2020.

**United States Governmental Securities.** We maintain these investments, to the extent appropriate, for liquidity purposes, at zero risk weighting for capital purposes and as collateral for borrowings. At December 31, 2020, United States government securities consisted of fixed-rate Small Business Administration (“SBA”) Participation Certificates.

**Corporate Notes.** At time of purchase, we invest in investment grade corporate bonds, both fixed and floating rate instruments, and generally consisting of corporate bonds issued by large financial institutions.

**Collateralized Mortgage Obligations.** We invest in fixed rate collateralized mortgage obligations (“CMOs”) issued by Ginnie Mae, Freddie Mac or Fannie Mae. A CMO is a type of mortgage-backed security that creates separate pools of pass-through rates for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds’ prospectus.

Ginnie Mae is a government agency within the Department of Housing and Urban Development and is intended to help finance government-assisted housing programs. Ginnie Mae securities are backed by loans insured by the Federal Housing Administration, or guaranteed by the Veterans Administration. The timely payment of principal and interest on Ginnie Mae securities is guaranteed by Ginnie Mae and backed by the full faith and credit of the U.S. Government. Freddie Mac is a private corporation chartered by the U.S. Government. Freddie Mac issues participation certificates backed principally by conventional mortgage loans. Freddie Mac guarantees the timely payment of interest and the ultimate return of principal on participation certificates. Fannie Mae is a private corporation chartered by the U.S. government with a mandate to establish a secondary market for mortgage loans. Fannie Mae guarantees the timely payment of principal and interest on Fannie Mae securities.

**Mortgage-Backed Securities- Agency Residential.** We invest in mortgage-backed securities insured or guaranteed by Ginnie Mae, Freddie Mac or Fannie Mae. We have not purchased privately-issued mortgage-backed securities. We invest in mortgage-backed securities to achieve positive interest rate spreads with minimal administrative expense, and to lower our credit risk as a result of the guarantees provided by Ginnie Mae, Freddie Mac or Fannie Mae.

Investments in mortgage-backed securities involve a risk that actual payments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or acceleration of any discount relating to such interests, thereby affecting the net yield on our securities. We periodically review current prepayment speeds to determine whether prepayment estimates require modification that could cause amortization or accretion adjustments. There is also reinvestment risk associated with the cash

flows from such securities or in the event such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates.

**Municipal Securities.** We invest in fixed-rate investment grade bonds issued primarily by municipalities in the Commonwealth of Pennsylvania.

**Bank Certificates of Deposit.** We invest in certificates of deposit issued by geographically dispersed large financial institutions that are insured by the FDIC.

The following table sets forth the amortized cost and fair value of our securities portfolio (excluding Federal Home Loan Bank of Pittsburgh common stock) at the dates indicated.

	At December 31,				At June 30,			
	2020		2019		2019		2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)							
<b>Securities available-for-sale:</b>								
U.S. Government securities	\$ 377	\$ 391	\$ 438	\$ 436	\$ 478	\$ 477	\$ 1,007	\$ 967
Corporate notes	9,454	9,600	5,500	5,569	6,960	6,984	5,805	5,708
Collateralized mortgage obligations	3,819	3,851	6,562	6,464	8,818	8,726	14,297	13,794
Mortgage-backed securities- agency residential	5,608	5,689	4,070	4,063	3,468	3,444	3,964	3,778
Municipal securities	2,924	2,971	2,114	2,117	11,915	12,120	1,701	1,680
Bank certificates of deposit	999	1,016	2,498	2,507	3,497	3,485	4,992	4,920
Total securities available-for-sale	<u>\$ 23,181</u>	<u>\$ 23,518</u>	<u>\$ 21,182</u>	<u>\$ 21,156</u>	<u>\$ 35,136</u>	<u>\$ 35,236</u>	<u>\$ 31,766</u>	<u>\$ 30,847</u>
<b>Securities held-to-maturity:</b>								
Corporate notes	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,519	\$ 2,516
Municipal securities	—	—	—	—	—	—	11,386	11,231
Total securities held-to-maturity	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13,905</u>	<u>\$ 13,747</u>

**Portfolio Maturities and Yields.** The composition and maturities of the investment securities portfolio at December 31, 2020 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. The municipal securities have not been adjusted to a tax-equivalent basis.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
(Dollars in thousands)											
<b>Securities available-for-sale:</b>											
U.S. Government securities	\$ —	—%	\$ —	—%	\$ —	—%	\$ 377	2.05%	\$ 377	\$ 391	2.05%
Corporate notes	500	0.98	2,017	2.44	6,937	4.84	—	—	9,454	9,600	4.12
Collateralized mortgage obligations	—	—	—	—	—	—	3,819	2.20	3,819	3,851	2.20
Mortgage-backed securities	—	—	—	—	—	—	5,608	2.21	5,608	5,689	2.21
Municipal securities	—	—	501	1.56	—	—	2,423	2.23	2,924	2,971	2.12
Bank certificates of deposit	500	2.20	499	1.60	—	—	—	—	999	1,016	1.90
Total securities available-for-sale	<u>\$ 1,000</u>	1.59%	<u>\$ 3,017</u>	2.16%	<u>\$ 6,937</u>	4.84%	<u>\$ 12,227</u>	2.21%	<u>\$ 23,181</u>	<u>\$ 23,518</u>	2.96%



## Sources of Funds

**General.** Deposits have traditionally been our primary source of funds for use in lending and investment activities. We may also use borrowings, primarily Federal Home Loan Bank of Pittsburgh advances and Federal Reserve's PPPLF advances to supplement cash flow needs, as necessary. In addition, we receive funds from scheduled loan payments, loan prepayments, retained income and income on earning assets. While scheduled loan payments and income on earning assets are relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

**Deposits.** Our deposits are generated primarily from residents, municipalities and businesses within our market area. We offer a selection of deposit accounts, including savings accounts, money market accounts, certificates of deposit and checking accounts. Deposit account terms vary, with the principal differences being the minimum balance required, the amount of time the funds must remain on deposit and the interest rate. At December 31, 2020, our core deposits, which are deposits other than certificates of deposit, were \$668.7 million, representing 91.5% of total deposits. At December 31, 2020, we had \$10.0 million in brokered deposits.

Interest rates, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market rates, liquidity requirements, rates paid by competitors and growth goals. The flow of deposits is influenced significantly by general economic conditions, changes in interest rates and competition. The variety of deposit accounts that we offer allows us to be competitive in generating deposits and to respond with flexibility to changes in our customers' demands. Our ability to generate deposits is affected by the competitive market in which we operate, which includes numerous financial institutions of varying sizes offering a wide range of products. We believe that deposits are a stable source of funds, but our ability to attract and maintain deposits at favorable rates will be affected by market conditions, including competition and prevailing interest rates.

The following table sets forth the distribution of total interest-bearing deposits by account type for the dates indicated.

	For the Year Ended December 31,			For the Six Months Ended December			For the Years Ended June 30,					
	2020			31,			2019			2018		
	Average	Percent	Weighted	Average	Percent	Weighted	Average	Percent	Weighted	Average	Percent	Weighted
	Balance		Average	Balance		Average	Balance		Average	Balance		Average
			Rate			Rate			Rate			Rate
	(Dollars in thousands)											
<b>Deposit type:</b>												
Demand deposits-interest-bearing accounts	\$ 119,277	41.26%	0.68%	\$ 100,577	39.36%	1.16%	\$ 99,043	41.29%	0.83%	\$ 74,128	41.91%	0.48%
Money market deposit accounts	50,733	17.55%	0.70%	31,184	12.20%	0.81%	31,237	13.02%	0.67%	32,176	18.19%	0.46%
Passbook and statement savings accounts	26,851	9.29%	0.16%	26,271	10.28%	0.20%	28,979	12.08%	0.22%	33,265	18.81%	0.27%
Checking accounts	30,523	10.56%	1.00%	18,548	7.26%	1.79%	11,358	4.73%	1.37%	5,723	3.24%	0.40%
Certificates of deposit	61,688	21.34%	1.60%	78,973	30.90%	2.23%	69,271	28.88%	1.96%	31,563	17.85%	1.31%
Total interest-bearing deposits	<u>\$ 289,072</u>	<u>100.00%</u>	<u>0.87%</u>	<u>\$ 255,553</u>	<u>100.00%</u>	<u>1.39%</u>	<u>\$ 239,888</u>	<u>100.00%</u>	<u>1.09%</u>	<u>\$ 176,855</u>	<u>100.00%</u>	<u>0.58%</u>

As of December 31, 2020, the aggregate amount of our outstanding certificates of deposit in amounts greater than or equal to \$100,000 was approximately \$34.2 million. The following table sets forth the maturity of those certificates as of December 31, 2020.

	<u>At</u> <u>December 31, 2020</u> <u>(In thousands)</u>
Three months or less	\$ 3,268
Over three months through six months	5,560
Over six months through one year	18,958
Over one year to three years	5,399
Over three years	1,008
Total	<u>\$ 34,193</u>

**Borrowings.** We may obtain advances from the Federal Home Loan Bank of Pittsburgh upon the security of our capital stock in the Federal Home Loan Bank of Pittsburgh and certain of our mortgage loans as well as advances from the Federal Reserve's PPPLF. Such advances may be made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. At December 31, 2020 and 2019, we had \$27.0 million in advances from the Federal Home Loan Bank of Pittsburgh. At December 31, 2020, based on available collateral and our ownership of Federal Home Loan Bank of Pittsburgh stock, we had access to Federal Home Loan Bank of Pittsburgh advances of up to \$161.1 million. At December 31, 2020, we had access to Federal Reserve's PPPLF advances up to \$15.7 million. Additionally, at December 31, 2020, we had the ability to borrow \$3.0 million from the Atlantic Community Bancshares, Inc. ("ACBI") and we maintained a line of credit equal to 95% of fair value of collateral held by the Federal Reserve Bank, which was \$923,000 at December 31, 2020. We have not borrowed against the credit lines with the ACBI or the Federal Reserve Bank during the year ended December 31, 2020.

The following table sets forth information concerning balances and interest rates on our borrowings at and for the periods shown:

**Federal Reserve's PPPLF Borrowings:**

Issue Date	Maturity	Advance Type	Interest Rate	<u>(Dollars in thousands)</u>	
				<u>December 31, 2020</u>	
05/18/20	04/13/22	Fixed Rate	0.350%	\$	2,025
05/18/20	04/08/22	Fixed Rate	0.350%		6,237
05/19/20	04/15/22	Fixed Rate	0.350%		4,031
05/19/20	04/14/22	Fixed Rate	0.350%		1,895
05/21/20	04/15/22	Fixed Rate	0.350%		7,042
05/21/20	04/18/22	Fixed Rate	0.350%		808
05/21/20	04/19/22	Fixed Rate	0.350%		466
05/22/20	04/20/22	Fixed Rate	0.350%		4,395
05/29/20	04/21/22	Fixed Rate	0.350%		5,507
05/29/20	04/22/22	Fixed Rate	0.350%		6,889
05/29/20	04/29/22	Fixed Rate	0.350%		140
07/27/20	05/04/22	Fixed Rate	0.350%		9,247
				<u>\$</u>	<u>48,682</u>

**FHLB long-term borrowings:**

Issue Date	Maturity	Advance Type	Interest Rate	<i>(Dollars in thousands)</i>			
				December 31, 2020	December 31, 2019	June 30, 2019	June 30, 2018
07/16/15	07/16/18	Fixed Rate	1.410%	\$ —	\$ —	\$ —	\$ 1,000
04/17/18	07/17/18	Fixed Rate	2.068%	—	—	—	10,000
11/30/15	11/30/18	Fixed Rate	1.590%	—	—	—	1,000
06/03/16	06/03/19	Fixed Rate	1.260%	—	—	—	2,000
07/18/16	07/18/19	Fixed Rate	1.185%	—	—	1,000	1,000
09/26/17	09/28/20	Fixed Rate	1.880%	—	3,000	3,000	3,000
11/21/17	11/22/21	Fixed Rate	2.220%	—	4,000	4,000	4,000
04/30/19	05/02/22	Fixed Rate	2.370%	—	5,000	5,000	—
05/07/19	05/09/22	Fixed Rate	2.370%	—	5,000	5,000	—
05/14/19	05/16/22	Fixed Rate	2.290%	—	5,000	5,000	—
05/21/19	05/21/21	Fixed Rate	2.360%	—	5,000	5,000	—
07/07/20	07/07/25	Fixed Rate	0.851%	26,269	—	—	—
				<b>\$ 26,269</b>	<b>\$ 27,000</b>	<b>\$ 28,000</b>	<b>\$ 22,000</b>

During July 2020, the Company refinanced advances of \$27.0 million from the Federal Home Loan Bank to reduce the cost of borrowing. The Company incurred a prepayment fee of \$810,000. The advances of \$27.0 million were refinanced to a five year term at 85 basis points with an effective rate of 1.45% including the impact of the prepayment fee. The refinancing was accounted for as a loan modification.

We have also entered into overnight repurchase agreements, which are collateralized by mortgage-backed securities and collateralized mortgage obligations. During November 2019, the Company terminated these agreements to repurchase. The following table sets forth information concerning balances and interest rates on our securities sold under agreements to repurchase at and for the periods shown:

	At or For the Six Months Ended December 31,		At or For the Years Ended June 30,	
	2019		2019	2018
	<i>(Dollars in thousands)</i>			
Balance at end of year	\$ —	\$ 3,789	\$ 5,739	\$ 5,739
Average balance during year	\$ 2,018	\$ 2,290	\$ 2,179	\$ 2,179
Maximum outstanding at any month end	\$ 2,586	\$ 4,870	\$ 5,739	\$ 5,739
Weighted average interest rate at end of year	—	0.19%	0.19%	0.19%
Weighted average interest rate during year	0.20%	0.17%	0.18%	0.18%

**Subsidiary Activities**

Huntingdon Valley Bank is the only wholly-owned subsidiary of HV Bancorp. Huntingdon Valley Bank has no subsidiaries.

**Employees**

As of December 31, 2020, we had 126 full-time equivalent employees. Our employees are not represented by any collective bargaining group. Management believes that we have a good working relationship with our employees.

**Regulation and Supervision**

Huntingdon Valley Bank is a savings bank organized under the laws of the Commonwealth of Pennsylvania. The lending, investment, and other business operations of the Bank are governed by Pennsylvania law and regulations, as well as applicable federal law and regulations, and the Bank is prohibited from engaging in any operations not authorized by such laws and regulations. The Bank is subject to extensive regulation, supervision and examination by the Pennsylvania Department of Banking and the FDIC. This regulation

and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the FDIC's deposit insurance fund and depositors, and not for the protection of security holders. The Bank also is a member of and owns stock in the Federal Home Loan Bank of Pittsburgh, which is one of the 11 regional banks in the Federal Home Loan Bank System.

Under this system of regulation, the regulatory authorities have extensive discretion in connection with their supervisory, enforcement, rulemaking and examination activities and policies, including rules or policies that: establish minimum capital levels; restrict the timing and amount of dividend payments; govern the classification of assets; determine the adequacy of loan loss reserves for regulatory purposes; and establish the timing and amounts of insurance assessments and other fees. Moreover, as part of their examination authority, the banking regulators assign numerical ratings to banks and savings institutions relating to capital, asset quality, management, liquidity, earnings and other factors. The receipt of a less than satisfactory rating in one or more categories may result in enforcement action by the banking regulators against a financial institution. A less than satisfactory rating may also prevent a financial institution, such as the Bank or its holding company, from obtaining necessary regulatory approvals to access the capital markets, pay dividends, acquire other financial institutions or establish new branches.

In addition, we must comply with significant anti-money laundering and anti-terrorism laws and regulations, Community Reinvestment Act laws and regulations, and fair lending laws and regulations. Government agencies have the authority to impose monetary penalties and other sanctions on institutions that fail to comply with these laws and regulations, which could significantly affect our business activities, including our ability to acquire other financial institutions or expand our branch network.

As a bank holding company, HV Bancorp is required to comply with the rules and regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). It is required to file certain reports with the Federal Reserve Board and is subject to examination by and the enforcement authority of the Federal Reserve Board. HV Bancorp is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Any change in applicable laws or regulations, whether by the Pennsylvania Department of Banking, the FDIC, the Federal Reserve Board or Congress, could have a material adverse impact on the operations and financial performance of HV Bancorp and the Bank.

Set forth below is a brief description of material regulatory requirements that are applicable to the Bank and HV Bancorp. The description is limited to certain material aspects of the statutes and regulations addressed, and is not intended to be a complete description of such statutes and regulations and their effects on the Bank and HV Bancorp.

#### **The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018**

In 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (the "EGRRCPA") was enacted, which repeals or modifies certain provisions of the Dodd-Frank Act and eases regulations on all but the largest banks. The EGRRCPA's highlights include, among other things: (i) exempting banks with less than \$10 billion in assets from the ability-to-repay requirements for certain qualified residential mortgage loans held in portfolio; (ii) not require appraisals for certain transactions valued at less than \$400,000 in rural areas; (iii) exempt banks that originate fewer than 500 open-end and 500 closed-end mortgages from HMDA's expanded data disclosures; (iv) clarify that, subject to various conditions, reciprocal deposits of another depository institution obtained using a deposit broker through a deposit placement network for purposes of obtaining maximum deposit insurance would not be considered brokered deposits subject to the FDIC's brokered-deposit regulations; (v) raise eligibility for the 18-month exam cycle from \$1 billion to banks with \$3 billion in assets; and (vi) simplify capital calculations by requiring regulators to establish for institutions under \$10 billion in assets a community bank leverage ratio (tangible equity to average consolidated assets) at a percentage not less than 8% and not greater than 10% that such institutions may elect to replace the general applicable risk-based capital requirements for determining well-capitalized status. On September 17, 2019, the board of the Federal Deposit Insurance Corporation passed a final rule on the community bank leverage ratio, setting the minimum required community bank leverage ratio at 9%. The rule went into effect January 1, 2020. In addition, the Federal Reserve Board was required to raise the asset threshold under its Small Bank Holding Company Policy Statement from \$1 billion to \$3 billion for bank or savings and loan holding companies that are exempt from consolidated capital requirements, provided that such companies meet certain other conditions such as not engaging in significant nonbanking activities.

In 2019, the federal banking agencies issued a final rule to provide an optional simplified measure of capital adequacy for qualifying community banking organizations, including the community bank leverage ratio ("CBLR") framework. Generally, under the CBLR framework, qualifying community banking organizations with total assets of less than \$10 billion, and limited amounts of off-balance-sheet exposures and trading assets and liabilities, may elect whether to be subject to the CBLR framework if they have a CBLR

of greater than 9%. Qualifying community banking organizations that elect to be subject to the CBLR framework and continue to meet all requirements under the framework would not be subject to risk-based or other leverage capital requirements and, in the case of an insured depository institution, would be considered to have met the well capitalized ratio requirements for purposes of the FDIC's Prompt Corrective Action framework. On September 17, 2019, the board of the FDIC passed a final rule on the community bank leverage ratio, setting the minimum required community bank leverage ratio at 9%. The rule went into effect January 1, 2020. On April 6, 2020, the FDIC, Board of Governors of the Federal Reserve System, and Office of the Comptroller of the Currency issued two interim final rules that make changes to the community bank leverage ratio framework and implemented Section 4012 of the CARES Act. These changes related to the minimum Tier 1 leverage ratio that can be used to take advantage of the simplified community bank leverage ratio framework. The two interim final rules are applicable to all non-advanced approaches FDIC-supervised institutions with less than \$10 billion in total consolidated assets. The lower Tier 1 leverage ratio modification is temporary to 8% and will revert back to the existing 9 percent ratio effective January 1, 2022.

### **Pennsylvania Bank Regulation**

**Activity Powers.** The Pennsylvania Department of Banking regulates the internal organization of the Bank, as well as our activities, including, deposit-taking, lending and investment. The basic authority for our activities is specified by Pennsylvania law and by regulations, policies and directives issued by the Pennsylvania Department of Banking. The FDIC also regulates many of the areas regulated by the Pennsylvania Department of Banking, and federal law limits some of the authority that the Pennsylvania Department of Banking grants to us.

**Examination and Enforcement.** The Pennsylvania Department of Banking regularly examines state chartered banks in such areas as reserves, loans, investments, management practices and other aspects of operations. Although the Pennsylvania Department of Banking may accept the examinations and reports of the FDIC in lieu of its own examinations, the current practice is for the Pennsylvania Department of Banking to conduct individual examinations. The Pennsylvania Department of Banking may order any savings bank to discontinue any violation of law or unsafe or unsound business practice and may immediately suspend, remove, and permanently bar any director, officer, attorney or employee of a savings bank engaged in an objectionable activity, after a hearing before the Pennsylvania Department of Banking. The Pennsylvania Department of Banking may also issue civil penalties against the bank or any officer or director of the bank for violation of law or unsafe and unsound conduct.

**Loans-to-One-Borrower Limitations.** With certain specified exceptions, a Pennsylvania chartered savings bank may not make loans or extend credit to a single borrower and to entities related to the borrower in an aggregate amount that would exceed 15% of a savings bank's capital accounts. Under the Pennsylvania Banking Code, loans which are secured by collateral which has a market value of not less than 120% of the amount of the obligations secured by such collateral are excluded from the loan-to-one-borrower limitation up to an aggregate limit for 15% of the savings bank's capital accounts.

**Loans to Huntingdon Valley Bank's Insiders.** Pennsylvania law provides that we may make loans to our executive officers and directors and greater than 10% stockholders in accordance with federal regulations, as discussed below.

**Dividend Restrictions.** HV Bancorp is a legal entity separate and distinct from its subsidiary, Huntingdon Valley Bank. There are various legal and regulatory restrictions on the extent to which Huntingdon Valley Bank can, among other things, finance or otherwise supply funds to HV Bancorp. Specifically, dividends from Huntingdon Valley Bank are the principal source of HV Bancorp's cash funds and there are certain legal restrictions under Pennsylvania law and regulations on the payment of dividends by state-chartered banks. The Pennsylvania Department of Banking, the FDIC and the Federal Reserve Board also have authority to prohibit HV Bancorp and Huntingdon Valley Bank from engaging in certain practices deemed to be unsafe and unsound. The payment of dividends could, depending upon the condition of HV Bancorp and Huntingdon Valley Bank, be deemed to constitute an unsafe and unsound practice.

The Pennsylvania Banking Code regulates the distribution of dividends by banks and states, in part, that dividends may be declared and paid only out of accumulated net earnings. In addition, we may not declare and pay dividends from the surplus funds that Pennsylvania law requires that we maintain. Each year we will be required to set aside as surplus funds a sum equal to not less than 10% of our net earnings until the surplus funds equal 100% of our capital stock. We may invest surplus funds in the same manner as deposits, subject to certain exceptions. In addition, dividends may not be declared or paid if a savings bank is in default in payment of any assessment due the FDIC.

**Minimum Capital Requirements.** Regulations of the Pennsylvania Department of Banking impose on Pennsylvania chartered depository institutions, including Huntingdon Valley Bank, minimum capital requirements similar to those imposed by the FDIC on insured state banks. See “—Federal Bank Regulation—Capital Requirements.”

## Federal Bank Regulation

**Capital Requirements.** Federal regulations require state savings banks to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio; a Tier 1 capital to risk-based assets ratio; a total capital to risk-based assets ratio; and a Tier 1 capital to total assets leverage ratio. The capital standards were effective January 1, 2015 and are the result of regulations implementing recommendations of the Basel Committee on Banking Supervision (“Basel III”) and certain requirements of the Dodd-Frank Act.

The risk-based capital standards for state savings banks require the maintenance of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets ratios of at least 4.5%, 6% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. Common equity Tier 1 capital is generally defined as common stockholders’ equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income, up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. In assessing an institution’s capital adequacy, the FDIC takes into consideration not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where necessary.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019. For 2019, the capital conservation buffer is 2.5% of risk-weighted assets.

Notwithstanding the foregoing, the EGRRCPA simplifies capital calculations by requiring regulators to establish for institutions under \$10 billion in assets a community bank leverage ratio (tangible equity to average consolidated assets) at a percentage not less than 8% and not greater than 10% that such institutions may elect to replace the general applicable risk-based capital requirements under the Basel III capital rules. Such institutions that meet the community bank leverage ratio will automatically be deemed to be well-capitalized, although the regulators retain the flexibility to determine that the institution may not qualify for the community bank leverage ratio test based on the institution’s risk profile. On September 17, 2019, the board of the Federal Deposit Insurance Corporation passed a final rule on the community bank leverage ratio, setting the minimum required community bank leverage ratio at 9%. The rule went into effect January 1, 2020. On April 6, 2020, the FDIC, Board of Governors of the Federal Reserve System, and Office of the Comptroller of the Currency issued two interim final rules that make changes to the community bank leverage ratio framework and implemented Section 4012 of the CARES Act. These changes related to the minimum Tier 1 leverage ratio that can be used to take advantage of the simplified community bank leverage ratio framework. The two interim final rules are applicable to all non-advanced approaches FDIC-supervised institutions with less than \$10 billion in total consolidated assets. The lower Tier 1 leverage ratio modification is temporary to 8% and will revert back to the existing 9 percent ratio effective January 1, 2022.

The Federal Deposit Insurance Corporation Improvement Act required each federal banking agency to revise its risk-based capital standards for insured institutions to ensure that those standards take adequate account of interest-rate risk, concentration of credit risk, and the risk of nontraditional activities, as well as to reflect the actual performance and expected risk of loss on multi-family residential loans. The FDIC, along with the other federal banking agencies, adopted a regulation providing that the agencies will take into account the exposure of a bank’s capital and economic value to changes in interest rate risk in assessing a bank’s capital adequacy. The FDIC also has authority to establish individual minimum capital requirements in appropriate cases upon determination that an institution’s capital level is, or is likely to become, inadequate in light of the particular circumstances.

**Standards for Safety and Soundness.** As required by statute, the federal banking agencies adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness to implement safety and soundness standards. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository

institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. The agencies have also established standards for safeguarding customer information. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard.

**Investment Activities.** All FDIC insured banks, including savings banks, are generally limited in their equity investment activities to equity investments of the type and in the amount authorized for national banks, notwithstanding state law, subject to certain exceptions. In addition, a state bank may engage in state-authorized activities or investments not permissible for national banks (other than non-subsidary equity investments) if it meets all applicable capital requirements and it is determined by the FDIC that such activities or investments do not pose a significant risk to the Deposit Insurance Fund.

**Interstate Banking and Branching.** Federal law permits well capitalized and well managed holding companies to acquire banks in any state, subject to Federal Reserve Board approval, certain concentration limits and other specified conditions. Interstate mergers of banks are also authorized, subject to regulatory approval and other specified conditions. In addition, among other things, recent amendments made by the Dodd-Frank Act permit banks to establish de novo branches on an interstate basis provided that branching is authorized by the law of the host state for the banks chartered by that state.

**Prompt Corrective Regulatory Action.** Federal law requires, among other things, that federal bank regulatory authorities take “prompt corrective action” with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

The FDIC has adopted regulations to implement the prompt corrective action legislation. The regulations were amended to incorporate the previously mentioned increased regulatory capital standards that were effective January 1, 2015. An institution is deemed to be “well capitalized” if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is “adequately capitalized” if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is “undercapitalized” if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be “significantly undercapitalized” if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0%, or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be “critically undercapitalized” if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

As noted above, the EGRRCPA will eliminate these requirements for savings banks with less than \$10.0 billion in assets who elect to follow the community bank leverage ratio. On September 17, 2019, the board of the Federal Deposit Insurance Corporation passed a final rule on the community bank leverage ratio, setting the minimum required community bank leverage ratio at 9%. The rule will go into effect January 1, 2020. On April 6, 2020, the FDIC, Board of Governors of the Federal Reserve System, and Office of the Comptroller of the Currency issued two interim final rules that make changes to the community bank leverage ratio framework and implemented Section 4012 of the CARES Act. These changes related to the minimum Tier 1 leverage ratio that can be used to take advantage of the simplified community bank leverage ratio framework. The two interim final rules are applicable to all non-advanced approaches FDIC-supervised institutions with less than \$10 billion in total consolidated assets. The lower Tier 1 leverage ratio modification is temporary to 8% and will revert back to the existing 9 percent ratio effective January 1, 2022.

At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends, and restrictions on the acceptance of brokered deposits. Furthermore, if an insured depository institution is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the appropriate federal banking agency, and the holding company must guarantee the performance of that plan. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. An undercapitalized bank’s compliance with a capital restoration plan is required to be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5.0% of the institution’s total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an “undercapitalized” bank fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized.” “Significantly undercapitalized” banks must comply with

one or more of a number of additional restrictions, including but not limited to, an order by the FDIC to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, cease receipt of deposits from correspondent banks or dismiss directors or officers, and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. "Critically undercapitalized" institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

**Transactions with Affiliates and Regulation W of the Federal Reserve Regulations.** Transactions between banks and their affiliates are governed by federal law. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. In a holding company context, the parent bank holding company and any companies which are controlled by such parent holding company are affiliates of the bank (although subsidiaries of the bank itself, except financial subsidiaries, are generally not considered affiliates). Generally, Section 23A of the Federal Reserve Act and the Federal Reserve Board's Regulation W limit the extent to which a bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10.0% of such institution's capital stock and surplus, and with all such transactions with all affiliates to an amount equal to 20.0% of such institution's capital stock and surplus. Section 23B applies to "covered transactions" as well as to certain other transactions and requires that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those provided to a non-affiliate. The term "covered transaction" includes the making of loans to, purchase of assets from, and issuance of a guarantee to an affiliate, and other similar transactions. Section 23B transactions also include the provision of services and the sale of assets by a bank to an affiliate. In addition, loans or other extensions of credit by the financial institution to the affiliate are required to be collateralized in accordance with the requirements set forth in Section 23A of the Federal Reserve Act.

Sections 22(h) and (g) of the Federal Reserve Act place restrictions on loans to a bank's insiders, i.e., executive officers, directors and principal stockholders. Under Section 22(h) of the Federal Reserve Act, loans to a director, an executive officer and to a greater than 10.0% stockholder of a financial institution, and certain affiliated interests of these persons, together with all other outstanding loans to such person and affiliated interests, may not exceed specified limits. Section 22(h) of the Federal Reserve Act also requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as offered in comparable transactions to other persons and also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a financial institution to insiders cannot exceed the institution's unimpaired capital and surplus. Section 22(g) of the Federal Reserve Act places additional restrictions on loans to executive officers.

**Enforcement.** The FDIC has extensive enforcement authority over insured state savings banks, including Huntingdon Valley Bank. The enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease and desist orders and remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations, breaches of fiduciary duty and unsafe or unsound practices.

**Federal Insurance of Deposit Accounts.** Huntingdon Valley Bank is a member of the Deposit Insurance Fund, which is administered by the FDIC. Deposit accounts in Huntingdon Valley Bank are insured up to a maximum of \$250,000 for each separately insured depositor.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of \$10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC, which has exercised that discretion by establishing a long range fund ratio of 2%. As of June 30, 2020, the reserve ratio was 1.30%.

The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund. Under the FDIC's risk-based assessment system, insured institutions were assigned a risk category based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's rate depended upon the category to which it is assigned, and certain adjustments specified by FDIC regulations. Institutions deemed less risky pay lower FDIC assessments. The Dodd-Frank Act required the FDIC to revise its procedures to base its assessments upon each insured institution's total assets less tangible equity instead of deposits. The FDIC finalized a rule, effective April 1, 2011, that set the assessment range at 2.5 to 45 basis points of total assets less tangible equity.

Effective July 1, 2016, the FDIC adopted changes that eliminated the risk categories. Assessments for most institutions are now based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure within three years. In conjunction with the Deposit Insurance Fund reserve ratio achieving 1.5%, the assessment range (inclusive of possible adjustments) was reduced for most banks and savings associations to 1.5 basis points to 30 basis points. Effective June 26, 2020, the FDIC adopted a Final Rule to mitigate the effect on deposit insurance assessments resulting from an insured institution's participation in



the PPP, the PPPLF, and the Money Market Mutual Fund Liquidity Facility (“MMLF”). The regulation provides adjustments to remove the effects of participating in PPP, PPPLF, and MMLF on the assessment rate calculation, and an offset to assessments attributable to the MMLF and PPP assessment base increases.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of Huntingdon Valley Bank. Future insurance assessment rates cannot be predicted.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule order or regulatory condition imposed in writing. We do not know of any practice, condition or violation that might lead to termination of deposit insurance.

In addition to the FDIC assessments, the Financing Corporation (“FICO”) is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The final FICO collection assessment was on March 26, 2019.

**Privacy Regulations.** Federal regulations generally require that Huntingdon Valley Bank disclose its privacy policy, including identifying with whom it shares a customer’s “non-public personal information,” to customers at the time of establishing the customer relationship and annually thereafter. In addition, Huntingdon Valley Bank is required to provide its customers with the ability to “opt-out” of having their personal information shared with unaffiliated third parties and not to disclose account numbers or access codes to non-affiliated third parties for marketing purposes. Huntingdon Valley Bank currently has a privacy protection policy in place and believes that such policy is in compliance with the regulations.

**Community Reinvestment Act.** Under the Community Reinvestment Act, or CRA, as implemented by federal regulations, a state member bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution’s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA does require the FDIC, in connection with its examination of a state savings bank, to assess the institution’s record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution, including applications to acquire branches and other financial institutions. The CRA requires a written evaluation of an institution’s CRA performance utilizing a four-tiered descriptive rating system. Huntingdon Valley Bank’s latest federal CRA rating was “Satisfactory.”

**USA Patriot Act.** Huntingdon Valley Bank is subject to the USA PATRIOT Act, which gives federal agencies additional powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. The USA PATRIOT Act contains provisions intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents, and parties registered under the Commodity Exchange Act.

#### **Other Regulations**

Interest and other charges collected or contracted for by Huntingdon Valley Bank are subject to state usury laws and federal laws concerning interest rates. Loan operations are also subject to state and federal laws applicable to credit transactions, such as the:

- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies; and
- Rules and regulations of the various federal and state agencies charged with the responsibility of implementing such federal and state laws.

The deposit operations of Huntingdon Valley Bank also are subject to, among others, the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Check Clearing for the 21st Century Act (also known as “Check 21”), which gives “substitute checks,” such as digital check images and copies made from that image, the same legal standing as the original paper check; and
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers’ rights and liabilities arising from the use of automated teller machines and other electronic banking services.
- Truth in Savings Act and Regulation DD, which provides uniform standards for disclosure of deposit account terms, interest rates and fee disclosures.

#### **Federal Reserve System**

The Federal Reserve Board regulations require depository institutions to maintain non-interest-earning reserves against their transaction accounts (primarily NOW and regular checking accounts). The Federal Reserve Board regulations generally require that reserves be maintained against aggregate transaction accounts as follows: for that portion of transaction accounts aggregating \$124.2 million or less (which may be adjusted by the Federal Reserve) Board the reserve requirement is 3.0%, and for amounts greater than \$124.2 million the reserve requirement is 10.0% (which may be adjusted annually by the Federal Reserve Board to between 8.0% and 14.0%). The first \$16.3 million of otherwise reservable balances (which may be adjusted by the Federal Reserve Board) are exempted from the reserve requirements. Huntingdon Valley Bank is in compliance with these requirements.

#### **Federal Home Loan Bank System**

Huntingdon Valley Bank is a member of the Federal Home Loan Bank System, which consists of 11 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. Members of the Federal Home Loan Bank are required to acquire and hold shares of capital stock in the Federal Home Loan Bank. Huntingdon Valley Bank was in compliance with this requirement at December 31, 2019. Based on redemption provisions of the Federal Home Loan Bank of Pittsburgh, the stock has no quoted market value and is carried at cost. Huntingdon Valley Bank reviews for impairment, based on the ultimate recoverability, the cost basis of the Federal Home Loan Bank of Pittsburgh stock. As of December 31, 2019, no impairment has been recognized.

#### **Holding Company Regulation**

HV Bancorp, as a bank holding company, is subject to examination, regulation, and periodic reporting under the Bank Holding Company Act of 1956, as administered by the Federal Reserve Board. HV Bancorp is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior Federal Reserve Board approval would be required for HV Bancorp to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if it would, directly or indirectly, own or control more than 5% of any class of voting shares of the bank or bank holding company.

A bank holding company is generally prohibited from engaging in, or acquiring, direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the Federal Reserve Board has determined by regulation to be closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing securities brokerage services; (iv) acting as fiduciary, investment or financial advisor; (v) leasing personal or real property under certain conditions; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings association.

The Gramm-Leach-Bliley Act of 1999 authorizes a bank holding company that meets specified conditions, including that its depository institution subsidiaries are “well capitalized” and “well managed,” to opt to become a “financial holding company.” A “financial holding company” may engage in a broader array of financial activities than permitted a typical bank holding company. Such activities can include insurance underwriting and investment banking. HV Bancorp has not elected to become a “financial holding company.”

HV Bancorp is not subject to the Federal Reserve Board’s consolidated capital adequacy guidelines for bank holding companies. The EGRRCPA required the Federal Reserve Board to generally extend its “Small Bank Holding Company” exemption from consolidated

holding company capital requirements to bank and savings and loan holding companies of up to \$3 billion in assets. Regulations implementing the new legislation were effective in August 2018. Consequently, bank holding companies with less than \$3 billion in consolidated assets remain exempt from consolidated regulatory capital requirements, unless the Federal Reserve Board determines otherwise in particular cases.

A bank holding company is generally required to give the Federal Reserve Board prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. The Federal Reserve Board has adopted an exception to that approval requirement for well-capitalized bank holding companies that meet certain other conditions. The Federal Reserve Board has issued guidance which requires consultation with the Federal Reserve Board prior to a redemption or repurchase in certain circumstances.

The Federal Reserve Board has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the Federal Reserve Board's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. The Federal Reserve Board's policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by using available resources to provide capital funds during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. The Dodd-Frank Act codified the source of strength policy. Under the prompt corrective action laws, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of HV Bancorp to pay dividends or otherwise engage in capital distributions.

HV Bancorp and Huntingdon Valley Bank will be affected by the monetary and fiscal policies of various agencies of the United States Government, including the Federal Reserve System. In view of changing conditions in the national economy and in the money markets, it is impossible for management to accurately predict future changes in monetary policy or the effect of such changes on the business or financial condition of HV Bancorp or Huntingdon Valley Bank.

HV Bancorp's status as a registered bank holding company under the Bank Holding Company Act will not exempt it from certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws.

#### **Federal Securities Laws**

HV Bancorp common stock is registered with the Securities and Exchange Commission. HV Bancorp is also subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

The registration under the Securities Act of 1933 of shares of common stock issued in HV Bancorp's public offering does not cover the resale of those shares. Shares of common stock purchased by persons who are not affiliates of HV Bancorp may be resold without registration. Shares purchased by an affiliate of HV Bancorp will be subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If HV Bancorp meets the current public information requirements of Rule 144 under the Securities Act of 1933, each affiliate of HV Bancorp that complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of the outstanding shares of HV Bancorp, or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, HV Bancorp may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

#### **Emerging Growth Company Status**

In 2012, the JOBS Act was signed into law. The JOBS Act made numerous changes to the federal securities laws to facilitate access to capital markets. Under the JOBS Act, a company with total annual gross revenues of less than \$1.07 billion during its most recently completed fiscal year qualifies as an "emerging growth company." We qualify as an "emerging growth company" and believe that we will continue to qualify as an "emerging growth company" for five years from the completion of our initial public stock offering.

Subject to certain conditions set forth in the JOBS Act, if, as an “emerging growth company,” we choose to rely on such exemptions, we may not be required to, among other things, (i) provide an auditor’s attestation report on our system of internal controls over financial reporting, (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Act, (iii) hold non-binding stockholder votes regarding annual executive compensation or executive compensation payable in connection with a merger or similar corporate transaction, (iv) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements (auditor discussion and analysis), and (v) disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the chief executive officer’s compensation to median employee compensation. These exemptions will apply for a period of five years following the completion of our initial public offering or until we are no longer an “emerging growth company,” whichever is earlier. However, we will not be subject to additional executive compensation disclosure, regardless of the exemptions, so long as we remain a “smaller reporting company” under Securities and Exchange Commission regulations (generally less than \$250 million of voting and non-voting equity held by non-affiliates).

We could remain an “emerging growth company” for up to five years, or until the earliest of (a) the last day of the first fiscal year in which our annual gross revenues exceed \$1.07 billion, (b) the date that we become a “large accelerated filer” as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, or (c) the date on which we have issued more than \$1.0 billion in non-convertible debt during the preceding three-year period.

### **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. We have policies, procedures and systems designed to comply with these regulations, and we review and document such policies, procedures and systems to ensure continued compliance with these regulations.

### **Change in Control Regulations**

Under the Change in Bank Control Act, no person may acquire control of a bank holding company such as HV Bancorp unless the Federal Reserve Board has been given 60 days’ prior written notice and has not issued a notice disapproving the proposed acquisition, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, control in any manner of the election of a majority of the institution’s directors, or a determination by the regulator that the acquirer has the power, directly or indirectly, to exercise a controlling influence over the management or policies of the institution. Acquisition of more than 10% of any class of a bank holding company’s voting stock constitutes a rebuttable determination of control under the regulations under certain circumstances including where, as is the case with HV Bancorp, the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934.

In addition, federal regulations provide that no company may acquire control of a bank holding company without the prior approval of the Federal Reserve Board. Any company that acquires such control becomes a “bank holding company” subject to registration, examination and regulation by the Federal Reserve Board.

## **TAXATION**

### **Federal Taxation**

**General.** HV Bancorp and Huntingdon Valley Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize material federal income tax matters and is not a comprehensive description of the tax rules applicable to HV Bancorp and Huntingdon Valley Bank.

**Method of Accounting.** For federal income tax purposes, Huntingdon Valley Bank currently reports its income and expenses on the accrual method of accounting and used a tax year ending December 31. Beginning with the six months ended December 31, 2019, federal income tax returns was filed using a December 31 year end.

**Bad Debt Reserves.** Historically, Huntingdon Valley Bank has been subject to special provisions in the tax law regarding allowable tax bad debt deductions and related reserves. Tax law changes were enacted in 1996, pursuant to the Small Business Protection Act of 1996 (the "1996 Act"), that eliminated the use of the percentage of taxable income method for tax years after 1995 and required recapture into taxable income over a six-year period of all bad debt reserves accumulated after 1988. Huntingdon Valley Bank recaptured its excess reserve balance.

Currently, Huntingdon Valley Bank uses the specific charge-off method to account for bad debt deductions for income tax purposes.

**Taxable Distributions and Recapture.** At December 31, 2020, our total federal pre-base year reserve was approximately \$1.7 million upon which no deferred taxes have been provided. Under current law, pre-base year reserves remain subject to recapture should Huntingdon Valley Bank make certain non-dividend distributions, repurchase any of its stock, pay dividends in excess of tax earnings and profits, or cease to maintain a bank charter.

**Minimum Tax.** In 2017, federal tax reform legislation, commonly referred to as the Tax Cuts and Jobs Act of 2017 (the "Tax Act"), was enacted. The Tax Act repealed alternative minimum tax effective for tax years beginning after December 31, 2017. Any alternative minimum tax credit carryovers to tax years after December 31, 2017 generally may be utilized to the extent of the Company's regular tax liability offset by any minimum tax credit the Company may have for that year. In addition, for tax years beginning in 2018, 2019 and 2020, to the extent that the alternative minimum tax credit carryovers exceed regular tax liability offset by certain other tax credits, 50% of the excess alternative minimum tax credit carryovers are refundable. Any remaining alternative minimum tax credits will be fully refundable in 2021. At December 31, 2020, Huntingdon Valley Bank had approximately \$2,500 in alternative minimum tax credit carryforwards which is 100% refundable.

**Net Operating Loss Carryovers.** The Tax Act repealed carrying back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. The Tax Act provides for the indefinite carryforward of federal net operating losses arising in tax years ending after 2017. Also as a result of The Tax Act, net operating losses arising in tax years after 2017 may only reduce 80 percent of a taxpayer's taxable income in carryforward years. At December 31, 2020, Huntingdon Valley Bank had no federal net operating loss carryforwards and had no Pennsylvania state net operating loss carryforwards available for future use.

**Capital Loss Carryovers.** Generally, a financial institution may carry back capital losses to the preceding three taxable years and forward to the succeeding five taxable years. Any capital loss carryback or carryover is treated as a short-term capital loss for the year to which it is carried. As such, it is grouped with any other capital losses for the year to which carried and is used to offset any capital gains. Any undeducted loss remaining after the five-year carryover period is not deductible. At December 31, 2020, Huntingdon Valley Bank had no capital loss carryover.

**Corporate Dividends.** We may generally exclude from our income 100% of dividends received from Huntingdon Valley Bank as a member of the same affiliated group of corporations.

**Audit of Tax Returns.** Huntingdon Valley Bank's income tax returns have not been audited in the past five years.

## State Taxation

Huntingdon Valley Bank currently files Pennsylvania Mutual Thrift Institution Income Tax returns. Generally, the income of savings institutions in Pennsylvania, which is calculated based on generally accepted accounting principles, subject to certain adjustments, is subject to Pennsylvania tax. Huntingdon Valley Bank had no Pennsylvania state tax net operating loss carryforwards at December 31, 2020.

### Item 1A. Risk Factors

Not required for smaller reporting companies.

### Item 1B. Unresolved Staff Comments

None

**Item 2. Properties**

As of December 31, 2020, the net book value of our office properties (including leasehold improvements) was \$1.6 million. The following table sets forth information regarding our offices (in thousands):

<u>Location</u>	<u>Leased or Owner</u>	<u>Expiration Date (2)</u>	<u>Net Book Value of Real Property</u>
<b>Administrative Offices:</b>			
Executive Office (1):			
2005 South Easton Road, Suite 304 Doylestown, PA 18901	Leased	2030	\$ 96
<b>Business Banking:</b>			
990 Spring Garden Street, Suite 702 Philadelphia, PA 19123	Leased	2030	145
<b>Mortgage Production Offices:</b>			
539 Bethlehem Pike, Suite 3 Montgomeryville, PA 18936	Leased	2023	—
2005 South Easton Road, Suite 102 Doylestown, PA 18901	Leased	2021	8
1800 Byberry Road, Suite 900 Huntingdon Valley, PA 19006	Leased	2030	23
103 Foulk Road, Suite 100-B Wilmington, Delaware 19803	Leased	2024	5
<b>Banking Offices:</b>			
Main Office:			
2617 Huntingdon Pike Huntingdon Valley, PA 19006	Leased	2036	10
Plumsteadville:			
5725 Easton Road Plumsteadville, PA 18949	Owned	—	1,046
Warrington Plaza Shopping Center:			
Route 611 & Street Road Warrington, PA 18976	Leased	2025	24
Justa Farm Shopping Center:			
1900 County Line Road Huntingdon Valley, PA 19006	Leased	2024	193
Philadelphia:			
2444 South Broad Street Philadelphia, PA 19145	Leased	2029	—
Limited Service Office:			
8580 Verree Road Philadelphia, PA 19111	Leased	—	—

(1) During the end of August and the beginning of September 2019, we moved our executive office and mortgage production office to one location at 2005 South Easton Road, Suite 304 Doylestown, PA 18901.

(2) The expiration date does not include the optional lease extensions included in the lease agreements.

**Item 3. Legal Proceedings**

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions as of December 31, 2020 is not expected to have a material adverse effect on the Company's financial condition, results of operations or cash flows. In addition, no material proceedings are pending, are known to be threatened, or contemplated against the Company by governmental authorities.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Our shares of common stock are traded on the NASDAQ Capital Market under the symbol "HVBC". The approximate number of holders of record of HV Bancorp, Inc.'s common stock as of March 16, 2021 was 735. Certain shares of HV Bancorp, Inc. are held in "nominee" or "street" name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. HV Bancorp, Inc. began trading on the NASDAQ Capital Market on January 12, 2017.

During the year ended December 31, 2020, the six months ended December 31, 2019 and the year ended June 30, 2019, the Company did not pay a cash dividend per share. The Board of Directors has the authority to declare cash dividends on shares of common stock, subject to statutory and regulatory requirements. In determining whether and in what amount to pay a cash dividend, the Board takes into account a number of factors, including capital requirements, our consolidated financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. No assurances can be given that cash dividends will be paid again or that, if paid, will not be reduced.

The available sources of funds for the payment of a cash dividend in the future are interest and principal payments with respect to HV Bancorp, Inc.'s loan to the Employee Stock Ownership Plan, interest and principal payments on investment securities and dividends from Huntingdon Valley Bank.

Under the rules of the FDIC and the Federal Reserve Board, Huntingdon Valley Bank is not permitted to make a capital distribution if, after making such distribution, it would be undercapitalized. For information concerning additional federal and state laws and regulations regarding the ability of Huntingdon Valley Bank to make capital distributions, including the payment of dividends to HV Bancorp, see "Item 1—Business—Taxation—Federal Taxation" Item 1—Business—Pennsylvania Bank Regulation-Dividend Restriction" and "Item 1—Business—Supervision and Regulation."

Unlike Huntingdon Valley Bank, the Company is not restricted by FDIC regulations on the payment of dividends to its shareholders. However, the Federal Reserve Board has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the Federal Reserve Board's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Federal Reserve Board guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of HV Bancorp, Inc. to pay dividends or otherwise engage in capital distributions.

The equity compensation plan information presented under subparagraph (b) in Part III, Item 12 of this report is incorporated herein by reference. During April 2019, a stock repurchase plan was approved to purchase up to 100,000 shares of the Company's outstanding common stock. As of December 31, 2020, 80,818 shares at an average cost of \$13.42 per share had been repurchased pursuant to the April 2019 stock repurchase plan. HV Bancorp, Inc. did not repurchase any of its shares during six months ended December 31, 2019 and the year ended June 30, 2019. Further, in February 2021, the Board of Directors approved a plan to repurchase in the open market and privately negotiated transactions, up to 100,000 shares of the Company's outstanding common stock. This plan supplements the previous repurchase plan.

The following table provides information regarding repurchases of the Company's common stock during the quarter ended December 31, 2020.

Period	Total Number of Shares	Average Price Paid per share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1, 2020 - October 31, 2020	1,057	\$ 13.21	1,057	51,518
November 1, 2020 - November 30, 2020	3,905	14.59	3,905	47,613
December 1, 2020- December 31, 2020	28,431	15.34	28,431	19,182
Total	33,393	\$ 15.19	33,393	

(1) In April 2019, a stock repurchase plan was approved to repurchase up to 100,000 shares of the Company's outstanding common stock. There is no expiration date for this plan.

#### Item 6. Selected Financial Data

The following tables set forth selected consolidated historical financial and other data of HV Bancorp and subsidiary at or for the year ended December 31, 2020, the six months ended December 31, 2019 and the years ended June 30, 2019, 2018 and 2017. Selected historical financial and other data at or for the year ended June 30, 2016 are for Huntingdon Valley Bank. The following information is only a summary, and should be read in conjunction with the business and financial information contained elsewhere in this annual report. The information at and for the year ended December 31, 2020, the six months ended December 31, 2019 and for the years ended June 30, 2019 is derived in part from, and should be read together with, the audited consolidated financial statements and notes thereto of HV Bancorp and subsidiary beginning at page 61 page 61

of this annual report. The information at and for the years ended June 30, 2017 and 2016 is derived in part from audited financial statements that are not included in this annual report.

	At December 31,		At June 30,			
	2020	2019	2019	2018	2017	2016
	(In thousands)					
<b>Selected Financial Condition Data:</b>						
Total assets	\$ 861,607	\$ 354,586	\$ 344,195	\$ 297,762	\$ 216,765	\$ 182,023
Cash and cash equivalents	414,590	20,625	20,234	14,745	28,577	15,427
Investment securities available-for-sale, at fair value	23,518	21,156	35,236	30,847	42,820	33,281
Investment securities held-to-maturity	—	—	—	13,905	11,809	5,825
Equity securities	500	500	500	—	—	—
Loans held for sale at fair value	83,549	37,876	33,748	13,558	12,784	24,676
Loans receivable, net	313,811	255,032	240,786	212,696	111,811	93,450
Deposits	730,826	283,767	275,130	235,403	170,481	141,771
Federal Home Loan Bank advances	26,269	27,000	28,000	22,000	9,000	20,000
Advances from the Federal Reserve's Paycheck Protection Program liquidity facility ("PPPLF")	48,682	—	—	—	—	—
Securities sold under agreements to repurchase	—	—	3,789	5,739	2,883	3,929
Total liabilities	822,680	320,987	311,515	267,041	185,324	169,052
Total equity	38,927	33,599	32,680	30,721	31,441	12,971



	Year Ended December	Six Months Ended December	For the Years Ended			
	31,	31,	2019		2018	2017
	2020	2019	2019	2018	2017	2016
(In thousands)						
<b>Selected Data:</b>						
Interest income	\$ 13,823	\$ 6,262	\$ 10,982	\$ 7,984	\$ 5,734	\$ 5,302
Interest expense	3,143	2,098	2,927	1,351	891	746
Net interest income	10,680	4,164	8,055	6,633	4,843	4,556
Provision for loan losses	1,108	282	611	266	201	9
Net interest income after provision for loan losses	9,572	3,882	7,444	6,367	4,642	4,547
Gain on sale of loans, net	13,315	3,616	2,789	3,467	5,515	4,116
Other non-interest income (loss)	3,555	157	1,575	609	(573)	1,242
Non-interest income	16,870	3,773	4,364	4,076	4,942	5,358
Non-interest expense	18,470	6,932	10,735	9,429	8,820	8,354
Income before income taxes	7,972	723	1,073	1,014	764	1,551
Income tax expense	2,204	183	194	244	195	525
Net income	\$ 5,768	\$ 540	\$ 879	\$ 770	\$ 569	\$ 1,026

	At or for the Year Ended December	At or for the Six Months Ended December	At or For the Years Ended June 30,				
	31,	31,	2019	2018	2017	2016	
	2020	2019	2019	2018	2017	2016	
<b>Selected Financial Ratios and Other Data:</b>							
<b>Performance Ratios:</b>							
Return on average assets		1.33%	0.31%	0.28%	0.31%	0.28%	0.62%
Return on average equity		16.83%	3.33%	2.81%	2.48%	2.72%	8.69%
Interest rate spread (1)		2.43%	2.30%	2.50%	2.71%	2.46%	2.85%
Net interest margin (2)		2.57%	2.51%	2.67%	2.82%	2.52%	2.90%
Efficiency ratio (3)		67.04%	87.34%	86.44%	88.05%	90.14%	84.26%
Average interest-earning assets to average interest-bearing liabilities		119.01%	116.64%	116.95%	119.27%	113.16%	108.72%
<b>Asset Quality Ratios:</b>							
Non-performing assets as a percent of total assets		0.26%	1.04%	0.95%	0.52%	0.65%	0.69%
Non-performing loans as a percent of total loans		0.71%	1.45%	1.36%	0.73%	1.26%	1.23%
Allowance for loan losses as a percent of non-performing loans		89.49%	38.80%	36.08%	56.78%	42.15%	42.53%
Allowance for loan losses as a percent of total loans		0.64%	0.56%	0.49%	0.41%	0.53%	0.52%
Net charge-offs (recoveries) to average outstanding loans during the year		0.18%	0.01%	0.13%	(0.01%)	0.10%	0.04%
<b>Capital Ratios: (4)</b>							
Common equity tier 1 capital (to risk weighted assets)		12.70%	14.02%	15.31%	15.03%	21.21%	12.04%
Tier 1 leverage (core) capital (to adjusted tangible assets)		7.37%	8.52%	9.26%	8.77%	11.23%	7.63%
Tier 1 risk-based capital (to risk weighted assets)		12.70%	14.02%	15.31%	15.03%	21.21%	12.04%
Total risk-based capital (to risk weighted assets)		13.41%	14.70%	15.94%	15.57%	21.75%	12.49%
Average equity to average total assets		7.91%	9.38%	10.03%	12.67%	10.39%	7.10%
<b>Other Data:</b>							
Number of full service offices		6	4	4	4	4	4
Number of employees		126	97	92	71	74	65

- (1) Represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the year.
- (2) The net interest margin represents net interest income as a percent of average interest-earning assets for the year.
- (3) The efficiency ratio represents non-interest expense divided by the sum of net interest income and non-interest income.
- (4) Capital ratios are for Huntingdon Valley Bank. The Company's capital ratios are not materially different from Huntingdon Valley Bank's.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section is intended to help investors understand the financial performance of HV Bancorp, Inc. and its subsidiary through a discussion of the factors affecting our financial condition as of December 31, 2020 and 2019, and our results of operations for the year ended December 31, 2020, the six month transition period ended December 31, 2019 and the year ended June 30, 2019. This section should be read in conjunction with the audited consolidated financial statements and notes to the audited consolidated financial statements that appear beginning on page 61 of this annual report.

### Overview

HV Bancorp, Inc. provides financial services to individuals and businesses from our main office in Huntingdon Valley, Pennsylvania, and from our three additional full-service banking offices located in Plumsteadville, Warrington and Huntingdon Valley, Pennsylvania. We also operate a limited service branch in Philadelphia, Pennsylvania. Our administrative offices and executive offices are located in Doylestown, Pennsylvania. Our Business Banking office is located in Philadelphia, Pennsylvania. We have loan production and sales offices located in Mount Laurel, New Jersey, Doylestown, Pennsylvania, Huntingdon Valley, Pennsylvania and Wilmington, Delaware; and a loan origination office in Montgomeryville, Pennsylvania. Our primary market area includes Montgomery, Bucks and Philadelphia Counties in Pennsylvania, Burlington County in New Jersey and New Castle County in Delaware. Our principal business consists of attracting retail deposits from the general public in our market area and investing those deposits, together with funds generated from operations and borrowings, primarily in one- to four-family residential mortgage loans, commercial real estate loans (including multi-family loans), home equity loans and lines of credit and, to a lesser extent, consumer loans and construction loans. We retain our loans in portfolio depending on market conditions, but we primarily sell our fixed-rate one- to four-family residential mortgage loans in the secondary market. We also invest in various investment securities. Our revenue is derived principally from interest on loans and investments and loan sales. Our primary sources of funds are deposits, Federal Reserve's Paycheck Protection Program Liquidity Facility ("PPPLF"), Federal Home Loan Bank advances and principal and interest payments on loans and securities.

Our results of operations depend primarily on our net interest income which is the difference between the interest income we earn on our interest-earning assets and the interest we pay on our interest-bearing liabilities. Our results of operations also are affected by our provision for loan losses, non-interest income and non-interest expense. Non-interest income currently consists primarily of gains recognized from the sale of residential mortgage loans in the secondary market, fees for customer services, gain (loss) from derivative instruments and sales of securities. Non-interest expense currently consists primarily of expenses related to salaries and employee benefits, occupancy, data processing related operations, professional fees and other expenses. Our results of operations also may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities.

### Business Strategy

In March 2020, the World Health Organization recognized the outbreak of COVID-19 as a global pandemic. From the beginning of the COVID-19 crisis, our focus has been and remains on navigating the complexities, impact and ongoing challenges of the pandemic. During March 2020, management launched its previously developed Business Continuity Plan in response to the COVID-19 pandemic. Initially, the Company implemented drive-up service only, increased the use of virtual and distance communications with customers and employees, and mandated expansive work at home procedures for employees. By end of June 2020, our employees began returning to their offices on a rotating basis and the branch lobby services have been reopened to accommodate customers' needs. This gradual process was met with close adherence to health and safety-related requirements. We will continue to monitor governmental guidelines and follow mandates as set by authorities.

The COVID-19 pandemic has adversely affected economic activity globally, nationally and locally. It has caused substantial disruption in international and U.S. economies, markets, and employment. The full impact of COVID-19 remains uncertain. Despite these unprecedented health and economic challenges, the Company remains acutely focused on the execution of our strategic plan that began in 2017, with the conversion of a mutual to a stock bank.

We intend to operate as a well-capitalized and profitable community bank dedicated to providing exceptional personal service to our consumer and business customers. We believe that we have a competitive advantage in the markets we serve because of our knowledge of the local marketplace and our long-standing history of providing superior, relationship-based customer service. Our core business strategies are to:

- **Continue to Originate and Sell Certain Residential Real Estate Loans.** Residential mortgage lending has historically been a significant part of our business, and we recognize that originating one- to four-family residential real estate loans is essential to our status as a community-oriented bank. During the year ended December 31, 2020, we originated \$618.1 million in one- to four-family residential real estate loans held for sale, selling \$600.8 million

in one- to four-family residential real estate loans held for sale for gains on sale of \$13.3 million. During the six month transition period ended December 31, 2019, we originated \$167.1 million in one- to four-family residential real estate loans held for sale, selling \$166.7 million in one- to four-family residential real estate loans held for sale for gains on sale of \$3.6 million. During the year ended June 30, 2019, we originated \$159.8 million in one- to four-family residential real estate loans held for sale, selling \$140.1 million in one- to four-family residential real estate loans held for sale for gains on sale of \$2.8 million. We intend to continue to sell in the secondary market most of the long-term conforming fixed-rate one- to four-family residential real estate loans that we originate to increase non-interest income and manage the overall duration of our loan portfolio. We also intend to hold an appropriately sized portfolio of jumbo adjustable-rate one- to four-family residential real estate loans in order to increase interest income and help manage our interest rate risk. At December 31, 2020, we had \$73.8 million in jumbo one- to four-family residential real estate loans, which represented 52.0% of our one- to four-family residential real estate loan portfolio compared to \$125.5 million or 63.3% of our one- to four-family residential real estate loan portfolio at December 31, 2019.

- **Increase Commercial Real Estate and Commercial business.** In 2019, we established a new business banking division which will greatly expand the Bank's commercial real estate and commercial business portfolios. The inclusion of commercial real estate and commercial business loans may increase the yield on the loan portfolio and should help reduce interest rate risk while maintaining what we believe are conservative underwriting standards.
- **Maintain High Asset Quality.** Strong asset quality is critical to the long-term financial success of a community bank. We attribute our high asset quality to maintaining conservative underwriting standards, the diligence of our loan servicing personnel and the stability of the local economy. At December 31, 2020, our non-performing assets to total assets ratio was 0.71%. Because a substantial amount of our loans are secured by real estate, the level of our non-performing loans has been low in recent years as well as we adhere to a credit culture that is supported by strong underwriting standards, we believe that our allowance for loan losses is adequate to absorb the probable losses inherent in our loan portfolio.
- **Maintain Level of Core Deposits.** We plan to continue to market our transaction and savings accounts, emphasizing our high-quality, personalized customer service coupled with customer-facing technologies. We also offer the convenience of technology-based products, such as remote deposit capture, internet banking, mobile banking and mobile capture. Our ratio of core (non-time) deposits to total deposits was 91.5% at December 31, 2020.

### Critical Accounting Policies

The discussion and analysis of the financial condition and results of operations are based on our financial statements, which are prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. We consider the accounting policies discussed below to be critical accounting policies. The estimates and assumptions that we use are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, resulting in a change that could have a material impact on the carrying value of our assets and liabilities and our results of operations.

On April 5, 2015, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to take advantage of the benefits of this extended transition period. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards.

The following represents our critical accounting policies:

**Allowance for loan losses.** The allowance for loan losses is the amount estimated by management as necessary to cover losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment.

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent

recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

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

These qualitative risk factors include:

- Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;
- National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans;
- Nature and volume of the portfolio and terms of loans;
- Volume and severity of past due, classified and nonaccrual loans as well as and other loan modifications;
- Existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- Effect of external factors, such as competition and legal and regulatory requirements.

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the FDIC and the Pennsylvania Department of Banking and Securities, as an integral part of their examination process, periodically review our allowance for loan losses. These agencies may require us to recognize adjustments to the allowance based on judgments about information available to them at the time of their examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would adversely affect earnings.

See Note 1 of the notes to the audited consolidated financial statements of the Company included in this annual report.

**Income Taxes.** Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. See also **Note 14– Income Taxes** in the Notes to the Consolidated Financial Statements.

**Investment 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 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 it will be required to sell the security prior to an anticipated recovery of 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 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 losses) and (b) the amount of the total other-than-temporary impairment related to 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 other factors is recognized in other comprehensive income (loss).

**Fair Value Measurements.** Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A more detailed description of the fair values measured at each level of the fair value hierarchy and our methodology can be found in Note 15 of the audited consolidated financial statements of the Company included in this transition report on Form 10-K.

**Derivative Instruments and Hedging Activities.** We use derivative instruments as part of our overall strategy to manage our exposure to market risks primarily associated with fluctuations in interest rates. As a matter of policy, we do not use derivatives for speculative purposes. All of our derivative instruments that are measured at fair value on a recurring basis and are included in the consolidated statements of financial condition as mortgage banking derivatives and other liabilities. The fair value of our derivative instruments, other than Interest Rate Lock Commitments (“IRLC”) is determined by utilizing quoted prices from dealers in such securities or third-party models utilizing observable market inputs. The fair value of the Company’s IRLC instruments are based upon the underlying mortgage loan adjusted for the probability of such commitments being exercised and estimated costs to complete and originate the loan. The changes in the fair value of derivative instruments are included in non-interest income in the consolidated statements of income.

To be announced securities (“TBAs”) are “forward delivery” securities considered derivative instruments under derivatives and hedging accounting guidance, (FASB ASC 815). We utilize TBAs to protect against the price risk inherent in derivative loan commitments. TBAs are valued based on forward dealer marks from our approved counterparties. We utilize a third-party market pricing service, which compiles current prices for instruments from market sources and those prices represent the current executable price. TBAs are recorded at fair value on the consolidated statements of financial condition in mortgage derivatives and other liabilities with changes in fair value recorded in non-interest income in the consolidated statements of income.

Loan commitments that are derivatives are recognized at fair value on the consolidated statements of financial condition as mortgage banking derivatives and as other liabilities with changes in their fair values recorded as a gain in hedging instruments in non-interest income in the consolidated statements of income. Outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of issuance through the date of loan funding, cancellation or expiration. Loan commitments generally range between 30 and 90 days; however, the borrower is not obligated to obtain the loan. We are subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. We have used mandatory commitments to substantially reduce these risks. See Note 11 Derivatives and Risk Management Activities in the audited consolidated financial statements of the Company in this annual report.

#### COVID-19 UPDATE

In April 2020, our team in business banking and retail banking began accepting and processing applications for loans under the Paycheck Protection Program (“PPP”) implemented by the Small Business Association (“SBA”) with support from the Department of Treasury under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). As of December 31, 2020, the Company had received over 450 applications from new and existing customers with an outstanding balance of \$64.4 million and received approximately \$2.3 million in processing fee income. The processing fee income is deferred and recognized over the contractual life of the loan, or accelerated if the loan is forgiven. For the year ended December 31, 2020, the Company recognized approximately \$528,000 in interest income related to the PPP loans. The PPP loans have a two-year term and earn interest at 1%. The SBA fully guarantees the principle and interest, unless the lender violated an obligation under the agreement. The Company did not include the PPP loans in the

allowance for loan loss calculation as loan losses, if any, are anticipated to be immaterial. Through March 22, 2021, the Company received approximately \$24.9 million in PPP forgiveness from the SBA. As of March 22, 2021, the Company had processed and approved over 300 applications of the PPP program for approximately \$44.1 million in the second round of PPP loans which commenced in January 2021.

In December 2020, the Company participated in the Main Street Lending Program established by the Federal Reserve to support lending to small and medium-sized for profit businesses and nonprofit organizations that were in sound financial condition before the onset of the COVID-19 pandemic. The program ended on January 8, 2021. At December 31, 2020, the Company funded approximately \$31.1 million in loans. The Company retained approximately 5% or \$1.6 million outstanding balance at December 31, 2020 as 95% of the originated loans were sold to the Federal Reserve of Boston as part of the program.

### **Liquidity Sources**

The Company has reviewed all sources of liquidity in anticipation of any potential funding needs due to the COVID-19 pandemic and prioritized based on available capacity, terms, and cost of funds. As of December 31, 2020, the Company had the following sources of liquidity available:

	<b>At December 31,</b>	
	<b>2020</b>	<b>2019</b>
(In thousands)		
<b>Sources of Liquidity:</b>		
Cash and Cash equivalents	\$ 414,590	\$ 20,625
Market value of unencumbered securities	19,152	13,720
PPPLF availability	15,711	—
Collateral value of unencumbered pledged loans (FHLB borrowing availability)	161,061	131,598
Total sources of liquidity	<u>\$ 610,514</u>	<u>\$ 165,943</u>

In addition as of December 31, 2020, the Company also had access to \$3.0 million unused borrowing capacity from the Atlantic Community Bankers Bank and a \$923,000 line of credit with Federal Reserve Bank of Philadelphia. The Company also has access to brokered certificate of deposits as an additional funding source.

### **Capital Strength**

At December 31, 2020, the Bank's exceeded all regulatory capital requirements and was considered "well capitalized" under regulatory guidelines.

- Total risk-based capital (to risk-weighted assets) was 13.4%, tier 1 capital (to risk-weighted assets) was 12.7%, tier 1 capital (to average assets) was 7.4%, and tier 1 common equity (to risk-weighted assets) was 12.7%.

See Footnote 10 Regulatory Capital for more information.

### **Deferral Requests**

The Company has worked with the customers impacted by COVID-19 to provide short-term assistance up to nine months in accordance with regulatory guidelines. Commercial borrowers requesting assistance have been offered either a 90-day principal and interest deferral or a 90-day interest only with a potential deferral of up to two additional months. These deferrals do not constitute Troubled Debt Restructurings ("TDRS") because they met the requirements under section 4013 of the CARES Act. Under Section 4013 of the CARES Act, loans less than 30 days past due as of December 31, 2019, will be considered current for COVID-19 modifications. A financial institution can then use FASB agreed upon temporary changes to GAAP for loan modifications related to COVID-19 that would otherwise be categorized as a TDR, and suspend any determination of a loan modified as a result of COVID-19 being a TDR, including the requirement to determine impairment for accounting purposes. Similarly, FASB has confirmed that short-term modifications made on a good-faith basis in response to COVID-19 to loan customers who were current prior to any relief are not TDRs.

Residential borrowers needing assistance have been offered a 90-day principal and interest deferral with a potential additional 90-day deferral. As of December 31, 2020, the Company had two residential one-to-four family loan deferral requests and one commercial

real estate loan deferral request totaling \$1.8 million in outstanding loans compared to 4 residential one-to-four family loan deferral requests, representing \$1.8 million in total outstanding loans as of September 30, 2020 and 73 deferral requests processed with an outstanding balance of \$29.0 million as of June 30, 2020.

### ***Loan Portfolio Analysis***

Certain industries such as those included in the Company's commercial lending portfolio are anticipated to suffer greater economic impact as a result of the COVID-19 pandemic. The following table provides the outstanding exposure in regard to the Company's commercial loan portfolio by type as of December 31, 2020.

Type of Loan:	At December 31, 2020		
		(In thousands)	
	Number of Loans	Balance	% Gross Loans
Residential non-owner occupied	94	\$ 45,410	14.3%
Nonresidential buildings	27	19,968	6.3%
Other real estate properties	8	4,607	1.5%
Residential building construction	8	2,752	0.9%
Restaurants and Food Service	18	2,058	0.6%
Religious Organizations	3	997	0.3%
	<b>158</b>	<b>\$ 75,792</b>	<b>23.9%</b>

The extent of the impact of the COVID-19 pandemic to the Company's loan portfolio is uncertain and cannot be predicted as it will depend on certain developments including the duration of the pandemic and its impact on the local and national economy as a whole and the response thereto.

### **Comparison of Financial Condition at December 31, 2020 and December 31, 2019**

#### ***Total Assets***

Total assets increased \$507.0 million, or 143.0%, to \$861.6 million at December 31, 2020 from \$354.6 million at December 31, 2019. The increase was primarily the result of increases of \$394.0 million in cash and cash equivalents, \$58.8 million in loans receivable, \$45.6 million in loans held for sale, \$2.0 million in mortgage servicing rights, \$1.7 million in mortgage banking derivatives and \$1.7 million in right-of-use asset.

#### ***Cash and cash equivalents***

Cash and cash equivalents increased \$394.0 million to \$414.6 million at December 31, 2020 from \$20.6 million at December 31, 2019. In December 2020, the Company experienced an increase in cash as a result of an increase in retail deposits from certain accounts which it anticipates to be temporary and that a significant portion will be dispersed during the first quarter of 2021. In addition, growth in cash and cash equivalents was due to growth in public fund deposits and proceeds from use of the PPPLF facility. We anticipate that excess liquidity will be used to fund growth of the loan portfolio.

#### ***Investment Securities***

Investment securities increased by \$2.3 million, or 10.8% to \$23.5 million at December 31, 2020 from \$21.2 million at December 31, 2019. The increase was primarily due to purchases of \$14.8 million and an increase of \$363,000 in unrealized gains on securities available-for-sale partially offset by sales and principal repayments of \$12.9 million.

#### ***Net Loans***

Net loans increased \$58.8 million, or 23.1% to \$313.8 million at December 31, 2020 from \$255.0 million at December 31, 2019. In April 2020, the Company began participating in the PPP program and processed over 450 applications with an outstanding balance of \$64.4 million as of December 31, 2020. Commercial real estate loans increased by \$33.5 million to \$68.7 million at December 31, 2020, from \$35.2 million at December 31, 2019, primarily as a result of originations from the business banking division, whose continued focus



is growth of the commercial lending and commercial business loan portfolios. Commercial business loans increased by \$13.1 million to \$24.2 million at December 31, 2020, from \$11.1 million at December 31, 2019. The construction loans increased \$6.5 million to \$7.3 million at December 31, 2020, from \$784,000 at December 31, 2019. Offsetting these increases was a \$55.6 million decrease in one- to four-family residential real estate loans from \$197.5 million at December 31, 2019, to \$141.9 million at December 31, 2020, and a \$390,000 decrease in home equity and HELOC loans from \$4.4 million at December 31, 2019, to \$4.0 million at December 31, 2020.

In November 2017, the Bank entered into a loan purchase agreement with a broker to purchase a portfolio of private education loans made to American citizens attending AMA-approved medical schools in Caribbean nations. The broker serves as a lender, holder, program designer and developer, administrator, and secondary market for the loan portfolios they generate. At December 31, 2020, the balance of the private education loans was \$5.1 million. The private student loans were made following a proven credit criteria and were underwritten in accordance with the Bank's policies. At December 31, 2020, there were, three loans with a total balance of approximately \$81,000 that were past due 90 days or more.

#### ***Loans Held For Sale***

Loans held for sale increased \$45.6 million to \$83.5 million at December 31, 2020 from \$37.9 million at December 31, 2019 primarily as a result of originations of \$631.8 million of one- to four-family residential real estate loans during the year ended December 31, 2020 and net of principle sales of \$600.8 million of loans in the secondary market during this same period.

#### ***Deposits***

Deposits increased \$447.0 million, or 157.5%, to \$730.8 million at December 31, 2020 from \$283.8 million at December 31, 2019. Our core deposits (consisting of demand deposits, money market, passbook and statement and checking accounts) increased \$453.2 million, or 210.3%, to \$668.7 million at December 31, 2020 from \$215.5 million at December 31, 2019. As discussed above, there was an increase in core deposits from certain accounts which we anticipate to be temporary and that a significant portion will be dispersed during the first quarter of 2021. Certificates of deposit decreased \$6.2 million, or 9.1%, to \$62.1 million at December 31, 2020 from \$68.3 million at December 31, 2019. The decrease in certificate of deposits was primarily the result of decrease \$12.5 million in certificates of deposit issued through a broker during the year ended December 31, 2020 offset by retail growth of \$6.3 million in certificates of deposit.

#### ***Advances from the Federal Home Loan Bank***

During July 2020, the Company refinanced advances of \$27.0 million from the Federal Home Loan Bank to reduce the cost of borrowing. The Company incurred a prepayment fee of \$810,000. The advances of \$27.0 million were refinanced to a five year term at 85 basis points with an effective rate of 1.45% including the impact of the prepayment fee. The refinancing was accounted for as a loan modification. As of December 31, 2020 and December 31, 2019, the Company had \$26.3 million and \$27.0 million in advances outstanding.

#### ***Advances from the Federal Reserve's Paycheck Protection Program Liquidity Facility***

During the second quarter of 2020, the Company utilized the Federal Reserve's PPPLF to fund a portion of PPP loans. As of December 31, 2020, the Company had \$48.7 million in PPPLF advances outstanding.

#### ***Total Shareholders' Equity***

Total shareholders' equity increased \$5.3 million, or 15.8%, to \$38.9 million at December 31, 2020, compared to \$33.6 million at December 31, 2019. The increase was primarily due to net income of \$5.8 million, \$256,000 increase in other comprehensive income due to the fair value adjustments, net of deferred tax, on the investment securities available-for-sale portfolio combined with \$244,000 increase in share-based compensation expense and ESOP shares committed to be released of \$125,000. In addition, there was a stock option exercise of \$24,000 which contributed to the increase of total shareholders' equity. Offsetting these increases, was \$1.1 million in treasury stock repurchases primarily as part of the stock repurchase plan approved in April 2019.

#### **Comparison of Statements of Income for the Year Ended December 31, 2020 and 2019**

The Company changed its fiscal year end from June 30 to December 31, resulting in a six-month transition period from July 1, 2019 to December 31, 2019. Management's Discussion and Analysis for the comparison of Consolidated Statements of Income for the year

ended December 31, 2020, uses the twelve months ended December 31, 2019, unaudited, for comparison purposes. Management believes this comparison of like periods is most useful to the investors and readers of this Form 10-K document.

The following table shows the Consolidated Statements of Income for the year ended December 31, 2020 and the twelve months ended December 31, 2019, as well as the six-month periods ended on those same dates:

	For the Year Ended December 31,		For the Six Months Ended December 31,	
	2020	2019	2019	2018
	(In thousands, except per share data)			
	(Unaudited)		(Unaudited)	
Interest income	\$ 13,823	\$ 11,849	\$ 6,262	\$ 5,395
Interest expense	3,143	3,671	2,098	1,354
Net interest income	10,680	8,178	4,164	4,041
Provision for loan losses	1,108	810	282	83
Net interest income after provision for loan losses	9,572	7,368	3,882	3,958
Non-interest income	16,870	6,703	3,773	1,434
Non-interest expense	18,470	12,776	6,932	4,891
Income before income taxes	7,972	1,295	723	501
Income tax expense	2,204	285	183	92
Net income	\$ 5,768	\$ 1,010	\$ 540	\$ 409
Basic and diluted earnings per share	\$ 2.84	\$ 0.49	\$ 0.26	\$ 0.20
Basic weighted average common shares outstanding	2,033,083	2,041,527	2,046,961	2,026,312
Diluted weighted average common shares outstanding	2,033,083	2,046,296	2,046,961	2,026,312

  

	For the Year Ended December 31,		For the Six Months Ended December 31,	
	2020	2019	2019	2018
	(In thousands)			
	(Unaudited)		(Unaudited)	
Net cash used in operating activities	\$ (37,581)	\$ (19,833)	\$ (1,958)	\$ (499)
Net cash used in investing activities	(62,469)	(1,551)	(1,037)	(19,721)
Net cash provided by financing activities	494,015	25,017	3,386	22,467
Net increase in cash and cash equivalents	393,965	3,633	391	2,247
Cash and cash equivalents, beginning of period	20,625	16,992	20,234	14,745
Cash and cash equivalents, end of period	\$ 414,590	\$ 20,625	\$ 20,625	\$ 16,992

### General

Net income increased \$4.8 million, or 471.1%, to \$5.8 million for the year ended December 31, 2020 from \$1.0 million for the year ended December 31, 2019. The increase in net income for the year ended December 31, 2020 was primarily due to increases in non-interest income of \$10.2 million and increase in net interest income of \$2.5 million partially offset an increases of \$5.7 million in non-interest expense, \$1.9 million in income tax expense and \$298,000 in provision for loan losses as compared to the year ended December 31, 2019.

### Interest Income

Total interest income increased \$2.0 million, or 16.9%, to \$13.8 million for the year ended December 31, 2020 from \$11.8 million for the year ended December 31, 2019. The increase was primarily the result of a \$2.6 million increase in interest and fees on loans partially offset by a \$373,000 decrease in interest on investment securities and a \$249,000 decrease in interest-earning deposits with

banks. The average balance of our interest-earning assets increased by \$96.3 million to \$414.9 million for the year ended December 31, 2020 as compared to \$318.6 million for the year ended December 31, 2019. The increase was primarily a result of increases in the average balance of loans of \$86.3 million and \$24.2 million in interest on interest-earning deposits partially off-set by a decrease of \$14.7 million in the average balance of investment securities. The average yield on our interest-earning assets decreased 39 basis points to 3.33% for the year ended December 31, 2020 as compared to 3.72% for the year ended December 31, 2019 primarily as a result of a lower average yield on cash and cash equivalents and investment securities as short term rates declined.

Interest and fees on loans increased \$2.6 million, or 24.8%, to \$13.1 million for the year ended December 31, 2020 from \$10.5 million for the year ended December 31, 2019. This increase resulted primarily from an \$86.3 million increase in the average balance of loans to \$350.5 million for the year ended December 31, 2020 from \$264.2 million for the year ended December 31, 2019. The average yield on loans increased 24 basis points to 3.73% for the year ended December 31, 2020 from 3.97% for the year ended December 31, 2019.

Interest and dividends on investments, mortgage-backed securities and collateralized mortgage obligations decreased \$373,000, or 43.6%, to \$482,000 for the year ended December 31, 2020 from \$855,000 for the year ended December 31, 2019. The decrease was primarily the result of a decrease of \$224,000 in interest income on U.S. Government Agency securities, corporate bonds and municipal securities to \$340,000 from \$564,000 for the year ended December 31, 2019 as well as a decrease of \$149,000 or 51.2% in interest income on mortgage backed securities and collateral mortgage obligation securities to \$142,000 for the year ended December 31, 2020, from \$291,000 for the year ended December 31, 2019. The average yield on investment securities decreased 9 basis points to 2.31% for the year ended December 31, 2020 from 2.40% for the year ended December 31, 2019. The average balance of investment securities decreased by \$14.7 million to \$20.9 million for the year ended December 31, 2020, from \$35.6 million for the year ended December 31, 2019.

Interest on interest-earning deposits decreased \$249,000 to \$158,000 for the year ended December 31, 2020 from \$407,000 for the year ended December 31, 2019 due to a decrease in the average yield on interest-earning deposits decreased 194 basis points to 0.38% for the year ended December 31, 2020 from 2.32% for the year ended December 31, 2019 as a result of a decline in interest rates following the COVID-19 pandemic. The targeted federal funds rate was cut to 0% on March 16th and the 10-year Treasury bond fell below 1.00% on March 3, 2020. Offsetting this decrease, was an increase in the average balance of interest-earning deposits of \$24.2 million to \$41.7 million for the year ended December 31, 2020, from \$17.5 million for the year ended December 31, 2019.

### *Interest Expense*

Total interest expense decreased \$528,000 to \$3.1 million for the year ended December 31, 2020 from \$3.7 million for the year ended December 31, 2019 primarily due to a \$690,000 decrease in interest on deposits offset by a \$119,000 increase in interest expense on advances from the PPPLF and \$47,000 increase in interest expense on advances from the Federal Home Loan Bank.

Interest on deposits decreased \$690,000 to \$2.5 million for the year ended December 31, 2020 from \$3.2 million for the year ended December 31, 2019 as a result of a decrease in average cost of deposits of 40 basis points to 0.87% for the year ended December 31, 2020 from 1.27% for the year ended December 31, 2019. Offsetting this decrease, was an increase in the average interest bearing deposits of \$38.4 million to \$289.1 million during the year ended December 31, 2020 as compared to \$250.7 million during the year ended December 31, 2019. This increase was primarily the result of a \$52.7 million increase in the average balance of our core deposit accounts offset by a decrease of \$14.3 million in the average balance of our certificates of deposit. The average rate paid on money market deposits was 0.70% for the year ended December 31, 2020 compared to 0.75% for the year ended December 31, 2019. The decrease in the balance of our certificates of deposit of \$14.3 million from \$76.0 million for the year ended December 31, 2019, to \$61.7 million for the year ended December 31, 2020, was primarily the result of a \$17.9 million decrease in the average balance of certificates of deposit issued through brokers from \$32.2 million for the year ended December 31, 2019 to \$14.3 million for the year ended December 31, 2020, offset by an increase of \$3.6 million in the average balance in retail certificates of deposit. The average cost of certificates of deposit was 1.60% for the year ended December 31, 2020, as compared to 2.14% for the year ended December 31, 2019.

Interest expense on advances from the PPPLF was \$119,000 for the year ended December 31, 2020 as the Company utilized this borrowing facility to fund the PPP loans in the second quarter of 2020. The cost of borrowing was 39 basis points on the average outstanding balance of the facility.

Interest on advances from the Federal Home Loan Bank increased \$47,000 to \$523,000 for the year ended December 31, 2020 from \$476,000 for the year ended December 31, 2019 as a result of an increase in the average balance of Federal Home Loan Bank advances. The average balance of Federal Home Loan Bank advances increased by \$8.5 million to \$29.0 million during the year ended December 31, 2020 as compared to \$20.5 million for the year ended December 31, 2019. Offsetting this increase was a decrease in the average cost of Federal Home Loan Bank advances increased by 52 basis points to 1.80% for the year ended December 31, 2020 from 2.32% for the

year ended December 31, 2019. During the July 2020, the Company refinanced advances of \$27.0 million from the Federal Home Loan Bank to reduce the cost of borrowings.

***Net Interest Income***

Net interest income increased \$2.5 million, or 30.5%, to \$10.7 million for the year ended December 31, 2020 from \$8.2 million for the year ended December 31, 2019 as we increased our interest income at a greater rate than our interest expense. Our net interest-earning assets increased \$21.1 million to \$66.3 million for the year ended December 31, 2020 from \$45.2 million for the year ended December 31, 2019. Our interest rate spread increased by 5 basis points to 2.43% for the year ended December 31, 2020 from 2.38% for the year ended December 31, 2019. Our net interest margin was 2.57% for the year ended December 31, 2020 and for the year ended December 31, 2019.

**Average Balances and Yields.** The following table sets forth average balance sheets, average yields and costs, and certain other information for the years indicated. No tax-equivalent yield adjustments have been made. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or interest expense.

	For the Year Ended December 31,					
	2020			2019		
	Average Balance	Interest Income/Expense	Yield/Cost	Average Balance	Interest Income/Expense	Yield/Cost
(Dollars in thousands)						
<b>Interest-earning assets:</b>						
Loans (1)	\$ 350,521	\$ 13,087	3.73%	\$ 264,201	\$ 10,498	3.97%
Cash and cash equivalents	41,726	158	0.38%	17,536	407	2.32%
Investment securities	20,886	482	2.31%	35,604	855	2.40%
Restricted investment in bank stock	1,730	96	5.55%	1,215	89	7.33%
Total interest-earning assets	414,863	13,823	3.33%	318,556	11,849	3.72%
Non-interest-earning assets	18,665			12,153		
Total assets	<u>\$ 433,528</u>			<u>\$ 330,709</u>		
<b>Interest-bearing liabilities:</b>						
Demand deposits	\$ 119,277	\$ 809	0.68%	\$ 100,257	\$ 1,020	1.02%
Money market deposit accounts	50,733	357	0.70%	31,360	234	0.75%
Passbook and statement savings accounts	26,851	43	0.16%	27,430	57	0.21%
Checking accounts	30,523	304	1.00%	15,640	252	1.61%
Certificates of deposit	61,688	988	1.60%	76,033	1,628	2.14%
Total deposits	289,072	2,501	0.87%	250,720	3,191	1.27%
Federal Home Loan Bank advances	29,010	523	1.80%	20,539	476	2.32%
Federal Reserve PPPLF	30,507	119	0.39%	—	—	—
Securities sold under agreements to repurchase	—	—	0.00%	2,088	4	0.19%
Total interest-bearing liabilities	348,589	3,143	0.90%	273,347	3,671	1.34%
<b>Non-interest-bearing liabilities:</b>						
Checking	40,152			20,966		
Other	10,512			4,377		
Total liabilities	399,253			298,690		
Shareholders' Equity	34,275			32,019		
Total liabilities and Shareholders' equity	<u>\$ 433,528</u>			<u>\$ 330,709</u>		
Net interest income		<u>\$ 10,680</u>			<u>\$ 8,178</u>	
Interest rate spread (2)			2.43%			2.38%
Net interest-earning assets (3)	<u>\$ 66,274</u>			<u>\$ 45,209</u>		
Net interest margin (4)			2.57%			2.57%
Average interest-earning assets to average interest-bearing liabilities			119.01%			116.54%

- (1) Includes loans held for sale.  
(2) Interest rate spread represents the difference between the average yield on average interest-earning assets and the average cost of average interest-bearing liabilities.  
(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.  
(4) Net interest margin represents net interest income divided by average total interest-earning assets.

## Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the years indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	For Year Ended December 31, 2020 vs 2019		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	
			(In thousands)
<b>Interest-earning assets:</b>			
Loans	\$ 3,254	\$ (665)	\$ 2,589
Cash and cash equivalents	269	(518)	(249)
Investment securities	(366)	(7)	(373)
Restricted investment in bank stock	32	(25)	7
Total interest-earning assets	3,189	(1,215)	1,974
<b>Interest-bearing liabilities:</b>			
Demand deposits	171	(382)	(211)
Money market deposit accounts	137	(14)	123
Passbook and statement savings accounts	(1)	(13)	(14)
Checking accounts	174	(122)	52
Certificates of deposit	(340)	(300)	(640)
Total deposits	141	(831)	(690)
Federal Home Loan Bank advances	168	(121)	47
Federal Reserve PPPLF	119	—	119
Securities sold under agreements to repurchase	(6)	2	(4)
Total interest-bearing liabilities	422	(950)	(528)
Change in net interest income	\$ 2,767	\$ (265)	\$ 2,502

## Provision for Loan Losses

We establish a provision for loan losses, which is charged to operations, in order to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimated at the balance sheet date. In determining the level of the allowance for loan losses, we consider past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower's ability to repay a loan and the levels of non-performing loans. The amount of the allowance is based on estimates, and actual losses may vary from such estimates as more information becomes available or economic conditions change. Due to uncertainty of economic conditions from the COVID-19 pandemic, the Company increased the qualitative factors in the calculation of the allowance for loan losses. However, due to the uncertainty of the impact, the Company will continue to monitor and additional adjustment to the allowance for loan losses may be necessary.

This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as circumstances change as more information becomes available. The allowance for loan losses is assessed on a quarterly basis and provisions are made for loan losses as required in order to maintain the allowance. Provision for loan losses increased by \$298,000 to \$1.1 million for the year ended December 31, 2020, from \$810,000 for the year ended December 31, 2019 primarily as a result of charge-offs of \$529,000 related to medical education loans during the year ended December 31, 2020. Due to the continued uncertainty of changes in economic conditions from the COVID-19 pandemic, the Company increased the qualitative factors in the allowance for loan losses across the loan portfolio. During the year ended December 31, 2020, total charge-offs of \$529,000 were recorded and \$1,000 of

recoveries were received. During the year ended December 31, 2019, charge-offs of \$425,000 were recorded and \$97,000 of recoveries were received.

### ***Non-Interest Income***

Non-interest income increased \$10.2 million to \$16.9 million for the year ended December 31, 2020, from \$6.7 million for the year ended December 31, 2019. The increase in non-interest income compared to the same period in 2019 was primarily due to an increase of \$8.4 million in the gain on sale of loans, net to \$13.3 million for the year ended December 31, 2020, compared to \$4.9 million for the year ended December 31, 2019, primarily as a result of higher loan sales which increased \$366.8 million from \$234.0 million for the year ended December 31, 2019, to \$600.8 million for the year ended December 31, 2020. The increase in fair value of loans held for sale of \$942,000 for the year ended December 31, 2020 compared to same period in 2019 was primarily due to an increase in the loans held for sale balance, from \$37.9 million at December 31, 2019, to \$83.5 million at December 31, 2020. Gain from derivative instruments, net increased \$747,000 from \$765,000 for the year ended December 31, 2019 to \$1.5 million for the year ended December 31, 2020.

### ***Non-Interest Expense***

Non-interest expense increased \$5.7 million, or 44.5%, to \$18.5 million for the year ended December 31, 2020, from \$12.8 million for the year ended December 31, 2019. The increase for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily reflected increases in salaries and employee benefits of \$3.9 million, mortgage operation expenses of \$636,000, professional fees and other expenses of \$411,000, data processing related operations costs of \$370,000 and occupancy expenses of \$289,000.

Salaries and employee benefits expense increased by \$3.9 million to \$11.5 million for the year ended December 31, 2020 from \$7.6 million for the year ended December 31, 2019. Salaries increased as full time equivalent (FTE) employees increased to one-hundred-twenty-six as of December 31, 2020 from ninety-seven as of December 31, 2019 primarily resulting from the expansion of Company's lending operations and business banking operations. Mortgage operation expenses increased \$636,000 to \$940,000 for the year ended December 31, 2020 compared to \$304,000 for the year ended December 31, 2019. The increase in mortgage operation expenses was a result of higher residential mortgage originations compared to prior year as well as increased reserves for early payoffs ("EPO"). The EPO reserve is for loan pay-offs within six-months to the sale of an investor where the premium is to be paid back and pair-off fees for failure to deliver into a loan commitment when the mortgage loan has closed. The professional fees and other expenses increased \$411,000 or 22.3%, to \$2.3 million for the year ended December 31, 2020 from \$1.8 million for the year ended December 31, 2019 due to increased expenses related to organizational expenses as we continue to grow and expand into new markets. Data processing related operations costs increased \$370,000, or 46.7% to \$1.2 million for the year ended December 31, 2020 from \$792,000 for the year ended December 31, 2019. Occupancy Expenses increased \$289,000, or 18.3% to \$1.9 million for the year ended December 31, 2020 from \$1.6 million for the year ended December 31, 2019 primarily as a result of an increase in rental expense due to the move of our headquarters to Doylestown, PA as well as leases of additional offices space compared to the same period in 2019. In addition, depreciation expense increased \$125,000 due to furniture and equipment placed in service during the year ended December 31, 2020 compared to the same period in 2019.

### ***Income Tax Expense***

Income tax expense was \$2.2 million for the year ended December 31, 2020 compared to \$285,000 for the year ended December 31, 2019. Federal income taxes included in total taxes for the year ended December 31, 2020 and 2019 were \$1.5 million and \$218,000, respectively, with effective federal tax rates of 19.3% and 16.8%, respectively. The increase in the effective tax rate for the year ended December 31, 2020, compared to the same period a year ago reflected an increase in income before taxes.

Pennsylvania state tax was \$637,000 and \$67,000, respectively, with effective rates of 8.0% and 5.2%, respectively. The increase in the effective tax rate for the year ended December 31, 2020 compared to the same period a year ago reflected an increase in income before taxes. In addition, included in total taxes for the year ended December 31, 2020, was \$29,000 of New Jersey state tax.

## Comparison of Statements of Income for the Six Months Ended December 31, 2019 and 2018

### *General*

Net income increased \$131,000, or 32.0%, to \$540,000 for the six months ended December 31, 2019 from \$409,000 for the six months ended December 31, 2018. The increase in net income for the six months ended December 31, 2019 was primarily due to increases in non-interest income of \$2.3 million and increase in net interest income of \$123,000, partially offset an increases of \$2.0 million in non-interest expense, \$199,000 in provision for loan losses and income tax expense of \$91,000 as compared to six months ended December 31, 2018.

### *Interest Income*

Total interest income increased \$867,000, or 16.1%, to \$6.3 million for the six months ended December 31, 2019 from \$5.4 million for the six months ended December 31, 2018. The increase was primarily the result of a \$993,000 increase in interest and fees on loans, a \$35,000 increase in interest-earning deposits with banks, partially offset by an \$188,000 decrease in interest on investment securities. The average balance of our interest-earning assets increased by \$33.1 million to \$332.3 million for the six months ended December 31, 2019 as compared to \$299.2 million for the six months ended December 31, 2018. The increase was primarily a result of increases in the average balance of loans of \$43.3 million and \$4.5 million in interest on interest-earning deposits partially off-set by a decrease of \$15.2 million in the average balance of investment securities. The average yield on our interest-earning assets increased 16 basis points to 3.77% for the six months ended December 31, 2019 as compared to 3.61% for the six months ended December 31, 2018 primarily as a result of a higher average yield on loans.

Interest and fees on loans increased \$993,000, or 21.3%, to \$5.6 million for the six months ended December 31, 2019 from \$4.7 million for the six months ended December 31, 2018. This increase resulted primarily from a \$43.3 million increase in the average balance of loans to \$281.5 million for the six months ended December 31, 2019 from \$238.2 million for the six months ended December 31, 2018. The average yield on loans increased 10 basis points to 4.01% for the six months ended December 31, 2019 from 3.91% for the six months ended December 31, 2018.

Interest and dividends on investments, mortgage-backed securities and collateralized mortgage obligations decreased \$188,000, or 36.0%, to \$334,000 for the six months ended December 31, 2019 from \$522,000 for the six months ended December 31, 2018. The decrease was primarily the result of a decrease in interest income on mortgage backed securities and collateral mortgage obligation securities which decreased by \$103,000, or 50% to \$103,000 for the six months ended December 31, 2019, from \$206,000 for the six months ended December 31, 2018 as well as \$85,000 decrease in interest income on U.S. Government Agency securities, corporate bonds and municipal securities to \$231,000 from \$316,000 for the six months ended December 31, 2018. The average yield on investment securities decreased 7 basis points to 2.29% for the six months ended December 31, 2019 from 2.36% for the six months ended December 31, 2018. The average balance of investment securities decreased by \$15.2 million to \$29.1 million for the six months ended December 31, 2019, from \$44.3 million for the six months ended December 31, 2018.

Interest on interest-earning deposits increased \$35,000 to \$223,000 for the six months ended December 31, 2019 from \$188,000 for the six months ended December 31, 2018 due to an increase in the average balance of interest-earning deposits of \$4.5 million to \$20.2 million for the six months ended December 31, 2019 from \$15.7 million for the six months ended December 31, 2018. The average yield on interest-earning deposits decreased 18 basis points to 2.21% for the six months ended December 31, 2019 from 2.39% for the six months ended December 31, 2018.

### *Interest Expense*

Total interest expense increased \$744,000 to \$2.1 million for the six months ended December 31, 2019 from \$1.4 million for the six months ended December 31, 2018 due primarily to a \$581,000 increase in interest on deposits and a \$163,000 increase in interest on advances from the Federal Home Loan Bank.



Interest on deposits increased \$581,000 to \$1.8 million for the six months ended December 31, 2019 from \$1.2 million for the six months ended December 31, 2018 as a result of an increase in average interest bearing deposits of \$18.6 million to \$255.6 million during the six months ended December 31, 2019 as compared to \$237.0 million during the six months ended December 31, 2018. The increase in the average balance of interest bearing deposits was primarily as a result of a \$13.2 million increase in the average balance of our certificates of deposit and \$5.4 million increase in the average balance of our core deposit accounts. The average cost of deposits increased by 38 basis points to 1.39% for the six months ended December 31, 2019 from 1.01% for the six months ended December 31, 2018. The average cost of certificates of deposit increased by 37 basis points to 2.23% for the six months ended December 31, 2019 as compared to 1.86% for the six months ended December 31, 2018. The average rates paid on the money market deposits increased by 18 basis points to 0.81% for the six months ended December 31, 2019 from 0.63% for the six months ended December 31, 2018. The increase in the balance of our certificates of deposits of \$13.2 million from \$65.8 million for the six months ended December 31, 2018 to \$79.0 million for the six months ended December 31, 2019 was primarily the result of the Company issuing certificates of deposit through brokers which had an average balance of \$35.2 million for the six months ended December 31, 2019 compared to \$23.2 million for the six months ended December 31, 2018.

Interest on advances from the Federal Home Loan Bank increased \$163,000 to \$315,000 for the six months ended December 31, 2019 from \$152,000 for the six months ended December 31, 2018 as a result of an increase in the average balance of Federal Home Loan Bank advances and an increase in the average cost of Federal Home Loan Bank advances. The average balance of Federal Home Loan Bank advances increased by \$11.8 million to \$27.3 million during the six months ended December 31, 2019 as compared to \$15.5 million for the six months ended December 31, 2018 to fund loan requirements. In addition, the average cost of Federal Home Loan Bank advances increased by 35 basis points to 2.31% for the six months ended December 31, 2019 from 1.96% for the six months ended December 31, 2018, due primarily to increases in advance rates.

### ***Net Interest Income***

Net interest income increased \$123,000, or 3.0%, to \$4.2 million for the six months ended December 31, 2019 from \$4.0 million for the six months ended December 31, 2018 as we increased our interest income at a greater rate than our interest expense. Our net interest-earning assets increased to \$47.4 million for the six months ended December 31, 2019 from \$44.7 million for the six months ended December 31, 2018. Our interest rate spread decreased by 25 basis points to 2.30% for the six months ended December 31, 2019 from 2.55% for the six months ended December 31, 2018. Our net interest margin decreased by 19 basis points to 2.51% for the six months ended December 31, 2019 from 2.70% for the six months ended December 31, 2018.

**Average Balances and Yields.** The following table sets forth average balance sheets, average yields and costs, and certain other information for the years indicated. No tax-equivalent yield adjustments have been made. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or interest expense.

	For the Six Months Ended December 31,					
	2019			2018		
	Average Balance	Interest Income/Expense	Yield/Cost	Average Balance	Interest Income/Expense	Yield/Cost
(Dollars in thousands)						
<b>Interest-earning assets:</b>						
Loans (1)	\$ 281,456	\$ 5,648	4.01%	\$ 238,215	\$ 4,655	3.91%
Cash and cash equivalents	20,181	223	2.21%	15,737	188	2.39%
Investment securities	29,138	334	2.29%	44,277	522	2.36%
Restricted investment in bank stock	1,524	57	7.48%	990	30	6.06%
Total interest-earning assets	332,299	6,262	3.77%	299,219	5,395	3.61%
Non-interest-earning assets	13,572			10,289		
Total assets	<u>\$ 345,871</u>			<u>\$ 309,508</u>		
<b>Interest-bearing liabilities:</b>						
Demand deposits	\$ 100,577	\$ 584	1.16%	\$ 99,074	\$ 382	0.77%
Money market deposit accounts	31,184	126	0.81%	31,680	100	0.63%
Passbook and statement savings accounts	26,271	26	0.20%	29,602	35	0.24%
Checking accounts	18,548	166	1.79%	10,856	70	1.29%
Certificates of deposit	78,973	879	2.23%	65,757	613	1.86%
Total deposits	255,553	1,781	1.39%	236,969	1,200	1.01%
Federal Home Loan Bank advances	27,327	315	2.31%	15,481	152	1.96%
Securities sold under agreements to repurchase	2,018	2	0.20%	2,108	2	0.19%
Total interest-bearing liabilities	284,898	2,098	1.47%	254,558	1,354	1.06%
<b>Non-interest-bearing liabilities:</b>						
Checking	22,829			21,463		
Other	5,718			2,672		
Total liabilities	313,445			278,693		
Shareholders' Equity	32,426			30,815		
Total liabilities and Shareholders' equity	<u>\$ 345,871</u>			<u>\$ 309,508</u>		
Net interest income		<u>\$ 4,164</u>			<u>\$ 4,041</u>	
Interest rate spread (2)			2.30%			2.55%
Net interest-earning assets (3)	<u>\$ 47,401</u>			<u>\$ 44,661</u>		
Net interest margin (4)			2.51%			2.70%
Average interest-earning assets to average interest-bearing liabilities			116.64%			117.54%

(1) Includes loans held for sale.

(2) Interest rate spread represents the difference between the average yield on average interest-earning assets and the average cost of average interest-bearing liabilities.

(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by average total interest-earning assets.

## Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the years indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	For the Six Months December 31, 2019 vs 2018		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate (In thousands)	
<b>Interest-earning assets:</b>			
Loans	\$ 775	\$ 218	\$ 993
Cash and cash equivalents	60	(25)	35
Investment securities	(160)	(28)	(188)
Restricted investment in bank stock	14	13	27
Total interest-earning assets	689	178	867
<b>Interest-bearing liabilities:</b>			
Demand deposits	3	199	202
Money market deposit accounts	(2)	28	26
Passbook and statement savings accounts	(2)	(7)	(9)
Checking accounts	46	50	96
Certificates of deposit	89	177	266
Total deposits	134	447	581
Federal Home Loan Bank advances	111	52	163
Securities sold under agreements to repurchase	—	—	—
Total interest-bearing liabilities	245	499	744
Change in net interest income	\$ 444	\$ (321)	\$ 123

### Provision for Loan Losses

We establish a provision for loan losses, which is charged to operations, in order to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimated at the balance sheet date. In determining the level of the allowance for loan losses, we consider past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower's ability to repay a loan and the levels of non-performing loans. The amount of the allowance is based on estimates, and actual losses may vary from such estimates as more information becomes available or economic conditions change.

This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as circumstances change as more information becomes available. The allowance for loan losses is assessed on a quarterly basis and provisions are made for loan losses as required in order to maintain the allowance. Provision for loan losses increased by \$199,000 to \$282,000 for the six months ended December 31, 2019, from \$83,000 for the six months ended December 31, 2018 primarily as a result of charge-offs of \$121,000 related to medical education loans during the six months ended December 31, 2019. During the six months ended December 31, 2019, total charge-offs of \$121,000 were recorded and \$94,000 of recoveries were received. During the six months ended December 31, 2018, no charge-offs were recorded and \$1,000 of recoveries were received.

### Non-Interest Income

Non-interest income increased \$2.4 million to \$3.8 million for the six months ended December 31, 2019 from \$1.4 million for the six months ended December 31, 2018. The increase in non-interest income was primarily due to increases of \$2.1 million in the gain on sales of loans, net. In addition, gain on sale of available-for-sale securities

was \$211,000 for the six months ended December 31, 2019 compared to no gain on sale of available-for-sale securities for the six months ended December 31, 2018.

### ***Non-Interest Expense***

Non-interest expense increased \$2.0 million, or 40.8%, to \$6.9 million for the six months ended December 31, 2019 from \$4.9 million for the six months ended December 31, 2018. The increase for the six months ended December 31, 2019 compared to the six months ended December 31, 2018 primarily reflected increases in salaries and employee benefits of \$1.4 million, occupancy expenses of \$335,000 and professional fees and other expenses of \$304,000 partially offset by a \$105,000 decrease in federal deposit insurance premiums.

Salaries and employee benefits expense increased by \$1.4 million to \$4.1 million for the six months ended December 31, 2019 from \$2.6 million for the six months ended December 31, 2018. Salaries increased as full time equivalent (FTE) employees increased to ninety-seven as of December 31, 2019 from seventy-two as of December 31, 2018 primarily resulting from the expansion of Company's lending operations. Occupancy Expenses increased \$335,000 to \$870,000 for the six months ended December 31, 2019 from \$535,000 for the six months ended December 31, 2018 primarily as a result of an increase in rental expense of \$196,000 due to the move of our headquarters to Doylestown, PA as well as leases of additional offices space compared to the same period in 2018. In addition, depreciation expense increased \$81,000 due to furniture and equipment placed in service during the six month ended December 31, 2019 and leasehold improvements increased \$30,000 compared to the same period in 2018. The professional fees and other expenses increased \$304,000, or 24.7%, to \$1.5 million for the six months ended December 31, 2019 from \$1.2 million for the six months ended December 31, 2018 increased expenses related to organizational expenses as we continue to grow and expand into new markets. Partially offsetting these increases, was a \$105,000 decrease in Federal deposit insurance premiums to \$37,000 for the six months ended December 31, 2019 from \$142,000 for the six months ended December 31, 2018 as a result of small bank assessment credits during the six months ended December 31, 2019.

### ***Income Tax Expense***

Income tax expense was \$183,000 for the six months ended December 31, 2019 compared to \$92,000 for the six months ended December 31, 2018. Federal income taxes included in total taxes for the six months ended December 31, 2019 and 2018 were \$127,000 and \$61,000, respectively, with effective federal tax rates of 17.6% and 12.2%, respectively. Included in the income tax expense reported for six months ended December 31, 2018 was a credit for the ESOP dividend payment.

Pennsylvania state tax was \$56,000 and \$31,000, respectively, with effective rates of 7.7% and 6.2%, respectively. The increase in the effective tax rate for the six months ended December 31, 2019 compared to the same period a year ago reflected an increase in income before taxes.

### ***Liquidity and Capital Resources***

***Liquidity Management.*** Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, principal and interest payments on loans and securities, and proceeds from sales, maturities and calls of securities. In addition, we use brokered certificates of deposit as a funding source of our asset base. As of December 31, 2020 and 2019, and June 30, 2019, the Company had brokered certificates of deposit of \$10.0 million, or 1.2% of total assets, \$22.5 million, or 6.3% of total assets and \$41.0 million, or 11.9% of total assets, respectively. For the year ended December 31, 2020, the six months ended December 31, 2019 and the year ended June 30, 2019, the average cost of brokered certificates of deposit was 1.43%, 2.42% and 2.38%, respectively.

We also have the ability to borrow from the Federal Home Loan Bank of Pittsburgh and from the PPPLF. The Bank had advances from the PPPLF of \$48.7 million with unused borrowing capacity of \$15.7 million as of December 31, 2020. Huntingdon Valley Bank had Federal Home Loan Bank of Pittsburgh advances of \$27.0 million outstanding with unused borrowing capacity of \$161.1 million as of December 31, 2020. Additionally, at December 31, 2020, we had the ability to borrow \$3.0 million from the Atlantic Community Bankers Bank and we maintained a line of credit equal to 95% of the fair value of collateral held by the Federal Reserve Bank, which was

\$923,000 at December 31, 2020. We have not borrowed against the credit lines with the Atlantic Community Bankers Bank and the Federal Reserve Bank for the year ended December 31, 2020.

The board of directors is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We believe that we have enough sources of liquidity to satisfy our short and long-term liquidity needs as of December 31, 2020.

We monitor and adjust our investments in liquid assets based upon our assessment of: (1) expected loan demand; (2) expected deposit flows; (3) yields available on interest-earning deposits and securities; and (4) the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning deposits and short-and intermediate-term securities.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and cash equivalents, which include federal funds sold and interest-earnings deposits in other banks. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At December 31, 2020, cash and cash equivalents totaled \$414.6 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled \$23.5 million at December 31, 2020. Please refer to the section titled COVID-19 Update for additional information.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash used in operating activities was \$37.4 million, \$2.0 million and \$1.0 million for the year ended December 31, 2020, the six months ended December 31, 2019 and the year ended June 30, 2019, respectively. Net cash used in investing activities, which consists primarily of disbursements for loans originations and the purchase of securities, offset by principal collections on loans and proceeds from maturing securities, was \$62.5 million, \$1.0 million and \$20.2 million for the year ended December 31, 2020, the six months ended December 31, 2019, and the year ended June 30, 2019, respectively. During the year ended December 31, 2020, the six months ended December 31, 2019 and the year ended June 30, 2019, we sold \$4.9 million, \$12.0 million and \$7.0 million, respectively, in securities available-for-sale. Net cash provided by financing activities was \$493.9 million, \$3.4 million and \$44.1 million for the year ended December 31, 2020, the six months ended December 31, 2019, and the year ended June 30, 2019, respectively. Net cash provided by financing activities for the year ended December 31, 2020 consisted primarily of increases in deposits of \$447.1 million, net proceeds of \$48.7 million from the PPPLF offset by purchase of treasury stock of \$1.1 million and net repayments of \$810,000 of borrowings from the Federal Home Loan Bank. Net cash provided by financing activities for the six ended December 31, 2019 consisted primarily of increases in deposits of \$8.6 million, net decrease of \$3.8 million in securities sold under agreements to repurchase and net repayments of \$1.0 million of borrowings from the Federal Home Loan Bank. Net cash provided by financing activities for the year ended June 30, 2019 consisted primarily of increases in deposits of \$39.7 million and net proceeds of \$6.0 million of borrowings from the Federal Home Loan Bank, offset by net decrease of \$2.0 million in securities sold under agreements to repurchase.

We are committed to maintaining a strong liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Certificates of deposit due within one year of December 31, 2020, totaled \$51.2 million, or 7.0%, of total deposits. Included in certificates of deposit of \$51.2 million due within one year, is approximately \$10.0 million of brokered certificates of deposit maturing in six months. If these deposits do not remain with us, we will be required to seek other sources of funds, including other deposits and Federal Home Loan Bank advances. Depending on market conditions, we may be required to pay higher rates on such deposits or borrowings than we currently pay. We believe, however, based on past experience that a significant portion of such deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

**Capital Management.** Huntingdon Valley Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning Statement of Financial Condition assets and off-balance sheet items to broad risk categories. At December 31, 2020, Huntingdon Valley Bank exceeded all regulatory capital requirements

and was considered “well capitalized” under regulatory guidelines. See Note 10 of the Notes to the Audited Consolidated Financial Statements.

#### **Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

**Commitments.** As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. At December 31, 2020, we had outstanding commitments to originate loans of \$84.9 million and unused lines of credit totaling \$30.1 million. We anticipate that we will have sufficient funds available to meet our current lending commitments. Certificates of deposit that are scheduled to mature in less than one year from December 31, 2020 totaled \$51.2 million. Included in certificate of deposits of \$51.2 million due within one year, is approximately \$10.0 million of brokered certificate of deposits maturing within six months. Management expects that a substantial portion of the maturing certificates of deposit will be renewed. However, if a substantial portion of these deposits is not retained, we may utilize Federal Home Loan Bank advances or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense.

**Contractual Obligations.** In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include data processing services, operating leases for equipment, agreements with respect to borrowed funds and deposit liabilities.

#### **Impact of Inflation and Changing Prices**

The financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution’s performance than does inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Not required for smaller reporting companies.

**Item 8. Financial Statements and Supplementary Data**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of HV Bancorp, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of financial condition of HV Bancorp, Inc. and subsidiary (the “Company”) as of December 31, 2020 and 2019; the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for the year ended December 31, 2020, the transitional six-month period ended December 31, 2019, and the year ended June 30, 2019; and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the year ended December 31, 2020, the transitional six-month period ended December 31, 2019, and the year ended June 30, 2019, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent, with respect to the Company, in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements; and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter, in any way, our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.





## **Allowance for Loan Losses (ALL) – Qualitative Factors**

### ***Description of the Matter***

The Company's loan portfolio totaled \$315.8 million as of December 31, 2020, and the associated ALL was \$2.0 million. As discussed in Notes 1 and 4 to the consolidated financial statements, determining the amount of the ALL requires significant judgment about the collectability of loans, which includes an assessment of quantitative factors such as historical loss experience within each risk category of loans and testing of certain commercial loans for impairment. Management applies additional qualitative adjustments to reflect the inherent losses that exist in the loan portfolio at the balance sheet date that are not reflected in the historical loss experience. Qualitative adjustments are made based upon changes in economic conditions, volume and severity of past due loans, nonaccrual and adversely classified loans, nature and volume of portfolio, value of underlying collateral, lending policies and procedures, lending management experience, depth and ability, quality of loan review system and board oversight, effect of concentrations in credit and changes in level of such concentrations, and external factors.

We identified these qualitative adjustments within the ALL as critical audit matters because they involve a high degree of subjectivity. In turn, auditing management's judgments regarding the qualitative factors applied in the ALL calculation involved a high degree of subjectivity.

### ***How We Addressed the Matter in Our Audit***

We gained an understanding of the Company's process for establishing the ALL, including the qualitative adjustments made to the ALL. We evaluated the design and tested the operating effectiveness of controls over the Company's ALL process, which included, among others, management's review and approval controls designed to assess the need and level of qualitative adjustments to the ALL, as well as the reliability of the data utilized to support management's assessment. To test the qualitative adjustments, we evaluated the appropriateness of management's methodology and assessed whether all relevant risks were reflected in the ALL and the need to consider qualitative adjustments, including the potential effect of COVID-19 on the adjustments.

Regarding the measurement of the qualitative adjustments, we evaluated the completeness, accuracy, and relevance of the data and inputs utilized in management's estimate. For example, we compared the inputs and data to the Company's historical loan performance data, third-party macroeconomic data, and considered the existence of new or contrary information. Furthermore, we analyzed the changes in the components of the qualitative reserves relative to changes in external market factors, the Company's loan portfolio, and asset quality trends, which included the evaluation of management's ability to capture and assess relevant data from both external sources and internal reports on loan customers affected by the COVID-19 pandemic and the supporting documentation for substantiating revisions to qualitative factors.

We also utilized internal credit review specialists with knowledge to evaluate the appropriateness of management's risk-rating processes, to ensure that the risk ratings applied to the commercial loan portfolio were reasonable.

We have served as the Company's auditor since 2018.

/s/ S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania  
March 30, 2021

**HV Bancorp, Inc. and Subsidiary**  
**Consolidated Statements of Financial Condition**  
(Dollars in thousands, except share and per share data)

	December 31, 2020	December 31, 2019
<b>Assets</b>		
Cash and due from banks	\$ 1,625	\$
Interest-earning deposits with banks	410,853	
Federal funds sold	2,112	
Cash and cash equivalents	414,590	
Investment securities available-for-sale, at fair value	23,518	
Equity securities	500	
Loans held for sale, at fair value	83,549	
Loans receivable, net of allowance for loan losses of \$2,017 at December 31, 2020 and \$1,437 at December 31, 2019	313,811	
Bank-owned life insurance	6,408	
Restricted investment in bank stock	1,721	
Premises and equipment, net	2,834	
Operating lease right-of-use asset	7,685	
Accrued interest receivable	1,489	
Mortgage banking derivatives	2,899	
Mortgage servicing rights	2,041	
Other assets	562	
<b>Total Assets</b>	<b>\$ 861,607</b>	<b>\$</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits	\$ 730,826	\$
Advances from the Federal Home Loan Bank	26,269	
Advances from the Federal Reserve's Paycheck Protection Program liquidity facility ("PPPLF")	48,682	
Operating lease liabilities	7,946	
Advances from borrowers for taxes and insurance	2,131	
Other liabilities	6,826	
<b>Total Liabilities</b>	<b>822,680</b>	
<b>Shareholders' Equity</b>		
Preferred Stock, \$0.01 par value, 2,000,000 shares authorized; no shares issued and outstanding as of December 31, 2020 and December 31, 2019	—	
Common Stock, \$0.01 par value, 20,000,000 shares authorized; 2,270,725 shares issued and 2,189,408 shares outstanding as of December 31, 2020; 2,269,125 shares issued and 2,268,917 shares outstanding as of December 31, 2019	23	
Treasury Stock, at cost (81,317 shares at December 31, 2020 and 208 shares at December 31, 2019)	(1,092)	
Additional paid in capital	21,011	
Retained earnings	20,741	
Accumulated other comprehensive (loss) income	238	
Unearned Employee Stock Option Plan	(1,994)	
<b>Total Shareholders' Equity</b>	<b>38,927</b>	
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 861,607</b>	<b>\$</b>

See the accompanying notes to the consolidated financial statements.

**HV Bancorp, Inc. and Subsidiary**  
**Consolidated Statements of Income**  
(Dollars in thousands, except per share)

	For the year ended December 31, 2020	For the six months ended December 31, 2019	For the year ended June 30, 2019
<b>Interest Income</b>			
Interest and fees on loans	\$ 13,087	\$ 5,648	\$ 9,505
Interest and dividends on investments:			
Taxable	396	203	419
Nontaxable	40	85	292
Interest on mortgage-backed securities and collateralized mortgage obligations	142	103	394
Interest on interest-earning deposits	158	223	372
<b>Total Interest Income</b>	<b>13,823</b>	<b>6,262</b>	<b>10,982</b>
<b>Interest Expense</b>			
Interest on deposits	2,501	1,781	2,610
Interest on advances from the Federal Home Loan Bank	523	315	313
Interest on advances from the Federal Reserve PPPLF	119	—	—
Interest on securities sold under agreements to repurchase	—	2	4
<b>Total Interest Expense</b>	<b>3,143</b>	<b>2,098</b>	<b>2,927</b>
<b>Net Interest Income</b>	<b>10,680</b>	<b>4,164</b>	<b>8,055</b>
<b>Provision for Loan Losses</b>	<b>1,108</b>	<b>282</b>	<b>611</b>
<b>Net Interest Income After Provision for Loan Losses</b>	<b>9,572</b>	<b>3,882</b>	<b>7,444</b>
<b>Non-Interest Income</b>			
Fees for customer services	146	91	175
Increase in cash surrender value of bank owned life insurance	153	80	159
Gain on sale of loans, net	13,315	3,616	2,789
Gain on sale of available-for-sale securities, net	141	211	8
Gain (loss) from derivative instruments	1,512	(399)	798
Change in fair value of loans held-for-sale	1,408	160	424
Other	195	14	11
<b>Total Non-Interest Income</b>	<b>16,870</b>	<b>3,773</b>	<b>4,364</b>
<b>Non-Interest Expense</b>			
Salaries and employee benefits	11,510	4,075	6,145
Occupancy	1,865	870	1,241
Federal deposit insurance premiums	266	37	257
Data processing related operations	1,162	416	719
Professional fees	781	339	679
Marketing	476	316	449
Mortgage operation expenses	940	199	184
Other expenses	1,470	680	1,061
<b>Total Non-Interest Expense</b>	<b>18,470</b>	<b>6,932</b>	<b>10,735</b>
<b>Income Before Income Taxes</b>	<b>7,972</b>	<b>723</b>	<b>1,073</b>
<b>Income Tax Expense</b>	<b>2,204</b>	<b>183</b>	<b>194</b>
<b>Net Income</b>	<b>\$ 5,768</b>	<b>\$ 540</b>	<b>\$ 879</b>
<b>Net Income per share:</b>			
Basic	\$ 2.84	\$ 0.26	\$ 0.43
Diluted	\$ 2.84	\$ 0.26	\$ 0.43

See the accompanying notes to the consolidated financial statements.

**HV Bancorp, Inc. and Subsidiary**  
**Consolidated Statements of Comprehensive Income**  
(Dollars in thousands)

	<u>For the year ended December 31, 2020</u>	<u>For the six months ended December 31, 2019</u>	<u>For the year ended 30, 2019</u>
<b>Comprehensive Income, Net of Taxes</b>			
Net Income	\$ 5,768	\$ 540	\$
<b>Other comprehensive income (loss), net of tax</b>			
Unrealized gain on investment securities available-for-sale securities (pre-tax \$504, \$85 and \$1,027 respectively)	355	61	
Reclassification adjustment for gains included in income (pre-tax (\$141), (\$211) and (\$8), respectively) (1)	(99)	(149)	
Other comprehensive income (loss)	256	(88)	
<b>Total Comprehensive Income</b>	<u>\$ 6,024</u>	<u>\$ 452</u>	<u>\$</u>

(1) Amounts are included in gain on sale of available-for-sale securities on the Consolidated Statements of Income as a separate element within non-interest income. Income tax expense is included in the Consolidated Statements of Income.

See the accompanying notes to the consolidated financial statements.

**HV Bancorp, Inc. and Subsidiary**  
**Consolidated Statements of Changes in Shareholders' Equity**  
(In thousands, except share data)

	Stock	Common Shares	Amount	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned ESOP Shares	
<b>Balance, July 1, 2018</b>		2,259,125	\$ 23	\$ —	\$ 20,368	\$ 13,277	\$ (648)	\$ (2,299)	\$
ESOP shares committed to be released		—	—	—	10	—	—	122	
Treasury stock purchased		(208)	—	(3)	—	—	—	—	
Stock option expense		—	—	—	56	—	—	—	
Restricted stock expense		—	—	—	177	—	—	—	
Forfeiture of restricted stock award		(4,000)	—	—	—	—	—	—	
Net income		—	—	—	—	879	—	—	
Other comprehensive income		—	—	—	—	—	718	—	
Restricted stock awards		14,000	—	—	—	—	—	—	
<b>Balance, June 30, 2019</b>		2,268,917	\$ 23	\$ (3)	\$ 20,611	\$ 14,156	\$ 70	\$ (2,177)	\$
ESOP shares committed to be released		—	—	—	6	—	—	61	
Stock option expense		—	—	—	31	—	—	—	
Restricted stock expense		—	—	—	92	—	—	—	
Net income		—	—	—	—	540	—	—	
Adoption of ASU 2016-02, <i>Leases</i>		—	—	—	—	277	—	—	
Other comprehensive loss		—	—	—	—	—	(88)	—	
<b>Balance, December 31, 2019</b>		2,268,917	\$ 23	\$ (3)	\$ 20,740	\$ 14,973	\$ (18)	\$ (2,116)	\$
ESOP shares committed to be released		—	—	—	3	—	—	122	
Treasury stock purchased		(81,109)	—	(1,089)	—	—	—	—	
Stock option exercise		1,600	—	—	24	—	—	—	
Stock option expense		—	—	—	60	—	—	—	
Restricted stock expense		—	—	—	184	—	—	—	
Net income		—	—	—	—	5,768	—	—	
Other comprehensive income		—	—	—	—	—	256	—	
<b>Balance, December 31, 2020</b>		2,189,408	\$ 23	\$ (1,092)	\$ 21,011	\$ 20,741	\$ 238	\$ (1,994)	\$

See the accompanying notes to the consolidated financial statements.

**HV Bancorp, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows**  
(Dollars in thousands)

	For the year ended December 31, 2020	For the six months ended December 31, 2019	For the year ended June 30, 2019
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 5,768	\$ 540	\$ 879
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation	587	271	378
Amortization of deferred loan (fees) costs	(268)	230	241
Amortization of right-of-use assets	627	197	—
Amortization of net securities premiums	25	36	105
Gain on sale of available-for-sale securities, net	(141)	(211)	(8)
(Gain) loss from derivative instruments	(1,512)	399	(798)
Provision for loan losses	1,108	282	611
Deferred income taxes	396	23	337
Amortization of deferred gain on sale-leaseback transaction	—	—	(16)
Earnings on bank owned life insurance	(153)	(80)	(159)
Stock based compensation expense	244	123	233
ESOP compensation expense	125	67	132
Loans held for sale:			
Originations, net of prepayments	(631,755)	(167,067)	(159,843)
Proceeds from sales	600,805	166,715	142,866
Gain on sales	(13,315)	(3,616)	(2,789)
Change in fair value of loans held for sale	(1,408)	(160)	(424)
Decrease (increase) in:			
Accrued interest receivable	(522)	144	(171)
Prepaid income taxes	312	102	(160)
Prepaid and other assets	(1,976)	(231)	(1)
Other liabilities	3,628	278	213
Net cash used in operating activities	(37,425)	(1,958)	(18,374)
<b>Cash Flows from Investing Activities</b>			
Net increase in loans receivable	(59,619)	(14,758)	(12,951)
Purchased loans	—	—	(15,991)
Activity in available-for-sale securities:			
Proceeds from sales	4,883	12,007	6,990
Maturities and repayments	8,021	5,659	5,350
Purchases	(14,787)	(3,537)	(1,533)
Activity in held-to-maturity securities:			
Maturities and repayments	—	—	631
Purchases	—	—	(1,000)
Purchase of equity securities	—	—	(500)
Purchase of restricted investment in bank stock	(1,778)	(332)	(2,389)
Redemption of restricted investment in bank stock	1,609	442	1,917
Purchases of premises and equipment	(798)	(518)	(759)
Net cash used in investing activities	(62,469)	(1,037)	(20,235)
<b>Cash Flows from Financing Activities</b>			
Net increase in deposits	447,059	8,637	39,727
Net (decrease) increase in advances from borrowers for taxes and insurance	(7)	(462)	324
Net decrease in securities sold under agreements to repurchase	—	(3,789)	(1,950)
Net decrease in short-term borrowings from Federal Home Loan Bank	—	—	(10,000)
Proceeds from long-term borrowings from Federal Home Loan Bank	26,190	—	20,000
Repayment of long-term borrowings from Federal Home Loan Bank	(27,000)	(1,000)	(4,000)
Proceeds from long-term borrowings from FRB PPPLF	57,714	—	—
Repayment of long-term borrowings from FRB PPPLF	(9,032)	—	—
Proceeds from exercise of stock option	24	—	—
Purchase of treasury stock	(1,089)	—	(3)
Net cash provided by financing activities	493,859	3,386	44,098
<b>Increase in Cash and Cash Equivalents</b>	<b>393,965</b>	<b>391</b>	<b>5,489</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>20,625</b>	<b>20,234</b>	<b>14,745</b>

Cash and Cash Equivalents, end of year	\$ 414,590	\$ 20,625	\$ 20,234
<b>Supplementary Disclosure of Cash Flow Information</b>			
Cash paid during the year of interest	\$ 3,281	\$ 2,012	\$ 2,782
Cash paid during the year for income taxes	\$ 187	\$ 59	\$ —
<b>Supplementary Schedule of Noncash Investing Activities</b>			
Transfer of held-to-maturities securities to available-for-sale securities	\$ —	\$ —	\$ 14,274
Recognition of operating lease right-of-use assets	\$ 2,303	\$ 6,169	\$ —
Recognition of operating lease obligations	\$ 2,291	\$ 6,127	\$ —

See the accompanying notes to the consolidated financial statements.

**HV Bancorp, Inc. and Subsidiary**  
**Notes to the Consolidated Financial Statements**

**1. Summary of Significant Accounting Policies**

**Nature of Business**

HV Bancorp, Inc., a Pennsylvania Corporation (the “Company”) is the holding company of Huntingdon Valley Bank (the “Bank”) and was formed in connection with the conversion of the Bank from the mutual to the stock form of organization. On January 11, 2017, the mutual to stock conversion of the Bank was completed and the Company became the parent holding company for the Bank. A total of 2,182,125 shares of common stock of the Company were sold to depositors at \$10.00 per share through which the Company received gross offering proceeds of approximately \$21.8 million. Offering costs from the sale of the common stock totaled \$1.4 million, resulting in net proceeds of \$20.4 million. Shares of the Company’s common stock began trading on the Nasdaq Capital Market on January 12, 2017.

The Bank is a stock savings bank organized under the laws of the Commonwealth of Pennsylvania and is subject to comprehensive regulation and examination by the Federal Deposit Insurance Corporation (“FDIC”) and the Pennsylvania Department of Banking and Securities (“PADOB”). The Bank was organized in 1871, and currently provides residential and commercial loans to its general service area (Montgomery, Bucks and Philadelphia Counties of Pennsylvania, Burlington County, New Jersey and New Castle County, Delaware) as well as offering a wide variety of savings, checking and certificate of deposit accounts to its retail and business customers. In November 2020, the Bank formed a wholly-owned subsidiary, HVB Investment Management Inc. under the laws of the state of Delaware. The Bank intends to sell participation interests in certain residential loans from its portfolio and, potentially, other assets to its wholly-owned subsidiary. HVB Investment Management Inc. became operational in January 2021.

In accordance with federal and state regulations, at the time of the conversion from mutual to stock form, the Bank substantially restricted retained earnings by establishing a liquidation account. The liquidation account will be maintained for the benefit of eligible account holders who continue to maintain their accounts at the Bank after the conversion. The liquidation account will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation of the Bank, each account holder will be entitled to receive a distribution in an amount proportionate to the adjusted qualifying account balances then held.

The following is a description of the significant accounting policies of the Company.

The Company has evaluated subsequent events through the date of issuance of the financial statements and determined the following subsequent events required disclosure:

***Significant Event***

The COVID-19 pandemic has adversely affected economic activity globally, nationally and locally. It has caused substantial disruption in international and U.S. economies, markets, and employment. In response to the COVID-19 national emergency, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was passed by Congress and signed into law by President Trump on March 27, 2020. The CARES Act provides an estimated \$2.2 trillion of economy-wide financial stimulus to combat the pandemic and stimulate the economy in the form of financial aid to individuals, businesses, nonprofits, states, and municipalities through loans, grants, tax changes, and other types of relief. Some of the applicable provisions of the Cares Act to the Company include, but are not limited to:

- Accounting for Loan Modifications – Under Section 4013 of the CARES Act, a financial institution may elect to temporarily suspend (1) the requirements under GAAP for certain loan modifications that would otherwise be categorized as a Troubled Debt Restructuring (“TDR”) and (2) does not need to determine impairment associated with the loan modifications. As of December 31, 2020, the Company had 3 loan modification agreements with a balance of \$1.8 million outstanding.



**HV Bancorp, Inc. and Subsidiary**  
**Notes to the Consolidated Financial Statements**

•Paycheck Protection Program - The CARES Act authorized the Small Business Administration (“SBA”) to temporarily guarantee loans under a new 7(a) loan program called the Paycheck Protection Program (“PPP”). In early April 2020, the Company began accepting and processing applications for loans under the Paycheck Protection Program. As of December 31, 2020, the Company had received over 450 applications from new and existing customers with an outstanding balance of approximately \$64.4 million with an estimated processing fee income of approximately \$2.3 million. On December 27, 2020, the Consolidated Appropriations Act, 2021 (“CAA”) was signed into law. The CAA provides several amendments to the PPP, including additional funding for second draws of PPP loans up to March 31, 2021. The Company began accepting and processing applications for second draw PPP loans in January 2021. As of March 22, 2021, the Corporation had processed and approved over 300 applications of the PPP program for approximately \$44.1 million in the second round of PPP loans.

The CAA also included extension of TDR accounting relief provided under the CARES Act to January 1, 2022. The extension did not impact loan modifications made prior to December 31, 2020, however, it was considered in the identification of expected TDRs as of December 31, 2020.

For further discussion, see COVID-19 update section of Item 7-Management’s Discussion and Analysis of Financial Condition and Results of Operations.

***Change in fiscal year***

The Company’s Board of Directors approved a change in the Company’s fiscal year end from June 30 to December 31, effective December 31, 2019. As a result of this change, the consolidated financial statements include the Company’s financial results for the six month transition period from July 1, 2019 to December 31, 2019. The following tables present certain comparative transition period condensed financial information for the six months ended December 31, 2019 and 2018, respectively.

**HV Bancorp, Inc. and Subsidiary**  
**Notes to the Consolidated Financial Statements**

	<b>For the Six Months Ended</b>	
	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	(In thousands, except per share data)	
	(Unaudited)	
Interest income	\$ 6,262	\$ 5,395
Interest expense	2,098	1,354
Net interest income	4,164	4,041
Provision for loan losses	282	83
Net interest income after provision for loan losses	3,882	3,958
Non-interest income	3,773	1,434
Non-interest expense	6,932	4,891
Income before income taxes	723	501
Income tax expense	183	92
Net income	\$ 540	\$ 409
Basic and diluted earnings per share	\$ 0.26	\$ 0.20
Basic weighted average common shares outstanding	2,046,961	2,026,312
Diluted weighted average common shares outstanding	2,046,961	2,026,312

	<b>For the Six Months Ended</b>	
	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	(In thousands)	
	(Unaudited)	
Net cash (used in) operating activities	\$ (1,958)	\$ (499)
Net cash (used in) investing activities	(1,037)	(19,721)
Net cash provided by financing activities	3,386	22,467
Net increase in cash and cash equivalents	391	2,247
Cash and cash equivalents, beginning of period	20,234	14,745
Cash and cash equivalents, end of period	\$ 20,625	\$ 16,992

***Basis of Financial Statement Presentation***

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and general practices within the financial services industry.

***Principles of Consolidation***

The accompanying audited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. All significant intercompany transactions and balances have been eliminated in consolidation.

***Use of Estimates***

In preparing financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial condition and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, other-than-temporary impairments of

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securities, interest rate lock commitments (“IRLCs”), mandatory sales commitments, the valuation of mortgage loans held-for-sale, mortgage servicing rights, other real estate owned, and the valuation of deferred tax assets.

***Cash and Cash Equivalents***

For purposes of the statements of cash flows, the Company considers cash and cash equivalents to include cash, amounts due from banks, and interest-bearing deposits with banks with original maturities of three months or less.

***Investment Securities***

Management determines the appropriate classification of securities at the time of purchase.

Securities that management has both the positive intent and ability to hold to maturity are classified as securities held-to-maturity and are carried at cost, adjusted for amortization of premium or accretion of discount using the interest method.

Securities that may be sold prior to maturity for asset/liability management purposes, or that may be sold in response to changes in interest rates, to changes in prepayment risk, to increase regulatory capital or other similar factors, are classified as securities available-for-sale and carried at fair value with any adjustments to fair value, after tax, reported as a separate component of shareholders’ equity.

Interest and dividends on securities, including the amortization of premiums and the accretion of discounts, are reported in interest and dividends on securities using the interest method. Gains and losses on the sale of available-for-sale securities are recorded on the trade date and are calculated using the specific-identification method.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary, (“OTTI”) would be reflected in the statements of income. In evaluating loss for other-than-temporary impairment, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value and (4) whether the Company intends to sell the security or if it is more likely than not that the Company will be required to sell the security before the recovery of its amortized cost basis.

For debt securities where the Company has determined that other-than-temporary impairment exists and the Company does not intend to sell the security or if it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the impairment is separated into the amount that is credit-related and the amount due to all other factors. The credit-related impairment is recognized in the statements of income, and is the difference between an investment's amortized cost basis and the present value of expected future cash flows discounted at the investment's effective interest rate. The non-credit related loss is recognized in other comprehensive income (loss), net of income tax benefit. For debt securities classified as held-to-maturity, the amount of noncredit-related impairment is recognized in other comprehensive income (loss) and is accreted over the remaining life of the debt security as an increase in the carrying value of the investment.

***Mortgage Banking Activities and Mortgage Loans Held for Sale***

Loans held for sale (“LHS”) are originated and held until sold to permanent investors. Management accounts for loans held for sale at fair value. Fair value is determined on a recurring basis by utilizing quoted prices from dealers in such loans.

The fair value is determined on a recurring basis by utilizing quoted prices from dealers in such securities. Gains and losses on loan sales are recorded in non-interest income and direct loan origination costs and fees deferred and recognized upon sale and are included in non-interest income in the consolidated statements of income.

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***Risk Management and Derivative Instruments and Hedging Activities***

The Company's principal market exposure is to interest rate risk, specifically long-term U.S. Treasury and mortgage interest rates due to their impact on the fair value of mortgage loans held for sale and related commitments. The Company is subject to interest rate risk and price risk on its loans held for sale from the loan funding date until the date the loan is sold.

The Company uses derivative instruments as part of its overall strategy to manage its exposure to market risks primarily associated with fluctuations in interest rates. As a matter of policy, the Company does not use derivatives for speculative purposes. All of the Company's derivative instruments are measured at fair value on a recurring basis and are included in the consolidated statements of financial condition as mortgage banking derivatives. The changes in the fair value of derivative instruments are included in non-interest income in the consolidated statements of income.

***To Be Announced Securities***

To be announced securities ("TBAs") are "forward delivery" securities considered derivative instruments under derivatives and hedging accounting guidance. The Company utilizes TBAs to protect against the price risk inherent in derivative loan commitments.

TBAs are valued based on forward dealer marks from the Company's approved counterparties. The Company utilizes a third-party market pricing service, which compiles current prices for instruments from market sources and those prices represent the current executable price.

TBAs are recorded at fair value on the consolidated statements of financial condition in mortgage banking derivatives or other liabilities with changes in fair value recorded as a gain (loss) from hedging instruments in non-interest income in the Consolidated Statements of Income.

The fair value of the Company's derivative instruments, other than IRLCs, that are measured at fair value on a recurring basis is determined by utilizing quoted prices from dealers in such securities or third-party models utilizing observable market inputs.

***Interest Rate Lock Commitments***

Interest rate loan commitments known as IRLCs that relate to the origination of mortgages that will be held for sale upon funding are considered derivative instruments under the derivatives and hedging accounting guidance FASB ASC 815, *Derivatives and Hedging*. IRLCs are recognized at fair value on the consolidated statements of financial condition as mortgage banking derivatives or as other liabilities with changes in their fair values recorded as a gain (loss) from hedging instruments in non-interest income in the Consolidated Statements of Income.

***Forward Loan Sales Commitments***

Outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of issuance through the date of loan funding, cancellation or expiration. IRLC generally range between 30 and 90 days; however, the borrower is not obligated to obtain the loan. The Company is subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. See Note 10, Derivatives and Risk Management Activities. Forward loan sales commitments are recognized at fair value on the Consolidated Statements of Financial Condition as mortgage banking derivatives or as other liabilities with changes in their fair values recorded as a gain (loss) from hedging instruments in non-interest income in the Consolidated Statements of Income.

***Loans Receivable***

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of

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certain direct origination costs, are deferred and recognized as an adjustment of the yield in (interest income) of the related loans.

The loans receivable portfolio is segmented into Residential, Commercial, Construction and Consumer loans. Within Residential loans, the following classes exist: One-to-four family loans and home equity and home equity lines of credit (“HELOCs”). Within Commercial loans, the following classes exist: commercial real estate, commercial business loans, Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) loans and Main Street Lending Program. Within Consumer loans, the following classes exist: Medical education and other.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management’s judgment as to the collectability of principal.

Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, generally six months, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

***Allowance for Loan Losses***

The allowance for loan losses represents management’s estimate of losses inherent in the loan portfolio as of the consolidated statement of financial condition date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

The allowance for loan losses is maintained at a level considered adequate to provide for probable losses inherent in the portfolio. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Bank’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, 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 and general components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential mortgage, home equity, HELOCs, medical education loans, and other consumer loans. Since the SBA fully guarantees the principle and interest of the PPP loans, unless the lender violated an obligation under the agreement, there is no allowance for loan loss calculation for the PPP loans as the loan losses, if any, are anticipated to be immaterial. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors.

These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.

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2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Volume and severity of past due, classified and nonaccrual loans as well as other loan modifications.
5. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
6. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through objective data to analyze of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

Residential loans are secured by the borrower's residential real estate in either a first or second lien position. Residential loans have varying loan rates depending on the financial condition of the borrower and the loan to value ratio.

The Company makes commercial loans for real estate development and other business purposes required by the customer base. The Company's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and inventory. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or term of the loan. The assets financed through commercial loans are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets. Commercial mortgage loans include long-term loans financing commercial properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial mortgage loans typically require a loan to value ratio of not greater than 80% and vary in terms.

The Company also makes construction loans to finance the construction of residential and commercial structures. These loans are made to individuals or commercial customers and are typically secured by the land and structures under construction. Construction loans have an inherently higher risk of repayment due to potential unforeseen delays in completion and changes in market conditions during the construction.

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 real estate loans, commercial business and 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.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value.

For commercial and construction loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the

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collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual residential mortgage loans, home equity loans, home equity line of credits, medical education loans and other consumer loans for impairment disclosures, unless such loans have been modified and accounted for as a troubled debt restructuring.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are generally restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. All loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial and construction loans or when credit deficiencies arise, such as delinquent loan payments, for commercial real estate and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any.

Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, Federal and State regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require to the Bank recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

***Mortgage Servicing Rights***

The Company recognizes mortgage servicing rights as assets when mortgage loans are sold and the rights to service those loans are retained. Mortgage servicing rights are initially recorded at fair value by using discounted cash flows to calculate the present value of estimated future net servicing income.

The Company accounts for the mortgage servicing rights under the amortization method. The mortgage servicing rights are initially recorded at fair value and amortized in proportion to the estimated expected future net servicing income generated from servicing the loan. On a quarterly basis, the mortgage servicing rights are evaluated for impairment by estimating the fair value of the mortgage servicing rights and comparing that value to the carrying amount. The Company obtains a third party valuation to assist with estimating of the fair value of the mortgage servicing rights. A valuation allowance would be established if the carrying amount of these mortgage servicing rights exceeds fair value.

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***Bank-Owned Life Insurance***

The Bank invests in bank-owned life insurance policies (“BOLI”) as a mechanism for funding various employee benefit costs. The Bank is the beneficiary of these policies that insure the lives of certain of its current and former officers. The Bank recognizes the cash surrender value under the insurance policies as an asset in the Consolidated Statement of Financial Condition. Changes in the cash surrender value are recorded in non-interest income in the Consolidated Statements of Income.

***Restricted Investment in Bank Stock***

Restricted investment in bank stocks, which represents required investments in the common stock of correspondent banks, is carried at cost, and consists of common stock of the Atlantic Community Bancshares, Inc. (“ACBI”) and Federal Home Loan Bank of Pittsburgh (“FHLB”) stock totaling \$1,721,000 and \$1,552,000 at December 31, 2020 and 2019, respectively.

***Premises and Equipment, net***

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is charged to income on the straight-line method over the estimated useful lives of the assets or, in the case of leasehold improvements, the expected lease period, if shorter. When disposal of fixed assets occurs, the related cost and accumulated depreciation are removed from the asset accounts, and the gain or loss from these disposals is reflected in non-interest income.

The estimated useful lives are as follows:

	<u>Years</u>
Land improvements	40
Office buildings and improvements	15 to 40
Leasehold improvements	5 to 15
Furniture and office equipment	3 to 7

***Real Estate Owned***

Real estate owned is comprised of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure and loans classified as in-substance foreclosure. A loan is classified as in-substance foreclosure when the Company has taken possession of the collateral regardless of whether formal proceedings take place. Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Real estate secured by residential one- to four- family properties in the process of foreclosure totaled \$294,000 and \$403,000 as of December 31, 2020 and 2019, respectively. There was no real estate secured by residential one- to four- family properties held in Other Real Estate Owned at December 31, 2020 and 2019, respectively. There was no real estate secured by commercial properties held in Other Real Estate Owned at December 31, 2020 and 2019, respectively. Revenues and expenses from operations and changes in the valuation allowance are included in real estate owned expenses, as part of non-interest expenses. In addition, any gain or loss realized upon disposal is included in gain or loss on sale of other real estate owned, as part of non-interest expense.

***Securities Sold Under Agreements to Repurchase***

The Company entered into sales of securities under agreements to repurchase. During November 2019, the Company terminated these agreements to repurchase. Reverse repurchase agreements are treated as financings, with the obligation to repurchase securities sold reflected as a liability in the Consolidated Statement of Financial Condition. The securities underlying the agreements remain in the asset accounts.



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***Income Taxes***

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company accounts for uncertain tax positions if it is more likely than not, based on the technical merits, the tax position will be realized or sustained upon examination. The term "more likely than not" means that a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

As of December 31, 2020 and 2019, the Company had no material unrecognized tax benefits or accrued interest and penalties. The Company's policy is to account for interest as a component of interest expense and penalties as a component of other expense. Federal and state tax years 2018 through 2020 were open for examination as of December 31, 2020.

***Transfer of Financial Assets***

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

***Fair Value Measurements***

Fair value of financial instruments is estimated using relevant market information and other assumptions. As more fully disclosed in Note 15, fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

***Huntingdon Valley Bank Employee Stock Ownership Plan ("the ESOP")***

The cost of shares issued to the ESOP but not yet allocated to participants is shown as a reduction of shareholders' equity. Compensation expense is based on the average market price of shares as they are committed to be released to participants' accounts. If the Company declares a dividend, the dividends on the allocated shares would be recorded as dividends and charged to retained earnings. Dividends declared on common stock held by the ESOP and not allocated to the account of a participant can be used to repay the loan. Allocation of shares to the ESOP participants is contingent upon the repayment of the loan to the Company.

***Treasury Stock***

Share of the Company's common stock that are repurchased are recorded in treasury stock at cost. On the date of subsequent re-issuance, the treasury stock account is reduced by the cost of such stock on a first-in, first-out basis.

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***Stock Options***

The Company recognizes the value of share-based payment transactions as compensation costs in the financial statements over the period that an employee provides service in exchange for the award. The fair value of the share-based payments for stock options is estimated using the Black-Scholes option-pricing model.

***Restricted Stock***

The Company recognizes compensation cost related to restricted stock based on the market price of the stock at the grant date over the vesting period. The product of the number of shares granted and the grant date market price of the Company's common stock determines the fair value of restricted stock under the equity incentive plan. The Company recognizes compensation expense for the fair value of the restricted stock on a straight-line basis over the requisite service period for the entire award.

***Earnings per Share***

Basic earnings per share ("EPS") is computed by dividing net income by the weighted-average number of common shares outstanding during the period. As ESOP shares are committed to be released, the shares become outstanding for EPS calculation purposes. ESOP shares not committed to be released are not considered outstanding for basic or diluted EPS calculations. The basic EPS calculation excludes the dilutive effect of all common stock equivalents. Diluted earnings per share reflects the weighted-average potential dilution that could occur if all potentially dilutive securities or other commitments to issue common stock were exercised or converted into common stock using the treasury stock method.

***Recent Accounting Pronouncements***

The Company qualifies under the Jumpstart Our Business Startups Act (the "JOBS Act") as an emerging growth company. As an emerging growth company, the Company has elected to use the extended transition period to delay adoption of new or revised accounting pronouncements until such pronouncements are made applicable to private companies.

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss ("CECL") model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument.

The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination ("PCD assets"), should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance for credit losses is added to the purchase price ("gross up approach") to determine the initial amortized cost basis. The subsequent accounting for PCD financial assets is the same expected loss model described above.

Further, the ASU made certain targeted amendments to the existing impairment model for available-for-sale ("AFS") debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis.

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ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. In November 2019, the FASB issued ASU 2019-10, Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842). This Update defers the effective date of ASU 2016-13 for SEC filers that are eligible to be smaller reporting companies, non-SEC filers, and all other companies to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Since the Company currently meets the SEC definition of a smaller reporting company, the delay will be applicable to the Company. In anticipation of the ASU, the Company has entered into a contract with a third party, compiled data for the modeling and is working on developing an estimate using historically and qualitative data based on the requirements of ASU 2016-13. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

In April 2019, the FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments, which affects a variety of topics in the Codification and applies to all reporting entities within the scope of the affected accounting guidance. Topic 326, Financial Instruments – Credit Losses amendments are effective for SEC registrants for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For all other public business entities, the effective date is for fiscal years beginning after December 15, 2020, and for all other entities, the effective date is for fiscal years beginning after December 15, 2021. Topic 815, Derivatives and Hedging amendments are effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods beginning after December 15, 2020. For entities that have adopted the amendments in Update 2017-12, the effective date is as of the beginning of the first annual period beginning after the issuance of this Update. Topic 825, Financial Instruments amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years. In November 2019, the FASB issued ASU 2019-10, Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842). This Update defers the effective date of ASU 2016-13 for SEC filers that are eligible to be smaller reporting companies, non-SEC filers and all other companies to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Furthermore, the ASU provides a one-year deferral of the effective dates of the ASUs on derivatives and hedging for companies that are not public business entities. The Company qualifies as a smaller reporting company and does not expect to early adopt these ASUs.

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In January 2020, the FASB issued ASU 2020-4, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, March 2020, to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates, such as Secured Overnight Financing Rate. Entities can elect not to apply certain modification accounting requirements to contracts affected by what the guidance calls reference rate reform, if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. Also, entities can elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform, if certain criteria are met, and can make a one-time election to sell and/or reclassify held-to-maturity debt securities that reference an interest rate affected by reference rate reform. The amendments in this ASU are effective for all entities upon issuance through December 31, 2022. It is too early to predict whether a new rate index replacement and the adoption of the ASU will have a material impact on the Company's consolidated financial statements.

**Adoption of New Accounting Standards**

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes the Disclosure Requirements for Fair Value Measurements*. The Update removes the requirement to disclose the amount of and reasons for transfers between Level I and Level II of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level III fair value measurements. The Update requires disclosure of changes in unrealized gains and losses for the period included in other comprehensive income (loss) for recurring Level III fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level III fair value measurements. This Update is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company adopted the accounting standard on January 1, 2020. As ASU 2018-13 primarily affected disclosure requirements, it did not have a material impact on the Company's consolidated statement of financial condition. We have included the additional disclosures in Note 15, Fair Value Presentation.

**2. Investment Securities**

Investment securities available-for-sale at December 31, 2020 were comprised of the following:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>(Dollars in thousands)</i>				
U.S. Governmental securities	\$ 377	\$ 14	\$ —	\$ 391
Corporate notes	9,454	156	(10)	9,600
Collateralized mortgage obligations - agency residential	3,819	38	(6)	3,851
Mortgage-backed securities - agency residential	5,608	81	—	5,689
Municipal securities	2,924	47	—	2,971
Bank CDs	999	17	—	1,016
	<u>\$ 23,181</u>	<u>\$ 353</u>	<u>\$ (16)</u>	<u>\$ 23,518</u>

**HV Bancorp, Inc. and Subsidiary**  
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Investment securities available-for-sale at December 31, 2019 were comprised of the following:

<i>(Dollars in thousands)</i>	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Governmental securities	\$ 438	\$ —	\$ (2)	\$ 436
Corporate notes	5,500	75	(6)	5,569
Collateralized mortgage obligations - agency residential	6,562	4	(102)	6,464
Mortgage-backed securities - agency residential	4,070	12	(19)	4,063
Municipal securities	2,114	3	—	2,117
Bank CDs	2,498	9	—	2,507
	<u>\$ 21,182</u>	<u>\$ 103</u>	<u>\$ (129)</u>	<u>\$ 21,156</u>

The scheduled maturities of securities available-for-sale at December 31, 2020 were as follows:

<i>(Dollars in thousands)</i>	December 31, 2020	
	Available-for-Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ 1,000	\$ 1,003
Due from more than one to five years	3,017	3,067
Due from more than five to ten years	6,937	7,049
Due after ten years	12,227	12,399
	<u>\$ 23,181</u>	<u>\$ 23,518</u>

Securities with a fair value of \$4.4 million and \$7.4 million at December 31, 2020 and 2019, respectively, were pledged to secure public deposits and for other purposes as required by law.

Proceeds from the sale of available-for-sale securities for the year ended December 31, 2020 were \$4.9 million. Gross realized gains on such sales were approximately \$151,000 and there \$10,000 gross realized losses on such sales.

Proceeds from the sale of available-for-sale securities for the six months ended December 31, 2019 were \$12.0 million. Gross realized gains on such sales were approximately \$211,000 and there no gross realized losses on such sales.

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The following tables summarize the unrealized loss positions of securities available-for-sale at December 31, 2020 and 2019:

<i>(Dollars in thousands)</i>	December 31, 2020					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale:						
U.S. Governmental securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Corporate notes	3,420	(9)	500	(1)	3,920	(10)
Collateralized mortgage obligations - agency residential	—	—	532	(6)	532	(6)
Mortgage-backed securities - agency residential	—	—	—	—	—	—
Bank CDs	—	—	—	—	—	—
	<u>\$ 3,420</u>	<u>\$ (9)</u>	<u>\$ 1,032</u>	<u>\$ (7)</u>	<u>\$ 4,452</u>	<u>\$ (16)</u>

  

<i>(Dollars in thousands)</i>	December 31, 2019					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale:						
U.S. Governmental securities	\$ —	\$ —	\$ 436	\$ (2)	\$ 436	\$ (2)
Corporate notes	—	—	1,494	(6)	1,494	(6)
Collateralized mortgage obligations - agency residential	1,486	(10)	3,810	(92)	5,296	(102)
Mortgage-backed securities - agency residential	922	(7)	1,438	(12)	2,360	(19)
Bank CDs	—	—	250	—	250	—
	<u>\$ 2,408</u>	<u>\$ (17)</u>	<u>\$ 7,428</u>	<u>\$ (112)</u>	<u>\$ 9,836</u>	<u>\$ (129)</u>

At December 31, 2020 and 2019, the investment portfolio included two U.S. Government securities, with total fair values of \$391,000 and \$436,000, respectively. There were no securities in an unrealized loss position as of December 31, 2020. There were two U.S. Government securities in an unrealized loss position as of December 31, 2019. These securities are zero risk weighted for capital purposes and are guaranteed for repayment of principal and interest. As of December 31, 2020 and 2019, management found no evidence of OTTI on any of the U.S. Governmental securities held in the investment securities portfolio. The Company has the ability to hold to maturity and more likely than not, will not be required to sell the securities before a recovery of the cost has occurred.

At December 31, 2020 and 2019, the investment portfolio included thirteen and nine corporate notes with total fair values of \$9.6 million and \$5.6 million, respectively. Of these securities, five and three were in an unrealized loss position as of December 31, 2020 and 2019, respectively. At the time of purchase and as of December 31, 2020 and 2019, these bonds continue to maintain investment grade ratings. As of December 31, 2020 and 2019, management found no evidence of OTTI on any of the Corporate notes held in the investment securities portfolio. The Company has the ability to hold to maturity and more likely than not, will not be required to sell the securities before a recovery of the cost has occurred.

At December 31, 2020 and 2019, the investment portfolio included twenty-seven and thirty collateralized mortgage obligations (CMOs) with total fair values of \$3.9 million and \$6.5 million at December 31, 2020 and 2019, respectively. Of these securities, eleven and twenty-seven were in an unrealized loss position as of December 31, 2020 and 2019, respectively. The CMO portfolio is comprised of 100% agency (FHLMC, FNMA and GNMA) investment grade bonds. As of December 31, 2020 and 2019, management found no evidence of OTTI on any of the

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**Notes to the Consolidated Financial Statements**

CMOs held in the investment securities portfolio. The Company has the ability to hold to maturity and more likely than not, will not be required to sell the securities before a recovery of the cost has occurred.

At December 31, 2020 and 2019, the investment portfolio included sixteen and thirteen Mortgage backed securities (MBS) with a total fair value of \$5.7 million and \$4.1 million at the end of each period, respectively. There were no securities in an unrealized loss position as of December 31, 2020. There were seven MBS securities in an unrealized loss position as of December 31, 2019. The MBS portfolio is comprised of 100% agency (FHLMC, FNMA and GNMA) investment grade bonds. As of At December 31, 2020 and 2019, management found no evidence of OTTI on any of the MBS held in the investment securities portfolio. The Company has the ability to hold to maturity and more likely than not, will not be required to sell the securities before a recovery of the cost has occurred.

At December 31, 2020 and 2019, the investment portfolio included six and five municipal securities with a total fair value of \$3.0 million and \$2.1 million, respectively. There were no securities in an unrealized loss position as of December 31, 2020 or 2019. During the six month transition period ended December 31, 2019, we sold approximately \$7.5 million in municipal securities. As of December 31, 2020 and 2019, the Company's municipal portfolio were purchased from issuers that were located in Pennsylvania and continued to maintain investment grade ratings. Each of the municipal securities is reviewed quarterly for impairment. This includes research on each issuer to ensure the financial stability of the municipal entity. As of December 31, 2020 and 2019, management found no evidence of OTTI on any of the Municipal securities held in the investment securities portfolio. The Company has the ability to hold to maturity and more likely than not, will not be required to sell the securities before a recovery of the cost has occurred.

At December 31, 2020 and 2019, the investment portfolio included four and ten Bank CDs with a total fair value of \$1.0 million and \$2.5 million at the end of each period, respectively. There were no securities in an unrealized loss position as of December 31, 2020. As of December 31, 2019, there was one security in an unrealized loss position. The Bank CDs are fully insured by the FDIC. As of December 31, 2020 and 2019, management found no evidence of OTTI on any of the Bank CDs held in the investment securities portfolio. The Company has the ability to hold to maturity and more likely than not, will not be required to sell the securities before a recovery of the cost has occurred.

### 3. Equity Securities

The Company maintains an equity security portfolio that consists of \$500,000 at December 31, 2020 and 2019. As of December 31, 2020 and 2019, the Company determined that the equity investment did not have a readily determinable fair value measure and is carrying the equity investment at cost, less impairment, adjusted for changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

The following table presents the carrying amount of the Company's equity investment at December 31, 2020 and 2019:

<i>(dollars in thousands)</i>	December 31, 2020	
	Year-to-date	Life-to-date
Amortized cost	\$ 500	\$ 500
Impairment	—	—
Observable price changes	—	—
Carrying value	\$ 500	\$ 500

  

<i>(dollars in thousands)</i>	December 31, 2019	
	Year-to-date	Life-to-date
Amortized cost	\$ 500	\$ 500
Impairment	—	—
Observable price changes	—	—
Carrying value	\$ 500	\$ 500

**HV Bancorp, Inc. and Subsidiary**  
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**4. Loans Receivable**

Loans receivable at December 31, 2020 and 2019, were comprised of the following:

<i>(Dollars in thousands)</i>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b>Residential:</b>		
One-to-four family	\$ 141,891	\$ 197,547
Home equity and HELOCs	3,993	4,383
<b>Commercial:</b>		
Commercial real estate	68,705	35,188
Commercial business	24,152	11,119
SBA PPP loans	64,380	—
Main Street Lending Program	1,556	—
<b>Construction</b>	<b>7,299</b>	<b>784</b>
<b>Consumer:</b>		
Medical education	5,105	6,097
Other	33	8
	<u>317,114</u>	<u>255,126</u>
Unearned discounts, origination and commitment fees and costs	(1,286)	1,343
Allowance for loan losses	(2,017)	(1,437)
	<u>\$ 313,811</u>	<u>\$ 255,032</u>

In November 2017, the Bank entered into a loan purchase agreement with a broker to purchase a portfolio of private education loans made to American citizens attending American Medical Association (“AMA”) approved medical schools in Caribbean nations. The broker serves as a lender, holder, program designer and developer, administrator, and secondary market for the loan portfolios they generate. At December 31, 2020, the balance of the private education loans was \$5.1 million. The private student loans are made following a proven credit criteria and were underwritten in accordance with the Bank’s policies. At December 31, 2020, there were three loans with a balance of approximately \$81,000 that are past due 90 days or more. The Company allocated increased allowance for loan loss provisions to the medical education loans for the year ended December 31, 2020 primarily as a result of charge-offs totaling \$529,000.

Overdraft deposits are reclassified as consumer loans and are included in the total loans on the Consolidated Statements of Financial Condition. Overdrafts were \$33,000 and \$8,000 at December 31, 2020 and 2019, respectively.



**HV Bancorp, Inc. and Subsidiary**  
**Notes to the Consolidated Financial Statements**

The following tables summarize the activity in the allowance for loan losses by loan class for the year ended December 31, 2020, the six months ended December 31, 2019 and for the year ended June 30, 2019:

<b>Allowance for Loan Losses</b>	<b>December 31, 2020</b>							
<i>(Dollars in thousands)</i>	Beginning Balance	Charge-offs	Recoveries	(Credit) Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairments	
<b>Residential:</b>								
One-to-four family	\$ 701	\$ —	\$ —	\$ (64)	\$ 637	\$ —	\$ 637	
Home equity and HELOCs	44	—	—	(29)	15	—	15	
<b>Commercial:</b>								
Commercial real estate	229	—	—	290	519	—	519	
Commercial business	122	—	—	158	280	—	280	
SBA PPP loans	—	—	—	—	—	—	—	
Main Street Lending Program	—	—	—	27	27	—	27	
Construction	8	—	—	66	74	—	74	
<b>Consumer:</b>								
Medical Education	333	(529)	1	563	368	—	368	
Other	—	—	—	—	—	—	—	
Unallocated	—	—	—	97	97	—	97	
	<u>\$ 1,437</u>	<u>\$ (529)</u>	<u>\$ 1</u>	<u>\$ 1,108</u>	<u>\$ 2,017</u>	<u>\$ —</u>	<u>\$ 2,017</u>	

<b>Allowance for Loan Losses</b>	<b>December 31, 2019</b>							
<i>(Dollars in thousands)</i>	Beginning Balance	Charge-offs	Recoveries	(Credit) Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairments	
<b>Residential:</b>								
One-to-four family	\$ 711	\$ —	\$ 65	\$ (75)	\$ 701	\$ —	\$ 701	
Home equity and HELOCs	46	—	—	(2)	44	—	44	
<b>Commercial:</b>								
Commercial real estate	99	—	28	102	229	—	229	
Commercial business	108	—	—	14	122	12	110	
Construction	8	—	—	—	8	—	8	
<b>Consumer:</b>								
Medical Education	210	(121)	1	243	333	—	333	
Other	—	—	—	—	—	—	—	
	<u>\$ 1,182</u>	<u>\$ (121)</u>	<u>\$ 94</u>	<u>\$ 282</u>	<u>\$ 1,437</u>	<u>\$ 12</u>	<u>\$ 1,425</u>	

**HV Bancorp, Inc. and Subsidiary**  
**Notes to the Consolidated Financial Statements**

Allowance for Loan Losses

June 30, 2019

<i>(Dollars in thousands)</i>	Beginning Balance	Charge- offs	Recoveries	(Credit) Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairments
Residential:							
One-to-four family	\$ 651	\$ —	\$ 5	\$ 55	\$ 711	\$ —	\$ 711
Home equity and HELOCs	39	—	—	7	46	—	46
Commercial:							
Commercial real estate	65	—	—	34	99	—	99
Commercial business	65	—	—	43	108	13	95
Construction	15	—	—	(7)	8	—	8
Consumer:							
Medical Education	35	(305)	—	480	210	—	210
Other	1	—	—	(1)	—	—	—
	<u>\$ 871</u>	<u>\$ (305)</u>	<u>\$ 5</u>	<u>\$ 611</u>	<u>\$ 1,182</u>	<u>\$ 13</u>	<u>\$ 1,169</u>

The Company maintains a general allowance for loan losses based on evaluating known and inherent risks in the loan portfolio, including management's continuing analysis of the factors underlying the quality of the loan portfolio. These factors include changes in the size and composition of the loan portfolio, actual loan loss experience, and current and anticipated economic conditions. The reserve is an estimate based upon factors and trends identified by management at the time the financial statements are prepared. Since the SBA fully guarantees the principle and interest of the PPP loans, unless the lender violated an obligation under the agreement, there is no allowance for loan loss calculation for the PPP loans as the loan losses, if any, are anticipated to be immaterial. The Company allocated increased allowance for loan loss provisions to the medical education loans for the year ended December 31, 2020, six months ended December 31, 2019 and for the year ended June 30, 2019 as a result of charge-offs totaling \$529,000, \$121,000 and \$305,000, respectively. Due to uncertainty of economic conditions from the COVID-19 pandemic, the Company increased the qualitative factors in the calculation of the allowance for loan losses. However, due to the uncertainty of the impact, the Company will continue to monitor and additional adjustments to the allowance for loan losses may be necessary.

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**Notes to the Consolidated Financial Statements**

The following tables summarize information in regards to the recorded investment in loans receivable by loan class as of December 31, 2020 and 2019:

December 31, 2020			
Loans Receivable			
<i>(Dollars in thousands)</i>	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
<b>Residential:</b>			
One-to-four family	\$ 141,891	\$ 932	\$ 140,959
Home equity and HELOCs	3,993	—	3,993
<b>Commercial:</b>			
Commercial real estate	68,705	300	68,405
Commercial business	24,152	96	24,056
SBA PPP loans	64,380	—	64,380
Main Street Lending Program	1,556	—	1,556
Construction	7,299	—	7,299
<b>Consumer:</b>			
Medical education	5,105	—	5,105
Other	33	—	33
	<u>\$ 317,114</u>	<u>\$ 1,328</u>	<u>\$ 315,786</u>
December 31, 2019			
Loans Receivable			
<i>(Dollars in thousands)</i>	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
<b>Residential:</b>			
One-to-four family	\$ 197,547	\$ 1,566	\$ 195,981
Home equity and HELOCs	4,383	308	4,075
<b>Commercial:</b>			
Commercial real estate	35,188	317	34,871
Commercial business	11,119	120	10,999
Construction	784	—	784
<b>Consumer:</b>			
Medical education	6,097	—	6,097
Other	8	—	8
	<u>\$ 255,126</u>	<u>\$ 2,311</u>	<u>\$ 252,815</u>

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The following tables summarize information in regard to impaired loans by loan portfolio class as of and for the year ended December 31, 2020, the six months ended December 31, 2019, and the year ended June 30, 2019:

<i>(Dollars in thousands)</i>	December 31, 2020				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Record Investment	Interest Income Recognized
<b>With no related allowance recorded</b>					
Residential:					
One-to-four family	\$ 932	\$ 1,056	\$ —	\$ 1,254	\$ —
Home equity and HELOCs	—	—	—	125	—
Commercial:					
Commercial real estate	300	300	—	309	22
Commercial business	96	96	—	108	6
SBA PPP loans	—	—	—	—	—
Main Street Lending Program	—	—	—	—	—
Construction	—	—	—	—	—
	<u>1,328</u>	<u>1,452</u>	<u>—</u>	<u>1,796</u>	<u>28</u>
<b>With an allowance recorded</b>					
Residential:					
One-to-four family	—	—	—	—	—
Home equity and HELOCs	—	—	—	—	—
Commercial:					
Commercial real estate	—	—	—	—	—
Commercial business	—	—	—	—	—
Construction	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$ 1,328</u>	<u>\$ 1,452</u>	<u>\$ —</u>	<u>\$ 1,796</u>	<u>\$ 28</u>

**HV Bancorp, Inc. and Subsidiary**  
**Notes to the Consolidated Financial Statements**

	<b>December 31, 2019</b>				
<i>(Dollars in thousands)</i>	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Record Investment</b>	<b>Interest Income Recognized</b>
With no related allowance recorded					
Residential:					
One-to-four family	\$ 1,566	\$ 1,703	\$ —	\$ 1,704	\$ —
Home equity and HELOCs	308	308	—	306	—
Commercial:					
Commercial real estate	317	317	—	321	11
Commercial business	—	—	—	—	—
Construction	—	—	—	—	—
	<u>2,191</u>	<u>2,328</u>	<u>—</u>	<u>2,331</u>	<u>11</u>
With an allowance recorded					
Residential:					
One-to-four family	—	—	—	—	—
Home equity and HELOCs	—	—	—	—	—
Commercial:					
Commercial real estate	—	—	—	—	—
Commercial business	120	121	12	125	4
Construction	—	—	—	—	—
	<u>120</u>	<u>121</u>	<u>12</u>	<u>125</u>	<u>4</u>
	<u>\$ 2,311</u>	<u>\$ 2,449</u>	<u>\$ 12</u>	<u>\$ 2,456</u>	<u>\$ 15</u>
	<b>June 30, 2019</b>				
<i>(Dollars in thousands)</i>	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Record Investment</b>	<b>Interest Income Recognized</b>
With no related allowance recorded					
One-to-four family	\$ 1,725	\$ 1,935	\$ —	\$ 1,465	\$ —
Home equity and HELOCs	316	331	—	132	—
Commercial:					
Commercial real estate	325	325	—	379	27
Commercial business	—	—	—	—	—
Construction	—	—	—	—	—
	<u>2,366</u>	<u>2,591</u>	<u>—</u>	<u>1,976</u>	<u>27</u>
With an allowance recorded					
Residential:					
One-to-four family	—	—	—	—	—
Home equity and HELOCs	—	—	—	—	—
Commercial:					
Commercial real estate	—	—	—	—	—
Commercial business	131	132	13	142	8
Construction	—	—	—	—	—
	<u>131</u>	<u>132</u>	<u>13</u>	<u>142</u>	<u>8</u>
	<u>\$ 2,497</u>	<u>\$ 2,723</u>	<u>\$ 13</u>	<u>\$ 2,118</u>	<u>\$ 35</u>

If these loans were performing under the original contractual rate, interest income on such loans would have increased approximately \$65,000, \$54,000 and \$111,000 for the year ended December 31, 2020, the six months ended December 31, 2019, and the year ended June 30, 2019, respectively.

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**Notes to the Consolidated Financial Statements**

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2020 and 2019:

<i>(Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Residential:		
One-to-four family	\$ 932	\$ 1,686
Home equity and HELOCs	—	308
Commercial:		
Commercial real estate	—	—
Commercial business	—	—
SBA PPP loans	—	—
Main Street Lending Program	—	—
Construction		
Consumer:		
Medical education	1,322	1,710
Other	—	—
	<u>\$ 2,254</u>	<u>\$ 3,704</u>

The following tables summarize the aggregate Pass and criticized categories of Special Mention, Substandard and Doubtful within the Bank's internal risk rating system as of December 31, 2020 and 2019:

<i>(Dollars in thousands)</i>	December 31, 2020				
	Pass	Special Mention	Substandard	Doubtful	Total
Residential:					
One-to-four family	\$ 140,959	\$ —	\$ 932	\$ —	\$ 141,891
Home equity and HELOCs	3,993	—	—	—	3,993
Commercial:					
Commercial real estate	68,211	194	300	—	68,705
Commercial business	24,010	—	142	—	24,152
SBA PPP loans	64,380	—	—	—	64,380
Main Street Lending Program	1,556	—	—	—	1,556
Construction	7,299	—	—	—	7,299
Consumer:					
Medical education	3,783	—	1,322	—	5,105
Other	33	—	—	—	33
	<u>\$ 314,224</u>	<u>\$ 194</u>	<u>\$ 2,696</u>	<u>\$ —</u>	<u>\$ 317,114</u>

**HV Bancorp, Inc. and Subsidiary**  
**Notes to the Consolidated Financial Statements**

	December 31, 2019				
<i>(Dollars in thousands)</i>	Pass	Special Mention	Substandard	Doubtful	Total
Residential:					
One-to-four family	\$ 195,861	\$ —	\$ 1,686	\$ —	\$ 197,547
Home equity and HELOCs	4,075	—	308	—	4,383
Commercial:					
Commercial real estate	34,667	204	317	—	35,188
Commercial business	10,924	—	195	—	11,119
Construction	784	—	—	—	784
Consumer:					
Medical education	4,387	—	1,710	—	6,097
Other	8	—	—	—	8
	<u>\$ 250,706</u>	<u>\$ 204</u>	<u>\$ 4,216</u>	<u>\$ —</u>	<u>\$ 255,126</u>

The following tables present the segments of the loan portfolio summarized by aging categories as of December 31, 2020 and 2019:

	December 31, 2020						
<i>(Dollars in thousands)</i>	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
Residential:							
One-to-four family	\$ 543	\$ 186	\$ 571	\$ 1,300	\$ 140,591	\$ 141,891	\$ —
Home equity and HELOCs	38	—	—	38	3,955	3,993	—
Commercial:							
Commercial real estate	—	—	—	—	68,705	68,705	—
Commercial business	—	—	—	—	24,152	24,152	—
SBA PPP loans	—	—	—	—	64,380	64,380	—
Main Street Lending Program	—	—	—	—	1,556	1,556	—
Construction	—	—	—	—	7,299	7,299	—
Consumer:							
Medical education	169	951	81	1,201	3,904	5,105	—
Other	—	—	—	—	33	33	—
	<u>\$ 750</u>	<u>\$ 1,137</u>	<u>\$ 652</u>	<u>\$ 2,539</u>	<u>\$ 314,575</u>	<u>\$ 317,114</u>	<u>\$ —</u>

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**Notes to the Consolidated Financial Statements**

December 31, 2019

<i>(Dollars in thousands)</i>	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
<b>Residential:</b>							
One-to-four family	\$ 365	\$ 94	\$ 359	\$ 818	\$ 196,729	\$ 197,547	\$ —
Home equity and HELOCs	—	—	—	—	4,383	4,383	—
<b>Commercial:</b>							
Commercial real estate	—	—	—	—	35,188	35,188	—
Commercial business	—	—	—	—	11,119	11,119	—
Construction	—	—	—	—	784	784	—
<b>Consumer:</b>							
Medical education	103	53	709	865	5,232	6,097	—
Other	—	—	—	—	8	8	—
	<u>\$ 468</u>	<u>\$ 147</u>	<u>\$ 1,068</u>	<u>\$ 1,683</u>	<u>\$ 253,443</u>	<u>\$ 255,126</u>	<u>\$ —</u>

The Bank may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan that is then identified as a troubled debt restructuring ("TDR"). The Company may modify loans through rate reductions, extensions of maturity, interest only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are disclosed as and considered impaired loans for purposes of calculating the Company's allowance for loan losses.

The Bank may identify loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions and negative trends may result in a payment default in the near future.

The Company began offering short-term loan modifications to provide assistance to borrowers during the COVID-19 pandemic. The CARES Act along with a joint agency statement issued by federal and state banking agencies, provides that short-term modifications made on a good faith basis in response to COVID-19 who were current at the time the modification program is implemented do not need to be accounted for as TDRs. As of December 31, 2020, we had 3 deferrals of either the full loan payment or the principal component of the loan payment on outstanding loan balances of \$1.8 million in connection with the COVID-19 relief provided by the CARES Act.

At December 31, 2020 and 2019, the Bank had two loans identified as TDRs totaling \$227,000 and \$259,000, respectively. At December 31, 2020 and 2019, all of the TDRs were performing in compliance with their restructured terms and on an accrual status. There were no modifications to loans classified as TDRs in 2020. No additional loan commitments were outstanding to these borrowers at December 31, 2020 and 2019. At December 31, 2020, there was no specific reserves related to the TDRs. At December 31, 2019, there was a specific reserve of \$12,000 related to one TDR.



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The following table details the Bank's TDRs at December 31, 2020:

<i>(Dollars in thousands)</i>	Number Of Loans	Accrual Status	Non-Accrual Status	Total TDRs
Commercial real estate	1	\$ 131	\$ —	\$ 131
Commercial business	1	96	—	96
<b>Total</b>	<b>2</b>	<b>\$ 227</b>	<b>\$ —</b>	<b>\$ 227</b>

The following table details the Bank's TDRs at December 31, 2019:

<i>(Dollars in thousands)</i>	Number Of Loans	Accrual Status	Non-Accrual Status	Total TDRs
Commercial real estate	1	\$ 139	\$ —	\$ 139
Commercial business	1	120	—	120
<b>Total</b>	<b>2</b>	<b>\$ 259</b>	<b>\$ —</b>	<b>\$ 259</b>

### 5. Mortgage Servicing Rights

During 2020, the Company began selling a portfolio of residential mortgage loans to a third party, while retaining the rights to service the loans. As of December 31, 2020, the value of the mortgage servicing rights associated with the loan sales totaled \$2.0 million. These retained servicing rights were recorded as a servicing asset and were initially recorded at fair value and changes to the balance of mortgage servicing rights are recorded in interest income on loans in the Company's Consolidated Statements of Income. Servicing income, which includes late and ancillary fees, was \$16,000 for the year ended December 31, 2020.

The following is a summary of the changes in the carrying value of the Company's mortgage servicing rights, accounted for under the amortization method for the year ended December 31, 2020:

<i>(Dollars in thousands)</i>	December 31, 2020
<b>Balance at beginning of period</b>	\$ —
Servicing Rights retained from loans sold	2,181
Amortization and other	(140)
Valuation Allowance Provision	—
<b>Balance at end of period</b>	<b>\$ 2,041</b>
<b>Fair value, end of year</b>	<b>\$ 2,259</b>

The key data and assumptions used in estimating the fair value of the Company's mortgage servicing rights as of December 31, 2020 were as follows:

	December 31, 2020
Long run Constant Prepayment Rate	8.07 %
Weighted-Average Life (in years)	27.0
Weighted-Average Note Rate	2.966 %
Weighted-Average Discount Rate	9.00 %

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**6. Premises and Equipment**

Premises and equipment are summarized by major classification at December 31, 2020 and 2019, as follows:

<i>(Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Land	\$ 334	\$ 334
Land improvements	477	477
Office buildings and improvements	712	712
Leasehold improvements	1,181	1,028
Furniture and equipment	4,793	4,148
Total Cost	7,497	6,699
Accumulated depreciation	(4,663)	(4,198)
	<u>\$ 2,834</u>	<u>\$ 2,501</u>

Depreciation expense for the year ended December 31, 2020, six months ended December 31, 2019 and the year ended June 30, 2019 was \$587,000, \$271,000 and \$378,000, respectively.

During the year ended June 30, 2007, the Bank sold the building that housed its corporate offices and one of its branch offices. At the time of settlement, the Bank entered into an operating lease agreement for the branch office portion of the building. The Bank deferred the \$486,000 gain on the sale. The deferred gain is being amortized into income by the straight-line method over the term of the operating lease (29 years and 11 months) as a reduction of rental expense. The amount amortized was \$16,000 for the year ended June 30, 2019. As part of the adaption ASU No. 2016-02 "Leases" (Topic 842) on July 1, 2019, the Company booked an adjustment of \$277,000 to retained earnings to write-off the remaining balance of the deferred gain on sale-leaseback of buildings.

**7. Deposits**

Deposits at December 31, 2020 and 2019 consisted of the following:

<i>(Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Demand accounts-interest bearing	\$ 61,434	\$ 49,377
Demand accounts-non-interest bearing	122	103
Money market deposit accounts	79,552	34,744
Passbook and statement accounts	29,997	25,682
Checking accounts	497,584	105,565
Subtotal - core deposits	668,689	215,471
Certificates of deposit	62,137	68,296
Total deposits	<u>\$ 730,826</u>	<u>\$ 283,767</u>

At December 31, 2020, scheduled maturities of certificates of deposit for the periods are as follows:

<i>(Dollars in thousands)</i>	
December 31, 2021	\$ 51,196
December 31, 2022	6,292
December 31, 2023	2,563
December 31, 2024	597
December 31, 2025	948
December 31 2026 and thereafter	541
	<u>\$ 62,137</u>

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Brokered deposits totaled \$10.0 million and \$22.5 million at December 31, 2020 and 2019, respectively. In addition, the Company has certificates of deposit in denominations of \$250,000 or more of \$13.4 million and \$7.9 million at December 31, 2020 and 2019.

**8. Borrowings**

The following tables details the Company's fixed rate advances from the Federal Reserve PPPLF as of December 31, 2020 and the FHLB as of December 31, 2020 and 2019:

**Federal Reserve PPPLF long-term borrowings:**

Issue Date	Maturity	Advance Type	Interest Rate	(Dollars in thousands)	
				December 31, 2020	
05/18/20	04/13/22	Fixed Rate	0.350%	\$	2,025
05/18/20	04/08/22	Fixed Rate	0.350%		6,237
05/19/20	04/15/22	Fixed Rate	0.350%		4,031
05/19/20	04/14/22	Fixed Rate	0.350%		1,895
05/21/20	04/15/22	Fixed Rate	0.350%		7,042
05/21/20	04/18/22	Fixed Rate	0.350%		808
05/21/20	04/19/22	Fixed Rate	0.350%		466
05/22/20	04/20/22	Fixed Rate	0.350%		4,395
05/29/20	04/21/22	Fixed Rate	0.350%		5,507
05/29/20	04/22/22	Fixed Rate	0.350%		6,889
05/29/20	04/29/22	Fixed Rate	0.350%		140
07/27/20	05/04/22	Fixed Rate	0.350%		9,247
				\$	<u>48,682</u>

**FHLB long-term borrowings:**

Issue Date	Maturity	Advance Type	Interest Rate	(Dollars in thousands)	
				December 31, 2020	December 31, 2019
09/26/17	09/28/20	Fixed Rate	1.880%	\$	3,000
11/21/17	11/22/21	Fixed Rate	2.220%		4,000
04/30/19	05/02/22	Fixed Rate	2.370%		5,000
05/07/19	05/09/22	Fixed Rate	2.370%		5,000
05/14/19	05/16/22	Fixed Rate	2.290%		5,000
05/21/19	05/21/21	Fixed Rate	2.360%		5,000
07/07/20	07/07/25	Fixed Rate	0.851%		—
				\$	<u>26,269</u>
				\$	<u>27,000</u>

During the second and third quarter of 2020, the Company utilized the Federal Reserve's PPPLF to fund a portion of PPP loans and borrowed a total of \$57.7 million at a rate of 0.35%. As of December 31, 2020, the Company had \$48.7 million in PPPLF advances outstanding. The borrowings were fully collateralized by the PPP loans originated by the Bank and maturing in April 2022 and May 2022, or when the tranche of PPP loans utilized to collateralize the PPPLF borrowing are forgiven, whichever comes first.

Under terms of its collateral agreement with the FHLB, the Company maintains otherwise unencumbered qualifying assets (principally qualifying one- to four- family residential mortgage loans and U.S. government agency and mortgage-backed securities) in the amount of at least as much as its advances from the FHLB. The Company's FHLB stock is also pledged to secure these advances.

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The Company has borrowing facilities with the FHLB, including access to an “Open Repo Plus” line with a maturity up to three months as well as access to advances with maturities up to 30 years. The combined available total of the facilities or maximum borrowing capacity (“MBC”) is approximately \$225.8 million as of December 31, 2020. The Open Repo Plus line has a maximum limit of up to one half of the MBC. The MBC changes as a function of the Company's qualifying collateral assets, and the amount of funds received may be reduced by additional required purchases of FHLB stock. As of December 31, 2020 and 2019, the Company had no borrowings outstanding under the Open Repo Plus line. The Company had outstanding FHLB advances totaling \$26.3 million and \$27.0 million as of December 31, 2020 and 2019, respectively. The Company had \$38.3 million outstanding in letters of credit to secure deposits, which reduced the maximum borrowing capacity at December 31, 2020.

During July 2020, the Company refinanced advances of \$27.0 million from the Federal Home Loan Bank to reduce the cost of borrowing. The Company incurred a prepayment fee of \$810,000. The advances of \$27.0 million were refinanced to a five year term at 85 basis points with an effective rate of 1.45% including the impact of the prepayment fee. The refinancing was accounted for as a loan modification.

The Company also has available lines of credit of \$3.0 million with ACBI and a line equal to 95% of fair value of collateral held by the Federal Reserve Bank (“FRB”), which were \$923,000 at December 31, 2020 and \$1.5 million at December 31, 2019. The Company has not borrowed against its credit lines with ACBI and FRB for the year ended December 31, 2020 and the six months ended December 31, 2019.

**9. Securities Sold Under Agreement to Repurchase**

The Bank has entered into overnight repurchase agreements, which are collateralized by mortgage-backed securities and collateralized mortgage obligations. During November 2019, the Company terminated these agreements to repurchase.

The following table details the Company’s overnight repurchase agreements:

	<u>At or For the Year Ended</u> <u>December 31,</u>	<u>At or For the Six Months</u> <u>Ended December 31,</u>
	<u>2020</u>	<u>2019</u>
	(Dollars in thousands)	
Balance at end of year	\$ —	\$ —
Average balance during year	\$ —	\$ 2,018
Maximum outstanding at any month end	\$ —	\$ 2,586
Weighted average interest rate at end of year	—	—
Weighted average interest rate during year	—	0.20%

**10. Regulatory Capital**

Information presented for December 31, 2020 and 2019, reflects the Basel III capital requirements that became effective January 1, 2015 for the Bank. Under these capital requirements 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 regulators about components, risk- weightings and other factors.

Federal bank regulators require the Bank maintain minimum ratios of core capital to adjusted average assets of 4.0%, common equity Tier 1 capital to risk-weighted assets of 4.5%, Tier 1 capital to risk-weighted assets of 6.0% and total risk-based capital to risk-weighted assets of 8.0%. At December 31, 2020, the Bank met all the capital adequacy requirements to which they were subject. In June 2019, the Company infused \$3.0 million to the Bank as Tier 1 capital. At December 31, 2020, the Bank was “well capitalized” under the regulatory framework for prompt corrective action. To be “well capitalized,” the Bank must maintain minimum leverage, common equity Tier 1 risk-based, Tier 1 risk-based and total risk-based capital ratios of at least 5.0%, 6.5%, 8.0% and 10.0%, respectively. Management believes that no conditions or events have occurred since December 31, 2020 that would

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materially adversely change the Bank's capital classifications. From time to time, the Bank may need to raise additional capital to support the Bank's further growth and to maintain its "well capitalized" status.

The Bank's actual capital amounts and ratios are presented in the table (dollars in thousands):

<i>(Dollars in thousands)</i>	Actual		Capital Adequacy Purposes		To Be Well Capitalized Under the Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2020</b>						
Total risk-based capital (to risk-weighted assets)	\$ 37,848	13.4%	\$ 22,576	≥ 8.0%	\$ 28,221	≥ 10.0%
Tier 1 capital (to risk-weighted assets)	35,831	12.7	≥16,932	≥6.0	≥22,576	≥8.0
Tier 1 capital (to average assets)	35,831	7.4	≥19,449	≥4.0	≥24,311	≥5.0
Tier 1 common equity (to risk-weighted assets)	35,831	12.7	≥12,699	≥4.5	≥18,343	≥6.5
<b>As of December 31, 2019</b>						
Total risk-based capital (to risk-weighted assets)	\$ 31,203	14.7%	\$ 16,981	≥ 8.0%	\$ 21,227	≥ 10.0%
Tier 1 capital (to risk-weighted assets)	29,766	14.0	≥12,736	≥6.0	≥16,981	≥8.0
Tier 1 capital (to average assets)	29,766	8.5	≥13,981	≥4.0	≥17,476	≥5.0
Tier 1 common equity (to risk-weighted assets)	29,766	14.0	≥9,552	≥4.5	≥13,797	≥6.5

As a licensed mortgagee, the Bank is subject to the rules and regulations of the Department of Housing and Urban Development ("HUD"), Federal Housing Authority ("FHA") and state regulatory authorities with respect to originating, processing and selling loans. Those rules and regulations, among other things, require the maintenance of minimum net worth levels (which vary based on the portfolio of FHA loans originated by the Bank). Failure to meet the net worth requirements could adversely impact the ability to originate loans and access secondary markets. As of December 31, 2020 and 2019, the Bank maintained the minimum required net worth levels.

The Bank must hold a capital conservation buffer, subject to a phase-in from January 1, 2016 through December 31, 2019, above its minimum risk-based capital requirements. As of December 31, 2020, the Bank is required to maintain a capital conservation buffer of 2.50%. At December 31, 2020, the Bank met the regulatory minimum capital requirements. Failure to maintain the full amount of the buffer will result in restrictions on the Bank's ability to make capital distributions and to pay discretionary bonuses to executive officers. The phase-in requires the Bank to increase its capital conservation buffer from 0.625% as of June 30, 2016 to 2.50% as of June 30, 2019 and thereafter.

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**11. Derivatives and Risk Management Activities**

The Company did not have any derivative instruments designated as hedging instruments, or subject to master netting and collateral agreements as of and for the year ended December 31, 2020 and the six months ended December 31, 2019. The following table summarizes the amounts recorded in the Company's consolidated statement of financial condition for derivatives not designated as hedging instruments as of December 31, 2020 and 2019, (dollars in thousands):

December 31, 2020

**Asset Derivatives**

	Balance Sheet Presentation	Fair Value	Notional Amount
<b>IRLCs</b>	<b>Mortgage banking derivatives</b>	\$ 2,647	\$ 120,563
<b>Forward loan sales commitments</b>	<b>Mortgage banking derivatives</b>	252	5,459
<b>TBA securities</b>	<b>Mortgage banking derivatives</b>	—	—

**Liability Derivatives**

	Balance Sheet Presentation	Fair Value	Notional Amount
<b>IRLCs</b>	<b>Other liabilities</b>	\$ 106	\$ 12,111
<b>Forward loan sales commitments</b>	<b>Other liabilities</b>	127	18,071
<b>TBA securities</b>	<b>Other liabilities</b>	76	13,500

December 31, 2019

**Asset Derivatives**

	Balance Sheet Presentation	Fair Value	Notional Amount
<b>IRLCs</b>	<b>Mortgage banking derivatives</b>	\$ 810	\$ 25,059
<b>Forward loan sales commitments</b>	<b>Mortgage banking derivatives</b>	389	11,036
<b>TBA securities</b>	<b>Mortgage banking derivatives</b>	5	3,500

**Liability Derivatives**

	Balance Sheet Presentation	Fair Value	Notional Amount
<b>IRLCs</b>	<b>Other liabilities</b>	\$ 25	\$ 3,820
<b>Forward loan sales commitments</b>	<b>Other liabilities</b>	45	10,595
<b>TBA securities</b>	<b>Other liabilities</b>	56	24,500

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The following table summarizes the amounts recorded in the Company's consolidated statements of income for derivative instruments not designated as hedging instruments for the year ended December 31, 2020, the six months ended December 31, 2019 and for the year ended June 30, 2019 (dollars in thousands):

	Consolidated Statements of Income Presentation	Gain/(Loss)		
		For the year ended December 31, 2020	For six months ended December 31, 2019	For the year ended June 30, 2019
IRLCs	Gain (loss) from derivative instruments	\$ 1,756	\$ (261)	\$ 460
Forward loan sales	(Loss) gain from derivative instruments			
commitments		(219)	(211)	384
TBA securities	(Loss) gain from derivative instruments	(25)	73	(46)
	Total gain (loss) from derivative instruments	<u>\$ 1,512</u>	<u>\$ (399)</u>	<u>\$ 798</u>

**12. Earnings per Share**

Earnings per share ("EPS") consist of two separate components: basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for each period presented. The diluted EPS calculation reflects the EPS if all outstanding instruments convertible to common stock were exercised. The computation of diluted earnings per share does not assume conversion, exercise or contingent exercise of securities that would have an anti-dilutive effect. At December 31, 2020, there were 216,400 stock options outstanding of which 59,600 of the stock options were vested and exercisable at December 31, 2020. At December 31, 2020, there 87,000 restricted stock shares outstanding of which 24,140 restricted stock shares were vested and exercisable at December 31, 2020. The 216,400 stock options outstanding and 62,860 restricted stock shares outstanding were not included in the computation of diluted net income per share for the year ended December 31, 2020 as their effect would have been anti-dilutive. At December 31, 2019 and June 30, 2019, there were, 218,000 and 87,000 of stock options and restricted stock awards outstanding of which 30,080 and 11,680 of the stock options and restricted stock awards were vested and exercisable at December 31, 2019 and June 30, 2019. The 218,000 stock options outstanding and 69,089 restricted stock awards outstanding were not included in the computation of diluted net income per share for the six months ended December 31, 2019 as their effect would have been anti-dilutive. The 218,000 stock options outstanding and 65,319 restricted stock awards outstanding were not included in the computation of diluted net income per share for the year ended June 30, 2019 as their effect would have been anti-dilutive.

The calculation of EPS for the year ended December 31, 2020, six months ended December 31, 2019 and for the year ended June 30, 2019 is as follows (dollars in thousands, except per share data):

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	For the Year Ended December 31, 2020	For the Six Months Ended December 31, 2019	For the Year Ended June 30, 2019
Net income (basic and diluted)	\$ 5,768	\$ 540	\$ 879
Weighted average number of shares issued	2,270,589	2,269,125	2,258,824
Less weighted average number of treasury shares	(31,415)	(208)	(10)
Less weighted average number of unearned ESOP shares awards	(143,671)	(150,231)	(156,790)
Less weighted average number of unvested restricted stock awards	(62,420)	(71,725)	(70,906)
Basic weighted average shares outstanding	2,033,083	2,046,961	2,031,118
Add dilutive effect of restricted stock awards	—	—	225
Diluted weighted average shares outstanding	2,033,083	2,046,961	2,031,343
Net income per share			
Basic	\$ 2.84	\$ 0.26	\$ 0.43
Diluted	\$ 2.84	\$ 0.26	\$ 0.43

### 13. Employee Benefits

The Company adopted the Huntingdon Valley Bank Employee Stock Ownership Plan (the “ESOP”) for eligible employees. Eligible employees who have attained age 21 may participate in the ESOP on the later of the effective date of the ESOP or upon the first entry date commencing on or after the eligible employee’s completion of 1,000 hours of service during a continuous 12-month period.

The ESOP trustee purchased, on behalf of the ESOP, 8% of the total number of shares of HV Bancorp common stock issued in the offering. The ESOP funded the stock purchase with a loan from HV Bancorp equal to the aggregate purchase price of the common stock. The loan will be repaid principally through Huntingdon Valley Bank’s contribution to the ESOP and dividends payable on common stock held by the ESOP over the anticipated 20-year term of the loan. The interest rate for the ESOP loan is an adjustable rate equal to the prime rate, as published in The Wall Street Journal, beginning on the closing date of the conversion. Thereafter the interest rate will adjust annually and will be the prime rate on the first business day of the calendar year, retroactive to January 1 of such year. The collateral for the loan is the common stock of the Company purchased by the ESOP.

The trustee will hold the shares purchased by the ESOP in an unallocated suspense account, and shares will be released from the suspense account on a pro-rata basis as the loan is repaid. As shares are released from collateral, the Company recognizes compensation expense equal to the average market price of the shares during the period and the shares will be outstanding for earnings-per-share purposes. The trustee will allocate the shares released among participants on the basis of each participant’s proportional share of compensation relative to the total aggregate compensation paid to all participants. A participant will become vested in his or her account balance at a rate of 20% per year over a six-year period, beginning in the second year of credited service. Participants who were employed by Huntingdon Valley Bank immediately prior to the conversion will receive credit for vesting purposes for years of service prior to the adoption of the ESOP. Participants also will become fully vested automatically upon normal retirement, death or disability, a change in control, or termination of the ESOP. Generally, participants will receive distributions from the ESOP upon separation from service. The ESOP reallocates any unvested shares forfeited upon termination of employment among the remaining participants.

During the year ended June 30, 2017, the ESOP purchased 8% of the total shares issued which equated to 174,570 shares of the Company’s common stock in the open market ranging from \$12.50 per share to \$14.21 per share for a weighted average price per share of \$13.92, and a total purchase price of \$2,430,000.



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The following table presents the components of the ESOP Shares at December 31, 2020 and 2019 and June 30, 2019:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Allocated shares	34,867	26,185	17,457
Committed shares	—	—	4,364
Unreleased shares	139,656	148,385	152,749
Total ESOP shares	<u>174,523</u>	<u>174,570</u>	<u>174,570</u>
Fair value of unreleased shares (in thousands)	\$ 2,398	\$ 2,523	\$ 2,369

The Company also maintains a retirement plan for all eligible employees, which allows participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. Participants can contribute up to 15% of their compensation, as defined, to the plan. The Company's contribution to the Plan is discretionary and will be determined on a yearly basis. The Company made no contributions to the Plan during the year ended December 31, 2020, six months ended December 31, 2019 and the year ended June 30, 2019.

**Equity Incentive Plans**

The Company's shareholders approved the HV Bancorp, Inc. 2018 Equity Incentive Plan (the "2018 Equity Incentive Plan") at the Special Meeting on June 13, 2018. An aggregate of 305,497 shares of authorized but unissued common stock of the Company was reserved for future grants of incentive and non-qualified stock options, restricted stock awards and restricted stock units under the 2018 Equity Incentive Plan. Of the 305,497 authorized shares, the maximum number of shares of the Company's common stock that may be issued under the 2018 Equity Incentive Plan pursuant to the exercise of stock options is 218,212 shares, and the maximum number of shares of the Company's common stock that may be issued as restricted stock awards or restricted stock units is 87,285 shares.

On June 13, 2018, the Compensation Committee of the Board of Directors authorized the following grants under the 2018 Equity Incentive Plan:

	<u>Officers</u>	<u>Employees</u>	<u>Outside Directors</u>	<u>Total</u>
Incentive stock options	125,000	43,000	—	168,000
Non-qualified stock options	—	—	30,000	30,000
Restricted stock awards	50,000	12,000	15,000	77,000
Total	<u>175,000</u>	<u>55,000</u>	<u>45,000</u>	<u>275,000</u>

In December 2018, an employee terminated employment and 4,000 shares of employee restricted stock awards and 10,000 shares of employee incentive stock options were forfeited under the 2018 Equity Incentive Plan. During the year ended June 30, 2019, 4,000 shares of employee restricted stock awards were granted and 10,000 shares of employee incentive stock options were granted to new employees under the 2018 Equity Incentive Plan. In addition, 20,000 non-qualified stock options and 10,000 shares of restricted stock awards were granted to outside directors under the 2018 Equity Incentive Plan during the year ended June 30, 2019.

The product of the number of shares granted and the grant date market price of the Company's common stock determine the fair value of restricted stock under the Company's 2018 Equity Incentive Plan. Management recognizes compensation expense for the fair value of restricted stock on a straight-line basis over the requisite service period for the entire award. As of December 31, 2020, there were 497 shares available for future awards under this plan, which includes 285 shares available for restricted stock awards.

Stock option expense was \$60,000 for the year ended December 31, 2020, \$31,000 for the six months ended December 31, 2019 and \$56,000 for the year ended June 30, 2019. At December 31, 2020, total unrecognized compensation cost related to stock options was \$278,000.

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A summary of the Company's stock option activity and related information for the year ended December 31, 2020, the six months ended December 31, 2019 and the year ended June 30, 2019 was as follows:

<b>December 31, 2020</b>				
Options	Weighted-Average Exercise Price	Weighted-Average Remaining contractual Life (in years)	Average Intrinsic Value	
Outstanding, January 1, 2020	218,000	\$ 14.92	8.6	\$ 452,400
Granted	—	—	—	—
Exercised	(1,600)	14.80	—	—
Forfeited	—	—	—	—
Outstanding, December 31, 2020	<u>216,400</u>	<u>\$ 14.93</u>	<u>7.6</u>	<u>\$ 484,736</u>
Exercisable, December 31, 2020	59,600	\$ 14.87	7.6	\$ 137,080

  

<b>December 31, 2019</b>				
Options	Weighted-Average Exercise Price	Weighted-Average Remaining contractual Life (in years)	Average Intrinsic Value	
Outstanding, July 1, 2019	218,000	\$ 14.92	9.1	\$ 61,040
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Outstanding, December 31, 2019	<u>218,000</u>	<u>\$ 14.92</u>	<u>8.6</u>	<u>\$ 452,400</u>
Exercisable, December 31, 2019	30,080	\$ 14.80	8.5	\$ 66,176

  

<b>June 30, 2019</b>				
Options	Weighted-Average Exercise Price	Weighted-Average Remaining contractual Life (in years)	Average Intrinsic Value	
Outstanding, July 1, 2018	198,000	\$ 14.80	10.0	\$ 3,960
Granted	30,000	15.71	9.9	—
Exercised	—	—	—	—
Forfeited	(10,000)	14.80	—	—
Outstanding, June 30, 2019	<u>218,000</u>	<u>\$ 14.92</u>	<u>9.1</u>	<u>\$ 61,040</u>
Exercisable, June 30, 2019	30,080	\$ 14.80	9.0	\$ 8,422

The fair value of each option grant during the year ended June 30, 2019 is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

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	<u>Year Ended June 30,</u> <b>2019</b>
Dividend yield	3.14%-3.26%
Expected life	10 years
Expected volatility	19.68%-24.07%
Risk-free interest rate	1.96%-2.56%
Weighted average grant date fair value	\$2.39-\$2.98

The expected volatility is based on blended rate of historical volatility and SNL US Index of Banks between \$250 million and \$500 million in assets as the Company's shares of common stock did not begin trading on the Nasdaq Capital Market until January 12, 2017. The expected life is an estimate based on management review of the various factors. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

Restricted stock expense was \$184,000 for the year ended December 31, 2020, \$92,000 for the six months ended December 31, 2019 and \$177,000 for the year ended June 30, 2019. At December 31, 2020, the expected future compensation expense relating to non-vested stock outstanding was \$847,000.

A summary of the Company's restricted stock activity and related information for the year ended December 31, 2020, the six months ended December 31, 2019 and the year ended June 30, 2019 is as follows:

	<u>Number of Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>
Non-vested, July 1, 2018	<b>77,000</b>	<b>\$ 14.80</b>
Granted	14,000	15.72
Vested	(11,680)	14.80
Forfeited	(4,000)	14.80
Non-vested, June 30, 2019	<u>75,320</u>	<u>\$ 14.97</u>
Granted	—	—
Vested	—	—
Forfeited	—	—
Non-vested at December 31, 2019	<u>75,320</u>	<u>\$ 14.97</u>
Granted	—	—
Vested	(12,460)	14.97
Forfeited	—	—
Non-vested at December 31, 2020	<u>62,860</u>	<u>\$ 14.97</u>

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**14. Income Taxes**

The table below summarizes the income tax expense for the year ended December 31, 2020, six months ended December 31, 2019 and the year ended June 30, 2019:

<i>(Dollars in thousands)</i>	For the year ended December 31, 2020	For the six months ended December 31, 2019	For the year ended June 30, 2019
Current:			
Federal	\$ 1,142	\$ 105	\$ (184)
State	666	55	41
	<u>1,808</u>	<u>160</u>	<u>(143)</u>
Deferred:			
Federal	396	23	337
	<u>396</u>	<u>23</u>	<u>337</u>
Total income tax expense	<u>\$ 2,204</u>	<u>\$ 183</u>	<u>\$ 194</u>

The expense for income taxes for the year ended December 31, 2020, six months ended December 31, 2019 and the year ended June 30, 2019 differed from the federal income tax statutory rate due to the following:

<i>(Dollars in thousands)</i>	For the year ended December 31, 2020		For the six months ended December 31, 2019		For the year ended June 30, 2019	
	Amount	Rate	Amount	Rate	Amount	Rate
Tax at statutory rate	\$ 1,667	21.0%	\$ 152	21.0%	\$ 222	21.0%
State tax net of federal benefit	532	6.6%	44	6.0%	32	3.1%
Bank-owned life insurance	(32)	-0.4%	(17)	-2.3%	(33)	-3.2%
Tax-exempt interest	(8)	-0.1%	(17)	-2.3%	(58)	-5.5%
Other, net	45	0.5%	21	2.9%	31	2.7%
	<u>\$ 2,204</u>	<u>27.6%</u>	<u>\$ 183</u>	<u>25.3%</u>	<u>\$ 194</u>	<u>18.1%</u>

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Deferred income taxes result from temporary differences in recording certain revenues and expenses for financial reporting purposes. The net deferred tax asset and liabilities at the periods shown consisted of the following:

<i>(Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Deferred tax assets:		
Allowance for loan losses	\$ 424	\$ 302
Non-accrual interest	16	11
Accrued expenses	133	70
Stock-based compensation	27	24
Unrealized loss on securities	—	8
Operating lease liabilities	1,669	1,265
Other	—	19
Gross deferred tax assets	<u>\$ 2,269</u>	<u>\$ 1,699</u>
Deferred tax liabilities:		
Depreciation	\$ 135	\$ 124
Unrealized gain on securities	100	—
Fair value adjustment of IRLC, TBA securities and forward loan sales commitments	544	226
Operating lease right-of-use assets	1,614	1,265
Gain on fair value of loans	477	181
Gross deferred tax liabilities	<u>2,870</u>	<u>1,796</u>
Net deferred tax (liabilities) asset	<u>\$ (601)</u>	<u>\$ (97)</u>

The Company had a \$2,500 AMT credit which will be 100% refunded at December 31, 2020. The Company had no Alternative Minimum Tax (“AMT”) credits as of December 31, 2019. AMT credit carryforwards were not impacted by the change in statutory tax rate by the Tax Act, as they are treated as payments on future federal income taxes due and are not subject to remeasurement. However, the Tax Act did change alternative minimum tax credit carryforwards to be refundable credits.

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Retained earnings included \$1.7 million at December 31, 2020 and 2019, for which no provision for federal income tax has been made. This amount represents deductions for bad debt reserves for tax purposes, which were only allowed to savings institutions that met certain criteria prescribed by the Internal Revenue Code of 1986, as amended. The Small Business Job Protection Act (the Act) eliminated the special bad debt deduction granted solely to thrifts. Under the terms of the Act, there would be no recapture of the pre-1988 (base year) reserves. However, these pre-1988 reserves would be subject to recapture under the rules of the Internal Revenue Code if the Company pays a cash dividend in excess of earnings and profits, or liquidates.

**15. Fair Value of Financial Instruments**

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is 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. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is determined at a reasonable point within the range that is most representative of fair value under current market conditions. Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends, and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based unadjusted on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

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Assets measured at fair value on a recurring basis at December 31, 2020 and 2019 are summarized below:

<i>(Dollars in thousands)</i>	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Investment securities available-for-sale:				
U.S. governmental securities	\$ —	\$ 391	\$ —	\$ 391
Corporate notes	—	1,532	8,068	9,600
Collateralized mortgage obligations - agency residential	—	3,851	—	3,851
Mortgage-backed securities - agency residential	—	5,689	—	5,689
Municipal securities	—	2,971	—	2,971
Bank CDs	—	1,016	—	1,016
Loans held for sale	—	83,549	—	83,549
Forward loan sales commitments	—	252	—	252
TBA securities	—	—	—	—
Interest rate lock commitments	—	—	2,647	2,647
	<u>\$ —</u>	<u>\$ 99,251</u>	<u>\$ 10,715</u>	<u>\$ 109,966</u>

<i>(Dollars in thousands)</i>	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Investment securities available-for-sale:				
U.S. governmental securities	\$ —	\$ 436	\$ —	\$ 436
Corporate notes	—	2,510	3,059	5,569
Collateralized mortgage obligations - agency residential	—	6,464	—	6,464
Mortgage-backed securities - agency residential	—	4,063	—	4,063
Municipal securities	—	2,117	—	2,117
Bank CDs	—	2,507	—	2,507
Loans held for sale	—	37,876	—	37,876
Forward loan sales commitments	—	389	—	389
TBA securities	—	5	—	5
Interest rate lock commitments	—	—	810	810
	<u>\$ —</u>	<u>\$ 56,367</u>	<u>\$ 3,869</u>	<u>\$ 60,236</u>

Liabilities measured at fair value on a recurring basis at December 31, 2020 and 2019 are summarized below.

<i>(Dollars in thousands)</i>	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Forward loan sales commitments	\$ —	\$ 127	\$ —	\$ 127
TBA securities	—	76	—	76
Interest rate lock commitments	—	—	106	106
	<u>\$ —</u>	<u>\$ 203</u>	<u>\$ 106</u>	<u>\$ 309</u>

<i>(Dollars in thousands)</i>	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Forward loan sales commitments	\$ —	\$ 45	\$ —	\$ 45
TBA securities	—	56	—	56
Interest rate lock commitments	—	—	25	25
	<u>\$ —</u>	<u>\$ 101</u>	<u>\$ 25</u>	<u>\$ 126</u>

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There were no assets measured at fair value on a nonrecurring basis at December 31, 2020 and 2019.

The estimated fair values of the Company's financial instruments that are not required to be measured or reported at fair value were as follows at December 31, 2020 and 2019 (in thousands):

<u>December 31, 2020</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
<i>(Dollars in thousands)</i>					
<b>Assets:</b>					
Cash and cash equivalents	\$ 414,590	\$ 414,590	\$ 414,590	\$ —	\$ —
Equity securities	500	500	—	—	500
Loans receivable, net	313,811	325,636	—	—	325,636
Bank-owned life insurance	6,408	6,408	6,408	—	—
Restricted investment in bank stock	1,721	1,721	1,721	—	—
Accrued interest receivable	1,489	1,489	1,489	—	—
Mortgage Servicing Rights	2,041	2,259	—	—	2,259
<b>Liabilities:</b>					
Deposits	\$ 730,826	\$ 731,398	\$ 668,689	\$ 62,709	\$ —
Advances from the FHLB	26,269	27,932	—	27,932	—
Federal Reserve PPPLF advances	48,682	48,698	—	48,698	—
Advances from borrowers for taxes and insurance	2,131	2,131	2,131	—	—
Accrued interest payable	167	167	167	—	—
<b>Off-balance sheet:</b>					
Commitment to extend credit	\$ —	\$ —	\$ —	\$ —	\$ —

<u>December 31, 2019</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
<i>(Dollars in thousands)</i>					
<b>Assets:</b>					
Cash and cash equivalents	\$ 20,625	\$ 20,625	\$ 20,625	\$ —	\$ —
Equity securities	500	500	—	—	500
Loans receivable, net	255,032	254,884	—	—	254,884
Bank-owned life insurance	6,255	6,255	6,255	—	—
Restricted investment in bank stock	1,552	1,552	1,552	—	—
Accrued interest receivable	967	967	967	—	—
<b>Liabilities:</b>					
Deposits	\$ 283,767	\$ 284,055	\$ 215,471	\$ 68,584	\$ —
Advances from the FHLB	27,000	27,333	—	27,333	—
Advances from borrowers for taxes and insurance	2,138	2,138	2,138	—	—
Accrued interest payable	305	305	305	—	—
<b>Off-balance sheet:</b>					
Commitment to extend credit	\$ —	\$ —	\$ —	\$ —	\$ —



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The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. There were no changes in methodologies or transfers between levels during the year ended December 31, 2020 and the six months ended December 31, 2019.

The following tables represent assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31, 2020 and 2019:

	Level 3		
	Corporate notes	IRLC- Asset	IRLC- Liability
<b>Beginning Balance: January 1, 2020</b>	\$ 3,059	\$ 810	\$ (25)
Total gains (unrealized):			
Included in other comprehensive income	50	—	—
Total (loss) gains included in earnings and held at reporting date	—	1,837	(81)
Purchases, sales and settlements	4,959	—	—
Transfers into Level 3	—	—	—
<b>Ending Balance: December 31, 2020</b>	<u>\$ 8,068</u>	<u>\$ 2,647</u>	<u>\$ (106)</u>
Change in unrealized gains for the period included in earnings (or changes in net assets) for assets held as of December 31, 2020	—	1,837	(81)
Change in unrealized gains for the period included other comprehensive income for assets held as of December 31, 2020	\$ 50	\$ —	\$ —

	Level 3		
	Corporate notes	IRLC- Asset	IRLC- Liability
<b>Beginning Balance: July 1, 2019</b>	\$ 3,030	\$ 1,100	\$ (54)
Total gains (unrealized):			
Included in other comprehensive income	29	—	—
Total gains included in earnings and held at reporting date	—	(290)	29
Purchases, sales and settlements	—	—	—
Transfers into Level 3	—	—	—
<b>Ending Balance: December 31, 2019</b>	<u>\$ 3,059</u>	<u>\$ 810</u>	<u>\$ (25)</u>

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At December 31, 2020, the Company has classified \$8.1 million of Corporate notes as Level 3. The fair value of \$6.0 million of Corporate notes includes an adjustable rate corporate security and sub-debt bonds. The Company's methodology for valuing these Corporate notes is to obtain market quotes through a third-party pricing model. The weighted average of the market quotes applied range from 97.6% to 106.6%. In addition, classified as Level 3 are two sub-debt bonds with a fair value of \$2.1 million. The Company's methodology to value the two sub-debt bonds is to obtain fair values of similar sub-debt bonds issuances over the past twelve months from a broker/investment firm. The weighted average of the market quotes applied is 102.5%. Since the Corporate notes are not widely traded, the Company considered the inputs as unobservable.

At December 31, 2020, the Company has classified \$2.5 million of net derivative assets related to IRLC as Level 3. The fair value of IRLCs is based on prices obtained for loans with similar characteristics from third parties, adjusted by the pull-through rate, which represents the Company's best estimate of the probability that a committed loan will fund. The weighted average pull-through rates applied ranged from 63.7% to 99.8%.

Significant unobservable inputs for assets and liabilities measured at fair value on a recurring basis at December 31, 2020:

**Quantitative Information about Level 3 Fair Value Measurements at December 31, 2020**

<i>(Dollars in thousands)</i>	Fair Value	Valuation Technique	Significant Unobservable Input	Range	Weighted Average
Measured at Fair Value on a Recurring Basis:					
Corporate notes	\$ 5,995	Pricing Model	Offered quotes	92.37%-106.60%	101.67%
	2,073	Market comparable securities	Offered quotes	101.63%-103.63%	102.50%
Net derivative asset:					
IRLC	\$ 2,541	Discounted cash flows	Pull-through Rates	63.70%-99.79%	80.99%

**16. Changes in and Reclassification out of Accumulated Other Comprehensive Income (Loss)**

The following tables present the changes in the balances of each component of accumulated other comprehensive income ("AOCI") for the year ended December 31, 2020, the six months ended December 31, 2019 and the year ended June 30, 2019. All amounts are presented net of tax.

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<b>Net unrealized holding gains (losses) on available-for-sales securities (1):</b>	<b>For the Year Ended</b>	<b>For the Six Months</b>	<b>For the Year Ended</b>
<i>(Dollars in thousands)</i>	<b>December 31, 2020</b>	<b>Ended</b>	<b>June 30, 2019</b>
	<b>December 31, 2020</b>	<b>December 31, 2019</b>	<b>June 30, 2019</b>
<b>Balance at beginning period</b>	\$ (18)	\$ 70	\$ (6)
Unrealized holding gains on available-for-sale securities before reclassification	355	61	7
Amount reclassified for investment securities gains included in net income	(99)	(149)	
Net current-period other comprehensive income (loss)	256	(88)	7
<b>Balance at ending period</b>	<b>\$ 238</b>	<b>\$ (18)</b>	<b>\$</b>

(1) All amounts are net of tax. Related income tax expense or benefit is calculated using an income tax rate approximately 29.5%, 28.9% and 29.5% for the year ended December 31, 2020, six months ended December 31, 2019 and the year end June 30, 2019.

<i>(Dollars in thousands)</i>	<b>For the Year Ended</b>	<b>For the Six Months Ended</b>	<b>For the Year Ended</b>	<b>Affected line i</b>
	<b>December 31, 2020</b>	<b>December 31, 2019</b>	<b>June 30, 2019</b>	<b>Consolidated S</b>
	<b>Amount reclassified from AOCI (2)</b>	<b>Amount reclassified from AOCI (2)</b>	<b>Amount reclassified from AOCI (2)</b>	<b>Incon</b>
<b>Net unrealized gain on available-for securities (1)</b>	\$ 141	\$ 211	\$ 8	<b>Gain on sale of</b>
	(42)	(62)	(2)	<b>securities</b>
	<b>\$ 99</b>	<b>\$ 149</b>	<b>\$ 6</b>	<b>Income Tax</b>

(1) For additional details related to unrealized gains on investment securities and related amounts reclassified from accumulated other comprehensive loss, see Note 2, "Investment securities."

(2) Amounts in parenthesis indicate debits.

#### 17. Commitments and Contingencies

The Company is involved in various legal actions arising in the normal course of business. Management, after taking into consideration legal counsel's evaluation of such actions, is of the opinion that the outcome of these matters will not have a material adverse effect on the financial position, operating results, or equity of the Company.

The Company is party to certain financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments are entered into in the normal course of business and include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. In the opinion of management, market risk (interest rate changes) associated with these instruments is nominal.

Open mortgage loan commitments granted to loan applicants at December 31, 2020 and 2019 are \$80.9 million and \$27.9 million, respectively. Open commercial loan commitments granted to loan applicants at December 31, 2020 and 2019, are \$4.0 million and \$7.5 million, respectively.

At December 31, 2020 and 2019, the Company had forward loan sales commitments amounting to \$120.6 million and \$25.1 million, respectively. The Company had mandatory TBAs amounting to \$13.5 million and \$28.0 million at December 31, 2020 and 2019, respectively.

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The undisbursed portion of open-ended HELOCs at December 31, 2020 and 2019 is \$8.0 million and \$7.8 million, respectively. The undisbursed portion of open-ended commercial and commercial real estate lines of credit at December 31, 2020 and 2019 are \$22.1 million and \$8.1 million, respectively. At December 31, 2020 and 2019, there was an open commercial letter of credit of \$650,000 and \$50,000.

There was \$38.3 million and \$18.0 million outstanding performance standby letters of credit at December 31, 2020 and 2019.

In the normal course of business, the Company sells loans in the secondary market. As is customary in such sales, the Company provides indemnification to the buyer under certain circumstances. This indemnification may include the obligation to repurchase loans or refund fees by the Company, under certain circumstances. In most cases, repurchases and losses are rare, and no provision is made for losses at the time of sale. When repurchases and losses are probable and reasonably estimable, a provision is made in the financial statements for such estimated losses. There was a \$151,000 and \$54,000 provision for losses from repurchases as of December 31, 2020 and 2019, respectively.

Residential mortgage loans serviced for others at December 31, 2020, December 31, 2019, and June 30, 2019 are \$209.3 million and \$3.4 million and \$3.5 million, respectively.

During March 2020, in response to the COVID-19 pandemic, the FRB reduced the reserve requirements to zero and the Company was no longer required to maintain certain average reserve balances at the FRB. For December 31, 2019, the Company was required to maintain certain average reserve balances as established by the FRB. The amounts of this reserve balance for the reserve computation period, which included December 31, 2019 was \$3.2 million which was satisfied through the restriction of vault cash held at the Company's branches.

### 18. Concentrations

At December 31, 2020 and 2019, June 30, 2019, the Company's lending activities are primarily concentrated in Southeastern Pennsylvania, with the largest concentration in Montgomery, Bucks and Philadelphia Counties as well as lending activities in New Jersey and Delaware. The performance of the Company's loan portfolio is affected by economic conditions in the borrowers' geographic region.

Mortgage loans held for sale were sold to investors that made up over ten percent of gain on sale of loans as follows:

<i>(Dollars in thousands)</i>	<b>Number of Investors</b>	<b>Percentages of Mortgages Sold</b>
<b>December 31, 2020</b>	<b>3</b>	<b>73%</b>
December 31, 2019	3	66%
June 30, 2019	3	71%

### 19. Related Party

In the ordinary course of business, the Company has granted loans to related parties. The amount outstanding at December 31, 2020 and 2019 was \$2.0 million and \$1.5 million, respectively. Originations to related parties and repayments from related parties during the year ended December 31, 2020 were \$2.6 million and \$2.1 million, respectively. During the six months ended December 31, 2019, originations to related parties and repayments from related parties were \$436,000 and \$3.8 million, respectively.

The Company held deposits of approximately \$252.6 million and \$10.5 million for related parties at December 31, 2020 and 2019, respectively.

In November 2017, the Company engaged a third party to provide services for certain customers with large deposit balances, by offering both a competitive rate of return and FDIC insurance. Related party balances in this

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program totaled \$5.9 million and \$17.5 million and \$32.5 million at December 31, 2020 and 2019, June 30, 2019 and for which we received approximately \$2,000 for the year ended December 31, 2020, \$19,000 for the six months ended December 31, 2019 and \$46,000 in fees for customer services which is included in the years ended June 30, 2019, respectively.

In January 2018, the Company entered into a business consulting agreement with one of our directors to provide deposit sales training, grow deposit market share and identify deposit opportunities. This agreement terminated on December 31, 2019. The Company has paid \$15,000 and \$60,000 and \$25,000 in consulting fees to the director for the six months ended December 31, 2019 and the years ended June 30, 2019 and 2018, respectively.

## **20. Revenue Recognition**

The Company adopted ASU No. 2014-09 “Revenue from Contracts with Customers” (Topic 606) and all subsequent ASUs that modified Topic 606. The following is a discussion of key revenues of fees for customer services that are within the scope of the revenue guidance:

- *Fee income* – Fee income primarily consists of a fee received for placing customer deposits in a deposit placement network such that amounts are under the standard FDIC insurance maximum of \$250,000 making the deposits eligible for FDIC insurance. The Company acts as an intermediary between the customer and the deposit placement network. The Company’s performance obligation is generally satisfied upon placement of the customer’s deposit in deposit placement network.
- *Insufficient fund fees and other service charges*– Revenue from service charges on deposit accounts is earned through cash management, wire transfer, and other deposit-related services; as well as overdraft, non-sufficient funds, account management and other deposit-related fees. Revenue is recognized for these services either over time, corresponding with deposit accounts’ monthly cycle, or at a point in time for transactional related services and fees. These revenues are included in insufficient funds fees and other service charges in the table above.
- *ATM interchange and fee income* – ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder used a Company’s ATM. The Company’s performance obligation for ATM fee income are largely satisfied, and related revenue recognized, when the services are rendered or upon completion.

Under ASC Topic 606, management determined that the revenue emanating from interest and dividend income on loans and investments is not within scope of this topic. In addition, certain noninterest income streams such as income from bank owned life insurance, sales of investment securities, mortgage banking activities, and certain items within other income are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such deposit related fees, interchange fees, and fees income received in exchange for customer’s deposits sourced with a deposit placement network. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606.

**HV Bancorp, Inc. and Subsidiary**  
**Notes to the Consolidated Financial Statements**

The following table presents noninterest income for the year ended December 31, 2020, the six months ended December 31, 2019 and for the year ended June 30, 2019:

<i>(Dollars in thousands)</i>	Year Ended December 31,	Six Months Ended December 31,	Year Ended June 30,
	2020	2019	2019
<b>Non-Interest Income</b>			
<b>In-scope of Topic 606:</b>			
Fee income	\$ 3	\$ 21	\$ 48
Insufficient fund fees	59	27	60
Other service charges	75	39	60
ATM interchange fee income	9	4	7
Other income	2	1	4
<b>Total Non-Interest Income (in-scope of Topic 606)</b>	<b>\$ 148</b>	<b>\$ 92</b>	<b>\$ 179</b>
<b>Out-of-scope of Topic 606:</b>			
Increase in cash surrender value of bank-owned life insurance	\$ 153	\$ 80	\$ 159
Gain on sale of loans, net	13,315	3,616	2,789
Gain on sale of available-for-sale securities	141	211	8
Gain (loss) from derivative instruments	1,512	(399)	798
Change in fair value for loans held-for-sale	1,408	160	424
Other	193	13	7
<b>Total Non-Interest Income (out-scope of Topic 606)</b>	<b>\$ 16,722</b>	<b>\$ 3,681</b>	<b>\$ 4,185</b>
<b>Total Non-Interest Income (in-scope of Topic 606)</b>	<b>148</b>	<b>92</b>	<b>179</b>
<b>Total Non-Interest Income</b>	<b>\$ 16,870</b>	<b>\$ 3,773</b>	<b>\$ 4,364</b>

**21. Leases**

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. On July 1, 2019, the Company adopted ASU No. 2016-02 "Leases" (Topic 842) and all subsequent ASUs that modified Topic 842. For the Company, Topic 842 primarily affected the accounting treatment for operating lease agreements in which the Company is the lessee. Upon adoption of ASC Topic 842, Leases, on July 1, 2019, the Company recorded an asset of \$2.1 million and a corresponding liability in the amount of \$2.1 million, included in other assets and other liabilities on the consolidated statement of financial condition. The Company recorded an additional asset of \$2.3 million and a corresponding liability in the amount of \$2.3 million during the year ended December 31, 2020 for four new lease agreements. In addition, as part of the adoption of Topic 842 on July 1, 2019, the Company booked an adjustment of \$277,000 to retained earnings to derecognize the balance of the deferred gain on sale-leaseback of buildings. The Company elected to adopt the transition relief under ASC Topic 842 using the modified retrospective transition method. All lease agreements are accounted for as operating leases. The Company has no unamortized initial direct costs related to the establishment of these lease agreements as of July 1, 2019.

**Lessee Accounting**

Substantially all of the leases in which the Company is the lessee are comprised of real estate property for branches and office spaces with terms extending through 2036. All of our leases are classified as operating leases, and therefore, were previously not recognized on the Company's consolidated statements of financial condition. With the adoption of Topic 842, operating lease agreements are required to be recognized on the consolidated statements of financial condition as a right-of-use ("ROU") asset and a corresponding lease liability.

**HV Bancorp, Inc. and Subsidiary**  
**Notes to the Consolidated Financial Statements**

The following table represents the consolidated statements of financial condition classification of the Company's ROU assets and lease liabilities. The Company elected not to include short-term leases (i.e., leases with initial terms of twelve months or less) on the consolidated statements of financial condition.

<b>Lease Right-of-Use Assets</b>	<b>Classification</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Operating lease right-of-use assets	Operating lease right-of-use asset	\$ 7,685	\$ 7,685
<b>Total Lease Right-of-Use Assets</b>		<b>\$ 7,685</b>	<b>\$ 7,685</b>

<b>Lease Liabilities</b>	<b>Classification</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Operating lease liabilities	Operating Lease liabilities	\$ 7,946	\$ 7,946
<b>Total Lease Liabilities</b>		<b>\$ 7,946</b>	<b>\$ 7,946</b>

The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. The Company utilized its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term as the rate implicit in the lease was not readily determinable. For operating leases existing prior to July 1, 2019, the rate for the remaining lease term as of July 1, 2019 was used.

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b>Weighted-average remaining lease term</b>		
Operating leases	12.2 years	12.7 years
<b>Weighted-average discount rate</b>		
Operating leases	2.23 %	2.34 %

Lease expenses for the year ended June 30, 2019 was \$487,000.

The following table represents lease costs:

<b>(dollars in thousands)</b>	<b>For the year ended December 31, 2020</b>		<b>For the six months ended December 31, 2019</b>	
Operating lease cost	\$	627	\$	198
Short-term lease cost		37		86
<b>Total</b>	<b>\$</b>	<b>664</b>	<b>\$</b>	<b>284</b>

Future minimum payments for operating leases with initial or remaining terms of one year or more as of December 31, 2020 and 2019 were as follows:

**HV Bancorp, Inc. and Subsidiary**  
**Notes to the Consolidated Financial Statements**

(dollars in thousands)	December 31, 2020	December 31, 2019
Twelve Months Ended:		
Within one year	\$ 836	\$ 440
After one but within two years	792	632
After two but within three years	797	583
After three but within four years	791	594
After four but within five years	735	596
After five years	5,182	4,164
Total Future Minimum Lease Payments	9,133	7,009
Amounts Representing Interest	(1,187)	(986)
Present Value of Net Future Minimum Lease Payments	\$ 7,946	\$ 6,023

**22. Condensed Financial Information - Parent Company Only**

Condensed financial statements of HV Bancorp, Inc. are as follows (in thousands):

**Condensed Statement of Financial Condition**  
(dollars in thousands)

	December 31, 2020	December 31, 2019
<b>Assets</b>		
Cash and due from banks	\$ 473	\$ 185
Interest-bearing deposits with banks	473	1,102
Cash and cash equivalents	946	1,287
Investment securities available-for-sale, at fair value	1,274	2,046
Equity securities	500	500
Loan to ESOP	2,095	2,181
Accrued interest receivable	13	16
Prepaid federal income taxes	—	62
Investment in Subsidiary	33,947	27,552
Other assets	207	1
<b>Total Assets</b>	<b>\$ 38,982</b>	<b>\$ 33,645</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deferred income taxes, net	\$ 11	\$ 6
Other liabilities	44	40
Shareholders' equity	38,927	33,599
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 38,982</b>	<b>\$ 33,645</b>



**HV Bancorp, Inc. and Subsidiary**  
**Notes to the Consolidated Financial Statements**

**Condensed Statements of Operations**  
(Dollars in thousands, except per share data)

	For the year ended December 31, 2020	For the six months ended December 31, 2019	For the Jun
<b>Interest Income</b>			
Interest and dividends on investments:			
Taxable	\$ 65	\$ 35	\$
Interest on mortgage-backed securities and collateralized mortgage obligations	15	12	
Interest on interest-bearing deposits	1	—	
Interest from ESOP Loan	104	63	
<b>Total Interest Income</b>	<b>185</b>	<b>110</b>	
<b>Non-Interest Income</b>			
<b>Gain on sale of available-for-sale securities, net</b>	<b>—</b>	<b>—</b>	
<b>Total Non-Interest Income</b>	<b>—</b>	<b>—</b>	
<b>Non-Interest Expense</b>			
Occupancy	—	2	
Professional fees	115	54	
Other expenses	135	63	
<b>Total Non-Interest Expense</b>	<b>250</b>	<b>119</b>	
<b>Loss before income taxes</b>	<b>(65)</b>	<b>(9)</b>	
<b>Income Tax Benefit</b>	<b>(13)</b>	<b>(2)</b>	
<b>Loss before equity in undistributed net earnings of subsidiary</b>	<b>(52)</b>	<b>(7)</b>	
<b>Equity in undistributed net earnings of subsidiary</b>	<b>5,820</b>	<b>547</b>	
<b>Net Income</b>	<b>\$ 5,768</b>	<b>\$ 540</b>	<b>\$</b>
<b>Other comprehensive gain, net of tax</b>			
Unrealized gain on available-for-sale securities (pre-tax \$478, \$85 and \$1,027)	\$ 355	\$ 61	\$
Reclassification adjustment for gains included in income (pre-tax (\$141), (\$211) and (\$8), respectively)	(99)	(149)	
Other comprehensive income (loss)	256	(88)	
<b>Comprehensive Income</b>	<b>\$ 6,024</b>	<b>\$ 452</b>	<b>\$</b>
<b>Net Income per share:</b>			
Basic	\$ 2.84	\$ 0.26	\$
Diluted	\$ 2.84	\$ 0.26	\$

**HV Bancorp, Inc. and Subsidiary**  
**Notes to the Consolidated Financial Statements**

**Condensed Statements of Cash Flows**  
(dollars in thousands)

	For the year ended December 31, 2020	For the six months ended December 31, 2019	For the June
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 5,768	\$ 540	\$
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed net earnings of subsidiary	(5,820)	(547)	
Depreciation	—	2	
Net amortization of securities premiums and discounts	—	2	
Gain on sale of available-for-sale securities, net	—	—	
Deferred income tax expense	—	—	
Decrease (increase) in:			
Accrued interest receivable	3	2	
Prepaid federal income taxes	62	(2)	
Prepaid and other assets	(206)	126	
(Increase) decrease in:			
Other liabilities	4	(34)	
Net cash provided by (used in) operating activities	<u>(189)</u>	<u>89</u>	
<b>Cash Flows from Investing Activities</b>			
ESOP repayment	125	67	
Activity in available-for-sale securities:			
Proceeds from sales	—	—	
Maturities and repayments	788	706	
Purchase of Equity securities	—	—	
Investment in Subsidiary	—	—	
Net cash provided by (used in) investing activities	<u>913</u>	<u>773</u>	
<b>Cash Flows from Financing Activities</b>			
Proceeds from stock option exercise	24	—	
Purchase of treasury stock	(1,089)	—	
Net cash used in financing activities	<u>(1,065)</u>	<u>—</u>	
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (341)</b>	<b>\$ 862</b>	<b>\$</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>\$ 1,287</b>	<b>\$ 425</b>	<b>\$</b>
<b>Cash and Cash Equivalents, end of year</b>	<b><u>\$ 946</u></b>	<b><u>\$ 1,287</u></b>	<b><u>\$</u></b>

**HV Bancorp, Inc. and Subsidiary**  
**Notes to the Consolidated Financial Statements**

**23. Consolidated Summary of Quarterly Earnings (Unaudited)**

The following table presents summarized quarterly data for the year ended December 31, 2020, six months ended December 31, 2019 and for the year ended June 30, 2019:

<i>(Dollars in thousands)</i>	For the year end December 31, 2020			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Total Interest Income	\$ 3,026	\$ 3,328	\$ 3,539	\$ 3,930
Total Interest Expense	933	758	720	732
Net Interest Income	2,093	2,570	2,819	3,198
Provision for Loan Losses	111	450	424	123
Total Non-Interest Income	2,144	3,945	6,195	4,586
Total Non-Interest Expense	3,929	3,979	5,742	4,820
Income before income taxes	197	2,086	2,848	2,841
Income tax expense (benefit)	48	590	785	781
Net income	149	1,496	2,063	2,060
Basic earnings per share	0.07	0.73	1.02	1.02
Diluted earnings per share	0.07	0.73	1.02	1.02

<i>(Dollars in thousands)</i>	For the six months ended December 31, 2019	
	1st Qtr.	2nd Qtr.
Total Interest Income	\$ 3,111	\$ 3,151
Total Interest Expense	1,036	1,062
Net Interest Income	2,075	2,089
Provision for Loan Losses	244	38
Total Non-Interest Income	2,205	1,568
Total Non-Interest Expense	3,602	3,330
Income before income taxes	434	289
Income tax expense (benefit)	101	82
Net income	333	207
Basic earnings per share	0.16	0.10
Diluted earnings per share	0.16	0.10

<i>(Dollars in thousands)</i>	For the year end June 30, 2019			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Total Interest Income	\$ 2,651	\$ 2,744	\$ 2,728	\$ 2,859
Total Interest Expense	614	740	735	838
Net Interest Income	2,037	2,004	1,993	2,021
Provision for Loan Losses	59	24	241	287
Total Non-Interest Income	758	676	986	1,944
Total Non-Interest Expense	2,378	2,513	2,700	3,144
Income before income taxes	358	143	38	534
Income tax expense (benefit)	88	4	(24)	126
Net income	270	139	62	408
Basic earnings per share	0.13	0.07	0.03	0.20
Diluted earnings per share	0.13	0.07	0.03	0.20

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not Applicable

**Item 9A. Controls and Procedures**

(a) Evaluation of disclosure controls and procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2020. Based on that evaluation, the Company's management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

**(b) Management's Report on Internal Control Over Financial Reporting**

The management of HV Bancorp, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Management along with the participation of our principal executive officer and principal financial officer conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2020 utilizing the framework established in the 2013 Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2020 is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements are prevented or timely detected.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of our registered accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to the Dodd-Frank Act, which permits emerging growth companies, such as the Company, to provide only management's report in this annual report.

/s/ Travis J. Thompson

Travis J. Thompson  
President and Chief Executive Officer

/s/ Joseph C. O'Neill, Jr.

Joseph C. O'Neill, Jr.  
Executive Vice President and Chief Financial Officer

(c) Changes in internal controls

There were no changes made in our internal control over financial reporting during the Company's quarter ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. Other Information**

Not Applicable

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The “Proposal I—Election of Directors” section of the Company’s definitive proxy statement for the Company’s 2021 Annual Meeting of Shareholders (the “2021 Proxy Statement”) is incorporated herein by reference.

**Item 11. Executive Compensation**

The “Proposal I—Election of Directors” section of the Company’s 2021 Proxy Statement is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters**

The “Proposal I—Election of Directors” and “Voting Securities and Principal Holders” sections of the Company’s 2021 Proxy Statement is incorporated herein by reference.

(d) Equity Compensation Plan Information

The following table summarizes share and exercise price information about HV Bancorp’s equity plan as of December 31, 2020.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans (stock options) approved by security holders:			
HV Bancorp 2018 Equity Incentive Plan (1)	216,400	\$14.93	212
Equity compensation plans not approved by security holders	N/A	N/A	N/A
<b>Total</b>	<b>216,400</b>	<b>\$14.93</b>	<b>212</b>

(1)As of December 31, 2020, 87,000 shares of restricted stock awards had been granted under the HV Bancorp 2018 Equity Incentive plan (the “2018 Equity Incentive Plan”) with 285 shares of restricted stock awards, remaining available for future issuance under the 2018 Equity Incentive Plan.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The “Transactions with Certain Related Persons” and “Proposal I- Election of Directors” sections of the Company’s 2021 Proxy Statement is incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services**

The “Proposal II – Ratification of Appointment of Independent Registered Public Accounting Firm” Section of the Company’s 2021 Proxy Statement is incorporated herein by reference.

PART IV

**Item 15. Exhibits and Financial Statement Schedules**

(a)(1) Financial Statements

The following are filed as a part of this report by means of incorporation by reference to HV Bancorp, Inc.'s 2020 Annual Report to Shareholders:

- (A) Report of Independent Registered Public Accounting Firm
- (B) Consolidated Statements of Financial Condition - at December 31, 2020 and 2019
- (C) Consolidated Statements of Income – Year Ended December 31, 2020, Six Month Ended December 31, 2019 and Year ended June 30, 2019
- (D) Consolidated Statements of Comprehensive Income – Year Ended December 31, 2020, Six Month Ended December 31, 2019 and Year ended June 30, 2019
- (E) Consolidated Statements of Cash Flows – Year Ended December 31, 2020, Six Month Ended December 31, 2019 and Year ended June 30, 2019
- (F) Consolidated Statements of Changes in Shareholders' Equity– Year Ended December 31, 2020, Six Month Ended December 31, 2019 and Year ended June 30, 2019
- (G) Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

None.

(a)(3) Exhibits

- 3.1 [Articles of Incorporation of HV Bancorp, Inc.](#) (1)
- 3.2 [Bylaws of HV Bancorp, Inc.](#) (2)
- 4 [Form of Common Stock Certificate of HV Bancorp, Inc.](#) (3)
- 10.1 [Employment Agreement between Huntingdon Valley Bank and Travis J. Thompson](#) (4)
- 10.2 [Employment Agreement between Huntingdon Valley Bank and Joseph C. O'Neill, Jr.](#) (5)
- 10.3 [Employment Agreement between Huntingdon Valley Bank and Charles S. Hutt](#) (6)
- 10.4 [HV Bancorp, Inc. 2018 Equity Plan](#) (8)
- 10.5 [Form of Restricted Stock Award Agreement](#) (9)
- 10.6 [Form of Incentive Stock Option Award Agreement](#) (10)
- 10.7 [Form of Non-Qualified Stock Option Award Agreement](#) (11)
- 10.8 [Consulting Agreement](#) (13)
- 16.1 [Letter Regarding Change in Certifying Accountants](#) (12)
- 21 [Subsidiaries of Registrant](#) (7)
- 23.1 [Consent of S.R. Snodgrass, P.C.](#) \*
- 
- 31.1 [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#) \*
- 31.2 [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#) \*
- 32 [Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#) \*
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of December 31, 2020 and 2019, (ii) the Consolidated Statements of Income for the year ended December 31, 2020, six months ended December 31, 2019 and the year ended June 30, 2019, (iii) the Consolidated Statements of Comprehensive Income for the year ended December 31, 2020, six months ended December 31, 2019 and the year ended June 30, 2019, (iv) the Consolidated Statements of Shareholders' Equity for the year ended December 31, 2020, six months ended December 31, 2019 and the year ended June 30, 2019, (v) the Consolidated Statements of Cash Flows for the year ended December 31, 2020, six months ended December 31, 2019 and the year ended June 30, 2019, and (vi) the notes to the Consolidated Financial Statements.
- 
- (1) Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 of HV Bancorp, Inc. (file no. 333-213537), originally filed with the Securities and Exchange Commission on September 8, 2016, as amended.
- (2) Incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K of HV Bancorp, Inc. (file no. 001-37981), originally filed with the Securities and Exchange Commission on August 21, 2020.
- (3) Incorporated by reference to Exhibit 4 to the Registration Statement on Form S-1 of HV Bancorp, Inc. (file no. 333-213537), originally filed with the Securities and Exchange Commission on September 8, 2016, as amended.



- (4) Incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-1 of HV Bancorp, Inc. (file no. 333-213537), originally filed with the Securities and Exchange Commission on September 8, 2016, as amended.
- (5) Incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1 of HV Bancorp, Inc. (file no. 333-213537), originally filed with the Securities and Exchange Commission on September 8, 2016, as amended.
- (6) Incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-1 of HV Bancorp, Inc. (file no. 333-213537), originally filed with the Securities and Exchange Commission on September 8, 2016, as amended.
- (7) Incorporated by reference to Exhibit 21 to the Registration Statement on Form S-1 of HV Bancorp, Inc. (file no. 333-213537), originally filed with the Securities and Exchange Commission on September 8, 2016, as amended.
- (8) Incorporated by reference to Appendix A to the definitive proxy statement for the Special Meeting of Shareholders of HV Bancorp, Inc. (file no. 001-37981), originally filed with the Securities and Exchange Commission on May 9, 2018.
- (9) Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of HV Bancorp, Inc. (file no. 001-37981), originally filed with the Securities and Exchange Commission on June 18, 2018.
- (10) Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of HV Bancorp, Inc. (file no. 001-37981), originally filed with the Securities and Exchange Commission on June 18, 2018.
- (11) Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of HV Bancorp, Inc. (file no. 001-37981), originally filed with the Securities and Exchange Commission on June 18, 2018.
- (12) Incorporated by reference to Exhibit 16.1 to the Current Report on Form 8-K of HV Bancorp, Inc. (file no. 001-37981), originally filed with the Securities and Exchange Commission on February 21, 2018.
- (13) Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of HV Bancorp, Inc. (file no. 001-37981), originally filed with the Securities and Exchange Commission on November 14, 2018.

\* Filed herein

**Item 16. Form 10-K Summary**

None.

## 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.

### HV BANCORP, INC.

Date: March 30, 2021

By: /s/ Travis J. Thompson  
Travis J. Thompson  
Chairman, President and Chief Executive Officer  
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Travis J. Thompson</u> Travis J. Thompson	Chairman, President and Chief Executive Officer (Principal Executive Officer)	March 30, 2021
<u>/s/ Joseph C. O'Neill, Jr.</u> Joseph C. O'Neill, Jr.	Executive Vice President and Chief Financial Officer (Principal Accounting and Financial Officer)	March 30, 2021
<u>/s/ Carl Hj. Asplundh III</u> Carl Hj. Asplundh III	Director	March 30, 2021
<u>/s/ John D. Behm</u> John D. Behm	Director	March 30, 2021
<u>/s/ Scott W. Froggatt</u> Scott W. Froggatt	Director	March 30, 2021
<u>/s/ Joseph F. Kelly</u> Joseph F. Kelly	Director	March 30, 2021
<u>/s/ Robert J. Marino</u> Robert J. Marino	Director	March 30, 2021
<u>/s/ Michael L. Hammer</u> Michael L. Hammer	Director	March 30, 2021

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements File No. 333-215553 and File No. 333-225749 on Form S-8 of HV Bancorp, Inc. of our report dated March 30, 2021, relating to our audit of the consolidated financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K of HV Bancorp, Inc. for the year ended December 31, 2020.

/s/S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania  
March 30, 2021

## CERTIFICATION

I, Travis J. Thompson, certify that:

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

Date: March 30, 2021

/s/ Travis J. Thompson

Travis J. Thompson

President and Chief Executive Officer

## CERTIFICATION

I, Joseph C. O'Neill, Jr., certify that:

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

Date: March 30, 2021

/s/ Joseph C. O'Neill, Jr.

Joseph C. O'Neill, Jr.

Executive Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Travis J. Thompson, President and Chief Executive Officer, and Joseph C. O'Neill, Jr., Executive Vice President and Chief Financial Officer of HV Bancorp, Inc. (the "Company") each certify in their capacity as an officer of the Company that they have reviewed the annual report of the Company on Form 10-K for the year ended December 31, 2020 and that to the best of their knowledge:

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

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

Date: March 30, 2021

/s/ Travis J. Thompson  
Travis J. Thompson  
President and Chief Executive Officer

Date: March 30, 2021

/s/ Joseph C. O'Neill, Jr.  
Joseph C. O'Neill, Jr.  
Executive Vice President and Chief Financial Officer