

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, 2021

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 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, 2021, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was \$36,553,994.

As of March 10, 2022, there were 2,272,625 shares issued and 2,164,294 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 inflation and 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) acts of war or terrorism, (iv) potential impacts to the Company from continually evolving cybersecurity and other technological risks and attacks, including additional costs, reputational damage, regulatory penalties, and financial losses, (iv) 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; (v) changes in consumer spending could negatively impact the Company's credit quality and financial results; (vi) 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; (vii) 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; (viii) changes in technology could adversely impact the Company's operations and increase technology-related expenditures; (ix) increases in employee compensation and benefit expenses could adversely affect the Company's financial results; (x) 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; (xi) 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; (xii) our ability to enter new markets successfully and capitalize on growth opportunities; and (xiii) 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 issuing a subordinated note, 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 "2018 Equity Incentive 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. In addition, the Company's shareholders approved the HV Bancorp, Inc. 2021 Equity Incentive Plan (the "2021 Equity Incentive Plan") at the Annual Meeting of shareholders on May 19, 2021. The 2021 Equity Incentive Plan authorizes the issuance or delivery to participants of up to 175,000 shares of Company common stock pursuant to grants of incentive and non-qualified stock options, restricted stock awards and restricted stock units (see Note 13 of the Audited Consolidated Financial Statements for further discussion). At December 31, 2021, HV Bancorp, Inc. had total consolidated assets of \$560.1 million, total consolidated deposits of \$464.0 million, and total consolidated shareholders' equity of \$42.6 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.

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, we originated loans as participants in the Paycheck Protection Program ("PPP") as well as the Main Street Lending Program in 2020.

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 Round 1 PPP loans.

Our website address is www.myhvb.com. Information on this website should not be considered a part of this annual report.

The Company maintains a website on the Internet at www.hvbancorp.com. The Company makes available free of charge, on or through its website, its proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (SEC). This reference to the Corporation's Internet address shall not, under any circumstances, be deemed to incorporate the information available at such Internet address into this Form 10-K or other SEC filings. The information available at the Company's Internet address is not part of this Form 10-K or any other report filed by the Company with the SEC. The Company's SEC filings can also be obtained on the SEC's website on the Internet at <http://www.sec.gov>.

COVID-19

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, disruptions in the global supply chains and increased unemployment levels. In 2021, some of these issues continued in particular impacts to the global supply chains and the workforce was impacted through more employee resignations resulting in higher wages across many industries. 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 11th 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>New Castle</u> <u>County</u>	<u>Philadelphia</u> <u>County</u>	<u>Pennsylvania</u> <u>Montgomery</u> <u>County</u>	<u>Bucks County</u>	<u>New Jersey</u> <u>Burlington</u> <u>County</u>
Unemployment (December 2021)	4.1%	6.4%	3.3%	3.6%	4.0%
Median Household Income (2016-2020 United States Census)	\$ 75,275	\$ 49,127	\$ 93,518	\$ 93,181	\$ 90,329
Estimated Population (United State Census April 2020)	570,719	1,603,797	856,553	646,538	461,860

As of 2020, the Philadelphia metropolitan area is the eighth 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 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, construction loans and, to a lesser extent, home equity loans and home equity lines of credit and consumer loans. Our primary business has been the origination of one- to four-family residential real estate loans, of which 56.2% were adjustable-rate loans and 43.8% were fixed-rate loans

as of December 31, 2021 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,			
	2021		2020	
	Amount	Percent	Amount	Percent
(Dollars in thousands)				
Residential:				
One- to four-family	\$ 106,335	32.38%	\$ 141,891	44.74%
Home equity & HELOCs	3,172	0.97	3,993	1.26
Commercial real estate	116,882	35.60	68,705	21.67
Commercial business	30,164	9.19	24,152	7.62
SBA PPP loans	22,912	6.98	64,380	20.30
Main Street Lending Program	1,605	0.49	1,556	0.49
Construction	42,866	13.05	7,299	2.30
Consumer and other:				
Medical education	4,409	1.34	5,105	1.61
Consumer	17	—	33	0.01
Total loans receivable	<u>328,362</u>	<u>100.00%</u>	<u>317,114</u>	<u>100.00%</u>
Deferred loan origination costs	(791)		(1,286)	
Allowance for loan losses	(2,368)		(2,017)	
Total loans receivable, net	<u>\$ 325,203</u>		<u>\$ 313,811</u>	

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

	One Year or Less	After One to Five Years	After Five years through 15 Years (In thousands)	After 15 years	Total
Residential:					
One- to four-family	\$ —	\$ 125	\$ 7,095	\$ 99,115	\$ 106,335
Home equity & HELOCs	85	71	910	2,106	3,172
Commercial real estate	27,083	59,689	29,492	618	116,882
Commercial business	25,709	1,219	3,236	—	30,164
SBA PPP loans	1	22,911	—	—	22,912
Main Street Lending Program	—	1,605	—	—	1,605
Construction	22,270	16,356	1,414	2,826	42,866
Consumer and other:					
Medical education	1	100	4,308	—	4,409
Consumer	17	—	—	—	17
Total loans receivable	<u>\$ 75,166</u>	<u>\$ 102,076</u>	<u>\$ 46,455</u>	<u>\$ 104,665</u>	<u>\$ 328,362</u>

The following table sets forth our fixed and adjustable-rate loans at December 31, 2021:

(In thousands)	Fixed					Adjustable				
	One Year or Less	After One to Five Years	After Five years through 15 Years	After 15 Years	Total	One Year or Less	After One to Five Years	After Five years through 15 Years	After 15 Years	Total
Residential:										
One- to four-family	\$ —	\$ 43	\$ 6,553	\$ 53,158	\$ 59,754	\$ —	\$ 82	\$ 542	\$ 45,957	\$ 46,581
Home equity & HELOCs	—	71	62	36	169	85	—	848	2,070	3,003
Commercial real estate	5,045	51,513	3,761	618	60,937	22,038	8,177	25,730	—	55,945
Commercial business	3,990	1,139	1,600	—	6,729	21,718	80	1,637	—	23,435
SBA PPP loans	1	22,911	—	—	22,912	—	—	—	—	—
Main Street Lending	—	—	—	—	—	—	1,605	—	—	1,605
Construction	7,916	3,913	—	1,612	13,441	14,354	12,442	1,414	1,215	29,425
Consumer and Other:										
Medical education	—	—	—	—	—	1	100	4,308	—	4,409
Consumer	17	—	—	—	17	—	—	—	—	—
Total	\$ 16,969	\$ 79,590	\$ 11,976	\$ 55,424	\$ 163,959	\$ 58,196	\$ 22,486	\$ 34,479	\$ 49,242	\$ 164,403

One- to Four-Family Residential Real Estate Lending. At December 31, 2021, we had \$106.3 million of loans secured by one- to four-family residential real estate, representing 32.4% of our total loan portfolio. In addition, at December 31, 2021, we had \$40.5 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, 2021, 56.2% of our one- to four-family residential real estate loans were fixed-rate loans, and 43.8% 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, 2021 was generally \$548,250 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, 2021, we had \$50.7 million in jumbo loans, which represented 47.7% of our one- to four-family residential real estate loans. Of the \$50.7 million in jumbo loans, 64.5% or \$32.7 million were variable jumbo loans and 35.5% or \$18.0 million were fixed jumbo loans. Our average loan size for jumbo loans was \$781,000 at December 31, 2021. 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, 2021, outstanding home equity loans and equity lines of credit totaled \$3.2 million, or 1.0% of total loans outstanding. At December 31, 2021, the unadvanced portion of home equity lines of credit totaled \$8.9 million. At December 31, 2021, \$2.2 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, 2021, we had \$116.9 million in commercial real estate loans, representing 35.6% 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 2021, the average loan balance of our outstanding commercial real estate loans was \$676,000, and the largest of such loans was a \$6.1 million loan secured by commercial real estate and the business assets of two restaurants. This loan was performing in accordance with its terms at December 31, 2021.

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, amortization, 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, 2021, we had \$30.2 million of commercial business loans, representing 9.2% 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 cost 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 on projects prior to disbursement of funds during the term of the construction loan. At December 31, 2021, we had \$42.9 million of construction loans, representing 13.1% of our total loan portfolio. At December 31, 2021, our largest construction loan was a \$5.0 million commercial loan secured by commercial property as well as assignment of rents and leases that was performing in accordance with its original terms at December 31, 2021.

The maximum loan-to-value of these loans generally 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, 2021, the Company had a total outstanding balance of approximately \$22.9 million for round 1 and 2 of PPP. The PPP loans have a two-year to four-year term and earn interest at 1%. The SBA fully guarantees the principal 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, 2021 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, 2021, the balance of the private education loans was \$4.4 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, 2021, there was one loan with a balance of approximately \$39,000 that was 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 in the amount of \$986,000. 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, 2021, our consumer loan portfolio totaled \$17,000 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, 2021, we sold \$670.6 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, 2021, we had five participation loans for \$2.9 million in which we were not the lead lender, of which one loan was not performing in accordance with the loans’ original terms at December 31, 2021. 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, 2021, the balance of the private education loans was \$4.4 million.

The following table shows our loan originations, sales and repayment activities for the year ended December 31, 2021 and 2020 including loans held for sale.

	<u>For the Year Ended December 31, 2021</u>	<u>For the Year Ended December 31, 2020</u>
Total loans at beginning of year (1)	\$ 400,663	\$ 293,002
Loan originations:		
Residential:		
One- to four-family (1)	627,074	647,913
Home equity & HELOCs	3,000	—
Commercial real estate	69,699	51,167
Commercial business	12,731	1,257
SBA PPP loans	50,801	76,080
Main Street Lending Program	—	31,112
Construction	70,507	2,098
Consumer loans	17	33
Total loans originated	<u>833,829</u>	<u>809,660</u>
Loans Purchased	—	—
Sales and loan principal repayments:		
Principal repayments	209,855	114,509
Loan sales	655,795	587,490
Net loan activity	<u>(31,821)</u>	<u>107,661</u>
Total loans at end of year (1)	<u>\$ 368,842</u>	<u>\$ 400,663</u>

(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 \$7.2 million as of December 31, 2021. At December 31, 2021, our largest credit relationship was \$7.7 million which consisted of a \$4.5 million of commercial business loans secured by equipment and business assets and \$3.2 million of PPP loans which are excluded from the calculation. At December 31, 2021, 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 \$400,000 or FHA loan limit, and an executive vice president, assistant vice president or senior underwriter officer may approve loans up to \$650,000 or FHA loan limit. 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)								
At December 31, 2021								
Residential:								
One- to four-family	7	\$ 1,292	2	\$ 137	7	\$ 680	16	\$ 2,109
Home equity & HELOCs	—	—	—	—	1	68	1	68
Commercial real estate	—	—	—	—	—	—	—	—
Commercial business	1	95	—	—	—	—	1	95
SBA PPP loans	—	—	—	—	—	—	—	—
Main Street Lending Program	—	—	—	—	—	—	—	—
Construction	—	—	—	—	1	1,168	1	1,168
Medical education	9	452	6	605	1	39	16	1,096
Consumer	—	—	—	—	—	—	—	—
Total	17	\$ 1,839	8	\$ 742	10	\$ 1,955	35	\$ 4,536
At December 31, 2020								
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	—	—	—	—	—	—	—	—
Total	9	\$ 750	10	\$ 1,137	10	\$ 652	29	\$ 2,539

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, 2021, 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, 2021 had non-accruing loans been current according to their original terms amounted to \$102,000. We recognized \$41,000 of interest income for these loans for the year ended December 31, 2021.

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, 2021 and 2020.

Non-Performing Assets. The following table sets forth the amounts and categories of our non-performing assets at December 31, 2021 and 2020. We had no accruing loans past due 90 days or more at December 31, 2021 and 2020. Additionally, we had no non-accruing troubled debt restructurings at December 31, 2021 and 2020.

	At December 31,	
	2021	2020
	(Dollars in thousands)	
Non-accrual loans:		
Residential:		
One- to four-family	\$ 1,064	\$ 932
Home equity & HELOCs	68	—
Commercial:		
Commercial real estate	—	—
Commercial business	95	—
SBA PPP Loans	—	—
Main Street Lending Program	—	—
Construction	1,168	—
Consumer:		
Medical education	1,358	1,322
Total non-accrual loans	<u>3,753</u>	<u>2,254</u>
Loans accruing past 90 days:		
Consumer and other:		
Medical education	—	—
Total non-performing loans	3,753	2,254
Real estate owned	—	—
Other non-performing assets	—	—
Total non-performing assets	<u>\$ 3,753</u>	<u>\$ 2,254</u>
Ratios:		
Total non-performing loans to total loans	1.14%	0.71%
Total non-performing loans to total assets	0.67%	0.26%
Total non-performing assets to total assets	0.67%	0.26%

Total non-performing loans increased to \$3.8 million, or 1.14% of total loans, at December 31, 2021 from \$2.3 million, or 0.71% of total loans, at December 31, 2020 as a result of an increase of \$1.2 million in one construction loan, a \$132,000 increase in one-to four-family residential real estate loans and a \$95,000 increase in commercial business loans compared to December 31, 2020. Non-performing one- to four-family residential real estate loans totaled \$1.1 million at December 31, 2021. Non-performing medical education loans totaled \$1.4 million at December 31, 2021. 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 at December 31, 2021.

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, 2021, we had \$1.5 million 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, 2021 and 2020. The classified assets total at December 31, 2021 includes \$3.8 million of non-performing loans.

	At December 31,	
	2021	2020
	(In thousands)	
Classified assets:		
Substandard	\$ 4,005	\$ 2,696
Doubtful	—	—
Loss	—	—
Total classified assets	<u>\$ 4,005</u>	<u>\$ 2,696</u>
Special Mention	\$ 1,537	\$ 194
Total criticized assets	<u>\$ 5,542</u>	<u>\$ 2,890</u>

The increase of \$1.3 million in classified assets was primarily due to increases of \$1.2 million increase in one substandard construction loan, \$132,000 in substandard one- to four-family residential real estate loans and \$68,000 in substandard home equity loans and HELOCs offset by a decrease of \$119,000 in substandard commercial real estate loans. Substandard assets at December 31, 2021 consisted of \$3.8 million in non-accrual loans and \$1.7 million 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.

	<u>At or for the Year Ended</u> <u>December 31,</u> <u>2021</u>	<u>At or for the Year Ended</u> <u>December 31,</u> <u>2020</u>
	(Dollars in thousands)	
Balance at beginning of year	\$ 2,017	\$ 1,437
Charge-offs:		
Residential:		
One- to four-family	—	—
Home equity & HELOCs	—	—
Commercial:		
Commercial real estate	—	—
Commercial business	—	—
SBA PPP loans	—	—
Main Street Lending Program	—	—
Construction	—	—
Consumer:		
Medical education	(210)	(529)
Other	—	—
Total charge-offs	<u>(210)</u>	<u>(529)</u>
Recoveries:		
Residential:		
One- to four-family	—	—
Home equity & HELOCs	—	—
Commercial:		
Commercial real estate	—	—
Commercial business	—	—
Construction	—	—
Consumer:		
Medical education	8	1
Total recoveries	<u>8</u>	<u>1</u>
Net (charge-offs) recoveries	(202)	(528)
Provision for loan losses	553	1,108
Balance at end of year	<u>\$ 2,368</u>	<u>\$ 2,017</u>
Net charge-offs to average loans outstanding:		
Residential:		
One- to four-family	—	—
Home equity & HELOCs	—	—
Commercial:		
Commercial real estate	—	—
Commercial business	—	—
SBA PPP loans	—	—
Main Street Lending Program	—	—
Construction	—	—
Consumer:		
Medical education	0.06 %	0.18 %

Other	—	—
Total net charge-offs	0.06 %	0.18 %

Credit quality ratios:

As a percentage of total loans at end of year:

Allowance for loan losses	0.72 %	0.64 %
Nonaccrual loans	1.14 %	0.71 %
Nonperforming loans	1.14 %	0.71 %
Allowance for loan losses to non-accrual loans	63.10 %	89.49 %
Allowance for loan losses to non-performing loans	63.10 %	89.49 %

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,					
	2021			2020		
	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
(Dollars in thousands)						
Residential:						
One- to four-family	\$ 322	13.60%	32.38%	\$ 637	31.58%	44.74%
Home equity & HELOCs	8	0.34	0.97	15	0.74	1.26
Commercial:						
Commercial real estate	819	34.59	35.60	519	25.73	21.67
Commercial business	341	14.40	9.19	280	13.88	7.62
SBA PPP Loans	—	—	6.98	—	—	20.30
Main Street Lending Program	27	1.14	0.49	27	1.34	0.49
Construction	460	19.42	13.05	74	3.67	2.30
Consumer:						
Consumer	—	—	—	—	—	0.01
Medical education	391	16.51	1.34	368	18.25	1.61
Total allocated allowance	<u>2,368</u>	<u>100.00</u>	<u>100.00</u>	1,920	95.19	100.00
Unallocated allowance	—	—	—	97	4.81	—
Total allowance for loan losses	<u>\$ 2,368</u>	<u>100.00%</u>	<u>100.00%</u>	<u>\$ 2,017</u>	<u>100.00%</u>	<u>100.00%</u>

At December 31, 2021, our allowance for loan losses represented 0.72% of total loans and 63.10% of non-performing loans. There were \$202,000 in net loan charge-offs during the year ended December 31, 2021.

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 \$44.5 million, or 7.9% of total assets at December 31, 2021.

United States Governmental Agency Securities. We maintain these investments, to the extent appropriate, for liquidity purposes and as collateral for borrowings. At December 31, 2021, United States government and agency securities consisted of a fixed-rate Small Business Administration (“SBA”) Participation Certificates which had a zero-risk weighting for capital purposes and three United States agency securities.

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,			
	2021		2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available-for-sale:				
U.S. Governmental securities	\$ 3,596	\$ 3,512	\$ 377	\$ 391
Corporate notes	18,805	18,867	9,454	9,600
Collateralized mortgage obligations	7,754	7,664	3,819	3,851
Mortgage-backed securities- agency residential	7,656	7,543	5,608	5,689
Municipal securities	6,412	6,419	2,924	2,971
Bank certificates of deposit	499	507	999	1,016
Total securities available-for-sale	\$ 44,722	\$ 44,512	\$ 23,181	\$ 23,518

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at December 31, 2021 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.

	<u>One Year or Less</u>		<u>More than One Year through Five Years</u>		<u>More than Five Years through Ten Years</u>		<u>More than Ten Years</u>		<u>Total Securities</u>		
	<u>Amortized Cost</u>	<u>Weighted Average Yield</u>	<u>Amortized Cost</u>	<u>Weighted Average Yield</u>	<u>Amortized Cost</u>	<u>Weighted Average Yield</u>	<u>Amortized Cost</u>	<u>Weighted Average Yield</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Weighted Average Yield</u>
(Dollars in thousands)											
Securities available-for-sale:											
U.S. Governmental securities	\$ —	—%	\$ 2,063	0.88%	\$ 999	1.00%	\$ 534	1.60%	\$ 3,596	\$ 3,512	1.02%
Corporate notes	1,006	2.75	5,499	1.65	12,300	4.14	—	—	18,805	18,867	3.34
Collateralized mortgage obligations	—	—	—	—	992	0.60	6,762	1.39	7,754	7,664	1.29
Mortgage-backed securities	—	—	—	—	—	—	7,656	1.70	7,656	7,543	1.70
Municipal securities	—	—	500	0.95	1,125	1.04	4,787	1.82	6,412	6,419	1.61
Bank certificates of deposit	250	0.63	249	2.42	—	—	—	—	499	507	1.52
Total securities available-for-sale	<u>\$ 1,256</u>	<u>2.33%</u>	<u>\$ 8,311</u>	<u>1.44%</u>	<u>\$ 15,416</u>	<u>3.48%</u>	<u>\$ 19,739</u>	<u>1.62%</u>	<u>\$ 44,722</u>	<u>\$44,512</u>	<u>2.25%</u>

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 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, 2021, our core deposits, which are deposits other than certificates of deposit, were \$431.8 million, representing 93.1% of total deposits. As of December 31, 2021, there were no brokered certificates of deposits outstanding.

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 average interest-bearing deposits by account type for the dates indicated.

	For the Year Ended December 31,			For the Year Ended December 31,		
	2021			2020		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
Deposit type:						
Demand deposits-interest-bearing accounts	\$ 178,279	44.42%	0.18%	\$ 119,277	41.26%	0.68%
Money market deposit accounts	89,460	22.29%	0.57%	50,733	17.55%	0.70%
Passbook and statement savings accounts	34,003	8.47%	0.14%	26,851	9.29%	0.16%
Checking accounts	51,463	12.82%	0.33%	30,523	10.56%	1.00%
Certificates of deposit	48,129	12.00%	0.90%	61,688	21.34%	1.60%
Total interest-bearing deposits	\$ 401,334	100.00%	0.37%	\$ 289,072	100.00%	0.87%

As of December 31, 2021 and 2020, the aggregate amount of our outstanding certificates of deposit in amounts greater than or equal to \$250,000 was approximately \$7.1 million and \$13.4 million. The following table sets forth the maturity of those certificates as of December 31, 2021 and 2020.

	At December 31, 2021 (In thousands)	At December 31, 2020 (In thousands)
Three months or less	\$ 331	\$ 258
Over three months through six months	1,632	2,049
Over six months through one year	4,129	7,579
Over one year to three years	983	3,529
Over three years	—	—
Total	<u>\$ 7,075</u>	<u>\$ 13,415</u>

As of December 31, 2021 and 2020, the total of uninsured deposits of the Company was \$150.7 million and \$443.1 million, respectively. Total uninsured deposits is calculated based on individual deposits over \$250,000 and reflects the portion of a customer's deposit that exceeds the applicable FDIC insurance coverage for that depositor.

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, 2021, we had \$27.0 million in advances from the Federal Home Loan Bank of Pittsburgh. At December 31, 2021, based on available collateral, our ownership of Federal Home Loan Bank of Pittsburgh stock and deposit letters of credit outstanding, we had access to Federal Home Loan Bank of Pittsburgh advances of up to \$50.6 million. Additionally, at December 31, 2021, we had the ability to borrow \$3.0 million from the Atlantic Community Bancshares, Inc. ("ACBI"). We have not borrowed against the credit lines with the ACBI during the year ended December 31, 2021.

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	(Dollars in thousands)	
				December 31, 2021	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%	10	1,895
05/21/20	04/15/22	Fixed Rate	0.350%	2,785	7,042
05/21/20	04/18/22	Fixed Rate	0.350%	—	808
05/21/20	04/19/22	Fixed Rate	0.350%	70	466
05/22/20	04/20/22	Fixed Rate	0.350%	—	4,395
05/29/20	04/21/22	Fixed Rate	0.350%	249	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%	5	9,247
				<u>\$ 3,119</u>	<u>\$ 48,682</u>

FHLB long-term borrowings:

Issue Date	Maturity	Advance Type	Interest Rate	<i>(Dollars in thousands)</i>	
				December 31, 2021	December 31, 2020
07/07/20	07/07/25	Fixed Rate	0.851%	\$ 26,431	\$ 26,269
				<u>\$ 26,431</u>	<u>\$ 26,269</u>

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.

Subsidiary Activities

Huntingdon Valley Bank is a wholly-owned subsidiary of HV Bancorp. Huntingdon Valley Bank has a wholly-owned subsidiary, HVB Investment Management Inc. formed under the laws of the state of Delaware, as an investment company subsidiary to hold and manage certain investments. HVB Investment Management Inc. became operational in January 2021.

Employees

As of December 31, 2021, we had 143 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 reverted 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-subsidiary 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 reverted 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, 2021. 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, 2021, 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.

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, 2021, 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.

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, 2021, 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, 2021, 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, 2021.

Item 1A. Risk Factors

Not required for smaller reporting companies.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

As of December 31, 2021, the net book value of our office properties (including leasehold improvements) was \$1.8 million. As of December 31, 2021, the Company and Bank owned and leased buildings in the normal course of business. It leases its administrative headquarters at 2005 South Easton Road, Suite 304, Doylestown, Pennsylvania. As of December 31, 2021, the Bank owned one property and leased twelve properties.

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, 2021 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, 2022 was 715. 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, 2021 and 2020, 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. 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. During the quarter end December 31, 2021, 5,133 shares at an average cost of \$22.68 per share had been repurchased.

The following table provides information regarding repurchases of the Company's common stock during the quarter ended December 31, 2021.

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, 2021 - October 31, 2021	—	\$ —	—	103,578
November 1, 2021 - November 30, 2021	418	21.43	418	103,160
December 1, 2021 - December 31, 2021	4,715	22.79	4,715	98,445
Total	5,133	\$ 22.68	5,133	

(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. 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.

Item 6. [Reserved]

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, 2021 and 2020, and our results of operations for the year ended December 31, 2021 and 2020, respectively. 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 48 of this annual report.

Overview

HV Bancorp, Inc., through the Bank, provides financial services to individuals and businesses from our main office in Doylestown, Pennsylvania, and from our seven full-service banking offices located in Plumsteadville, Philadelphia, Warrington and Huntingdon Valley, Pennsylvania and Mount Laurel, New Jersey. 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), construction loans, home equity loans and lines of credit and, to a lesser extent, consumer 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 Home Loan Bank ("FHLB") 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, regional, and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities.

Business Strategy

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, 2021, we originated \$614.1 million in one- to four-family residential real estate loans held for sale, selling \$670.6 million in one- to four-family residential real estate loans held for sale for gains on sale of \$14.9 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, 2021, we had \$32.8 million in jumbo one- to four-family residential real estate loans, which represented 30.8% of our one- to four-family residential real estate loan portfolio compared to \$73.8 million or 52.0% of our one- to four-family residential real estate loan portfolio at December 31, 2020.
- **Increase Commercial Real Estate and Commercial business.** In 2019, we established a new business banking division which greatly expanded 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, 2021, our non-performing assets to total assets ratio was 1.14%. 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. We adhere to a credit culture that is supported by strong underwriting standards and 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 93.1% at December 31, 2021.

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.

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

Paycheck Protection Program (“PPP”)

The Company participated in two rounds of the United States Small Business Administration’s (“SBA”) PPP, successfully processing over 800 applications totaling approximately \$126.0 million. As of December 31, 2021, the Company with an outstanding PPP balance of \$22.9 million. For the years ended December 31, 2021 and 2020, the Company recognized approximately \$3.2 million and \$528,000, respectively in fees and interest income related to the PPP loan. Through mid-March 2022, the Company received approximately \$115.6 million in PPP forgiveness from the SBA. The processing fee income is deferred and recognized over the contractual life of the loan or accelerated if the loan is forgiven. The PPP loans have a two-year to four-year term and earn interest at 1%. The SBA fully guarantees the principal 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.

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 balance at December 31, 2021 and 2020 as 95% of the originated loans were sold to the Federal Reserve of Boston as part of the program.

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, 2021, the Company had no deferral requests compared to two residential one-to four-family loan deferral requests and one commercial real estate loan deferral request totaling \$1.8 million in outstanding loans as of December 31, 2020.

Comparison of Financial Condition at December 31, 2021 and December 31, 2020

Total Assets

Total assets decreased \$301.5 million, or 35.1% to \$560.1 million at December 31, 2021, from \$861.6 million at December 31, 2020. The decrease was primarily the result of decreases of \$293.8 million in cash and cash equivalents and \$43.0 million in net loans held for sale, offset by increases of \$21.0 million in investment securities, \$11.4 million in loans receivable, net, \$1.4 million in mortgage servicing rights, \$1.0 million in right-of-use assets, and \$1.5 million in other assets. Cash and cash equivalents decreased \$293.8 million to \$120.8 million at December 31, 2021, from \$414.6 million at December 31, 2020, as a result of anticipated outflows of retail deposits from certain accounts as discussed below.

Cash and cash equivalents

Cash and cash equivalents decreased \$293.8 million to \$120.8 million at December 31, 2021 from \$414.6 million at December 31, 2020. In December 2020, the Company experienced a decrease in cash as a result of a decrease in retail deposits in our core deposits from certain accounts which were temporary and that a significant portion were dispersed during the first quarter of 2021.

Investment Securities

Investment securities increased by \$21.0 million, or 89.4% to \$44.5 million at December 31, 2021 from \$23.5 million at December 31, 2020. The increase was primarily due to purchase of \$33.3 million of primarily of mortgage-backed, U.S governmental and agency securities and corporate notes offset by \$11.8 million in proceeds from sales and maturities and principal repayments during the year ended December 31, 2021, and a \$547,000 net unrealized loss on available-for-sale securities.

Net Loans

Net loans increased \$11.5 million to \$325.3 million at December 31, 2021, from \$313.8 million at December 31, 2020. Commercial real estate loans increased by \$48.2 million to \$116.9 million at December 31, 2021, from \$68.7 million at December 31, 2020. Construction loans increased \$35.6 million to \$42.9 million at December 31, 2021, from \$7.3 million at December 31, 2020. Finally, commercial business loans increased by \$6.0 million to \$30.2 million at December 31, 2021, from \$24.2 million at December 31, 2020. Offsetting these increases, was a \$35.6 million decrease in one- to four-family residential real estate loans from \$141.9 million at December 31, 2020, to \$106.3 million at December 31, 2021, and a \$821,000 decrease in home equity and HELOC loans from \$4.0 million at December 31, 2020, to \$3.2 million at December 31, 2021. The Company participated in round 1 and 2 of PPP, processing over 800 applications totaling approximately \$126.0 million. As of December 31, 2021, the Company with an outstanding PPP balance of \$22.9 million. Through mid-March 2022, the Company received approximately \$115.6 million in PPP forgiveness from the SBA.

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, 2021, the balance of the private education loans was \$4.4 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, 2021, there was one loan with a balance of approximately \$39,000 that was past due 90 days or more.

Loans Held For Sale

Loans held for sale decreased \$43.0 million to \$40.5 million at December 31, 2021 from \$83.5 million at December 31, 2020. This decrease was primarily a result of originations of \$614.1 million of one- to four-family residential real estate loans during the year ended December 31, 2020 and net of principle sales of \$670.6 million of loans in the secondary market during this same period.

Deposits

Deposits decreased \$266.8 million, or 36.5%, to \$464.0 million at December 31, 2021, from \$730.8 million at December 31, 2020. Our core deposits (consisting of demand deposits, money market, passbook and statement and checking accounts) decreased \$236.9 million, or 35.4%, to \$431.8 million at December 31, 2021, from \$668.7 million at December 31, 2020, as there was an anticipated decrease in certain retail accounts in our core deposits during the first quarter of 2021. Certificates of deposit decreased \$29.9 million, or 48.1%, to \$32.2 million at December 31, 2021, from \$62.1 million at December 31, 2020, because of decreases of \$10.0 million of certificates of deposit issued through brokers and \$19.9 million in retail 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, 2021 and December 31, 2020, the Company had \$26.4 million and \$26.3 million in advances outstanding.

Advances from the Federal Reserve Paycheck Protection Program Liquidity Facility (“PPPLF”)

Advances from the Federal Reserve PPPLF decreased \$45.6 million from \$48.7 million at December 31, 2020 to \$3.1 million at December 31, 2021, as a result of repayments from PPP loan forgiveness from the SBA.

Subordinated Debt

On May 28, 2021, the Company issued a \$10.0 million subordinated note. This note has a maturity date of May 28, 2031, and bears interest at a fixed rate of 4.50% per annum through May 28, 2026. Thereafter, the note rate is adjustable and resets quarterly based on the then current 90-day average Secured Overnight Financing Rate (“SOFR”) plus 325 basis points for U.S. dollar denominated loans as published by the Federal Reserve Bank of New York. The Company may, at its option, at any time on an interest payment date, on or after May 28, 2026, redeem the notes, in whole or in part, at par plus accrued interest to the date of redemption. The balance of subordinated debt, net of unamortized debt issuance costs, was \$10.0 million at December 31, 2021.

Total Shareholders’ Equity

Total shareholders’ equity increased \$3.7 million, or 9.5%, to \$42.6 million at December 31, 2021, from \$38.9 million at December 31, 2020, primarily as a result of net income of \$4.1 million for the year ended December 31, 2021, share based compensation expense of \$240,000 and ESOP shares committed to be released of \$166,000 and stock option exercises of \$28,000. Offsetting these increases was other comprehensive loss of \$386,000 due to fair value adjustments, net of deferred tax, on the investment securities available-for-sale portfolio and \$391,000 in treasury stock repurchases primarily as part of the stock repurchase plan approved in April 2019. See Note 10 of the Notes to the Audited Consolidated Financial Statements.

Comparison of Statements of Income for the Year Ended December 31, 2021 and 2020

General

Net income decreased \$1.7 million, or 29.3%, to \$4.1 million for the year ended December 31, 2021 from \$5.8 million for the year ended December 31, 2020. The decrease in net income for the year ended December 31, 2021 was primarily due to a decrease of \$3.5 million in non-interest income and \$3.4 million increase in non-interest expense partially offset by an increase of \$3.8 million in net interest income, decrease of \$740,000 in income tax expense and \$555,000 in provision for loan losses as compared to the year ended December 31, 2020.

Interest Income

Total interest income increased \$2.9 million, or 21.0%, to \$16.7 million for the year ended December 31, 2021 from \$13.8 million for the year ended December 31, 2020. The increase was primarily the result of a \$2.6 million increase in interest and fees on loans, \$214,000 increase in interest on investment securities and a \$23,000 increase in interest-earning deposits with banks. The average balance of our interest-earning assets increased by \$148.0 million to \$562.9 million for the year ended December 31, 2021 as compared to \$414.9 million for the year ended December 31, 2020. The increase was primarily a result of increases in the average balance of interest-earning deposits of \$97.4 million, average balance of loans of \$38.3 million and \$12.3 million in the average balance of investment securities. The average yield on our interest-earning assets decreased 36 basis points to 2.97% for the year ended December 31, 2021 as compared to 3.33% for the year ended December 31, 2020 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 19.8%, to \$15.7 million for the year ended December 31, 2021 from \$13.1 million for the year ended December 31, 2020. This increase resulted from a \$38.3 million increase in the average balance of loans to

\$388.8 million for the year ended December 31, 2021 from \$350.5 million for the year ended December 31, 2020, primarily as a result of an increase in the average balance of PPP loans, loans held for sale, commercial real estate and other commercial business offset by a decrease in the average balance in one-to four-family residential real estate loans. The average yield on loans increased 32 basis points to 4.05% for the year ended December 31, 2021 from 3.73% for the year ended December 31, 2020.

Interest and dividends on investments, mortgage-backed securities and collateralized mortgage obligations increased \$224,000, or 46.4%, to \$706,000 for the year ended December 31, 2021 from \$482,000 for the year ended December 31, 2020. Interest on investment securities increases as a result of \$232,000 increases in interest income on U.S. Government Agency securities, corporate bonds and municipal securities to \$572,000 from \$340,000 for the year ended December 31, 2020 offset by a decrease of \$8,000 or 5.6% in interest income on mortgage-backed securities and collateral mortgage obligation securities to \$134,000 for the year ended December 31, 2021, from \$142,000 for the year ended December 31, 2020. The average yield on investment securities to 2.12% for the year ended December 31, 2021 from 2.31% for the year ended December 31, 2020. The average balance of investment securities increased by \$12.3 million to \$33.2 million for the year ended December 31, 2021, from \$20.9 million for the year ended December 31, 2020.

Interest on interest-earning deposits increased \$23,000 to \$181,000 for the year ended December 31, 2021 from \$158,000 for the year ended December 31, 2020 due to an increase in the average balance of interest-earning deposits of \$97.4 million to \$139.1 million for the year ended December 31, 2021, from \$41.7 million for the year ended December 31, 2020. Offsetting this increase, was a decrease of 25 basis points in the average yield on interest-earning deposits with banks to 0.13% for the year ended December 31, 2021, from 0.38% for the year ended December 31, 2020.

Interest Expense

Total interest expense decreased \$930,000 to \$2.2 million for the year ended December 31, 2021 from \$3.1 million for the year ended December 31, 2020 primarily due to a \$1.0 million decrease in interest on deposits, \$128,000 decrease in interest expense on advances from the Federal Home Loan Bank and \$47,000 decrease in interest expense on advances from the PPPLF offset by an increase of \$268,000 in interest expense from subordinated debt.

Interest on deposits decreased \$1.0 million to \$1.5 million for the year ended December 31, 2021 from \$2.5 million for the year ended December 31, 2020 as a result of a decrease in average cost of deposits of 50 basis points to 0.37% for the year ended December 31, 2021 from 0.87% for the year ended December 31, 2020. Offsetting this decrease, was an increase in the average interest-bearing deposits of \$112.2 million to \$401.3 million during the year ended December 31, 2021 as compared to \$289.1 million during the year ended December 31, 2020. This increase was primarily the result of a \$125.8 million increase in the average balance of our core deposit accounts offset by a decrease of \$13.6 million in the average balance of our certificates of deposit. The average rate paid on money market deposits was 0.57% for the year ended December 31, 2021 compared to 0.70% for the year ended December 31, 2020. The decrease in the balance of our certificates of deposit of \$13.6 million from \$61.7 million for the year ended December 31, 2020, to \$48.1 million for the year ended December 31, 2021, was primarily the result of a \$9.9 million decrease in the average balance of certificates of deposit issued through brokers from \$14.3 million for the year ended December 31, 2020 to \$4.4 million for the year ended December 31, 2021 and a decrease of \$3.7 million in the average balance in retail certificates of deposit. The average cost of certificates of deposit was 0.90% for the year ended December 31, 2021, as compared to 1.60% for the year ended December 31, 2020.

Interest on advances from the Federal Home Loan Bank decreased \$128,000 to \$395,000 for the year ended December 31, 2021 from \$523,000 for the year ended December 31, 2020 as a result of a decrease in the average balance of Federal Home Loan Bank advances. The average balance of Federal Home Loan Bank advances decreased by \$2.7 million to \$26.3 million during the year ended December 31, 2021 as compared to \$29.0 million during the year ended December 31, 2020. In addition, the average cost of Federal Home Loan Bank advances decreased by 30 basis points to 1.50% for the year ended December 31, 2021 from 1.80% for the year ended December 31, 2020. During the July 2020, the Company refinanced advances of \$27.0 million from the Federal Home Loan Bank to reduce the cost of borrowings.

Interest expense on advances from the PPPLF decreased \$47,000 to \$72,000 for the year ended December 31, 2021 from \$119,000 for the year ended December 31, 2020. The decrease was primarily the result of a \$7.3 million decrease in the average balance in advances from the PPPLF to \$23.9 million for the year ended December 31, 2021 from \$30.5 million for the year ended December 31, 2020, and a decrease in average cost of advances from the PPPLF to 30 basis points for the year ended December 31, 2021, from 39 basis points for the same period in 2020.

Interest expense on subordinated debt was \$268,000 for the year ended December 31, 2021. On May 28, 2021, the Company sold and issued a \$10.0 million in aggregate principal amount 4.50% fixed to floating rate subordinated note due 2031 (see footnote 9 subordinated debt for further discussion).

Net Interest Income

Net interest income increased \$3.8 million, or 35.5%, to \$14.5 million for the year ended December 31, 2021 from \$10.7 million for the year ended December 31, 2020 as our net interest-earning assets increased by \$39.6 million to \$105.9 million for the year ended December 31, 2021 from \$66.3 million for the year ended December 31, 2020. Our interest rate spread increased by 5 basis points to 2.48% for the year ended December 31, 2021 from 2.43% for the year ended December 31, 2020. Our net interest margin was 2.57% for the year ended December 31, 2021 and 2020.

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,					
	2021			2020		
	Average Balance	Interest Income/Expense	Yield/Cost	Average Balance	Interest Income/Expense	Yield/Cost
(Dollars in thousands)						
Interest-earning assets:						
Loans (1)	\$ 388,814	\$ 15,734	4.05%	\$ 350,521	\$ 13,087	3.73%
Cash and cash equivalents	139,050	181	0.13%	41,726	158	0.38%
Investment securities	33,243	706	2.12%	20,886	482	2.31%
Restricted investment in bank stock	1,829	87	4.76%	1,730	96	5.55%
Total interest-earning assets	562,936	16,708	2.97%	414,863	13,823	3.33%
Non-interest-earning assets	27,006			18,665		
Total assets	<u>\$ 589,942</u>			<u>\$ 433,528</u>		
Interest-bearing liabilities:						
Demand deposits	\$ 178,279	\$ 320	0.18%	\$ 119,277	\$ 809	0.68%
Money market deposit accounts	89,460	507	0.57%	50,733	357	0.70%
Passbook and statement savings accounts	34,003	48	0.14%	26,851	43	0.16%
Checking accounts	51,463	169	0.33%	30,523	304	1.00%
Certificates of deposit	48,129	434	0.90%	61,688	988	1.60%
Total deposits	401,334	1,478	0.37%	289,072	2,501	0.87%
Federal Home Loan Bank advances	26,338	395	1.50%	29,010	523	1.80%
Federal Reserve PPPLF	23,880	72	0.30%	30,507	119	0.39%
Subordinated debt	5,503	268	4.87%	—	—	0.00%
Total interest-bearing liabilities	457,055	2,213	0.48%	348,589	3,143	0.90%
Non-interest-bearing liabilities:						
Checking	80,312			40,152		
Other	13,495			10,512		
Total liabilities	550,862			399,253		
Shareholders' Equity	39,080			34,275		
Total liabilities and Shareholders' equity	<u>\$ 589,942</u>			<u>\$ 433,528</u>		
Net interest income		<u>\$ 14,495</u>			<u>\$ 10,680</u>	
Interest rate spread (2)			2.48%			2.43%
Net interest-earning assets (3)	<u>\$ 105,881</u>			<u>\$ 66,274</u>		
Net interest margin (4)			2.57%			2.57%
Average interest-earning assets to average interest-bearing liabilities			123.17%			119.01%

(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, 2021 vs 2020		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate (In thousands)	
Interest-earning assets:			
Loans	\$ 1,498	\$ 1,149	\$ 2,647
Cash and cash equivalents	180	(157)	23
Investment securities	265	(41)	224
Restricted investment in bank stock	5	(14)	(9)
Total interest-earning assets	<u>1,948</u>	<u>937</u>	<u>2,885</u>
Interest-bearing liabilities:			
Demand deposits	282	(771)	(489)
Money market deposit accounts	231	(81)	150
Passbook and statement savings accounts	10	(5)	5
Checking accounts	138	(273)	(135)
Certificates of deposit	(249)	(305)	(554)
Total deposits	412	(1,435)	(1,023)
Federal Home Loan Bank advances	(51)	(77)	(128)
Federal Reserve PPPLF	119	(166)	(47)
Subordinated debt	268	—	268
Securities sold under agreements to repurchase	—	—	—
Total interest-bearing liabilities	<u>748</u>	<u>(1,678)</u>	<u>(930)</u>
Change in net interest income	<u>\$ 1,200</u>	<u>\$ 2,615</u>	<u>\$ 3,815</u>

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 decreased by \$555,000 to \$553,000 for the year ended December 31, 2021, reflecting improvement in economic factors previously impacted by COVID-19 compared to the prior year. During the year ended December 31, 2021, total charge-offs of \$210,000 were recorded and \$8,000 of recoveries were received. During the year ended December 31, 2020, total charge-offs of \$529,000 were recorded and \$1,000 of recoveries were received.

Non-Interest Income

Non-interest income decreased \$3.5 million to \$13.4 million for the year ended December 31, 2021, from \$16.9 million for the year ended December 31, 2020. The decrease in non-interest income compared to the same period in 2020 was primarily due to decreases of \$2.8 million in change in fair value of loans held-for-sale and \$2.7 million in loss from derivative instruments offset by increases of \$1.6 million in the gain on sale of loans and \$349,000 in fees for customer services. The decrease in fair value of loans held for sale of \$2.8 million for the year end December 31, 2021 compared to same period in 2020 was primarily due to a decrease in the loans held for sale balance, from \$83.5 million at December 31, 2020, to \$40.5 million at December 31, 2021. Loss from derivative instruments, net increased \$2.7 million from a gain of \$1.5 million for the year ended December 31, 2020 to a loss of \$1.2 million for the year ended December 31, 2021. Offsetting these decreases, was a \$1.6 million increase in the gain on sale of loans, net to \$14.9 million for the year ended December 31, 2021 from \$13.3 million for the year ended December 31, 2020 primarily as a result of higher loan sales which increased \$69.8 million from \$600.8 million for the year ended December 31, 2020, to \$670.6 million for the year ended December 31, 2021. Fees for customer services increased \$349,000 to \$495,000 for the year ended December 31, 2021, from \$146,000 for the year ended December 31, 2020 primarily as a result of an increase in cash management fees compared to the prior year.

Non-Interest Expense

Non-interest expense increased \$3.4 million, or 18.4%, to \$21.9 million for the year ended December 31, 2021, from \$18.5 million for the year ended December 31, 2020. The increase for the year ended December 31, 2021 compared to the year ended December 31, 2020 primarily reflected increases of \$2.2 million in salaries and employee benefits, \$418,000 in other expenses, \$424,000 in occupancy expenses, \$304,000 in data processing-related operations costs, \$224,000 in federal deposit insurance premiums and \$190,000 in professional fees offset by a \$418,000 decrease in mortgage operation expenses.

Salaries and employee benefits expense increased by \$2.2 million to \$13.7 million for the year ended December 31, 2021 from \$11.5 million for the year ended December 31, 2020. Salaries increased as full time equivalent (FTE) employees increased to one-hundred-forty-three as of December 31, 2021 from one-hundred-twenty-six as of December 31, 2020 primarily resulting from the expansion of Company's lending operations and business banking operations. Other expenses increased \$418,000 or 28.4%, to \$1.9 million for the year ended December 31, 2021 from \$1.5 million for the year ended December 31, 2020 due to increased expenses related to organizational expenses as we continue to grow and expand into new markets. Occupancy expenses increased \$424,000, or 18.3% to \$2.3 million for the year ended December 31, 2021 from \$1.9 million for the year ended December 31, 2020 primarily from increases in expenses related to leases of additional offices space compared to the same period in 2020. Data processing related operations costs increased \$304,000, or 26.2% to \$1.5 million for the year ended December 31, 2021 from \$1.2 million for the year ended December 31, 2020 as a result of expansion of locations, increased loan originations, increased information technology projects, and outsourcing of the PPP forgiveness process. Federal deposit insurance premiums increased \$224,000 to \$490,000 for the year ended December 31, 2021 from \$266,000 from the year ended December 31, 2020, as the average balance of interest-bearing deposits increased \$112.2 million from \$289.1 million for the year ended December 31, 2020 to \$401.3 million for the year ended December 31, 2021. Professional fees increased \$190,000, or 24.3% to \$971,000 for the year ended December 31, 2021 from \$781,000 for the year ended December 31, 2020. Offsetting these increases was a decrease of \$418,000 in mortgage operation expenses which decreased to \$522,000 for the year ended December 31, 2021 from \$940,000 for the year ended December 31, 2020. The decrease in mortgage operation expenses was a result of a decreased reserves for early payoffs ("EPO") as compared to prior year. 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.

Income Tax Expense

Income tax expense was \$1.5 million for the year ended December 31, 2021 compared to \$2.2 million for the year ended December 31, 2020. Federal income taxes included in total taxes for the year ended December 31, 2021 and 2020 were \$1.1 million and \$1.5 million, respectively, with effective federal tax rates of 19.1% and 19.3%, respectively.

Pennsylvania state tax was \$308,000 and \$637,000, respectively, with effective rates of 5.6% and 8.0%, respectively. The decrease in the effective tax rate for the year ended December 31, 2021 compared to the same period a year ago reflected a decrease in income before taxes. In addition, included in total taxes for the year ended December 31, 2021 and 2020, was \$103,000 and \$29,000 of New Jersey state tax.

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 can use brokered certificates of deposit as a funding source of our asset base. As of December 31, 2021, there were no brokered certificates of deposit outstanding. As of December 31, 2020, the Company had brokered certificates of deposit of \$10.0 million, or 1.2% of total asset with an average cost of 1.43%.

We also have the ability to borrow from the Federal Home Loan Bank of Pittsburgh. Huntingdon Valley Bank had Federal Home Loan Bank of Pittsburgh advances of \$27.0 million outstanding with unused borrowing capacity of \$50.6 million as of December 31, 2021. Additionally, at December 31, 2021, we had the ability to borrow \$3.0 million from the Atlantic Community Bankers Bank. We have not borrowed against the credit lines with the Atlantic Community Bankers Bank for the year ended December 31, 2021.

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, 2021.

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, 2021, cash and cash equivalents totaled \$120.8 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled \$44.5 million at December 31, 2021.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash provided by (used in) operating activities was \$42.9 million and (\$37.4) million for the year ended December 31, 2021 and 2020, 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 \$32.2 million and \$62.5 million for the year ended December 31, 2021 and 2020, respectively. During the year ended December 31, 2021 and 2020, we sold \$5.5 million and \$4.9 million, respectively, in securities available-for-sale. Net cash (used in) provided by financing activities was (\$304.5) million and \$493.9 million for the year ended December 31, 2021 and 2020, respectively. Net cash used in financing activities for the year ended December 31, 2021 consisted primarily of a decrease in deposits of \$266.8 million, repayments of \$45.6 million from the PPPLF offset by proceeds of \$10.0 million from the issuance of subordinated debt. 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.

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, 2021, totaled \$24.7 million, or 5.3%, of total deposits. 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, 2021, 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, 2021, we had outstanding commitments to originate loans of \$48.1 million and unused lines of credit totaling \$70.2 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, 2021 totaled \$24.7 million. 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, 2021 and 2020; the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for the years then ended; 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, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, 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 \$327.6 million as of December 31, 2021, and the associated ALL was \$2.4 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 statement of financial condition 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.

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, and 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.

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 28, 2022

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

	December 31, 2021	December 31, 2020
Assets		
Cash and due from banks	\$ 3,635	\$ 1,625
Non-interest-earning deposits with banks	2,858	—
Interest-earning deposits with banks	112,880	410,853
Federal funds sold	1,415	2,112
Cash and cash equivalents	120,788	414,590
Investment securities available-for-sale, at fair value	44,512	23,518
Equity securities	500	500
Loans held-for-sale, at fair value	40,480	83,549
Loans receivable, net of allowance for loan losses of \$2,368 at December 31, 2021 and \$2,017 at December 31, 2020	325,203	313,811
Bank-owned life insurance	6,557	6,408
Restricted investment in bank stock	2,008	1,721
Premises and equipment, net	3,160	2,834
Operating lease right-of-use asset	8,669	7,685
Accrued interest receivable	1,340	1,489
Mortgage banking derivatives	1,458	2,899
Mortgage servicing rights	3,382	2,041
Other assets	2,067	562
Total Assets	\$ 560,124	\$ 861,607
Liabilities and Shareholders' Equity		
Liabilities		
Deposits	\$ 463,989	\$ 730,826
Advances from the Federal Home Loan Bank	26,431	26,269
Advances from the Federal Reserve's Paycheck Protection Program liquidity facility ("PPPLF")	3,119	48,682
Subordinated debt	9,996	—
Operating lease liabilities	9,030	7,946
Advances from borrowers for taxes and insurance	439	2,131
Other liabilities	4,484	6,826
Total Liabilities	517,488	822,680
Shareholders' Equity		
Preferred Stock, \$0.01 par value, 2,000,000 shares authorized; no shares issued and outstanding as of December 31, 2021 and December 31, 2020	—	—
Common Stock, \$0.01 par value, 20,000,000 shares authorized; 2,272,625 shares issued and 2,170,397 shares outstanding as of December 31, 2021; 2,270,725 shares issued and 2,189,408 shares outstanding as of December 31, 2020	23	23
Treasury Stock, at cost (102,228 shares at December 31, 2021 and 81,317 shares at December 31, 2020)	(1,483)	(1,092)
Additional paid in capital	21,324	21,011
Retained earnings	24,793	20,741
Accumulated other comprehensive (loss) income	(148)	238
Unearned Employee Stock Option Plan	(1,873)	(1,994)
Total Shareholders' Equity	42,636	38,927
Total Liabilities and Shareholders' Equity	\$ 560,124	\$ 861,607

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, 2021	For the year ended December 31, 2020
Interest Income		
Interest and fees on loans	\$ 15,734	\$ 13,087
Interest and dividends on investments:		
Taxable	579	396
Nontaxable	80	40
Interest on mortgage-backed securities and collateralized mortgage obligations	134	142
Interest on interest-earning deposits	181	158
Total Interest Income	16,708	13,823
Interest Expense		
Interest on deposits	1,478	2,501
Interest on advances from the Federal Home Loan Bank	395	523
Interest on advances from the Federal Reserve PPPLF	72	119
Interest on subordinated debt	268	—
Total Interest Expense	2,213	3,143
Net Interest Income	14,495	10,680
Provision for Loan Losses	553	1,108
Net Interest Income After Provision for Loan Losses	13,942	9,572
Non-Interest Income		
Fees for customer services	495	146
Increase in cash surrender value of bank owned life insurance	149	153
Gain on sale of loans, net	14,853	13,315
Gain on sale of available-for-sale securities, net	106	141
(Loss) gain from derivative instruments	(1,203)	1,512
Change in fair value of loans held-for-sale	(1,353)	1,408
Other	377	195
Total Non-Interest Income	13,424	16,870
Non-Interest Expense		
Salaries and employee benefits	13,657	11,510
Occupancy	2,289	1,865
Federal deposit insurance premiums	490	266
Data processing related operations	1,466	1,162
Professional fees	971	781
Marketing	567	476
Mortgage operations expenses	522	940
Other expenses	1,888	1,470
Total Non-Interest Expense	21,850	18,470
Income Before Income Taxes	5,516	7,972
Income Tax Expense	1,464	2,204
Net Income	\$ 4,052	\$ 5,768
Net Income per share:		
Basic	\$ 2.04	\$ 2.84
Diluted	\$ 1.98	\$ 2.84

See the accompanying notes to the consolidated financial statements.

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

	For the year ended December 31, 2021	For the year ended December 31, 2020
+		
Comprehensive Income, Net of Taxes		
Net Income	\$ 4,052	\$ 5,768
Other comprehensive (loss) income, net of tax		
Unrealized (loss) gain on investment securities available-for-sale securities (pre-tax (\$441) and \$504 respectively)	(311)	355
Reclassification adjustment for gains included in income (pre-tax (\$106) and (\$141), respectively) (1)	(75)	(99)
Other comprehensive (loss) income	(386)	256
Total Comprehensive Income	\$ 3,666	\$ 6,024

- (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	Total
Balance, January 1, 2019		2,268,917	\$ 23	\$ (3)	\$ 20,740	\$ 14,973	\$ (18)	\$ (2,116)	\$ 33,599
ESOP shares committed to be released		—	—	—	3	—	—	122	125
Treasury stock purchased		(81,109)	—	(1,089)	—	—	—	—	(1,089)
Stock option exercise		1,600	—	—	24	—	—	—	24
Stock option expense		—	—	—	60	—	—	—	60
Restricted stock expense		—	—	—	184	—	—	—	184
Net income		—	—	—	—	5,768	—	—	5,768
Other comprehensive income		—	—	—	—	—	256	—	256
Balance, December 31, 2020		2,189,408	\$ 23	\$ (1,092)	\$ 21,011	\$ 20,741	\$ 238	\$ (1,994)	\$ 38,927
ESOP shares committed to be released		—	—	—	45	—	—	121	166
Treasury stock purchased		(20,911)	—	(391)	—	—	—	—	(391)
Stock option exercise		1,900	—	—	28	—	—	—	28
Stock option expense		—	—	—	58	—	—	—	58
Restricted stock expense		—	—	—	182	—	—	—	182
Net income		—	—	—	—	4,052	—	—	4,052
Other comprehensive loss		—	—	—	—	—	(386)	—	(386)
Balance, December 31, 2021		2,170,397	\$ 23	\$ (1,483)	\$ 21,324	\$ 24,793	\$ (148)	\$ (1,873)	\$ 42,636

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, 2021	For the year ended December 31, 2020
Cash Flows from Operating Activities		
Net income	\$ 4,052	\$ 5,768
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	706	587
Amortization of deferred loan fees	(2,569)	(268)
Amortization of right-of-use assets	859	627
Amortization of net securities premiums	106	25
Amortization of Federal Loan Bank premium	162	—
Gain on sale of available-for-sale securities, net	(106)	(141)
Loss (gain) from derivative instruments	1,203	(1,512)
Provision for loan losses	553	1,108
Deferred income taxes	(642)	396
Earnings on bank owned life insurance	(149)	(153)
Stock based compensation expense	240	244
ESOP compensation expense	166	125
Loans held for sale:		
Originations, net of prepayments	(614,079)	(631,755)
Proceeds from sales	670,648	600,805
Gain on sales	(14,853)	(13,315)
Change in fair value of loans held for sale	1,353	(1,408)
Decrease (increase) in:		
Accrued interest receivable	149	(522)
Prepaid income taxes	—	312
Prepaid and other assets	(2,650)	(1,976)
Other liabilities	(2,255)	3,628
Net cash provided by (used in) operating activities	<u>42,894</u>	<u>(37,425)</u>
Cash Flows from Investing Activities		
Net increase in loans receivable	(9,376)	(59,619)
Activity in available-for-sale securities:		
Proceeds from sales	5,537	4,883
Maturities and repayments	6,222	8,021
Purchases	(33,301)	(14,787)
Purchase of restricted investment in bank stock	(1,309)	(1,778)
Redemption of restricted investment in bank stock	1,022	1,609
Purchases of premises and equipment	(1,032)	(798)
Net cash used in investing activities	<u>(32,237)</u>	<u>(62,469)</u>
Cash Flows from Financing Activities		
Net (decrease) increase in deposits	(266,837)	447,059
Net (decrease) increase in advances from borrowers for taxes and insurance	(1,692)	(7)
Proceeds from long-term borrowings from Federal Home Loan Bank	—	26,190
Repayment of long-term borrowings from Federal Home Loan Bank	—	(27,000)
Proceeds from long-term borrowings from FRB PPPLF	—	57,714
Repayment of long-term borrowings from FRB PPPLF	(45,563)	(9,032)
Net proceeds from issuance of subordinated debt	9,996	—
Proceeds from exercise of stock option	28	24
Purchase of treasury stock	(391)	(1,089)
Net cash (used in) provided by financing activities	<u>(304,459)</u>	<u>493,859</u>
(Decrease) Increase in Cash and Cash Equivalents	<u>(293,802)</u>	<u>393,965</u>
Cash and Cash Equivalents, beginning of year	<u>414,590</u>	<u>20,625</u>
Cash and Cash Equivalents, end of year	<u>\$ 120,788</u>	<u>\$ 414,590</u>
Supplementary Disclosure of Cash Flow Information		
Cash paid during the year of interest	<u>\$ 2,307</u>	<u>\$ 3,281</u>
Cash paid during the year for income taxes	<u>\$ 3,053</u>	<u>\$ 187</u>
Supplementary Schedule of Noncash Investing Activities		
Recognition of operating lease right-of-use assets	<u>\$ 1,864</u>	<u>\$ 2,303</u>
Recognition of operating lease obligations	<u>\$ 1,864</u>	<u>\$ 2,291</u>

See the accompanying notes to the consolidated financial statements.

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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. Shares of the Company began trading on the Nasdaq Capital Market on January 12, 2017. The Company is subject to regulation by the Board of Governors of the Federal Reserve System (the “Federal Reserve Bank”).

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, as an investment company subsidiary to hold and manage certain investments. 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 included herein.

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, 2021, the Company did not have outstanding loan modification agreements.

- 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. 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 December 31, 2021, the Company had processed and approved over 800 PPP applications in Round 1 and 2 with an outstanding balance of \$22.9 million at December 31, 2021. Through mid-March 2022, the Company received approximately \$115.6 million in PPP forgiveness from the SBA.

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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.

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 securities, interest rate lock commitments ("IRLCs"), mandatory sales commitments, the valuation of mortgage loans held-for-sale, mortgage servicing rights, 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

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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.

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.

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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 11, 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 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

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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 principal 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.
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.

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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 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

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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. 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.

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 \$2,008,000 and \$1,721,000 at December 31, 2021 and 2020, respectively.

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Premises and Equipment, net

Property and equipment are recorded at cost less accumulated depreciation. Land is carried at cost. 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 \$89,000 and \$294,000 as of December 31, 2021 and 2020, respectively. There was no real estate secured by residential one- to four- family properties held in Other Real Estate Owned at December 31, 2021 and 2020, respectively. There was no real estate secured by commercial properties held in Other Real Estate Owned at December 31, 2021 and 2020, 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.

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.

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As of December 31, 2021 and 2020, 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 2019 through 2021 were open for examination as of December 31, 2021.

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.

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.

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Recent Accounting Pronouncements

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 as the 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. 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 2020-04, 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.

In July 2021, the FASB issued ASU 2021-05, Leases (Topic 842), which amends ASC 842 so that lessors are no longer required to recognize a selling loss upon commencement of a lease with variable lease payments that, prior to the amendments, would have been classified as a sales-type or direct financing lease. Furthermore, a lessor must classify as an operating lease any lease that would otherwise be classified as a sales-type or direct financing lease and that would result in the recognition of a selling loss at lease commencement, provided that the lease includes variable lease payments that do not depend on an index or rate. For public business entities and certain not-for-profit entities and employee benefit plans that have adopted ASC 842, the amendments are effective for fiscal years beginning after December 15, 2021, and for interim periods within those fiscal years. For all other entities that have adopted ASC 842, the amendments are effective for fiscal years beginning after December 15, 2021, and for interim periods within fiscal years beginning after December 15, 2022. All entities that have adopted ASC 842 are permitted to early adopt the amendments in ASU 2021-05. The amendments in ASU 2021-05 are effective as of the same date as the guidance in ASC 842 for entities that have not adopted ASC 842. The Company adopted the accounting standard on January 1, 2022 and it did not have a material impact on the Company's consolidated financial statements.

2. Investment Securities

Investment securities available-for-sale at December 31, 2021 were comprised of the following:

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>(Dollars in thousands)</i>				
U.S. Governmental securities	\$ 3,596	\$ —	\$ (84)	\$ 3,512
Corporate notes	18,805	174	(112)	18,867
Collateralized mortgage obligations - agency residential	7,754	6	(96)	7,664
Mortgage-backed securities - agency residential	7,656	2	(115)	7,543
Municipal securities	6,412	62	(55)	6,419
Bank CDs	499	8	—	507
	<u>\$ 44,722</u>	<u>\$ 252</u>	<u>\$ (462)</u>	<u>\$ 44,512</u>

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

<i>(Dollars in thousands)</i>	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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>

The scheduled maturities of securities available-for-sale at December 31, 2021 were as follows:

<i>(Dollars in thousands)</i>	December 31, 2021	
	Available-for-Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ 1,256	\$ 1,257
Due from more than one to five years	8,311	8,242
Due from more than five to ten years	15,416	15,443
Due after ten years	19,739	19,570
	<u>\$ 44,722</u>	<u>\$ 44,512</u>

Securities with a fair value of \$5.6 million and \$4.4 million at December 31, 2021 and 2020, 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, 2021 were \$5.5 million. Gross realized gains on such sales were approximately \$123,000 and there were \$17,000 gross realized losses on such sales.

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 were \$10,000 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, 2021 and 2020:

<i>(Dollars in thousands)</i>	December 31, 2021					
	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	\$ 3,512	\$ (84)	\$ —	\$ —	\$ 3,512	\$ (84)
Corporate notes	8,457	(102)	1,507	(10)	9,964	(112)
Collateralized mortgage obligations - agency residential	5,698	(96)	—	—	5,698	(96)
Mortgage-backed securities - agency residential	7,254	(115)	—	—	7,254	(115)
Municipal securities	3,649	(55)	—	—	3,649	(55)
Bank CDs	—	—	—	—	—	—
	<u>\$ 28,570</u>	<u>\$ (452)</u>	<u>\$ 1,507</u>	<u>\$ (10)</u>	<u>\$ 30,077</u>	<u>\$ (462)</u>

<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>

At December 31, 2021, the investment portfolio included four U.S. Governmental securities, with total fair values of \$3.5 million and the four securities were in an unrealized loss position. At December 31, 2020, the investment portfolio included two U.S. Governmental securities, with total fair value of \$391,000 with none of the securities in an unrealized loss position as of December 31, 2020. The U.S Government securities are zero risk weighted for capital purposes and are guaranteed for repayment of principal and interest. As of December 31, 2021 and 2020, 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, 2021 and 2020, the investment portfolio included twenty-six and thirteen corporate notes with total fair values of \$18.9 million and \$9.6 million, respectively. Of these securities, fifteen and five were in an unrealized loss position as of December 31, 2021 and 2020, respectively. As of December 31, 2021 fourteen of the fifteen corporate notes in an unrealized loss position continue to maintain investment grade ratings. As of December 31, 2020, three of the four corporate notes in an unrealized loss position continue to maintain investment grade ratings. As of December 31, 2021 and 2020, 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, 2021 and 2020, the investment portfolio included twelve and twenty-seven collateralized mortgage obligations (CMOs) with total fair values of \$7.7 million and \$3.9 million at December 31, 2021 and

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2020, respectively. Of these securities, nine and eleven were in an unrealized loss position as of December 31, 2021 and 2020, respectively. The CMO portfolio is comprised of 100% agency (FHLMC, FNMA and GNMA) investment grade bonds. As of December 31, 2021 and 2020, management found no evidence of OTTI on any of the 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, 2021 and 2020, the investment portfolio included eleven and sixteen mortgage backed securities (MBS) with a total fair value of \$7.5 million and \$5.7 million at the end of each period, respectively. There were ten securities in an unrealized loss position as of December 31, 2021. There were no MBS securities in an unrealized loss position as of December 31, 2020. The MBS portfolio is comprised of 100% agency (FHLMC, FNMA and GNMA) investment grade bonds. As of At December 31, 2021 and 2020, 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, 2021 and 2020, the investment portfolio included eleven and six municipal securities with a total fair value of \$6.4 million and \$3.0 million, respectively. As of December 31, 2021, there were six securities in in an unrealized loss position. There were no securities in an unrealized loss position as of December 31, 2020. As of December 31, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, the investment portfolio included two and four Bank CDs with a total fair value of \$507,000 and \$1.0 million at the end of each period, respectively. There were no securities in an unrealized loss position as of December 31, 2021 and 2020. The Bank CDs are fully insured by the FDIC. As of December 31, 2021 and 2020, 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, 2021 and 2020. As of December 31, 2021 and 2020, 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, 2021 and 2020:

<i>(dollars in thousands)</i>	December 31, 2021	
	Year-to-date	Life-to-date
Amortized cost	\$ 500	\$ 500
Impairment	—	—
Observable price changes	—	—
Carrying value	\$ 500	\$ 500

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<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

4. Loans Receivable

Loans receivable at December 31, 2021 and 2020, were comprised of the following:

<i>(Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Residential:		
One-to four-family	\$ 106,335	\$ 141,891
Home equity and HELOCs	3,172	3,993
Commercial:		
Commercial real estate	116,882	68,705
Commercial business	30,164	24,152
SBA PPP loans	22,912	64,380
Main Street Lending Program	1,605	1,556
Construction	42,866	7,299
Consumer:		
Medical education	4,409	5,105
Other	17	33
	328,362	317,114
Unearned discounts, origination and commitment fees and costs	(791)	(1,286)
Allowance for loan losses	(2,368)	(2,017)
	\$ 325,203	\$ 313,811

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, 2021, the balance of the private education loans was \$4.4 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, 2021, there was one loan with a balance of approximately \$39,000 that was 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, 2021 primarily as a result of charge-offs totaling \$210,000.

Overdraft deposits are reclassified as consumer loans and are included in the total loans on the Consolidated Statements of Financial Condition. Overdrafts were \$17,000 and \$33,000 at December 31, 2021 and 2020, respectively.

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The following tables summarize the activity in the allowance for loan losses by loan class for the year ended December 31, 2021 and 2020:

Allowance for Loan Losses	December 31, 2021						
<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	\$ 637	\$ —	\$ —	\$ (315)	\$ 322	\$ —	\$ 322
Home equity and HELOCs	15	—	—	(7)	8	—	8
Commercial:							
Commercial real estate	519	—	—	300	819	—	819
Commercial business	280	—	—	61	341	—	341
SBA PPP loans	—	—	—	—	—	—	—
Main Street Lending Program	27	—	—	—	27	—	27
Construction	74	—	—	386	460	—	460
Consumer:							
Medical Education	368	(210)	8	225	391	—	391
Other	—	—	—	—	—	—	—
Unallocated	97	—	—	(97)	—	—	—
	<u>\$ 2,017</u>	<u>\$ (210)</u>	<u>\$ 8</u>	<u>\$ 553</u>	<u>\$ 2,368</u>	<u>\$ —</u>	<u>\$ 2,368</u>

Allowance for Loan Losses	December 31, 2020						
<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	\$ 701	\$ —	\$ —	\$ (64)	\$ 637	\$ —	\$ 637
Home equity and HELOCs	44	—	—	(29)	15	—	15
Commercial:							
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
Consumer:							
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>

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

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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, 2021 and 2020 as a result of charge-offs totaling \$210,000, and \$529,000, 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 in 2020. 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.

The following tables summarize information in regards to the recorded investment in loans receivable by loan class as of December 31, 2021 and 2020:

December 31, 2021			
Loans Receivable			
<i>(Dollars in thousands)</i>	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Residential:			
One-to four-family	\$ 106,335	\$ 1,064	\$ 105,271
Home equity and HELOCs	3,172	—	3,172
Commercial:			
Commercial real estate	116,882	181	116,701
Commercial business	30,164	71	30,093
SBA PPP loans	22,912	—	22,912
Main Street Lending Program	1,605	—	1,605
Construction	42,866	1,168	41,698
Consumer:			
Medical education	4,409	—	4,409
Other	17	—	17
	<u>\$ 328,362</u>	<u>\$ 2,484</u>	<u>\$ 325,878</u>

December 31, 2020			
Loans Receivable			
<i>(Dollars in thousands)</i>	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Residential:			
One-to four-family	\$ 141,891	\$ 932	\$ 140,959
Home equity and HELOCs	3,993	—	3,993
Commercial:			
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
Consumer:			
Medical education	5,105	—	5,105
Other	33	—	33
	<u>\$ 317,114</u>	<u>\$ 1,328</u>	<u>\$ 315,786</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, 2021 and 2020:

<i>(Dollars in thousands)</i>	December 31, 2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Record Investment	Interest Income Recognized
With no related allowance recorded					
Residential:					
One-to four-family	\$ 1,064	\$ 1,223	\$ —	\$ 990	\$ —
Home equity and HELOCs	—	—	—	—	—
Commercial:					
Commercial real estate	181	181	—	504	36
Commercial business	71	71	—	83	5
SBA PPP loans	—	—	—	—	—
Main Street Lending Program	—	—	—	—	—
Construction	1,168	1,168	—	618	—
	2,484	2,643	—	2,195	41
With an allowance recorded					
Residential:					
One-to four-family	—	—	—	—	—
Home equity and HELOCs	—	—	—	—	—
Commercial:					
Commercial real estate	—	—	—	—	—
Commercial business	—	—	—	—	—
Construction	—	—	—	—	—
	—	—	—	—	—
	\$ 2,484	\$ 2,643	\$ —	\$ 2,195	\$ 41

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<i>(Dollars in thousands)</i>	December 31, 2020				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
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	—	—	—	—	—
	1,328	1,452	—	1,796	28
With an allowance recorded					
Residential:					
One-to four-family	—	—	—	—	—
Home equity and HELOCs	—	—	—	—	—
Commercial:					
Commercial real estate	—	—	—	—	—
Commercial business	—	—	—	—	—
Construction	—	—	—	—	—
	\$ 1,328	\$ 1,452	\$ —	\$ 1,796	\$ 28

If these loans were performing under the original contractual rate, interest income on such loans would have increased approximately \$102,000 and \$65,000 for the year ended December 31, 2021 and 2020, respectively.

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2021 and 2020:

<i>(Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Residential:		
One-to four-family	\$ 1,064	\$ 932
Home equity and HELOCs	68	—
Commercial:		
Commercial real estate	—	—
Commercial business	95	—
SBA PPP loans	—	—
Main Street Lending Program	—	—
Construction	1,168	—
Consumer:		
Medical education	1,358	1,322
Other	—	—
	\$ 3,753	\$ 2,254

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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, 2021 and 2020:

<i>(Dollars in thousands)</i>	December 31, 2021				
	Pass	Special Mention	Substandard	Doubtful	Total
Residential:					
One-to four-family	\$ 105,270	\$ —	\$ 1,064	\$ —	\$ 106,335
Home equity and HELOCs	3,104	—	68	—	3,172
Commercial:					
Commercial real estate	115,164	1,537	181	—	116,882
Commercial business	29,999	—	166	—	30,164
SBA PPP loans	22,912	—	—	—	22,912
Main Street Lending Program	1,605	—	—	—	1,605
Construction	41,698	—	1,168	—	42,866
Consumer:					
Medical education	3,051	—	1,358	—	4,409
Other	17	—	—	—	17
	<u>\$ 322,820</u>	<u>\$ 1,537</u>	<u>\$ 4,005</u>	<u>\$ —</u>	<u>\$ 328,362</u>

<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>

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The following tables present the segments of the loan portfolio summarized by aging categories as of December 31, 2021 and 2020:

December 31, 2021							
<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	\$ 1,292	\$ 137	\$ 680	\$ 2,109	\$ 104,226	\$ 106,335	\$ —
Home equity and HELOCs	—	—	68	68	3,104	3,172	—
Commercial:							
Commercial real estate	—	—	—	—	116,882	116,882	—
Commercial business	95	—	—	95	30,069	30,164	—
SBA PPP loans	—	—	—	—	22,912	22,912	—
Main Street Lending Program	—	—	—	—	1,605	1,605	—
Construction	—	—	1,168	1,168	41,698	42,866	—
Consumer:							
Medical education	452	605	39	1,096	3,313	4,409	—
Other	—	—	—	—	17	17	—
	<u>\$ 1,839</u>	<u>\$ 742</u>	<u>\$ 1,955</u>	<u>\$ 4,536</u>	<u>\$ 323,826</u>	<u>\$ 328,362</u>	<u>\$ —</u>
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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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, 2021, we had no deferrals in connection with the COVID-19 relief provided by the CARES Act.

At December 31, 2021 and 2020, the Bank had two loans identified as TDRs totaling \$193,000 and \$227,000, respectively. At December 31, 2021 and 2020, 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 2021. No additional loan commitments were outstanding to these borrowers at December 31, 2021 and 2020. At December 31, 2021 and 2020, there were no specific reserves related to the TDRs.

The following table details the Bank's TDRs at December 31, 2021:

<i>(Dollars in thousands)</i>	Number Of Loans	Accrual Status	Non-Accrual Status	Total TDRs
Commercial real estate	1	\$ 122	\$ —	\$ 122
Commercial business	1	71	—	71
Total	2	\$ 193	\$ —	\$ 193

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
Total	2	\$ 227	\$ —	\$ 227

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, 2021 and 2020, the value of the mortgage servicing rights associated with the loan sales totaled \$3.4 million and \$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 non-interest income on loans in the Company's Consolidated Statements of Income. Servicing income, which includes late and ancillary fees, was \$858,000 and \$147,000 for the year ended December 31, 2021 and 2020.

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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, 2021 and 2020:

<i>(Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Balance at beginning of period	\$ 2,041	\$ —
Servicing rights retained from loans sold	2,137	2,181
Amortization and other	(796)	(140)
Valuation allowance provision	—	—
Balance at end of period	\$ 3,382	\$ 2,041
Fair value, end of year	\$ 4,249	\$ 2,259

The key data and assumptions used in estimating the fair value of the Company's mortgage servicing rights as of December 31, 2021 and 2020 were as follows:

	December 31, 2021	December 31, 2020
Long Run Constant Prepayment Rate	7.67 %	8.07 %
Weighted-Average Life (in years)	27.4	27.0
Weighted-Average Note Rate	2.924 %	2.966 %
Weighted-Average Discount Rate	9.00 %	9.00 %

6. Premises and Equipment

Premises and equipment are summarized by major classification at December 31, 2021 and 2020, as follows:

<i>(Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Automobile	\$ 119	\$ —
Land	334	334
Land improvements	477	477
Office buildings and improvements	722	712
Leasehold improvements	1,557	1,181
Furniture and equipment	5,320	4,793
Total Cost	8,529	7,497
Accumulated depreciation	(5,369)	(4,663)
	\$ 3,160	\$ 2,834

Depreciation expense for the year ended December 31, 2021 and 2020, was \$706,000 and \$587,000, respectively.

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7. Deposits

Deposits at December 31, 2021 and 2020 consisted of the following:

<i>(Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Demand accounts-interest bearing	\$ 76,474	\$ 61,434
Demand accounts-non-interest bearing	174	122
Money market deposit accounts	101,309	79,552
Passbook and statement accounts	37,359	29,997
Checking accounts	216,499	497,584
Subtotal - core deposits	431,815	668,689
Certificates of deposit	32,174	62,137
Total deposits	<u>\$ 463,989</u>	<u>\$ 730,826</u>

At December 31, 2021, scheduled maturities of certificates of deposit for the periods are as follows:

<i>(Dollars in thousands)</i>	
December 31, 2022	\$ 24,682
December 31, 2023	3,957
December 31, 2024	1,767
December 31, 2025	1,064
December 31, 2026	667
December 31, 2027 and thereafter	37
	<u>\$ 32,174</u>

There were no brokered deposits at December 31, 2021. At December 31, 2020, brokered deposits totaled \$10.0 million. In addition, the Company has certificates of deposit in denominations of \$250,000 or more of \$7.1 million and \$13.4 million at December 31, 2021 and 2020.

8. Borrowings

The following tables details the Company's fixed rate advances from the Federal Reserve PPPLF and the FHLB as of December 31, 2021 and 2020:

Federal Reserve PPPLF long-term borrowings:

Issue Date	Maturity	Advance Type	Interest Rate	(Dollars in thousands)	
				December 31, 2021	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%	10	1,895
05/21/20	04/15/22	Fixed Rate	0.350%	2,785	7,042
05/21/20	04/18/22	Fixed Rate	0.350%	—	808
05/21/20	04/19/22	Fixed Rate	0.350%	70	466
05/22/20	04/20/22	Fixed Rate	0.350%	—	4,395
05/29/20	04/21/22	Fixed Rate	0.350%	249	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%	5	9,247
				<u>\$ 3,119</u>	<u>\$ 48,682</u>

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FHLB long-term borrowings:

Issue Date	Maturity	Advance Type	Interest Rate	(Dollars in thousands)	
				December 31, 2021	December 31, 2020
07/07/20	07/07/25	Fixed Rate	0.851%	\$ 26,431	\$ 26,269
				<u>\$ 26,431</u>	<u>\$ 26,269</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, 2021 and 2020, the Company had \$3.1 million and \$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.

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 \$140.9 million as of December 31, 2021. 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, 2021 and 2020, the Company had no borrowings outstanding under the Open Repo Plus line. The Company had outstanding FHLB advances totaling \$26.4 million and \$26.3 million as of December 31, 2021 and 2020, respectively. The Company had \$63.8 million outstanding in letters of credit to secure deposits, which reduced the maximum borrowing capacity at December 31, 2021.

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 an available line of credit of \$3.0 million with ACBI which the Company had not borrowed against for the year ended December 31, 2021 and 2020. At December 31, 2020, the Company had a line equal to 95% of fair value of collateral held by the Federal Reserve Bank (“FRB”), which was \$923,000. The Company has not borrowed against its credit line with the FRB for the year ended December 31, 2020.

9. Subordinated debt

On May 28, 2021, the Company issued a \$10.0 million subordinated note. This note has a maturity date of May 28, 2031, and bears interest at a fixed rate of 4.50% per annum through May 28, 2026. Thereafter, the note rate is adjustable and resets quarterly based on the then current 90-day average Secured Overnight Financing Rate (“SOFR”) plus 325 basis points for U.S. dollar denominated loans as published by the Federal Reserve Bank of New York. The Company may, at its option, at any time on an interest payment date, on or after May 28, 2026, redeem the notes, in whole or in part, at par plus accrued interest to the date of redemption.

The Note is not subject to redemption at the option of the holder. Principal and interest on the Note is subject to acceleration only in limited circumstances. The Note is an unsecured, subordinated obligation of the Company, is not an obligation of, and is not guaranteed by, any subsidiary of the Company, and ranks junior in right of payment to the Company’s current and future senior indebtedness.

The balance and unamortized issuance costs of subordinated debt at December 31, 2021 are as follows (in thousands):

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<i>(Dollars in thousands)</i>	Principle	Unamortized Debt Issuance Costs	Net Balance
4.5% subordinated notes, due May 28, 2031	\$ 10,000	\$ (4)	\$ 9,996

10. Regulatory Capital

Information presented for December 31, 2021 and 2020, 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, 2021, the Bank met all the capital adequacy requirements to which they were subject. In June 2021, the Company infused \$5.0 million to the Bank as Tier 1 capital. At December 31, 2021, 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, 2021 that would 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
As of December 31, 2021						
Total risk-based capital (to risk-weighted assets)	\$ 47,797	13.1%	\$ 29,168	≥ 8.0%	\$ 36,460	≥ 10.0%
Tier 1 capital (to risk-weighted assets)	45,429	12.5	≥21,876	≥6.0	≥29,168	≥8.0
Tier 1 capital (to average assets)	45,429	8.2	≥22,045	≥4.0	≥27,557	≥5.0
Tier 1 common equity (to risk-weighted assets)	45,429	12.5	≥16,407	≥4.5	≥23,699	≥6.5
As of December 31, 2020						
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

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, 2021 and 2020, 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, 2021, the Bank is required to maintain a capital conservation buffer of 2.50%. At December 31, 2021, the Bank met the regulatory

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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.

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, 2021 and 2020. 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, 2021 and 2020, (dollars in thousands):

December 31, 2021

Asset Derivatives

	Balance Sheet Presentation	Fair Value	Notional Amount
IRLCs	Mortgage banking derivatives	\$ 1,382	\$ 70,259
Forward loan sales commitments	Mortgage banking derivatives	75	2,543
TBA securities	Mortgage banking derivatives	1	4,000

Liability Derivatives

	Balance Sheet Presentation	Fair Value	Notional Amount
IRLCs	Other liabilities	\$ 36	\$ 2,327
Forward loan sales commitments	Other liabilities	35	2,995
TBA securities	Other liabilities	—	250

December 31, 2020

Asset Derivatives

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

Liability Derivatives

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

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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, 2021 and 2020 (dollars in thousands):

	Consolidated Statements of Income Presentation	Gain/(Loss)	
		For the year ended December 31, 2021	For the year ended December 31, 2020
IRLCs	(Loss) gain from derivative instruments	\$ (1,195)	\$ 1,756
Forward loan sales commitments	Loss from derivative instruments	(85)	(219)
TBA securities	Gain (loss) from derivative instruments	77	(25)
	Total (loss) gain from derivative instruments	<u>\$ (1,203)</u>	<u>\$ 1,512</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, 2021, there were 211,000 stock options outstanding of which 88,220 of the stock options were vested and exercisable at December 31, 2021. At December 31, 2021, there 87,000 restricted stock shares outstanding of which 36,320 restricted stock shares were vested and exercisable at December 31, 2021. The 211,000 stock options outstanding and 50,680 restricted stock shares outstanding were included in the computation of diluted net income per share for the year ended December 31, 2021 as their effect was not anti-dilutive. 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

The calculation of EPS for the year ended December 31, 2021 and 2020, is as follows (dollars in thousands, except per share data):

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	For the Year Ended December 31, 2021	For the Year Ended December 31, 2020
Net income (basic and diluted)	<u>\$ 4,052</u>	<u>\$ 5,768</u>
Weighted average number of shares issued	2,272,167	2,270,589
Less weighted average number of treasury shares	(96,032)	(31,415)
Less weighted average number of unearned ESOP shares awards	(134,935)	(143,671)
Less weighted average number of unvested restricted stock awards	(56,770)	(62,420)
Basic weighted average shares outstanding	1,984,430	2,033,083
Add dilutive effect of stock options	46,693	—
Add dilutive effect of restricted stock awards	13,954	—
Diluted weighted average shares outstanding	<u>2,045,077</u>	<u>2,033,083</u>
Net income per share		
Basic	\$ 2.04	\$ 2.84
Diluted	\$ 1.98	\$ 2.84

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

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share for a weighted average price per share of \$13.92, and a total purchase price of \$2,430,000. The Company recognized ESOP expense of \$166,000 and \$125,000 for the year ended December 31, 2021 and 2020, respectively.

The following table presents the components of the ESOP Shares at December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Allocated shares	43,595	34,867
Committed shares	—	—
Unreleased shares	130,928	139,656
Total ESOP shares	174,523	174,570
Fair value of unreleased shares (in thousands)	\$ 2,854	\$ 2,398

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 a \$150,000 contribution to the Plan during the year ended December 31, 2021. During the year ended December 31, 2020, the Company made no contributions to the Plan.

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.

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, 2021, there were 3,997 shares available for future awards under this plan, which includes 3,712 shares available for incentive and non-qualified stock options and 285 shares available for restricted stock awards. The restricted shares and stock options vest over a seven-year period.

The Company's shareholders approved the HV Bancorp, Inc. 2021 Equity Incentive Plan (the "2021 Equity Incentive Plan") at the Annual Meeting of shareholders on May 19, 2021. The 2021 Equity Incentive Plan authorizes the issuance or delivery to participants of up to 175,000 shares of Company common stock pursuant to grants of incentive and non-qualified stock options, restricted stock awards and restricted stock units. As of December 31, 2021, there were no grants issued under the 2021 Equity Incentive Plan.

Stock option expense was \$58,000 and \$60,000 for the year ended December 31, 2021 and 2020, respectively. At December 31, 2021, total unrecognized compensation cost related to stock options was \$211,000.

A summary of the Company's stock option activity and related information for the year ended December 31, 2021 and 2020 was as follows:

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December 31, 2021				
	Options	Weighted-Average Exercise Price	Weighted-Average Remaining contractual Life (in years)	Average Intrinsic Value
Outstanding, January 1, 2021	216,400	\$ 14.93	7.6	\$ 484,736
Granted	—	—	—	—
Exercised	(1,900)	14.80	—	—
Forfeited	(3,500)	15.35	—	—
Outstanding, December 31, 2021	<u>211,000</u>	<u>\$ 14.92</u>	<u>6.6</u>	<u>\$ 1,451,680</u>
Exercisable, December 31, 2021	88,220	\$ 14.89	6.6	\$ 609,600

December 31, 2020				
	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

Restricted stock expense was \$182,000 and \$184,000 for the year ended December 31, 2021 and 2020, respectively. At December 31, 2021, the expected future compensation expense relating to non-vested stock outstanding was \$665,000.

A summary of the Company's restricted stock activity and related information for the year ended December 31, 2021 and 2020, is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested, January 1, 2020	75,320	\$ 14.97
Granted	—	—
Vested	(12,460)	14.97
Forfeited	—	—
Non-vested at December 31, 2020	<u>62,860</u>	<u>\$ 14.97</u>
Granted	—	—
Vested	(12,180)	14.95
Forfeited	—	—
Non-vested at December 31, 2021	<u>50,680</u>	<u>\$ 14.98</u>

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14. Income Taxes

The table below summarizes the income tax expense for the year ended December 31, 2021 and 2020:

<i>(Dollars in thousands)</i>	<u>For the year ended December 31, 2021</u>	<u>For the year ended December 31, 2020</u>
Current:		
Federal	\$ 1,695	\$ 1,142
State	411	666
	<u>2,106</u>	<u>1,808</u>
Deferred:		
Federal	(642)	396
	<u>(642)</u>	<u>396</u>
Total income tax expense	<u>\$ 1,464</u>	<u>\$ 2,204</u>

The expense for income taxes for the year ended December 31, 2021 and 2020 differed from the federal income tax statutory rate due to the following:

<i>(Dollars in thousands)</i>	<u>For the year ended December 31, 2021</u>		<u>For the year ended December 31, 2020</u>	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
Tax at statutory rate	\$ 1,158	21.0%	\$ 1,667	21.0%
State tax net of federal benefit	326	5.9%	532	6.6%
Bank-owned life insurance	(31)	-0.6%	(32)	-0.4%
Tax-exempt interest	(7)	-0.1%	(8)	-0.1%
Other, net	18	0.3%	45	0.5%
	<u>\$ 1,464</u>	<u>26.5%</u>	<u>\$ 2,204</u>	<u>27.6%</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, 2021	December 31, 2020
Deferred tax assets:		
Allowance for loan losses	\$ 497	\$ 424
Non-accrual interest	8	16
Accrued expenses	182	133
Stock-based compensation	30	27
Unrealized loss on securities	62	—
Operating lease liabilities	<u>1,896</u>	<u>1,669</u>
Gross deferred tax assets	<u>\$ 2,675</u>	<u>\$ 2,269</u>
Deferred tax liabilities:		
Depreciation	\$ 168	\$ 135
Unrealized gain on securities	—	100
Fair value adjustment of IRLC, TBA securities and forward loan sales commitments	291	544
Operating lease right-of-use assets	<u>1,820</u>	<u>1,614</u>
Gain on fair value of loans	<u>193</u>	<u>477</u>
Gross deferred tax liabilities	<u>2,472</u>	<u>2,870</u>
Net deferred tax asset (liabilities)	<u>\$ 203</u>	<u>\$ (601)</u>

Retained earnings included \$1.7 million at December 31, 2021 and 2020, 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

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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.

Assets measured at fair value on a recurring basis at December 31, 2021 and 2020 are summarized below:

<i>(Dollars in thousands)</i>	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Investment securities available-for-sale:				
U.S. governmental securities	\$ —	\$ 3,512	\$ —	\$ 3,512
Corporate notes	—	15,825	3,042	18,867
Collateralized mortgage obligations - agency residential	—	7,664	—	7,664
Mortgage-backed securities - agency residential	—	7,543	—	7,543
Municipal securities	—	6,419	—	6,419
Bank CDs	—	507	—	507
Loans held-for-sale	—	40,480	—	40,480
Interest rate lock commitments	—	—	1,382	1,382
Forward loan sales commitments	—	75	—	75
TBA securities	—	1	—	1
	<u>\$ —</u>	<u>\$ 82,026</u>	<u>\$ 4,424</u>	<u>\$ 86,450</u>

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<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
Interest rate lock commitments	—	—	2,647	2,647
Forward loan sales commitments	—	252	—	252
TBA securities	—	—	—	—
	<u>\$ —</u>	<u>\$ 99,251</u>	<u>\$ 10,715</u>	<u>\$ 109,966</u>

Liabilities measured at fair value on a recurring basis at December 31, 2021 and 2020 are summarized below.

<i>(Dollars in thousands)</i>	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Interest rate lock commitments	\$ —	\$ —	\$ 36	\$ 36
Forward loan sales commitments	—	35	—	35
TBA securities	—	—	—	—
	<u>\$ —</u>	<u>\$ 35</u>	<u>\$ 36</u>	<u>\$ 71</u>

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

There were no assets measured at fair value on a nonrecurring basis at December 31, 2021 and 2020.

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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, 2021 and 2020 (in thousands):

<u>December 31, 2021</u>	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<i>(Dollars in thousands)</i>					
Assets:					
Cash and cash equivalents	\$ 120,788	\$ 120,788	\$ 120,788	\$ —	\$ —
Equity securities	500	500	—	—	500
Loans receivable, net	325,203	328,676	—	—	328,676
Bank-owned life insurance	6,557	6,557	6,557	—	—
Restricted investment in bank stock	2,008	2,008	2,008	—	—
Accrued interest receivable	1,340	1,340	1,340	—	—
Mortgage Servicing Rights	3,382	4,249	—	—	4,249
Liabilities:					
Deposits	\$ 463,989	\$ 464,164	\$ 431,815	\$ 32,349	\$ —
Advances from the FHLB	26,431	26,492	—	26,492	—
Federal Reserve PPPLF advances	3,119	3,119	—	3,119	—
Subordinated debt	9,996	10,436	—	—	10,436
Advances from borrowers for taxes and insurance	439	439	439	—	—
Accrued interest payable	73	73	73	—	—
Off-balance sheet:					
Commitment to extend credit	\$ —	\$ —	\$ —	\$ —	\$ —

<u>December 31, 2020</u>	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<i>(Dollars in thousands)</i>					
Assets:					
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
Liabilities:					
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	—	—
Off-balance sheet:					
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. During the year end December 31, 2021, there was approximately \$7.7 million transferred out of Level 3 into Level 2 as the Company determined there were significant observable inputs to classify as sufficiently observable. There were no changes in methodologies or transfers between levels during the year ended December 31, 2020.

The following tables represent assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31, 2021 and 2020:

	Level 3		
	Corporate notes	IRLC- Asset	IRLC- Liability
Beginning Balance: January 1, 2021	\$ 8,068	\$ 2,647	\$ (106)
Total (losses) gains (unrealized):			
Included in other comprehensive income	(112)	—	—
Total gains (losses) included in earnings and held at reporting date	97	(1,265)	70
Purchases, sales and settlements	2,669	—	—
Transfers (out of) into Level 3	(7,680)	—	—
Ending Balance: December 31, 2021	<u>\$ 3,042</u>	<u>\$ 1,382</u>	<u>\$ (36)</u>
Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) for assets held as of December 31, 2021	97	(1,265)	70
Change in unrealized losses for the period included other comprehensive income for assets held as of December 31, 2021	\$ (112)	\$ —	\$ —

	Level 3		
	Corporate notes	IRLC- Asset	IRLC- Liability
Beginning Balance: January 1, 2020	\$ 3,059	\$ 810	\$ (25)
Total gains (unrealized):			
Included in other comprehensive income	50	—	—
Total gains included in earnings and held at reporting date	—	1,837	(81)
Purchases, sales and settlements	4,959	—	—
Transfers into Level 3	—	—	—
Ending Balance: December 31, 2020	<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	\$ —	\$ —

At December 31, 2021, the Company has classified \$3.0 million of corporate notes as Level 3. The Company's methodology to value the three sub-debt bonds was to obtain fair values of similar sub-debt bonds issuances over the past twelve months from a broker/investment firm. At December 31, 2021, the weighted average of the market quotes applied is 102.1%. Since the Corporate notes are not widely traded, the Company considered the inputs as unobservable.

At December 31, 2020, the fair value of \$6.0 million of corporate notes included an adjustable rate corporate security and sub-debt bonds. The Company's methodology for valuing these corporate notes was to obtain market quotes through a third-party pricing model. At December 31, 2020, the weighted average of the market quotes

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applied range from 92.4% 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. At December 31, 2020, 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, 2021 and 2020, the Company has classified \$1.3 million and \$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. At December 31, 2021, the weighted average pull-through rates applied ranged from 81.6% to 100.0%.

Significant unobservable inputs for assets and liabilities measured at fair value on a recurring basis at December 31, 2021 and 2020:

Quantitative Information about Level 3 Fair Value Measurements at December 31, 2021

<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	\$ 3,042	Market comparable securities	Offered quotes	101.00%-102.50%	102.12%
Net derivative asset and liability:					
IRLC	\$ 1,346	Discounted cash flows	Pull-through Rates	81.61%-100.00%	93.06%

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, 2021 and 2020, respectively. All amounts are presented net of tax.

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Net unrealized holding (losses) gains on available-for-sales securities (1):	For the Year Ended	For the Year Ended
<i>(Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Balance at beginning period	\$ 238	\$ (18)
Unrealized holding (losses) gains on available-for-sale securities before reclassification	(311)	355
Amount reclassified for investment securities gains included in net income	(75)	(99)
Net current-period other comprehensive (loss) income	(386)	256
Balance at ending period	\$ (148)	\$ 238

(1) All amounts are net of tax. Related income tax expense or benefit is calculated using an income tax rate approximately 29.5%, and 29.5% for the year ended December 31, 2021 and 2020, respectively.

<i>(Dollars in thousands)</i>	For the Year Ended	For the Year Ended	Affected line item in the
	December 31, 2021	December 31, 2020	Consolidated Statement of
	Amount reclassified	Amount reclassified	Income
	from AOCI (2)	from AOCI (2)	
Net unrealized gain on available-for securities (1)	\$ 106	\$ 141	Gain on sale of investment securities, net
	(31)	(42)	Income Tax Expense
	\$ 75	\$ 99	

- (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, 2021 and 2020 are \$39.7 million and \$80.9 million, respectively. Open commercial loan commitments granted to loan applicants at December 31, 2021 and 2020, are \$8.4 million and \$4.0 million, respectively.

At December 31, 2021 and 2020, the Company had forward loan sales commitments amounting to \$2.3 million and \$120.6 million, respectively. The Company had mandatory TBAs amounting to \$250,000 and \$13.5 million at December 31, 2021 and 2020, respectively.

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The undisbursed portion of open-ended HELOCs at December 31, 2021 and 2020 is \$8.9 million and \$8.0 million, respectively. The undisbursed portion of open-ended commercial and commercial real estate lines of credit at December 31, 2021 and 2020 are \$61.3 million and \$22.1 million, respectively. At December 31, 2021 and 2020, there was an open commercial letter of credit of \$655,000 and \$650,000.

There was \$63.8 million and \$38.3 million outstanding in letters of credit issued by the FHLB to secure certain deposits performance standby letters of credit at December 31, 2021 and 2020.

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 no provision for losses from repurchases as of December 31, 2021. At December 31, 2020, there was a \$151,000 provision for losses from repurchases.

Residential mortgage loans serviced for others at December 31, 2021 and 2020 are \$371.9 million and \$209.3 million, respectively.

18. Concentrations

At December 31, 2021 and 2020, 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>	Number of Investors	Percentages of Mortgages Sold
December 31, 2021	3	85%
December 31, 2020	3	73%

19. Related Party

In the ordinary course of business, the Company has granted loans to related parties. The amount outstanding at December 31, 2021 and 2020 was \$2.0 million. Originations to related parties and repayments from related parties during the year ended December 31, 2021 were \$4.0 million and \$4.0 million, respectively. During the year ended December 31, 2020, originations to related parties and repayments from related parties were \$2.6 million and \$2.1 million, respectively.

The Company held deposits of approximately \$16.0 million and \$252.6 million for related parties at December 31, 2021 and 2020, 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 program totaled \$881,000 and \$5.9 million at December 31, 2021 and 2020, and for which we received no fee income for the year ended December 31, 2021 and approximately \$2,000 for the year ended December 31, 2020.

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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 of revenue earned through cash management fees for Business Banking customers as well as fees 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. 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, mortgage servicing rights, 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.

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The following table presents noninterest income for the year ended December 31, 2021 and 2020:

<i>(Dollars in thousands)</i>	Year Ended December 31,	Year Ended December 31,
	2021	2020
Non-Interest Income		
In-scope of Topic 606:		
Fee income	\$ 309	\$ 3
Insufficient fund fees	75	59
Other service charges	97	75
ATM interchange fee income	14	9
Other income	2	2
Total Non-Interest Income (in-scope of Topic 606)	<u>\$ 497</u>	<u>\$ 148</u>
Out-of-scope of Topic 606:		
Increase in cash surrender value of bank-owned life insurance	\$ 149	\$ 153
Gain on sale of loans, net	14,853	13,315
Gain on sale of available-for-sale securities	106	141
(Loss) gain from derivative instruments	(1,203)	1,512
Change in fair value for loans held-for-sale	(1,353)	1,408
Other	375	193
Total Non-Interest Income (out-scope of Topic 606)	<u>\$ 12,927</u>	<u>\$ 16,722</u>
Total Non-Interest Income (in-scope of Topic 606)	<u>497</u>	<u>148</u>
Total Non-Interest Income	<u>\$ 13,424</u>	<u>\$ 16,870</u>

21. Leases

The Company adopted ASU No. 2016-02 “Leases” (Topic 842) and all subsequent ASUs that modified Topic 842. 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 majority of the Company’s leases are comprised of operating leases for real estate property for branches and office spaces with terms extending through 2039. The operating lease agreements are recognized on the consolidated statements of financial condition as a right-of-use (“ROU”) asset and a corresponding lease liability. The Company elected not to include short-term leases with initial terms of twelve months or less on the consolidated statements of financial condition.

The following table represents the classification of the Company’s ROU assets and lease liabilities in the consolidated statements of financial condition.

		December 31, 2021	December 31, 2020
Lease Right-of-Use Assets	Classification		
Operating lease right-of-use assets	Operating lease right-of-use asset	\$ 8,669	\$ 7,685
Total Lease Right-of-Use Assets		<u>\$ 8,669</u>	<u>\$ 7,685</u>
		December 31, 2021	December 31, 2020
Lease Liabilities	Classification		
Operating lease liabilities	Operating Lease liabilities	\$ 9,030	\$ 7,946
Total Lease Liabilities		<u>\$ 9,030</u>	<u>\$ 7,946</u>

HV Bancorp, Inc. and Subsidiary
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The Company's lease agreements frequently include one or more options to renew at the Company's discretion. If at the beginning of the lease, the Company is reasonably certain that the renewal option will be exercised, the Company will include the extended term in the calculation of the ROU asset and lease liability. For the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. If the rate is not readily determinable in the lease, the Company used its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term.

	December 31, 2021	December 31, 2020
Weighted-average remaining lease term		
Operating leases	11.0 years	12.2 years
Weighted-average discount rate		
Operating leases	2.04%	2.23%

The following table represents lease costs:

(dollars in thousands)	For the year ended December 31, 2021	For the year ended December 31, 2020
Operating lease cost	\$ 859	\$ 627
Short-term lease cost	17	37
Total	\$ 876	\$ 664

Future minimum payments for operating leases with initial or remaining terms of one year or more as of December 31, 2021 and 2020 were as follows:

(dollars in thousands)	December 31, 2021	December 31, 2020
Twelve Months Ended:		
Within one year	\$ 971	\$ 836
After one but within two years	987	792
After two but within three years	988	797
After three but within four years	937	791
After four but within five years	949	735
After five years	5,315	5,182
Total Future Minimum Lease Payments	10,147	9,133
Amounts Representing Interest	(1,117)	(1,187)
Present Value of Net Future Minimum Lease Payments	\$ 9,030	\$ 7,946

22. Segment Reporting

The Company has identified four reportable segments: retail banking; mortgage banking; business banking and the bank holding company. Revenue from the retail banking activities consists primarily of interest earned on investment securities and loans and service charges on deposit accounts. Revenue from the mortgage banking and business banking activities are comprised of interest earned on loans and fees received as a result of the mortgage loan origination process. The Mortgage Banking Segment originates residential mortgage loans which are sold into the secondary market along with the loans' servicing rights. Revenue from bank holding company activities is mainly comprised of interest earned on investment securities and intercompany income.

The following tables presents summary financial information for the reportable segments (in thousands):

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

	For the year ended December 31, 2021					
	Retail Banking	Mortgage Banking	Business Banking	Holding Company	Intercompany Eliminations	Consolidated
Total Interest Income	\$ 5,037	\$ 1,553	\$ 10,033	\$ 168	\$ (83)	\$ 16,708
Total Interest Expense	596	207	1,157	268	(15)	2,213
Net Interest Income	4,441	1,346	8,876	(100)	(68)	14,495
Provision for Loan losses	(189)	—	742	—	—	553
Net interest income after provision for loan losses	4,630	1,346	8,134	(100)	(68)	13,942
Total non-interest income	484	12,279	693	18	(50)	13,424
Non-interest Expense:						
Salaries and employee benefits	5,143	5,518	3,064	—	(68)	13,657
Other expenses	3,608	3,128	1,201	306	(50)	8,193
Total non-interest expenses	8,751	8,646	4,265	306	(118)	21,850
Income (loss) before income taxes	(3,637)	4,979	4,562	(388)	—	5,516
Income tax expense (benefit)	(954)	1,306	1,193	(81)	—	1,464
Net income (loss)	\$ (2,683)	\$ 3,673	\$ 3,369	\$ (307)	\$ —	\$ 4,052
Total assets as of December 31, 2021	\$ 297,707	\$ 45,320	\$ 212,782	\$ 52,605	\$ (48,290)	\$ 560,124
	For the year ended December 31, 2020					
	Retail Banking	Mortgage Banking	Business Banking	Holding Company	Intercompany Eliminations	Consolidated
Total Interest Income	\$ 7,314	\$ 1,746	\$ 4,682	\$ 185	\$ (104)	\$ 13,823
Total Interest Expense	1,119	305	1,719	—	—	3,143
Net Interest Income	6,195	1,441	2,963	185	(104)	10,680
Provision for Loan losses	575	—	533	—	—	1,108
Net interest income after provision for loan losses	5,620	1,441	2,430	185	(104)	9,572
Total non-interest income	496	15,941	483	—	(50)	16,870
Non-interest Expense:						
Salaries and employee benefits	4,746	5,217	1,651	—	(104)	11,510
Other expenses	3,148	3,161	451	250	(50)	6,960
Total non-interest expenses	7,894	8,378	2,102	250	(154)	18,470
Income (loss) before income taxes	(1,778)	9,004	811	(65)	—	7,972
Income tax expense (benefit)	(490)	2,484	223	(13)	—	2,204
Net income (loss)	\$ (1,288)	\$ 6,520	\$ 588	\$ (52)	\$ —	\$ 5,768
Total assets as of December 31, 2020	\$ 606,340	\$ 88,489	\$ 164,518	\$ 38,982	\$ (36,722)	\$ 861,607

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

23. 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, 2021	December 31, 2020
Assets		
Cash and due from banks	\$ 2,991	\$ 473
Interest-bearing deposits with banks	241	473
Cash and cash equivalents	3,232	946
Investment securities available-for-sale, at fair value	3,531	1,274
Equity securities	500	500
Loan to ESOP	1,993	2,095
Accrued interest receivable	31	13
Investment in Subsidiary	43,303	33,947
Deferred income taxes, net	7	—
Other assets	90	207
Total Assets	\$ 52,687	\$ 38,982
Liabilities and Shareholders' Equity		
Liabilities		
Subordinated debt	\$ 9,996	\$ —
Deferred income taxes, net	—	11
Other liabilities	55	44
Shareholders' equity	42,636	38,927
Total Liabilities and Shareholders' Equity	\$ 52,687	\$ 38,982

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, 2021	For the year ended December 31, 2020
Interest Income		
Interest and dividends on investments:		
Taxable	\$ 84	\$ 65
Interest on mortgage-backed securities and collateralized mortgage obligations	1	15
Interest on interest-bearing deposits	15	1
Interest from ESOP Loan	68	104
Total Interest Income	168	185
Interest Expense		
Interest on subordinated debt	268	—
Total Interest Expense	268	—
Net Interest (Loss) Income	(100)	185
Non-Interest Income		
Gain on sale of available-for-sale securities, net	18	—
Total Non-Interest Income	18	—
Non-Interest Expense		
Professional fees	144	115
Other expenses	162	135
Total Non-Interest Expense	306	250
Loss before income taxes	(388)	(65)
Income Tax Benefit	(81)	(13)
Loss before equity in undistributed net earnings of subsidiary	(307)	(52)
Equity in undistributed net earnings of subsidiary	4,359	5,820
Net Income	\$ 4,052	\$ 5,768
Other comprehensive (loss) gain, net of tax		
Unrealized (loss) gain on available-for-sale securities (pre-tax (\$442), and \$504)	\$ (311)	\$ 355
Reclassification adjustment for gains included in income (pre-tax (\$106) and (\$141), respectively)	(75)	(99)
Other comprehensive (loss) income	(386)	256
Comprehensive Income	\$ 3,666	\$ 6,024
Net Income per share:		
Basic	\$ 2.04	\$ 2.84
Diluted	\$ 1.98	\$ 2.84

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

Condensed Statements of Cash Flows
(dollars in thousands)

	<u>For the year ended December 31, 2021</u>	<u>For the year ended December 31, 2020</u>
Cash Flows from Operating Activities		
Net income	\$ 4,052	\$ 5,768
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed net earnings of subsidiary	(4,359)	(5,820)
Net amortization of securities premiums and discounts	5	—
Gain on sale of available-for-sale securities, net	(18)	—
Decrease (increase) in:		
Accrued interest receivable	(18)	3
Prepaid federal income taxes	(68)	62
Prepaid and other assets	251	(206)
Other liabilities	11	4
Net cash used in operating activities	<u>(144)</u>	<u>(189)</u>
Cash Flows from Investing Activities		
ESOP repayment	102	125
Activity in available-for-sale securities:		
Proceeds from sales	1,090	—
Maturities and repayments	221	788
Purchases	(3,616)	—
Investment in Subsidiary	<u>(5,000)</u>	<u>—</u>
Net cash (used in) provided by investing activities	<u>(7,203)</u>	<u>913</u>
Cash Flows from Financing Activities		
Net proceeds from issuance of subordinated debt	9,996	—
Proceeds from stock option exercise	28	24
Purchase of treasury stock	(391)	(1,089)
Net cash provided by (used in) financing activities	<u>9,633</u>	<u>(1,065)</u>
Increase (Decrease) in Cash and Cash Equivalents	\$ 2,286	\$ (341)
Cash and Cash Equivalents, beginning of year	\$ 946	\$ 1,287
Cash and Cash Equivalents, end of year	\$ <u>3,232</u>	\$ <u>946</u>

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

24. Consolidated Summary of Quarterly Earnings (Unaudited)

The following table presents summarized quarterly data for the year ended December 31, 2021 and 2020:

<i>(Dollars in thousands)</i>	For the year end December 31, 2021			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Total Interest Income	\$ 3,803	\$ 4,078	\$ 4,559	\$ 4,268
Total Interest Expense	536	546	573	558
Net Interest Income	3,267	3,532	3,986	3,710
Provision for Loan Losses	148	267	229	(91)
Total Non-Interest Income	4,103	3,862	3,319	2,140
Total Non-Interest Expense	5,432	5,301	5,597	5,520
Income before income taxes	1,790	1,826	1,479	421
Income tax expense	488	544	362	70
Net income	1,302	1,282	1,117	351
Basic earnings per share (1)	0.66	0.65	0.56	0.18
Diluted earnings per share (1)	0.65	0.63	0.54	0.17

<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	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

(1) Earnings per share is computed independently for each period. The sum of the individual quarters may not equal the annual earnings per share.

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 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, 2021. Based on that evaluation, the Company's management, including the 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, 2021 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, 2021 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.

/s/ Travis J. Thompson
Travis J. Thompson
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, 2021 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

Item 9C. Disclosures Regarding Foreign Jurisdictions that Prevent Inspections

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 2022 Annual Meeting of Shareholders (the “2022 Proxy Statement”) is incorporated herein by reference.

Item 11. Executive Compensation

The “Proposal I—Election of Directors” section of the Company’s 2022 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 2022 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, 2021.

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 Inc. 2018 Equity Incentive Plan (1)	211,000	\$14.92	3,712
HV Bancorp Inc. 2021 Equity Incentive Plan	—	—	175,000
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	211,000	\$14.92	178,712

(1) As of December 31, 2021, 87,000 shares of restricted stock awards had been granted under the HV Bancorp Inc. 2018 Equity Incentive Plan and 285 shares of restricted stock awards remain available for future issuance under the plan. The restricted shares will vest over seven years, installments of 16% for first anniversary of grant date and succeeding six annual installments of 14% on each anniversary.

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 2022 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 2022 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 2021 Annual Report to Shareholders:

- (A) Report of Independent Registered Public Accounting Firm (PCAOB ID 00074)
- (B) Consolidated Statements of Financial Condition - at December 31, 2021 and 2020
- (C) Consolidated Statements of Income – Year Ended December 31, 2021 and 2020
- (D) Consolidated Statements of Comprehensive Income – Year Ended December 31, 2021 and 2020
- (E) Consolidated Statements of Cash Flows – Year Ended December 31, 2021 and 2020
- (F) Consolidated Statements of Changes in Shareholders' Equity– Year Ended December 31, 2021 and 2020
- (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)
- 10.9 [Employment Agreement between Huntingdon Valley Bank and Robert J. Marino](#) (14)
- 10.10 [HV Bancorp, Inc. 2021 Equity Plan](#) (15)
- 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.INS Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL document)

- (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.
- (14) Incorporated by reference to Exhibit 99.1 to the Quarterly Report on Form 8-K of HV Bancorp, Inc. (file no. 001-37981), originally filed with the Securities and Exchange Commission on October 26, 2021.
- (15) Incorporated by reference to Appendix A to the definitive proxy statement for the Meeting of Shareholders of HV Bancorp, Inc. (file no. 001-37981), originally filed with the Securities and Exchange Commission on April 15, 2021.

* 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 28, 2022

By: /s/ Travis J. Thompson
Travis J. Thompson
Chairman 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 and Chief Executive Officer (Principal Executive Officer)	March 28, 2022
<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 28, 2022
<u>/s/ Robert J. Marino</u> Robert J. Marino	Vice-Chair and President	March 28, 2022
<u>/s/ Carl Hj. Asplundh III</u> Carl Hj. Asplundh III	Director	March 28, 2022
<u>/s/ John D. Behm</u> John D. Behm	Director	March 28, 2022
<u>/s/ Scott W. Froggatt</u> Scott W. Froggatt	Director	March 28, 2022
<u>/s/ Joseph F. Kelly</u> Joseph F. Kelly	Director	March 28, 2022
<u>/s/ Michael L. Hammer</u> Michael L. Hammer	Director	March 28, 2022

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements File No. 333-215553, File No. 333-225749, and File No. 333-257216 on Form S-8 of HV Bancorp, Inc. of our report dated March 28, 2022, 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, 2021.

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

Cranberry Township, Pennsylvania
March 28, 2022

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 28, 2022

/s/ Travis J. Thompson

Travis J. Thompson
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 28, 2022

/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, 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, 2021 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 28, 2022

/s/ Travis J. Thompson

Travis J. Thompson
Chief Executive Officer

Date: March 28, 2022

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

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