# 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, 2022**

**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** | **46-4351868** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| **2005 South Easton Road, Suite 304, Doylestown, Pennsylvania** | **18901** |
| (Address of Principal Executive Offices) | (Zip Code) |

**(267) 280-4000**
**(Registrant's telephone number)**

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

| Title of each class | Trading Symbol (s) | Name of each exchange on which registered |
|---|---|---|
| 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 | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ | Smaller reporting company | ☒ |
| Emerging growth company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the 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.☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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, 2022, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was $32.9 million.

As of March 10, 2023, there were 2,237,213 shares issued and outstanding of the Registrant's Common Stock.

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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) the Company's ability to successfully complete its merger with Citizens Financial Services, Inc. by receiving regulatory approvals and integrating operations; (iii) 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 (iv) acts of war or terrorism, (v) 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, (vi) 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; (vii) changes in consumer spending could negatively impact the Company's credit quality and financial results; (viii) 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; (ix) 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; (x) changes in technology could adversely impact the Company's operations and increase technology-related expenditures; (xi) increases in employee compensation and benefit expenses could adversely affect the Company's financial results; (xii) 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; (xiii) 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; (xiv) our ability to enter new markets successfully and capitalize on growth opportunities; and (xv) 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, 2022, HV Bancorp, had total consolidated assets of $615.7 million, total consolidated deposits of $525.2 million, and total consolidated shareholders' equity of $42.1 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.

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 Company'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.

**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.

Huntingdon Valley Bank formed a digital banking division called Braavo Bank in 2021. Braavo Bank's digital loan origination, deposit account opening, and treasury management tools enable ecommerce businesses to grow their businesses and manage their cash flow in an all-digital manner. Its proprietary underwriting model extracts inventory sales data from the customers' Amazon accounts to determine appropriate credit lines and inventory advance rates. A variation of the software has been adapted to finance small-dollar consumer loans and

Braavo is testing a new text-based application process.  The Braavo Bank division finances customers across the United States.

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

**Proposed Merger with Citizens Financial Services, Inc.**

On October 18, 2022, the Company, the Bank, Citizens Financial Services, Inc. (“Citizens Financial”), First Citizens Community Bank (“FCCB”) and CZFS Acquisition Company, LLC entered into a merger agreement that provides that the Company will merge with and into Citizens Financial, with Citizens Financial remaining as the surviving corporation (the “Merger”). Following the Merger, the Bank will merge with and into FCCB, with FCCB remaining as the surviving bank (the “Bank Merger”).

At the effective time of the Merger, each outstanding share of Company common stock will be converted into the right to receive, at the election of such holder, either (i) 0.4000 shares of Citizens Financial common stock, or (ii) $30.50 in cash, together with cash in lieu of fractional shares, if any. All such elections are subject to adjustment on a pro rata basis, so that 80% of the aggregate merger consideration paid to the Company stockholders will be the stock consideration and the remaining 20% will be the cash consideration.

The Company’s shareholders approved the Merger on February 15, 2023. On March 24, 2023,  the Pennsylvania Department of Banking and Securities approved the Merger and the Bank Merger. On March 30, 2023, the Board of Governors of the Federal Reserve System approved the Bank Merger and waived the application for the Merger. The completion of the Merger and the Bank Merger remain subject to customary closing conditions. The Merger is expected to close in the first half of 2023.

**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.

| | Delaware | Pennsylvania | | | New Jersey |
|---|---|---|---|---|---|
| | New Castle County | Philadelphia County | Montgomery County | Bucks County | Burlington County |
| Unemployment (December 2022) | **3.8%** | **5.2%** | **3.1%** | **3.5%** | **2.6%** |
| Median Household Income (2017-2021 United States Census) | **$ 78,428** | **$ 52,649** | **$ 99,361** | **$ 99,302** | **$ 95,935** |
| Estimated Population (United States Census July 1 2022, V2022) | **571,708** | **1,576,251** | **860,578** | **646,098** | **464,269** |

As of 2021, the Philadelphia metropolitan area represented the ninth largest United State metropolitan economy 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 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 32.3% were adjustable-rate loans and 67.7% were fixed-rate loans as of December 31, 2022 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, | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | Amount | Percent | Amount | Percent |
| | (Dollars in thousands) | | | |
| Residential: | | | | |
| One- to four-family | **$ 154,953** | **32.77%** | $ 106,335 | 32.38% |
| Home equity & HELOCs | **2,293** | **0.49** | 3,172 | 0.97 |
| Commercial real estate | **185,811** | **39.30** | 116,882 | 35.60 |
| Commercial business | **54,464** | **11.52** | 30,164 | 9.19 |
| SBA PPP loans | **472** | **0.10** | 22,912 | 6.98 |
| Main Street Lending Program | **1,564** | **0.33** | 1,605 | 0.49 |
| Construction | **69,195** | **14.63** | 42,866 | 13.05 |
| Consumer and other: | | | | |
| Medical education | **3,695** | **0.78** | 4,409 | 1.34 |
| Consumer | **376** | **0.08** | 17 | — |
| Total loans receivable | **472,823** | **100.00%** | 328,362 | 100.00% |
| Unearned discounts, origination and commitment fees and costs | **(281)** | | (791) | |
| Allowance for loan losses | **(3,587)** | | (2,368) | |
| Total loans receivable, net | **$ 468,955** | | $ 325,203 | |

***Loan Portfolio Maturities and Yields.*** The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2022. 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 | After 15 years | Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Residential: | | | | | |
| One- to four-family | $ 385 | $ 1,441 | $ 4,669 | $ 148,458 | $ 154,953 |
| Home equity & HELOCs | 92 | 96 | 739 | 1,366 | 2,293 |
| Commercial real estate | 30,071 | 87,485 | 67,663 | 592 | 185,811 |
| Commercial business | 40,293 | 6,455 | 7,716 | — | 54,464 |
| SBA PPP loans | 17 | 455 | — | — | 472 |
| Main Street Lending Program | 1,564 | — | — | — | 1,564 |
| Construction | 50,447 | 15,792 | — | 2,956 | 69,195 |
| Consumer and other: | | | | | |
| Medical education | 27 | 106 | 3,562 | — | 3,695 |
| Consumer | 67 | 309 | — | — | 376 |
| Total loans receivable | $ 122,963 | $ 112,139 | $ 84,349 | $ 153,372 | $ 472,823 |

The following table sets forth our fixed and adjustable-rate loans at December 31, 2022:

| | Fixed | | | | | Adjustable | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (In thousands) | 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 | $ 385 | $ 1,375 | $ 4,195 | $ 99,014 | $ 104,969 | $ — | $ 66 | $ 474 | $ 49,444 | $ 49,984 |
| Home equity & HELOCs | — | 96 | — | — | 96 | 92 | — | 739 | 1,366 | 2,197 |
| Commercial real estate | 1,621 | 79,687 | 7,609 | 592 | 89,509 | 28,450 | 7,798 | 60,054 | — | 96,302 |
| Commercial business | 4,553 | 6,020 | — | — | 10,573 | 35,740 | 435 | 7,716 | — | 43,891 |
| SBA PPP loans | 17 | 455 | — | — | 472 | — | — | — | — | — |
| Main Street Lending | — | — | — | — | — | 1,564 | — | — | — | 1,564 |
| Construction | 15,477 | 4,825 | — | — | 20,302 | 34,970 | 10,967 | — | 2,956 | 48,893 |
| Consumer and Other: | | | | | | | | | | |
| Medical education | — | — | — | — | — | 27 | 106 | 3,562 | — | 3,695 |
| Consumer | 67 | 309 | — | — | 376 | — | — | — | — | — |
| Total | $ 22,120 | $ 92,767 | $ 11,804 | $ 99,606 | $ 226,297 | $ 100,843 | $ 19,372 | $ 72,545 | $ 53,766 | $ 246,526 |

***One- to Four-Family Residential Real Estate Lending.*** At December 31, 2022, we had $155.0 million of loans secured by one- to four-family residential real estate, representing 32.8% of our total loan portfolio. In addition, at December 31, 2022 we had $15.2 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, 2022, 67.7% of our one- to four-family residential real estate loans were fixed-rate loans, and 32.3% 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, 2022 was generally $647,200 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, 2022, we had $51.1 million in jumbo loans, which represented 33.0% of our one- to four-family residential real estate loans. Of the $51.1 million in jumbo loans, 58.1% or $29.7 million were variable jumbo loans and 41.9% or $21.4 million, were fixed jumbo loans. Our average loan size for jumbo loans was $968,000 at December 31, 2022. 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 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, 2022, outstanding home equity loans and equity lines of credit totaled $2.3 million, or 0.5% of total loans outstanding. At December 31, 2022, the unadvanced portion of home equity lines of credit totaled $7.7 million. At December 31, 2022, $1.5 million of our home equity loans and lines of credit were in a junior lien position.

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

***Commercial Real Estate Lending.*** We also offer commercial real estate loans, including a limited amount of multi-family loans. At December 31, 2022, we had $185.8 million in commercial real estate loans, representing 39.3% 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, 2022, the average loan balance of our outstanding commercial real estate loans was $801,000, and the largest of such loans was a $6.4 million loan secured by an industrial warehouse. This loan was performing in accordance with its terms at December 31, 2022.

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, 2022, we had $54.5 million of commercial business loans, representing 11.5% 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. 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 $1.0 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, 2022, we had $69.2 million of construction loans, representing 14.6% of our total loan portfolio. At December 31, 2022, our largest construction loan was a $5.0 million commercial loan secured by land and was performing in accordance with its original repayment terms at December 31, 2022.

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, 2022, the Company had a total outstanding balance of approximately $472,000 for round 1 and 2 of PPP loans. 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.

***Main Street Lending Program.*** In December 2020, the Company participated in the Main Street Lending Program ("MSLP") 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 MSLP ended on January 8, 2021. At December 31, 2020, the Company funded approximately $31.1 million in loans through the MSLP. At December 31, 2022, the Company had retained approximately $1.6 million, or 5%, of the MSLP it had originated and had sold approximately 95% of the originated loans to the Federal Reserve of Boston.

***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, 2022, the balance of the private education loans was $3.7 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, 2022, there were seven loans with a balance of approximately $514,000 that were past due 90 days or more. Additionally, at this date, we had 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 $461,000. 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, 2022, our consumer loan portfolio totaled $376,000, consisting of consumer overdraft accounts of $67,000 and $309,000 related to other consumer loans offered to customers to assist with funeral expenses.

**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, 2022, we sold $305.6 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, 2022, we had four participation loans for $3.0 million in which we were not the lead lender, each of which was performing in accordance with the loans' original repayment terms at December 31, 2022. 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.

The following table shows our loan originations, sales and repayment activities for the year ended December 31, 2022 and 2021 including loans held for sale.

| | For the Year Ended December 31, 2022 | For the Year Ended December 31, 2021 |
|---|---|---|
| Total loans at beginning of year (1) | **$ 368,842** | $ 400,663 |
| Loan originations: | | |
| Residential: | | |
| One- to four-family (1) | **344,086** | 627,074 |
| Home equity & HELOCs | **825** | 3,000 |
| Commercial real estate | **109,210** | 69,699 |
| Commercial business | **37,174** | 12,731 |
| SBA PPP loans | **—** | 50,801 |
| Main Street Lending Program | **—** | — |
| Construction | **65,638** | 70,507 |
| Consumer loans | **539** | 17 |
| Total loans originated | **557,472** | 833,829 |
| Loans Purchased | **—** | — |
| Sales and loan principal repayments: | | |
| Principal repayments | **139,167** | 209,855 |
| Loan sales | **299,085** | 655,795 |
| Net loan activity | **119,220** | (31,821) |
| Total loans at end of year (1) | **$ 488,062** | $ 368,842 |

(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 $8.6 million as of December 31, 2022. At December 31, 2022, our largest credit relationship was $6.6 million, which consisted of $3.7 million of commercial business loans secured by private aircraft and $2.9 million of unsecured commercial lines of credit. At December 31, 2022, these loans were 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 FHA loan limit, and assistant vice president or senior underwriter officer may approve loans up to FHA loan limit. In addition, for jumbo loans, equity loans and HELOCs, an underwriter or senior under writer may approve loans up to $200,000, and assistant vice president or senior underwriter officer may approve loans up to $750,000 and an executive vice president up to $800,000. The Executive Management Committee must approve loans in excess of $800,000. The board of directors must approve loans in excess of $900,000 and higher 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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 30-59 Days | | 60-89 Days | | 90 Days and Over | | Total | |
| | Number | Amount | Number | Amount | Number | Amount | Number | Amount |
| | (Dollars in thousands) | | | | | | | |
| At December 31, 2022 | | | | | | | | |
| Residential: | | | | | | | | |
| One- to four-family | **5** | **$ 760** | **2** | **$ 166** | **9** | **$ 1,262** | **16** | **$ 2,188** |
| Home equity & HELOCs | **1** | **22** | **—** | **—** | **—** | **—** | **1** | **22** |
| Commercial real estate | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| Commercial business | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| SBA PPP loans | **2** | **18** | **—** | **—** | **—** | **—** | **2** | **18** |
| Main Street Lending Program | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| Construction | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| Medical education | **7** | **381** | **1** | **149** | **7** | **514** | **15** | **1,044** |
| Consumer | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| Total | **15** | **$ 1,181** | **3** | **$ 315** | **16** | **$ 1,776** | **34** | **$ 3,272** |
| 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 |
| Other consumer | — | — | — | — | — | — | — | — |
| Total | 17 | $ 1,839 | 8 | $ 742 | 10 | $ 1,955 | 35 | $ 4,536 |

***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, 2022, 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.

***Other Real Estate Owned***. Other real estate owned includes assets acquired through, or in lieu of, loan foreclosure, 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 $59,000 in real estate owned at December 31, 2022. At December 31, 2021, we had no other real estate owned.

***Non-Performing Assets.*** The following table sets forth the amounts and categories of our non-performing assets at December 31, 2022 and 2021. We had no accruing loans past due 90 days or more at December 31, 2022 and 2021. Additionally, we had no non-accruing troubled debt restructurings at December 31, 2022 and 2021.

| | At December 31, 2022 | At December 31, 2021 |
|---|---|---|
| | (Dollars in thousands) | |
| Non-accrual loans: | | |
| Residential: | | |
| One- to four-family | **$ 1,885** | $ 1,064 |
| Home equity & HELOCs | **62** | 68 |
| Commercial: | | |
| Commercial real estate | — | — |
| Commercial business | — | 95 |
| SBA PPP Loans | — | — |
| Main Street Lending Program | — | — |
| Construction | — | 1,168 |
| Consumer: | | |
| Medical education | **1,079** | 1,358 |
| Total non-accrual loans | **3,026** | 3,753 |
| | | |
| Loans accruing past 90 days: | | |
| Consumer and other: | | |
| Medical education | — | — |
| | | |
| Total non-performing loans | **3,026** | 3,753 |
| | | |
| Real estate owned | — | — |
| Other non-performing assets | **59** | — |
| Total non-performing assets | **$ 3,085** | $ 3,753 |
| | | |
| Ratios: | | |
| Total non-performing loans to total loans | **0.64%** | 1.14% |
| Total non-performing loans to total assets | **0.49%** | 0.67% |
| Total non-performing assets to total assets | **0.50%** | 0.67% |

Total non-performing loans decreased to $3.0 million, or 0.64% of total loans, at December 31, 2022 from $3.8 million, or 1.14% of total loans, at December 31, 2021 as a result of decreases of $1.2 million in one construction loan, a decrease of $279,000 in medical education loans and a $95,000 decrease in commercial business loans offset by a $821,000 increase in one-to four-family residential real estate loans compared to December 31, 2021. Non-performing one- to four-family residential real estate loans totaled $1.9 million at December 31, 2022. Non-performing medical education loans totaled $1.1 million at December 31, 2022. 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 and commercial business loans at December 31, 2022.

***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, 2022, 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 non-accrual status and classified "substandard."

The following table sets forth our amounts of classified assets and assets designated as special mention as of December 31, 2022 and 2021.

| | At December 31, | |
|---|---|---|
| | **2022** | **2021** |
| | **(In thousands)** | |
| Classified assets: | | |
| Substandard | **$ 3,177** | $ 4,005 |
| Doubtful | **—** | — |
| Loss | **—** | — |
| Total classified assets | **$ 3,177** | $ 4,005 |
| Special Mention | **$ 1,484** | $ 1,537 |
| Total criticized assets | **$ 4,661** | $ 5,542 |

The decrease of $828,000 in classified assets was primarily due to decreases of $1.2 million in one substandard construction loan, $279,000 in substandard medical education loans and $95,000 in one substandard commercial business loan offset by an increase of $821,000 in substandard one- to four-family residential real estate loans. Substandard assets at December 31, 2022 consisted of $3.0 million in non-accrual loans and $151,000 in loans that were performing.

**Allowance for Loan Losses**

***Analysis and Determination of the Allowance for Loan Losses***. The allowance for loan losses is established through a provision for loan losses. We maintain the allowance at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio that are both probable and reasonable to estimate at each reporting date. Management reviews the allowance for loan losses on no less than a quarterly basis in order to identify those inherent losses and to assess the overall collection probability for the loan portfolio. The evaluation process includes, among other things, an analysis of delinquency trends, non-performing loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of the loans, the value of collateral securing the loan, the borrower's ability to repay and repayment performance, the number of loans requiring heightened management oversight, local economic conditions and industry experience. Such risk factors are periodically reviewed by management and revised as deemed appropriate. The establishment of the allowance for loan losses is significantly affected by management's judgment and uncertainties, and there is likelihood that different amounts would be reported under different conditions or assumptions. We adopted CECL effective January 1, 2023.

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

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

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

| | At or for the Year Ended December 31, 2022 | At or for the Year Ended December 31, 2021 |
|---|---|---|
| | (Dollars in thousands) | |
| Balance at beginning of year | **$ 2,368** | $ 2,017 |
| | | |
| Charge-offs: | | |
| Residential: | | |
| One- to four-family | **—** | — |
| Home equity & HELOCs | **—** | — |
| Commercial: | | |
| Commercial real estate | **—** | — |
| Commercial business | **(75)** | — |
| SBA PPP loans | **—** | — |
| Main Street Lending Program | **—** | — |
| Construction | **—** | — |
| Consumer: | | |
| Medical education | **(314)** | (210) |
| Other | **(8)** | — |
| Total charge-offs | **(397)** | (210) |
| | | |
| Recoveries: | | |
| Residential: | | |
| One- to four-family | **—** | — |
| Home equity & HELOCs | **—** | — |
| Commercial: | | |
| Commercial real estate | **—** | — |
| Commercial business | **—** | — |
| Construction | **—** | — |
| Consumer: | | |
| Medical education | **81** | 8 |
| Total recoveries | **81** | 8 |
| | | |
| Net (charge-offs) recoveries | **(316)** | (202) |
| Provision for loan losses | **1,535** | 553 |
| Balance at end of year | **$ 3,587** | $ 2,368 |
| | | |
| **Net charge-offs to average loans outstanding:** | | |
| Residential: | | |
| One- to four-family | **—** | — |
| Home equity & HELOCs | **—** | — |
| Commercial: | | |
| Commercial real estate | **—** | — |
| Commercial business | **0.02 %** | — |
| SBA PPP loans | **—** | — |
| Main Street Lending Program | **—** | — |
| Construction | **—** | — |
| Consumer: | | |
| Medical education | **0.06 %** | 0.06 % |
| Other | **—** | — |

| | 2022 | | 2021 | |
|---|---|---|---|---|
| **Total net charge-offs** | **0.08** | **%** | 0.06 | % |
| | | | | |
| **Credit quality ratios:** | | | | |
| As a percentage of total loans at end of year: | | | | |
| Allowance for loan losses | **0.76** | **%** | 0.72 | % |
| Non-accrual loans | **0.64** | **%** | 1.14 | % |
| Non-performing loans | **0.64** | **%** | 1.14 | % |
| Allowance for loan losses to non-accrual loans | **118.54** | **%** | 63.10 | % |
| Allowance for loan losses to non-performing loans | **118.54** | **%** | 63.10 | % |

***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, | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| | 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 | **$ 468** | **13.05%** | **32.77%** | $ 322 | 13.60% | 32.38% |
| Home equity & HELOCs | **6** | **0.16** | **0.49** | 8 | 0.34 | 0.97 |
| Commercial: | | | | | | |
| Commercial real estate | **1,283** | **35.77** | **39.30** | 819 | 34.59 | 35.60 |
| Commercial business | **703** | **19.60** | **11.52** | 341 | 14.40 | 9.19 |
| SBA PPP Loans | **—** | **—** | **0.10** | — | — | 6.98 |
| Main Street Lending Program | **27** | **0.75** | **0.33** | 27 | 1.14 | 0.49 |
| Construction | **754** | **21.02** | **14.63** | 460 | 19.42 | 13.05 |
| Consumer: | | | | | | |
| Other | **21** | **0.59** | **0.08** | — | — | — |
| Medical education | **325** | **9.06** | **0.78** | 391 | 16.51 | 1.34 |
| Total allocated allowance | **3,587** | **100.00** | **100.00** | 2,368 | 100.00 | 100.00 |
| Unallocated allowance | — | — | — | — | — | — |
| Total allowance for loan losses | **$ 3,587** | **100.00%** | **100.00%** | $ 2,368 | 100.00% | 100.00% |

At December 31, 2022, our allowance for loan losses represented 0.76% of total loans and 118.54% of non-performing loans. There were $316,000 in net loan charge-offs during the year ended December 31, 2022.

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 $55.7 million, or 9.0% of total assets at December 31, 2022. The held-to-maturity portfolio, which is carried at amortized cost, totaled $29.8 million, or 4.8% of total assets at December 31, 2022.

***United States Governmental Agency Securities***. We maintain these investments, to the extent appropriate,
for liquidity purposes and as collateral for borrowings. At December 31, 2022, 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 seven United States agency securities.

***United States Treasury Securities.*** We maintain these investments, to the extent appropriate, for liquidity purposes and as collateral for borrowings. At December 31, 2022, United States treasury securities consisted of two year treasury notes.

***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 and Atlantic Community Bancshares, Inc. (“ACBI”) common stock and equity securities) at the dates indicated.

| | At December 31, | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (Dollars in thousands) | | | |
| **Securities available-for-sale:** | | | | |
| U.S. Governmental securities | **$ 3,010** | **$ 2,887** | $ 3,596 | $ 3,512 |
| U.S Treasury securities | **39,843** | **38,556** | — | — |
| Corporate notes | **12,535** | **11,782** | 18,805 | 18,867 |
| Collateralized mortgage obligations | **1,754** | **1,681** | 7,754 | 7,664 |
| Mortgage-backed securities- agency residential | **553** | **511** | 7,656 | 7,543 |
| Municipal securities | — | — | 6,412 | 6,419 |
| Bank certificates of deposit | **249** | **247** | 499 | 507 |
| Total securities available-for-sale | **$ 57,944** | **$ 55,664** | $ 44,722 | $ 44,512 |
| | | | | |
| **Securities held-to-maturity:** | | | | |
| U.S. Governmental securities | **$ 2,218** | **$ 2,094** | $ — | $ — |
| Corporate notes | **7,857** | **7,216** | — | — |
| Collateralized mortgage obligations | **7,236** | **6,791** | — | — |
| Mortgage-backed securities- agency residential | **6,708** | **6,224** | — | — |
| Municipal securities | **5,752** | **5,338** | — | — |
| Total securities held-to-maturity | **$ 29,771** | **$ 27,663** | $ — | $ — |

***Portfolio Maturities and Yields.*** The composition and maturities of the investment securities portfolio at December 31, 2022 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. The municipal securities have not been adjusted to a tax-equivalent basis.

| | One Year or Less | | More than One Year through Five Years | | More than Five Years through Ten Years | | More than Ten Years | | Total Securities | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Weighted Average Yield | Amortized Cost | Weighted Average Yield | Amortized Cost | Weighted Average Yield | Amortized Cost | Weighted Average Yield | Amortized Cost | Fair Value | Weighted Average Yield |
| | (Dollars in thousands) | | | | | | | | | | |
| **Securities available-for-sale:** | | | | | | | | | | | |
| U.S. Governmental securities | $ — | —% | $ 3,010 | 2.70% | $ — | —% | $ — | —% | $ 3,010 | $ 2,887 | 2.70% |
| U.S. Treasury securities | — | — | 39,843 | 2.30 | — | — | — | — | 39,843 | 38,556 | 2.30% |
| Corporate notes | 2,000 | 3.62 | 3,545 | 2.78 | 6,990 | 3.66 | — | — | 12,535 | 11,782 | 3.40 |
| Collateralized mortgage obligations | — | — | — | — | 708 | 0.60 | 1,046 | 2.18 | 1,754 | 1,681 | 1.54 |
| Mortgage-backed securities | — | — | — | — | 349 | 1.64 | 204 | 3.55 | 553 | 511 | 2.34 |
| Bank certificates of deposit | 249 | 2.34 | — | — | — | — | — | — | 249 | 247 | 2.34 |
| Total securities available-for-sale | $ 2,249 | 3.48% | $ 46,398 | 2.37% | $ 8,047 | 3.30% | $ 1,250 | 2.40% | $ 57,944 | $ 55,664 | 2.54% |
| **Securities held-to-maturity:** | | | | | | | | | | | |
| U.S. Governmental securities | $ — | —% | $ 967 | 0.55% | $ 886 | 1.00% | $ 365 | 2.35% | $ 2,218 | $ 2,094 | 1.02% |
| Corporate notes | — | — | 3,472 | 1.57 | 4,385 | 3.24 | — | — | 7,857 | 7,216 | 2.52 |
| Collateralized mortgage obligations | — | — | — | — | — | — | 7,236 | 2.06 | 7,236 | 6,791 | 2.06 |
| Mortgage-backed securities | — | — | — | — | 403 | 2.21 | 6,305 | 1.85 | 6,708 | 6,224 | 1.87 |
| Municipal securities | — | — | 914 | 1.05 | 3,175 | 1.84 | 1,663 | 2.43 | 5,752 | 5,338 | 1.89 |
| Total securities held-to-maturity | $ — | —% | $ 5,353 | 1.28% | $ 8,849 | 2.45% | $ 15,569 | 2.02% | $ 29,771 | $ 27,663 | 2.02% |

**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, 2022, our core deposits, which are deposits other than certificates of deposit, were $458.2 million, representing 87.2% of total deposits. At December 31, 2022, there was $40.9 million in brokered certificates of deposit 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, 2022 | | | For the Year Ended December 31, 2021 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Percent | Weighted Average Rate | Average Balance | Percent | Weighted Average Rate |
| | (Dollars in thousands) | | | | | |
| **Deposit type:** | | | | | | |
| Demand deposits-interest-bearing accounts | **$ 146,512** | **36.95%** | **0.61%** | $ 178,279 | 44.42% | 0.18% |
| Money market deposit accounts | **111,772** | **28.19%** | **0.83%** | 89,460 | 22.29% | 0.57% |
| Passbook and statement savings accounts | **38,931** | **9.82%** | **0.12%** | 34,003 | 8.47% | 0.14% |
| Checking accounts | **56,367** | **14.22%** | **0.97%** | 51,463 | 12.82% | 0.33% |
| Certificates of deposit | **42,904** | **10.82%** | **1.60%** | 48,129 | 12.00% | 0.90% |
| Total interest-bearing deposits | **$ 396,486** | **100.00%** | **0.78%** | $ 401,334 | 100.00% | 0.37% |

As of December 31, 2022 and 2021, the aggregate amount of our outstanding certificates of deposit in amounts greater than or equal to $250,000 was approximately $4.7 million and $7.1 million, respectively. The following table sets forth the maturity of those certificates as of December 31, 2022 and 2021.

| | At December 31, 2022 (In thousands) | At December 31, 2021 (In thousands) |
|---|---|---|
| Three months or less | $ **289** | $ 331 |
| Over three months through six months | **933** | 1,632 |
| Over six months through one year | **2,129** | 4,129 |
| Over one year to three years | **1,395** | 983 |
| Over three years | — | — |
| Total | $ **4,746** | $ 7,075 |

As of December 31, 2022 and 2021, the total of uninsured deposits of the Company was $162.6 million and $150.7 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. 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, 2022, we had $26.6 million in advances from the Federal Home Loan Bank of Pittsburgh. At December 31, 2022, 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 $115.8 million. Additionally, at December 31, 2022, we had the ability to borrow $6.0 million from ACBI. We have not borrowed against the credit lines with the ACBI during the year ended December 31, 2022.

**FHLB long-term borrowings:**

| | | | | *(Dollars in thousands)* | |
|---|---|---|---|---|---|
| **Issue Date** | **Maturity** | **Advance Type** | **Interest Rate** | **December 31, 2022** | **December 31, 2021** |
| 07/07/20 | 07/07/25 | Fixed Rate | 0.851% | $ **26,593** | $ 26,431 |
| | | | | $ **26,593** | $ 26,431 |

**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, 2022, we had 131 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 requiring appraisals for certain transactions valued at less than $400,000 in rural areas; (iii) exempting banks that originate fewer than 500 open-end and 500 closed-end mortgages from HMDA's expanded data disclosures; (iv) clarifying 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) raising 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.

Federal law required the federal banking agencies, including the FDIC, to establish a "community bank leverage ratio" of between 8% and 10% for institutions with total consolidated assets of less than $10 billion. Institutions with capital complying with the ratio and otherwise meeting the specified requirements and electing the alternative framework are considered to comply with the applicable regulatory capital requirements, including the risk-based requirements. The community bank leverage ratio was established at 9% Tier 1 capital to total average assets, effective January 1, 2020. A qualifying institution may opt in and out of the community bank leverage ratio framework on its quarterly call report. An institution that temporarily ceases to meet any qualifying criteria is provided with a two-quarter grace period to regain compliance. Failure to meet the qualifying criteria within the grace period or maintain a leverage ratio of 8% or greater requires the institution to comply with the generally applicable regulatory capital requirements.

At December 31, 2022, Huntingdon Valley Bank had not opted into the community bank leverage ratio framework and its capital ratios exceeded all applicable requirements.

**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.

Federal law required the federal banking agencies, including the FDIC, to establish a "community bank leverage ratio" of between 8% and 10% for institutions with total consolidated assets of less than $10 billion. Institutions with capital complying with the ratio and otherwise meeting the specified requirements and electing the alternative framework are considered to comply with the applicable regulatory capital requirements, including the risk-based requirements. The community bank leverage ratio was established at 9% Tier 1 capital to total average assets, effective January 1, 2020. A qualifying institution may opt in and out of the community bank leverage ratio framework on its quarterly call report. An institution that temporarily ceases to meet any qualifying criteria is provided with a two-quarter grace period to regain compliance. Failure to meet the qualifying criteria within the grace period or maintain a leverage ratio of 8% or greater requires the institution to comply with the generally applicable regulatory capital requirements.

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%.

The previously referenced final rule establishing an elective "community bank leverage ratio" regulatory capital framework provides that a qualifying institution whose capital exceeds the community bank leverage ratio and opts to use that framework will be considered "well-capitalized" for purposes of prompt corrective action.

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.

Under the FDIC's risk-based assessment system, institutions deemed less risky of failure pay lower assessments. Assessments for institutions of less than $10 billion of assets are based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of an institution's 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.

The FDIC has authority to increase insurance assessments. Any significant increase would have an adverse effect on the operating expenses and results of operations of Huntingdon Valley Bank. In October 2022, the FDIC increased initial base deposit insurance assessment rate schedules by 2 basis points, effective January 1, 2023. We cannot predict what assessment rates will be in the future.

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.

***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 is Savings Act and Regulation DD, which provides uniform standards for disclosure of deposit account terms, interest rates and fee disclosures.

**Federal Reserve System**

Under federal law and regulations, Huntingdon Valley Bank is required to maintain sufficient liquidity to ensure safe and sound banking practices. Regulation D, promulgated by the Federal Reserve Board, imposes reserve requirements on all depository institutions, including the Huntingdon Valley Bank, which maintain transaction accounts or non-personal time deposits. In March 2020, due to a change in its approach to monetary policy due to the COVID-19 pandemic, the Federal Reserve Board implemented a final rule to amend Regulation D requirements and reduce reserve requirement ratios to zero. The Federal Reserve Board has indicated that it has no plans to re-impose reserve requirements, but may do so in the future if conditions warrant.

**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, 2022. 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, 2022, 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 acquiror 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.

***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, 2022, 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, 2022, 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, 2022, 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, 2022. In addition, Huntingdon Valley Bank filed Corporate Business Tax returns with the State of New Jersey and Delaware.

**Item 1A. Risk Factors**

Not required for smaller reporting companies.

**Item 1B. Unresolved Staff Comments**

None

**Item 2**. **Properties**

As of December 31, 2022, the net book value of our office properties (including leasehold improvements) was $1.7 million. As of December 31, 2022, 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, 2022, the Bank owned one property and leased eleven 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, 2022 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, 2023 was 106. Certain shares of HV Bancorp's 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, 2022 and 2021, 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'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's 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, 2022, 151 shares at an average cost of $21.05 per share had been repurchased.

The following table provides information regarding repurchases of the Company's common stock during the quarter ended December 31, 2022.

| Period | Total Number of Shares (2) | 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, 2022 - October 31, 2022 | **151** | **$ 21.05** | **151** | **85,996** |
| November 1, 2022 - November 30, 2022 | **1,247** | **20.77** | **—** | **85,996** |
| December 1, 2022- December 31, 2022 | **2,534** | **27.645** | **—** | **85,996** |
| Total | **3,932** | **$ 25.21** | **151** | |

(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.

(2) During the fourth quarter of 2022, 3,781 shares were acquired from two employees in connection with the exercise of stock options and applicable income taxes issued as part of the 2018 Equity Incentive 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, 2022 and 2021, and our results of operations for the year ended December 31, 2022 and 2021, 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 46 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, gain on sale of mortgage servicing rights, net, change in fair value of loans held-for-sale 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.

**Merger with Citizens Financial**

As previously announced, on October 18, 2022, the Company, the Bank, Citizens Financial Services, Inc. ("Citizens Financial"), First Citizens Community Bank ("FCCB") and CZFS Acquisition Company, LLC entered into a merger agreement that provides that the Company will merge with and into Citizens Financial, with Citizens Financial remaining as the surviving corporation (the "Merger"). Following the Merger, the Bank will merge with and into FCCB, with FCCB remaining as the surviving bank (the "Bank Merger").

The Company's shareholders approved the Merger on February 15, 2023. On March 24, 2023, the Pennsylvania Department of Banking and Securities approved the Merger and the Bank Merger. On March 30, 2023, the Board of Governors of the Federal Reserve System approved the Bank Merger and waived the application for the Merger. The completion of the Merger and the Bank Merger remain subject to customary closing conditions. The Merger is expected to close in the first half of 2023.

At the effective time of the Merger, each outstanding share of Company common stock will be converted into the right to receive, at the election of such holder, either (i) 0.4000 shares of Citizens Financial common stock, or (ii) $30.50 in cash, together with cash in lieu of fractional shares, if any. All such elections are subject to adjustment on a pro rata basis, so that 80% of the aggregate merger consideration paid to the Company shareholders will be the stock consideration and the remaining 20% will be the cash consideration.

**Critical Accounting Estimates**

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. 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 estimates:

***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. On January 1, 2023, we adopted CECL.

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.

**Comparison of Financial Condition at December 31, 2022 and December 31, 2021**

***Total Assets***

Total assets increased $55.7 million to $615.8 million at December 31, 2022, from $560.1 million at December 31, 2021. The increase was primarily the result of increases of $143.8 million in loans receivable, net, $40.9 million in investment securities, $3.7 million in bank-owned life insurance and $1.1 million in other assets, which were offset by decreases of $104.5 million in cash and cash equivalents, $25.3 million in loans held-for-sale and $3.2 million in mortgage servicing rights.

***Cash and cash equivalents***

Cash and cash equivalents decreased $104.5 million to $16.3 million at December 31, 2022 from $120.8 million at December 31, 2021, primarily as a result of increased funding of loans and purchases of investment securities.

***Investment Securities***

Investment securities increased by $40.9 million to $85.4 million at December 31, 2022 from $44.5 million at December 31, 2021. The increase was primarily due to purchases of $61.9 million of U.S. Treasury securities, mortgage-backed, collateralized mortgage obligations and corporate notes offset by $15.8 million in proceeds from sales and maturities and principal repayments during the year ended December 31, 2022, $2.3 million in net unrealized loss on available-for-sale securities and $2.3 million in net unrealized loss on securities transferred to held-to-maturity. The increase in comprehensive loss in the available-for-sale portfolio reflects recent increases in market interest rates.

At December 31, 2022, our held-to-maturity portion of the securities portfolio, at amortized cost, was $29.8 million, and our available-for-sale portion of the securities portfolio, at fair value, was $55.7 million compared to $44.5 million of available-for-sale securities at December 31, 2021. During the quarter ended June 30, 2022, the Company transferred $30.2 million at amortized cost of available-to-sale securities to held-to-maturity securities.

***Net Loans***

Net loans increased $143.8 million to $469.0 million at December 31, 2022, from $325.2 million at December 31, 2021. Commercial real estate loans increased by $68.9 million to $185.8 million at December 31, 2022, from $116.9 million at December 31, 2021 and there was a $24.3 million increase in commercial business loans to $54.5 million at December 31, 2022, from $30.2 million at December 31, 2021. In addition, one-to-four family residential real estate loans increased $48.7 million to $155.0 million at December 31, 2022 from $106.3 million at December 31, 2021 and construction loans increased $26.3 million to $69.2 million at December 31, 2022, from $42.9 million at December 31, 2021. Offsetting these increases, was a $22.4 million decrease in SBA Paycheck Protection Program (“PPP”) loans to $472,000 at December 31, 2022 from $22.9 million at December 31, 2021 as a result of PPP loan forgiveness from the SBA. Additionally, home equity and HELOC loans decreased $879,000 to $2.3 million at December 31, 2022 from $3.2 million at December 31, 2021.
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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, 2022, the balance of the private education loans was $3.7 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, 2022, there was sevens loans with a balance of approximately $514,000 that were past due 90 days or more.

***Loans Held For Sale***

Loans held for sale decreased $25.3 million to $15.2 million at December 31, 2022 from $40.5 million at December 31, 2021. This decrease was primarily a result of originations of $274.5 million of one- to four-family residential real estate loans during the year ended December 31, 2022 net of principle sales of $305.6 million of loans in the secondary market during this same period.

*Deposits*

Deposits increased $61.2 million, or 13.2%, to $525.2 million at December 31, 2022, from $464.0 million at December 31, 2021. Our core deposits (consisting of demand deposits, money market, passbook and statement and checking accounts) increased $26.4 million, or 6.1%, to $458.2 million at December 31, 2022, from $431.8 million at December 31, 2021. Certificates of deposit increased $34.8 million, or 108.3%, to $67.0 million at December 31, 2022, from $32.2 million at December 31, 2021, resulting from increases of $40.9 million in certificates of deposit issued through brokers offset by a $6.1 million decrease in retail certificates of deposit.

*Advances from the Federal Home Loan Bank*

As of December 31, 2022 and December 31, 2021, the Company had $26.6 million and $26.4 million in advances outstanding, respectively. During July 2020, the Company refinanced advances of $27.0 million from the Federal Home Loan Bank to reduce the cost of borrowing.

*Advances from the Federal Reserve Paycheck Protection Program Liquidity Facility ("PPPLF")*

As of December 31, 2022, there were no advances from the Federal Reserve PPPLF as a result of repayments of $3.1 million from PPP loan forgiveness from the SBA compared to $3.1 million at December 31, 2021.

*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, 2022 and 2021.

*Total Shareholders' Equity*

Total shareholders' equity decreased $543,000 to $42.1 million at December 31, 2022, compared to $42.6 million at December 31, 2021. The decrease resulted primarily from other comprehensive losses of $3.1 million due to the fair value adjustments, net of deferred tax, on the investment securities available-for-sale portfolio, which reflects recent increases in market interest rates and $372,000 in treasury stock repurchases primarily as part of the stock repurchase plan. Offsetting these decreases was net income of $2.2 million for the year ended December 31, 2022, share based compensation expense of $535,000, ESOP shares committed to be released of $46,000 and stock option exercises of $136,000. See Note 10 of the Notes to the Audited Consolidated Financial Statements.

**Comparison of Statements of Income for the Year Ended December 31, 2022 and 2021**

*General*

Net income decreased $1.9 million, or 46.3%, to $2.2 million for the year ended December 31, 2022 from $4.1 million for the year ended December 31, 2021. The decrease in net income for the year ended December 31, 2022 was primarily due to a decrease of $5.5 million in in non-interest income, an increase of $982,000 in provision for loan losses and a $526,000 increase in non-interest expense partially offset by an increase of $4.3 million in net interest income and a decrease of $889,000 in income tax expense as compared to the year ended December 31, 2021.

*Interest Income*

Total interest income increased $6.2 million, or 37.1%, to $22.9 million for the year ended December 31, 2022 from $16.7 million for the year ended December 31, 2021. The increase was primarily the result of a $4.6 million increase in interest and fees on loans, $1.1 million increase in interest on investment securities and a $440,000 increase in interest-earning deposits with banks. The average yield on our interest-earning assets increased 118 basis points to 4.15% for the year ended December 31, 2022 as compared to 2.97% for the year ended December 31, 2021 due to the rising interest rate environment. The average balance of our interest-earning assets decreased by $12.1 million to $550.8 million for the year ended December 31, 2022 as compared to $562.9 million for the year ended December 31,

2021. The decrease was primarily a result of a decrease in the average balance of interest-earning deposits of $68.1 million offset by a $42.5 million increase in the average balance of investment securities and a $13.3 million increase in the average balance of loans.

Interest and fees on loans increased $4.6 million, or 29.3%, to $20.3 million for the year ended December 31, 2022 from $15.7 million for the year ended December 31, 2021. This increase resulted from a $13.3 million increase in the average balance of loans to $402.1 million for the year ended December 31, 2022 from $388.8 million for the year ended December 31, 2021, primarily as a result of increases in commercial real estate and other commercial business and construction loans offset by a decrease in the average balance in PPP loans and loans held for sale. The average yield on loans increased 101 basis points to 5.06% for the year ended December 31, 2022 from 4.05% for the year ended December 31, 2021.

Interest and dividends on investments, mortgage-backed securities and collateralized mortgage obligations increased $1.1 million to $1.8 million for the year ended December 31, 2022 from $706,000 for the year ended December 31, 2021. Interest on investment securities increased as a result of $959,000 increases in interest income on U.S. Government Agency securities, corporate bonds and municipal securities to $1.5 million for 2022 from $572,000 for 2021 and a $128,000 increase in interest income on mortgage-backed securities and collateral mortgage obligation securities to $262,000 for the year ended December 31, 2022, from $134,000 for the year ended December 31, 2021. The average yield on investment securities increased to 2.37% for the year ended December 31, 2022 from 2.12% for the year ended December 31, 2021. The average balance of investment securities increased by $42.5 million to $75.7 million for the year ended December 31, 2022, from $33.2 million for the year ended December 31, 2021.

Interest on interest-earning deposits increased $440,000 to $621,000 for the year ended December 31, 2022 from $181,000 for the year ended December 31, 2021 due to an increase of 74 basis points in the average yield on interest-earning deposits with banks to 0.87% for the year ended December 31, 2022, from 0.13% for the year ended December 31, 2021 as result of the increase in the Fed Funds rate during 2022. Offsetting this increase was a decrease in the average balance of interest-earning deposits of $68.1 million to $71.0 million for the year ended December 31, 2022, from $139.1 million for the year ended December 31, 2021.

***Interest Expense***

Total interest expense increased $1.8 million to $4.0 million for the year ended December 31, 2022 from $2.2 million for the year ended December 31, 2021 primarily due to a $1.6 million increase in interest on deposits, $183,000 increase in interest expense from subordinated debt and $86,000 increase in interest expense on advances from the Federal Home Loan Bank offset by a $71,000 decrease in interest expense on advances from the PPPLF.

Interest on deposits increased $1.6 million to $3.1 million for the year ended December 31, 2022 from $1.5 million for the year ended December 31, 2021 as a result of an increase in the average cost of deposits of 41 basis points to 0.78% for the year ended December 31, 2022 from 0.37% for the year ended December 31, 2021. Offsetting this increase, was a decrease in the average interest-bearing deposits of $4.8 million from $401.3 million during the year ended December 31, 2021 to $396.5 million during the year ended December 31, 2022. The average rate paid on money market deposits was 0.83% for the year ended December 31, 2022 compared to 0.57% for the year ended December 31, 2021 as a result of the rising interest rate environment. In addition, the average rate paid on demand deposits was 0.61% for the year ended December 31, 2022 compared to 0.18% for the year ended December 31, 2021 as a result of the rising interest rate environment. The decrease in the average balance of interest-bearing deposits was primarily the result of a decrease of $5.2 million in the average balance of our certificates of deposit offset by a $377,000 increase in the average balance of our core deposit accounts. The decrease in the average balance of our certificates of deposit of $5.2 million from $48.1 million for the year ended December 31, 2021, to $42.9 million for the year ended December 31, 2022, was primarily the result of a decrease of $14.1 million in the average balance in retail certificates of deposit offset by an increase of $8.9 million for the year ended December 31, 2022 in the average balance in certificates of deposit issued through brokers to $13.3 million for the year ended December 31, 2022 from $4.4 million for the year ended December 31, 2021. The average cost of certificates of deposit was 1.60% for the year ended December 31, 2022, as compared to 0.90% for the year ended December 31, 2021.

Interest on advances from the Federal Home Loan Bank increased $86,000 to $481,000 for the year ended December 31, 2022 from $395,000 for the year ended December 31, 2021 primarily as a result of an increase in the average balance of Federal Home Loan Bank advances. The average balance of Federal Home Loan Bank advances increased by $2.6 million to $28.9 million during the year ended December 31, 2022 as compared to $26.3 million during the year ended December 31, 2021. In addition, the average cost of Federal Home Loan Bank advances increased by 16 basis points to 1.66% for the year ended December 31, 2022 from 1.50% for the year ended December 31, 2021.

Interest expense on advances from the PPPLF decreased $71,000 to $1,000 for the year ended December 31, 2022 from $72,000 for the year ended December 31, 2021. The decrease was primarily the result of a $23.4 million decrease in the average balance in advances from the PPPLF to $495,000 for the year ended December 31, 2022 from $23.9 million for the year ended December 31, 2021, and a

decrease in average cost of advances from the PPPLF to 20 basis points for the year ended December 31, 2022, from 30 basis points for the year ended December 31, 2021.

Interest expense on subordinated debt increased $183,000 to $451,000 for the year ended December 31, 2022 from $268,000 for the year ended December 31, 2021 as a result of an increase in the average balance of the subordinated debt. The average balance of the subordinated debt increased by $4.5 million to $10.0 million during the year ended December 31, 2022 as compared to $5.5 million during the year ended December 31, 2021. Offsetting this increase, was a decrease in the average cost of the subordinated debt to 4.51% for the year ended December 31, 2022 from 4.87% 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 in the consolidated financial statements for further discussion).

***Net Interest Income***

Net interest income increased $4.3 million, or 30.0%, to $18.8 million for the year ended December 31, 2022 from $14.5 million for the year ended December 31, 2021 as our net interest-earning assets increased by $9.0 million to $114.9 million for the year ended December 31, 2022 from $105.9 million for the year ended December 31, 2021. Our interest rate spread increased by 74 basis points to 3.22% for the year ended December 31, 2022 from 2.48% for the year ended December 31, 2021. Our net interest margin increased by 85 basis points to 3.42% for the year ended December 31, 2022 from 2.57% for the year ended December 31, 2021.

***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, | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| | Average Balance | Interest Income/ Expense | Yield/ Cost | Average Balance | Interest Income/ Expense | Yield/ Cost |
| | (Dollars in thousands) | | | | | |
| **Interest-earning assets:** | | | | | | |
| Loans (1) | $ 402,064 | $ 20,345 | 5.06% | $ 388,814 | $ 15,734 | 4.05% |
| Cash and cash equivalents | 71,030 | 621 | 0.87% | 139,050 | 181 | 0.13% |
| Investment securities | 75,676 | 1,793 | 2.37% | 33,243 | 706 | 2.12% |
| Restricted investment in bank stock | 1,984 | 112 | 5.65% | 1,829 | 87 | 4.76% |
| Total interest-earning assets | 550,754 | 22,871 | 4.15% | 562,936 | 16,708 | 2.97% |
| Non-interest-earning assets | 29,441 | | | 27,006 | | |
| Total assets | $ 580,195 | | | $ 589,942 | | |
| **Interest-bearing liabilities:** | | | | | | |
| Demand deposits | $ 146,512 | $ 890 | 0.61% | $ 178,279 | $ 320 | 0.18% |
| Money market deposit accounts | 111,772 | 930 | 0.83% | 89,460 | 507 | 0.57% |
| Passbook and statement savings accounts | 38,931 | 48 | 0.12% | 34,003 | 48 | 0.14% |
| Checking accounts | 56,367 | 546 | 0.97% | 51,463 | 169 | 0.33% |
| Certificates of deposit | 42,904 | 686 | 1.60% | 48,129 | 434 | 0.90% |
| Total deposits | 396,486 | 3,100 | 0.78% | 401,334 | 1,478 | 0.37% |
| Federal Home Loan Bank advances | 28,905 | 481 | 1.66% | 26,338 | 395 | 1.50% |
| Federal Reserve PPPLF | 495 | 1 | 0.20% | 23,880 | 72 | 0.30% |
| Subordinated debt | 9,997 | 451 | 4.51% | 5,503 | 268 | 4.87% |
| Total interest-bearing liabilities | 435,883 | 4,033 | 0.93% | 457,055 | 2,213 | 0.48% |
| **Non-interest-bearing liabilities:** | | | | | | |
| Checking | 91,705 | | | 80,312 | | |
| Other | 12,086 | | | 13,495 | | |
| Total liabilities | 539,674 | | | 550,862 | | |
| Shareholders' Equity | 40,521 | | | 39,080 | | |
| Total liabilities and Shareholders' equity | $ 580,195 | | | $ 589,942 | | |
| Net interest income | | $ 18,838 | | | $ 14,495 | |
| Interest rate spread (2) | | | 3.22% | | | 2.48% |
| Net interest-earning assets (3) | $ 114,871 | | | $ 105,881 | | |
| Net interest margin (4) | | | 3.42% | | | 2.57% |
| Average interest-earning assets to average interest-bearing liabilities | | | 126.35% | | | 123.17% |

(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, 2022 vs 2021 | | |
|---|---|---|---|
| | Increase (Decrease) Due to | | Total Increase (Decrease) |
| | Volume | Rate | |
| | (In thousands) | | |
| **Interest-earning assets:** | | | |
| Loans | $ 553 | $ 4,058 | $ 4,611 |
| Cash and cash equivalents | (49) | 489 | 440 |
| Investment securities | 996 | 91 | 1,087 |
| Restricted investment in bank stock | 8 | 17 | 25 |
| Total interest-earning assets | 1,508 | 4,655 | 6,163 |
| **Interest-bearing liabilities:** | | | |
| Demand deposits | (48) | 618 | 570 |
| Money market deposit accounts | 146 | 277 | 423 |
| Passbook and statement savings accounts | 6 | (6) | — |
| Checking accounts | 17 | 360 | 377 |
| Certificates of deposit | (43) | 295 | 252 |
| Total deposits | 78 | 1,544 | 1,622 |
| Federal Home Loan Bank advances | 40 | 46 | 86 |
| Federal Reserve PPPLF | 119 | (190) | (71) |
| Subordinated debt | 268 | (85) | 183 |
| Total interest-bearing liabilities | 505 | 1,315 | 1,820 |
| Change in net interest income | $ 1,003 | $ 3,340 | $ 4,343 |

***Provision for Loan Losses***

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

This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as circumstances change as more information becomes available. The allowance for loan losses is assessed on a quarterly basis and provisions are made for loan losses as required in order to maintain the allowance. Provision for loan losses increased by $982,000 to $1.5 million for the year ended December 31, 2022 primarily as a result of increased originations in commercial real estate and other commercial business loans. During the year ended December 31, 2022, total charge-offs of $397,000 were recorded and $81,000 of recoveries were received. During the year ended December 31, 2021, total charge-offs of $210,000 were recorded and $8,000 of recoveries were received.

***Non-Interest Income***

Non-interest income decreased $5.5 million to $7.9 million for the year ended December 31, 2022, from $13.4 million for the year ended December 31, 2021. The decrease in non-interest income compared to 2021 was primarily due to decreases of $8.4 million in the gain on sale of loans offset by a $1.0 million gain on sale of mortgage servicing rights, net, a $730,000 increase in change in fair value of loans held-for-sale, a $426,000 decrease in loss from derivative instruments, an increase of $348,000 in other income and an increase of $338,000 in fees for customer services. The gain on sale of loans, net decreased $8.4 million to $6.5 million for the year ended December 31, 2022, from $14.9 million for the year ended December 31, 2021, primarily as a result of lower volume of loan sales, which decreased $365.0 million from $670.6 million for the year ended December 31, 2021, to $305.6 million for the year ended December 31, 2022. Offsetting this decrease, was a $1.0 million gain on sale of mortgage servicing rights, net resulting from the sale of approximately $3.2 million of the mortgage servicing rights during year ended December 31, 2022. In addition, there was a decrease of $730,000 in the change of fair value from ($1.4) million for the year ended December 31, 2021 to ($623,000) for the year ended December 31, 2022 and a $426,000 decrease in loss on derivative instruments from a loss on derivative instruments of $1.2 million for the year ended December 31, 2021 to a loss of $777,000 for the year end December 31, 2022.  Fees for customer services increased $338,000 to $833,000 for the year ended December 31, 2022, from $495,000 for the year ended December 31, 2021 primarily as a result of an increase in cash management fees and other commercial fees compared to the prior year. Finally, other income increased $352,000 to $729,000 for the year ended December 31, 2022 from $377,000 for the year ended December 31, 2021. Included in other income for the year ended December 31, 2022 was $354,000 in gain on settlement of bank-owned life insurance (“BOLI”).

***Non-Interest Expense***

Non-interest expense increased $526,000 or 2.4%, to $22.4 million for the year ended December 31, 2022, from $21.9 million for the year ended December 31, 2021. The increase for the year ended December 31, 2022 compared to the year ended December 31, 2021 primarily reflected increases of $495,000 in merger expenses, $336,000 in other expenses and $191,000 in professional fees offset by decreases of $165,000 in mortgage operation expenses, $163,000 in data processing related operations and $148,000 in salaries and employee benefits.

Included in non-interest expense for the year ended December 31, 2022 was $495,000 of expenses associated with the Merger. In addition, other expenses increased $336,000 or 17.8%, to $2.2 million for the year ended December 31, 2022 from $1.9 million for the year ended December 31, 2021.  Professional fees increased $191,000, or 19.7% to $1.2 million for the year ended December 31, 2022 from $971,000 for the year ended December 31, 2021 primarily as a result of increases in expenses related to other consulting fees and accounting and auditing fees. Offsetting these increases was a decrease of $165,000 in mortgage operation expenses which decreased to $357,000 for the year ended December 31, 2022 from $522,000 for the year ended December 31, 2021. Data processing related operations costs decreased $163,000, or 11.1% to $1.3 million for the year ended December 31, 2022 from $1.5 million for the year ended December 31, 2021 as a result of decreased loan originations. Finally, salaries and employee benefits expense decreased by $148,000 to $13.5 million for the year ended December 31, 2022, from $13.7 million for the year ended December 31, 2021.

***Income Tax Expense***

Income tax expense was $575,000 for the year ended December 31, 2022 compared to $1.5 million for the year ended December 31, 2021 as a result of the decrease in income before taxes. Federal income taxes included in total taxes for the years ended December 31, 2022 and 2021 were $568,000 and $1.1 million, respectively, with effective federal tax rates of 20.2% and 19.1%, respectively. The increase in the effective rate for 2022 compared to 2021 was a result of non-deductible merger expenses offset by a decrease in income before taxes and tax-exempt bank-owned life insurance death benefits.

Pennsylvania state tax was a benefit of ($130,000) for the year ended December 31, 2022 compared to expense of $308,000 with an effective rate of 5.6% for the year ended December 31, 2021. The decrease in the effective tax rate for the year ended December 31, 2022 compared to a year ago reflected a decrease in income before taxes. In addition, included in total taxes for the year ended December 31, 2022 and 2021, was $100,000 and

$103,000 of New Jersey state tax, respectively and $37,000 of Delaware state tax for the year ended December 31, 2022.

**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, 2022, the Company had brokered certificates of deposit of $40.9 million, or 6.6% of total asset with an average cost of 3.77%. As of December 31, 2021, there were no brokered certificates of deposit outstanding.

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 $115.8 million as of December 31, 2022. Additionally, at December 31, 2022, we had the ability to borrow $6.0 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, 2022.

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, 2022.

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, 2022, cash and cash equivalents totaled $16.3 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled $55.7 million at December 31, 2022.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash provided by operating activities was $30.5 million and $42.9 million for the year ended December 31, 2022 and 2021, respectively. Net cash used in investing activities, which consists primarily of disbursements for loan originations and the purchase of securities, offset by principal collections on loans and proceeds from maturing securities, was $193.0 million and $32.2 million for the year ended December 31, 2022 and 2021, respectively. During the year ended December 31, 2022 and 2021, we sold $10.0 million and $5.5 million, respectively, in securities available-for-sale. Net cash provided by (used in) financing activities was $58.0 million and ($304.5) million for the year ended December 31, 2022 and 2021, respectively. Net cash used in financing activities for the year ended December 31, 2022 consisted primarily of an increase in deposits of $61.2 million offset by repayments of $3.1 million to the PPPLF. 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.

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, 2022, totaled $57.9 million, or 11.0%, 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, 2022, 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, 2022, we had outstanding commitments to originate loans of $30.7 million and unused lines of credit totaling $94.2 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, 2022 totaled $57.9 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, 2022 and 2021; the related consolidated statements of income, comprehensive (loss) 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, 2022 and 2021, 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) involve 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 $472.5 million as of December 31, 2022, and the associated ALL was $3.6 million. As discussed in Notes 1 and 4 to the consolidated financial statements, determining the amount of the ALL requires significant judgment about the collectability of loans, which includes an assessment of quantitative factors such as historical loss experience within each risk category of loans and testing of certain commercial loans for impairment. Management applies additional qualitative adjustments to reflect the inherent losses that exist in the loan portfolio at the balance sheet date that are not reflected in the historical loss experience. Qualitative adjustments are made based upon changes in economic conditions, volume and severity of past-due loans, nonaccrual and adversely classified loans, nature and volume of portfolio, value of underlying collateral, lending policies and procedures, lending management experience, depth, and ability, quality of loan review system and board oversight, effect of concentrations in credit and changes in level of such concentrations, and external factors.

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

*How We Addressed the Matter in Our Audit*

We gained an understanding of the Company's process for establishing the ALL, including the qualitative adjustments made to the ALL. We evaluated the design and tested the operating effectiveness of controls over the Company's ALL process, which included, among others, management's review and approval controls designed to assess the need and level of qualitative adjustments to the ALL, as well as the reliability of the data utilized to support management's assessment.

To test the qualitative adjustments, we evaluated the appropriateness of management's methodology and assessed whether all relevant risks were reflected in the ALL and the need to consider qualitative adjustments.

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. Furthermore, we analyzed the changes in the components of the qualitative reserves relative to changes in external market factors, the Company's loan portfolio, and asset quality trends, which included the evaluation of management's ability to capture and assess relevant data from both external sources and internal reports on loan customers and the supporting documentation for substantiating revisions to qualitative factors.

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

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

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

King of Prussia, Pennsylvania
March 30, 2023

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

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 4,348 | $ 3,635 |
| Non-interest-earning deposits with banks | 1,050 | 2,858 |
| Interest-earning deposits with banks | 6,971 | 112,880 |
| Federal funds sold | 3,911 | 1,415 |
| Cash and cash equivalents | 16,280 | 120,788 |
| Investment securities available-for-sale, at fair value | 55,664 | 44,512 |
| Investment securities held-to-maturity, at amortized cost | 29,771 | — |
| Equity securities | 500 | 500 |
| Loans held-for-sale, at fair value | 15,239 | 40,480 |
| Loans receivable, net of allowance for loan losses of $3,587 at December 31, 2022 and $2,368 at December 31, 2021 | 468,955 | 325,203 |
| Bank-owned life insurance | 10,263 | 6,557 |
| Restricted investment in bank stock | 2,052 | 2,008 |
| Premises and equipment, net | 2,602 | 3,160 |
| Operating lease right-of-use asset | 7,841 | 8,669 |
| Accrued interest receivable | 2,473 | 1,340 |
| Mortgage banking derivatives | 612 | 1,458 |
| Mortgage servicing rights | 202 | 3,382 |
| Other real estate owned | 59 | — |
| Other assets | 3,244 | 2,067 |
| **Total Assets** | $ 615,757 | $ 560,124 |
| | | |
| **Liabilities and Shareholders' Equity** | | |
| | | |
| **Liabilities** | | |
| Deposits | $ 525,238 | $ 463,989 |
| Advances from the Federal Home Loan Bank | 26,593 | 26,431 |
| Advances from the Federal Reserve's Paycheck Protection Program liquidity facility ("PPPLF") | — | 3,119 |
| Subordinated debt | 9,997 | 9,996 |
| Operating lease liabilities | 8,234 | 9,030 |
| Advances from borrowers for taxes and insurance | 503 | 439 |
| Other liabilities | 3,099 | 4,484 |
| **Total Liabilities** | 573,664 | 517,488 |
| | | |
| **Shareholders' Equity** | | |
| Preferred Stock, $0.01 par value, 2,000,000 shares authorized; no shares issued and outstanding as of December 31, 2022 and December 31, 2021 | — | — |
| Common Stock, $0.01 par value, 20,000,000 shares authorized; 2,361,325 shares issued and 2,242,421 shares outstanding as of December 31, 2022; 2,272,625 shares issued and 2,170,397 shares outstanding as of December 31, 2021 | 23 | 23 |
| Treasury Stock, at cost (118,904 shares at December 31, 2022 and 102,228 shares at December 31, 2021) | (1,855) | (1,483) |
| Additional paid in capital | 22,011 | 21,324 |
| Retained earnings | 27,023 | 24,793 |
| Accumulated other comprehensive loss | (3,266) | (148) |
| Unearned Employee Stock Option Plan | (1,843) | (1,873) |
| **Total Shareholders' Equity** | 42,093 | 42,636 |
| **Total Liabilities and Shareholders' Equity** | $ 615,757 | $ 560,124 |

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, 2022 | For the year ended December 31, 2021 |
|---|---|---|
| **Interest Income** | | |
| Interest and fees on loans | $ 20,345 | $ 15,734 |
| Interest and dividends on investments: | | |
| Taxable | 1,533 | 579 |
| Nontaxable | 110 | 80 |
| Interest on mortgage-backed securities and collateralized mortgage obligations | 262 | 134 |
| Interest on interest-earning deposits | 621 | 181 |
| **Total Interest Income** | 22,871 | 16,708 |
| **Interest Expense** | | |
| Interest on deposits | 3,100 | 1,478 |
| Interest on advances from the Federal Home Loan Bank | 481 | 395 |
| Interest on advances from the Federal Reserve PPPLF | 1 | 72 |
| Interest on subordinated debt | 451 | 268 |
| **Total Interest Expense** | 4,033 | 2,213 |
| **Net Interest Income** | 18,838 | 14,495 |
| **Provision for Loan Losses** | 1,535 | 553 |
| **Net Interest Income After Provision for Loan Losses** | 17,303 | 13,942 |
| **Non-Interest Income** | | |
| Fees for customer services | 833 | 495 |
| Increase in cash surrender value of bank-owned life insurance | 236 | 149 |
| Gain on sale of loans, net | 6,492 | 14,853 |
| Gain on sale of available-for-sale securities, net | 16 | 106 |
| Loss from derivative instruments | (777) | (1,203) |
| Change in fair value of loans held-for-sale | (623) | (1,353) |
| Gain on sale of mortgage servicing rights, net | 972 | — |
| Other | 729 | 377 |
| **Total Non-Interest Income** | 7,878 | 13,424 |
| **Non-Interest Expense** | | |
| Salaries and employee benefits | 13,509 | 13,657 |
| Occupancy | 2,299 | 2,289 |
| Federal deposit insurance premiums | 496 | 490 |
| Data processing related operations | 1,303 | 1,466 |
| Professional fees | 1,162 | 971 |
| Marketing | 531 | 567 |
| Merger expenses | 495 | — |
| Mortgage operations expenses | 357 | 522 |
| Other expenses | 2,224 | 1,888 |
| **Total Non-Interest Expense** | 22,376 | 21,850 |
| **Income Before Income Taxes** | 2,805 | 5,516 |
| **Income Tax Expense** | 575 | 1,464 |
| **Net Income** | $ 2,230 | $ 4,052 |
| **Net Income per share:** | | |
| Basic | $ 1.12 | $ 2.04 |
| Diluted | $ 1.06 | $ 1.98 |

See the accompanying notes to the consolidated financial statements.

**HV Bancorp, Inc. and Subsidiary**

**Consolidated Statements of Comprehensive (Loss) Income**
(Dollars in thousands)

| | For the year ended December 31, 2022 | For the year ended December 31, 2021 |
|---|---|---|
| **Comprehensive (Loss) Income, Net of Taxes** | | |
| Net Income | **$ 2,230** | $ 4,052 |
| **Other comprehensive loss, net of tax** | | |
| Unrealized loss on investment securities available-for-sale securities (pre-tax ($4,407) and ($441) respectively) | **(3,622)** | (311) |
| Accretion of discount on securities transferred to held-to- maturity | **515** | — |
| Reclassification adjustment for gains included in income (pre-tax ($16) and ($106), respectively) (1) | **(11)** | (75) |
| Other comprehensive loss | **(3,118)** | (386) |
| **Total Comprehensive (Loss) Income** | **$ (888)** | $ 3,666 |

(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)

| | Common Stock Shares | Common Stock Amount | Treasury Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Unearned ESOP Shares | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2021** | 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 income | — | — | — | — | — | (386) | — | (386) |
| **Balance, December 31, 2021** | **2,170,397** | **$ 23** | **$ (1,483)** | **$ 21,324** | **$ 24,793** | **$ (148)** | **$ (1,873)** | **$ 42,636** |
| ESOP shares committed to be released | **—** | **—** | **—** | **16** | **—** | **—** | **30** | **46** |
| Treasury stock purchased | **(16,676)** | **—** | **(372)** | — | — | — | — | **(372)** |
| Restricted stock awards granted | **80,000** | **—** | **—** | — | — | — | — | — |
| Stock option exercise | **8,700** | **—** | **—** | **136** | **—** | **—** | **—** | **136** |
| Stock option expense | **—** | **—** | **—** | **102** | **—** | **—** | **—** | **102** |
| Restricted stock expense | **—** | **—** | **—** | **433** | **—** | **—** | **—** | **433** |
| Net income | **—** | **—** | **—** | **—** | **2,230** | **—** | **—** | **2,230** |
| Other comprehensive loss | **—** | **—** | **—** | **—** | **—** | **(3,118)** | **—** | **(3,118)** |
| **Balance, December 31, 2022** | **2,242,421** | **$ 23** | **$ (1,855)** | **$ 22,011** | **$ 27,023** | **$ (3,266)** | **$ (1,843)** | **$ 42,093** |

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, 2022 | For the year ended December 31, 2021 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | $ 2,230 | $ 4,052 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 674 | 706 |
| Accretion of deferred loan fees | (1,228) | (2,569) |
| Amortization of right-of-use assets | 828 | 859 |
| Amortization of net securities premiums | 232 | 106 |
| Amortization of Federal Home Loan Bank premium | 162 | 162 |
| Gain on sale of available-for-sale securities, net | (16) | (106) |
| Gain on settlement of bank-owned life insurance | (354) | — |
| Gain on sale of mortgage servicing rights, net | (972) | — |
| Loss from derivative instruments | 777 | 1,203 |
| Provision for loan losses | 1,535 | 553 |
| Deferred income taxes | (370) | (642) |
| Earnings on bank-owned life insurance | (236) | (149) |
| Stock based compensation expense | 535 | 240 |
| ESOP compensation expense | 46 | 166 |
| Loans held for sale: | | |
| Originations, net of prepayments | (274,467) | (614,079) |
| Proceeds from sales | 305,577 | 670,648 |
| Gain on sales | (6,492) | (14,853) |
| Change in fair value of loans held for sale | 623 | 1,353 |
| Decrease (increase) in: | | |
| Accrued interest receivable | (1,133) | 149 |
| Prepaid and other assets | 3,679 | (2,650) |
| Decrease in other liabilities | (1,140) | (2,255) |
| Net cash provided by operating activities | 30,490 | 42,894 |
| **Cash Flows from Investing Activities** | | |
| Net increase in loans receivable | (144,118) | (9,376) |
| Activity in available-for-sale securities: | | |
| Proceeds from sales | 9,982 | 5,537 |
| Maturities and repayments | 5,892 | 6,222 |
| Purchases | (61,885) | (33,301) |
| Activity in held-for-sale securities: | | |
| Maturities and repayments | 449 | — |
| Purchase of bank-owned life insurance | (4,500) | — |
| Proceeds from settlement of bank-owned life insurance | 1,384 | — |
| Purchase of restricted investment in bank stock | (2,351) | (1,309) |
| Redemption of restricted investment in bank stock | 2,307 | 1,022 |
| Purchases of premises and equipment | (116) | (1,032) |
| Net cash used in investing activities | (192,956) | (32,237) |
| **Cash Flows from Financing Activities** | | |
| Net increase (decrease) in deposits | 61,249 | (266,837) |
| Net increase (decrease) in advances from borrowers for taxes and insurance | 64 | (1,692) |
| Repayment of long-term borrowings from FRB PPPLF | (3,119) | (45,563) |
| Net proceeds from issuance of subordinated debt | — | 9,996 |
| Proceeds from exercise of stock option | 136 | 28 |
| Purchase of treasury stock | (372) | (391) |
| Net cash provided by (used in) financing activities | 57,958 | (304,459) |
| **Decrease in Cash and Cash Equivalents** | (104,508) | (293,802) |
| **Cash and Cash Equivalents,** beginning of year | 120,788 | 414,590 |
| **Cash and Cash Equivalents,** end of year | $ 16,280 | $ 120,788 |
| **Supplementary Disclosure of Cash Flow Information** | | |
| Cash paid during the year of interest | $ 3,821 | $ 2,307 |
| Cash paid during the year for income taxes | $ 1,661 | $ 3,053 |
| **Supplementary Schedule of Noncash Investing Activities** | | |
| Transfer from loans to real estate owned | $ 59 | $ — |
| Recognition of operating lease right-of-use assets | $ — | $ 1,864 |
| Recognition of operating lease obligations | $ — | $ 1,864 |
| Transfer of securities from available-for-sale to held-to-maturity | $ 30,220 | $ — |

See the accompanying notes to the consolidated financial statements.

**1. Summary of Significant Accounting Policies**

**Nature of Business**

HV Bancorp, Inc., a Pennsylvania Corporation (the "Company") is the holding company of Huntingdon Valley Bank (the "Bank") and was formed in connection with the conversion of the Bank from the mutual to the stock form of organization. On January 11, 2017, the mutual to stock conversion of the Bank was completed and the Company became the parent holding company for the Bank. 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.

***Proposed Merger with Citizens Financial Services, Inc.***

As previously announced, on October 18, 2022, the Company, the Bank, Citizens Financial Services, Inc. ("Citizens Financial"), First Citizens Community Bank ("FCCB") and CZFS Acquisition Company, LLC entered into a merger agreement that provides that the Company will merge with and into Citizens Financial, with Citizens Financial remaining as the surviving corporation (the "Merger"). Following the Merger, the Bank will merge with and into FCCB, with FCCB remaining as the surviving bank.

The Company's shareholders approved the Merger on February 15, 2023. On March 24, 2023, the Pennsylvania Department of Banking and Securities approved the Merger and the Bank Merger. On March 30, 2023, the Board of Governors of the Federal Reserve System approved the Bank Merger and waived the application for the Merger. The completion of the Merger and the Bank Merger remain subject to customary closing conditions. The Merger is expected to close in the first half of 2023.

At the effective time of the Merger, each outstanding share of Company common stock will be converted into the right to receive, at the election of such holder, either (i) 0.4000 shares of Citizens Financial common stock, or (ii) $30.50 in cash, together with cash in lieu of fractional shares, if any. All such elections are subject to adjustment on a pro rata basis, so that 80% of the aggregate merger consideration paid to the Company shareholders will be the stock consideration and the remaining 20% will be the cash consideration.

***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 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.

***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 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.

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 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 $2,052,000 and $2,008,000 at December 31, 2022 and 2021, respectively.

***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:

| | Years |
|---|---|
| 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 $76,000 and $89,000 as of December 31, 2022 and 2021, respectively. There was $59,000 in real estate secured by residential one- to four- family properties held in Other Real Estate Owned at December 31, 2022. At December 31, 2021, there was no real estate secured by residential one- to four- family properties held in Other Real Estate Owned. There was no real estate secured by commercial properties held in Other Real Estate Owned at December 31, 2022 and 2021, 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.

As of December 31, 2022 and 2021, 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 2020 through 2022 were open for examination as of December 31, 2022.

***Transfer of Financial Assets***

Transfers of financials 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.

***Recent Accounting Pronouncements***

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments, which changes the impairment model for most financial assets. This standard, along with several other subsequent codification updates, replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses that are expected to occur over the remaining life of a financial asset and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The new current expected credit losses model ("CECL") will apply to the allowance for loan losses, available-for-sale and held-to-maturity debt securities, purchased financial assets with credit deterioration and certain off-balance sheet credit exposures.

Management has completed its implementation plan, segmentation and testing, and model validation. The implementation plan included drafting of additional controls and policies to govern data uploads to its third-party vendor, balancing and reconciling, testing and auditing of inputs, and review and decision-making surrounding segmentation, methodologies, qualitative factor adjustments, and reasonable and supportable forecasts and reversion

techniques. Parallel runs were processed during 2022 and the results were consistent with management's expectations. The implementation plan is currently going through the Company's control structure and internal control testing is being performed.

As a result of adopting this standard, the Company expects a decrease in its allowance effective January 1, 2023, to be in approximately $301,000. These estimates are subject to further refinements based on ongoing evaluations of our model, methodologies, and judgments, as well as prevailing economic conditions and forecasts as of the adoption date. The adoption of ASU 2016-13 is not expected to have a significant impact on our regulatory capital ratios.

At adoption, the Company expects an allowance for credit losses to be $46,000 for securities classified as HTM debt securities. No allowance was recorded related to AFS debt securities at the date of adoption, January 1, 2023.

In April 2019, the FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Derivatives, and Hedging (Topic 815); and Financial Instruments (Topic 825), which affects a variety of topics in the Codification and applies to all reporting entities within the scope of the affected accounting guidance. ASU 2019-04 makes clarifying amendments to certain financial instrument standards. For entities that have not yet adopted ASU 2016-13, the effective dates for the amendments related to ASU 2016-13 are the same as the effective dates in ASU 2016-13. For entities that have not yet adopted ASU 2017-12 as of April 25, 2019, the effective dates for the amendments to Topic 815 are the same as the effective dates in ASU 2017-12. The Company qualifies as a smaller reporting company and does not expect to early adopt these ASUs.

In May 2019, the FASB issued ASU 2019-05, Financial Instruments – Credit Losses (Topic 326), which allows entities to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost upon adoption of the new credit losses standard. To be eligible for the transition election, the existing financial asset must otherwise be both within the scope of the new credit losses standard and eligible for applying the fair value option in ASC 825-10.3. The election must be applied on an instrument-by-instrument basis and is not available for either available-for-sale or held-to-maturity debt securities. For entities that elect the fair value option, the difference between the carrying amount and the fair value of the financial asset would be recognized through a cumulative-effect adjustment to opening retained earnings as of the date an entity adopted ASU 2016-13. Changes in fair value of that financial asset would subsequently be reported in current earnings. For entities that have not yet adopted the credit losses standard, the ASU is effective when they implement the credit losses standard. The Company qualifies as a smaller reporting company and have not adopted ASU 2016-13.

In November 2019, the FASB issued ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, to clarify its new credit impairment guidance in ASC 326, based on implementation issues raised by stakeholders. This Update clarified, among other things, that expected recoveries are to be included in the allowance for credit losses for these financial assets; an accounting policy election can be made to adjust the effective interest rate for existing troubled debt restructurings based on the prepayment assumptions instead of the prepayment assumptions applicable immediately prior to the restructuring event; and extends the practical expedient to exclude accrued interest receivable from all additional relevant disclosures involving amortized cost basis. For entities that have not yet adopted ASU 2016-13 as of November 26, 2019, the effective dates for ASU 2019-11 are the same as the effective dates and transition requirements in ASU 2016-13. The Company qualifies as a smaller reporting company and have not adopted ASU 2016-13.

In March 2020, the FASB issued ASU 2020-03, Codification Improvements to Financial Instruments. This ASU was issued to improve and clarify various financial instruments topics, including the current expected credit losses (CECL) standard issued in 2016. The ASU includes seven issues that describe the areas of improvement and the related amendments to GAAP; they are intended to make the standards easier to understand and apply and to eliminate inconsistencies, and they are narrow in scope and are not expected to significantly change practice for most entities. Among its provisions, the ASU clarifies that all entities, other than public business entities that elected the fair value option, are required to provide certain fair value disclosures under ASC 825, Financial Instruments, in both interim and annual financial statements. It also clarifies that the contractual term of a net investment in a lease under Topic 842 should be the contractual term used to measure expected credit losses under Topic 326.

Amendments related to ASU 2016-13 for entities that have not yet adopted that guidance are effective upon adoption of the amendments in ASU 2016-13. Early adoption is not permitted before an entity's adoption of ASU 2016-13. Other amendments are effective upon issuance of this ASU. The Company is currently evaluating the impact the adoption of the standard will have on the Company's consolidated financial statements.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments - Credit Losses (ASC 326): Troubled Debt Restructurings (TDRs) and Vintage Disclosures*. The guidance amends ASC 326 to eliminate the accounting guidance for TDRs by creditors, while enhancing disclosure requirements for certain loan refinancing and restructuring activities by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying TDR recognition and measurement guidance, creditors will determine whether a modification results in a new loan or continuation of existing loan. These amendments are intended to enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. Additionally, the amendments to ASC 326 require that an entity disclose current-period gross write-offs by year of origination within the vintage disclosures, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination. The guidance is only for entities that have adopted the amendments in Update 2016-13 for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early adoption using prospective application, including adoption in an interim period where the guidance should be applied as of the beginning of the fiscal year. The Company is currently evaluating the impact of the ASU on the Company's consolidated financial statements.

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820) – Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. This amendment clarifies the guidance in Topic 820, *Fair Value Measurement*, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security. It also introduces new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. The amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Early adoption is permitted. The amendments will be applied prospectively, with any adjustments from the adoption of the amendments recognized in earnings and disclosed on the date of adoption. The Company is currently evaluating the impact of the ASU on the Company's consolidated financial statements.

**2. Investment Securities**

Investment securities available-for-sale at December 31, 2022 were comprised of the following:

| | December 31, 2022 | | | |
|---|---|---|---|---|
| *(Dollars in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Governmental securities | $ 3,010 | $ — | $ (123) | $ 2,887 |
| U.S. Treasury securities | 39,843 | — | (1,287) | 38,556 |
| Corporate notes | 12,535 | — | (753) | 11,782 |
| Collateralized mortgage obligations - agency residential | 1,754 | — | (73) | 1,681 |
| Mortgage-backed securities - agency residential | 553 | — | (42) | 511 |
| Bank CDs | 249 | — | (2) | 247 |
| | $ 57,944 | $ — | $ (2,280) | $ 55,664 |

Investment securities held-to-maturity at December 31, 2022 were comprised of the following:

| *(Dollars in thousands)* | December 31, 2022 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Governmental securities | $ 2,218 | $ — | $ (124) | $ 2,094 |
| Corporate notes | 7,857 | — | (641) | 7,216 |
| Collateralized mortgage obligations - agency residential | 7,236 | — | (445) | 6,791 |
| Mortgage-backed securities - agency residential | 6,708 | — | (484) | 6,224 |
| Municipal securities | 5,752 | 2 | (416) | 5,338 |
| | $ 29,771 | $ 2 | $ (2,110) | $ 27,663 |

In June 2022, the Company transferred approximately $30.2 million at amortized cost of available-for-sale securities to the held-to maturity category with $3.1 million in gross unrealized losses associated with those securities that were transferred from available-for-sale to held-to-maturity.

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

| *(Dollars in thousands)* | December 31, 2021 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| 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 |
| | $ 44,722 | $ 252 | $ (462) | $ 44,512 |

The scheduled maturities of investment securities at December 31, 2022 were as follows:

| *(Dollars in thousands)* | December 31, 2022 | | | |
|---|---|---|---|---|
| | Available-for-Sale | | Held-to-Maturity | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | $ 2,249 | $ 2,227 | $ — | $ — |
| Due from more than one to five years | 46,398 | 44,785 | 5,353 | 4,882 |
| Due from more than five to ten years | 8,047 | 7,465 | 8,849 | 8,278 |
| Due after ten years | 1,250 | 1,187 | 15,569 | 14,503 |
| | $ 57,944 | $ 55,664 | $ 29,771 | $ 27,663 |

Securities with a fair value of $43.0 million and $5.6 million at December 31, 2022 and 2021, 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, 2022 were $10.0 million. Gross realized gains on such sales were approximately $16,000 and there were no gross realized losses on such sales.

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.

The following tables summarize the unrealized loss positions of securities at December 31, 2022 and 2021:

| | December 31, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Longer | | Total | |
| *(Dollars in thousands)* | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Available-for-sale: | | | | | | |
| U.S. Governmental securities | $ 1,953 | $ (57) | $ 934 | $ (66) | $ 2,887 | $ (123) |
| U.S. Treasury securities | 38,556 | (1,287) | — | — | 38,556 | (1,287) |
| Corporate notes | 7,989 | (394) | 3,793 | (359) | 11,782 | (753) |
| Collateralized mortgage obligations - agency residential | 1,384 | (63) | 297 | (10) | 1,681 | (73) |
| Mortgage-backed securities - agency residential | 511 | (42) | — | — | 511 | (42) |
| Bank CDs | 247 | (2) | — | — | 247 | (2) |
| | $ 50,640 | $ (1,845) | $ 5,024 | $ (435) | $ 55,664 | $ (2,280) |
| Held-to-Maturity: | | | | | | |
| U.S. Governmental securities | $ — | $ — | $ 2,094 | $ (124) | $ 2,094 | $ (124) |
| Corporate notes | 2,075 | (136) | 5,141 | (505) | 7,216 | (641) |
| Collateralized mortgage obligations - agency residential | 2,866 | (134) | 3,925 | (311) | 6,791 | (445) |
| Mortgage-backed securities - agency residential | 787 | (56) | 5,437 | (428) | 6,224 | (484) |
| Municipal securities | 1,795 | (170) | 3,022 | (246) | 4,817 | (416) |
| | $ 7,523 | $ (496) | $ 19,619 | $ (1,614) | $ 27,142 | $ (2,110) |

| | December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Longer | | Total | |
| *(Dollars in thousands)* | 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 | — | — | — | — | — | — |
| | $ 28,570 | $ (452) | $ 1,507 | $ (10) | $ 30,077 | $ (462) |

At December 31, 2022 and 2021, the investment portfolio included eight and four U.S. Governmental securities, with total fair values of $5.0 million and $3.5 million at December 31, 2022 and 2021, respectively. Of these securities, eight and four securities were in an unrealized loss position as of December 31, 2022 and 2021, respectively. 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, 2022 and 2021, 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, 2022, the investment portfolio included eight U.S. Treasury securities with total fair values of $38.6 million. As of December 31, 2022, eight securities were in an unrealized loss position. The U.S Treasury securities are zero risk weighted for capital purposes. As of December 31, 2022, management found no evidence of OTTI on any of the U.S. Treasury securities in an unrealized loss position 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, 2022 and 2021, the investment portfolio included thirty and twenty-six corporate notes with total fair values of $19.0 million and $18.9 million, respectively. Of these securities, thirty and fifteen were in an unrealized loss position as of December 31, 2022 and 2021, respectively. As of December 31, 2022, twenty-six of the thirty corporate notes in an unrealized loss position continue to maintain investment grade ratings. As of December 31, 2022 and 2021, 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, 2022 and 2021, the investment portfolio included eighteen and twelve collateralized mortgage obligations (CMOs) with total fair values of $8.5 million and $7.7 million at December 31, 2022 and 2021, respectively. Of these securities, eighteen and nine were in an unrealized loss position as of December 31, 2022 and 2021, respectively. The CMO portfolio is comprised of 100% agency (FHLMC, FNMA and GNMA) investment grade bonds. As of December 31, 2022 and 2021, 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, 2022 and 2021, the investment portfolio included fourteen and eleven mortgage backed securities (MBS) with a total fair value of $6.7 million and $7.5 million at the end of each period, respectively. There were fourteen and ten securities in an unrealized loss position as of December 31, 2022 and 2021. The MBS portfolio is comprised of 100% agency (FHLMC, FNMA and GNMA) investment grade bonds. As of December 31, 2022 and 2021, 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, 2022 and 2021, the investment portfolio included twelve and eleven municipal securities with a total fair value of $5.3 million and $6.4 million, respectively. As of December 31, 2022 and 2021, there were eleven and six securities in in an unrealized loss position. As of December 31, 2022 and 2021, 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, 2022 and 2021, 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, 2022 and 2021, the investment portfolio included one and two Bank CDs with a total fair value of $247,000 and $507,000 at the end of each period, respectively. As of December 31, 2022, the one security was in an unrealized loss position. There were no securities in an unrealized loss position as of December 31, 2021. The Bank CDs are fully insured by the FDIC. As of December 31, 2022 and 2021, 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, 2022 and 2021. As of December 31, 2022 and 2021, 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, 2022 and 2021:

| *(dollars in thousands)* | December 31, 2022 | |
|---|---|---|
| | Year-to-date | Life-to-date |
| Amortized cost | **$ 500** | **$ 500** |
| Impairment | **—** | **—** |
| Observable price changes | **—** | **—** |
| Carrying value | **$ 500** | **$ 500** |

| *(dollars in thousands)* | December 31, 2021 | |
|---|---|---|
| | 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, 2022 and 2021, were comprised of the following:

| *(Dollars in thousands)* | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Residential: | | |
| One-to four-family | **$ 154,953** | $ 106,335 |
| Home equity and HELOCs | **2,293** | 3,172 |
| Commercial: | | |
| Commercial real estate | **185,811** | 116,882 |
| Commercial business | **54,464** | 30,164 |
| SBA PPP loans | **472** | 22,912 |
| Main Street Lending Program | **1,564** | 1,605 |
| Construction | **69,195** | 42,866 |
| Consumer: | | |
| Medical education | **3,695** | 4,409 |
| Other | **376** | 17 |
| | **472,823** | 328,362 |
| Unearned discounts, origination and commitment fees and costs | **(281)** | (791) |
| Allowance for loan losses | **(3,587)** | (2,368) |
| | **$ 468,955** | $ 325,203 |

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, 2022, the balance of the private education loans was $3.7 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, 2022, there were seven loans with a balance of approximately $514,000 that were 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, 2022 primarily as a result of charge-offs totaling $314,000.

Overdraft deposits are reclassified as consumer loans and are included in the total loans on the Consolidated Statements of Financial Condition. Overdrafts were $67,000 and $17,000 at December 31, 2022 and 2021, respectively. Included in the other consumer at December 31, 2022, was $309,000 related to other consumer loans offered to customers to assist with funeral expenses.

The following tables summarize the activity in the allowance for loan losses by loan class for the year ended December 31, 2022 and 2021:

| Allowance for Loan Losses | December 31, 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | **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 | **$ 322** | **$ —** | **$ —** | **$ 146** | **$ 468** | **$ —** | **$ 468** |
| Home equity and HELOCs | **8** | **—** | **—** | **(2)** | **6** | **—** | **6** |
| Commercial: | | | | | | | |
| Commercial real estate | **819** | **—** | **—** | **464** | **1,283** | **—** | **1,283** |
| Commercial business | **341** | **(75)** | **—** | **437** | **703** | **—** | **703** |
| SBA PPP loans | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| Main Street Lending Program | **27** | **—** | **—** | **—** | **27** | **—** | **27** |
| Construction | **460** | **—** | **—** | **294** | **754** | **—** | **754** |
| Consumer: | | | | | | | |
| Medical Education | **391** | **(314)** | **81** | **167** | **325** | **—** | **325** |
| Other | **—** | **(8)** | **—** | **29** | **21** | **—** | **21** |
| Unallocated | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| | **$ 2,368** | **$ (397)** | **$ 81** | **$ 1,535** | **$ 3,587** | **$ —** | **$ 3,587** |

| Allowance for Loan Losses | December 31, 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | **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) | — | — | — |
| | $ 2,017 | $ (210) | $ 8 | $ 553 | $ 2,368 | $ — | $ 2,368 |

The Company maintains a general allowance for loan losses based on evaluating known and inherent risks in the loan portfolio, including management's continuing analysis of the factors underlying the quality of the loan portfolio. These factors include changes in the size and composition of the loan portfolio, actual loan loss experience, and current and anticipated economic conditions. The reserve is an estimate based upon factors and trends identified by management at the time the financial statements are prepared. Since the SBA fully guarantees the principle and interest of the PPP loans, unless the lender violated an obligation under the agreement, there is no allowance for loan loss calculation for the PPP loans as the loan losses, if any, are anticipated to be immaterial. The Company allocated increased allowance for loan loss provisions to the medical education loans for the year ended December 31, 2022 and 2021 as a result of charge-offs totaling $314,000, and $210,000, respectively. The Company allocated increased allowance for loan loss provisions to commercial business loans and other consumer loans for the year ended December 31, 2022 as a result of charge-offs totaling $75,000 and $8,000, respectively.

The following tables summarize information to the related to the recorded investment in loans receivable by loan class as of December 31, 2022 and 2021:

| December 31, 2022<br>Loans Receivable | | | |
|---|---|---|---|
| *(Dollars in thousands)* | Ending Balance | Ending Balance: Individually Evaluated for Impairment | Ending Balance: Collectively Evaluated for Impairment |
| Residential: | | | |
| One-to four-family | $ 154,953 | $ 1,885 | $ 153,068 |
| Home equity and HELOCs | 2,293 | 62 | 2,231 |
| Commercial: | | | |
| Commercial real estate | 185,811 | 113 | 185,698 |
| Commercial business | 54,464 | 38 | 54,426 |
| SBA PPP loans | 472 | — | 472 |
| Main Street Lending Program | 1,564 | — | 1,564 |
| Construction | 69,195 | — | 69,195 |
| Consumer: | | | |
| Medical education | 3,695 | — | 3,695 |
| Other | 376 | — | 376 |
| | $ 472,823 | $ 2,098 | $ 470,725 |

| | December 31, 2021 | | |
|---|---|---|---|
| | Loans Receivable | | |
| *(Dollars in thousands)* | **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 |
| | $ 328,362 | $ 2,484 | $ 325,878 |

The following tables summarize information related to impaired loans by loan portfolio class as of and for the year ended December 31, 2022 and 2021:

| | December 31, 2022 | | | | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | **Recorded Investment** | **Unpaid Principal Balance** | **Related Allowance** | **Average Record Investment** | **Interest Income Recognized** |
| With no related allowance recorded | | | | | |
| Residential: | | | | | |
| One-to four-family | **$ 1,885** | **$ 2,075** | **$ —** | **$ 1,463** | **$ —** |
| Home equity and HELOCs | **62** | **62** | **—** | **12** | **—** |
| Commercial: | | | | | |
| Commercial real estate | **113** | **113** | **—** | **141** | **8** |
| Commercial business | **38** | **38** | **—** | **56** | **3** |
| SBA PPP loans | **—** | **—** | **—** | **—** | **—** |
| Main Street Lending Program | **—** | **—** | **—** | **—** | **—** |
| Construction | **—** | **—** | **—** | **349** | **—** |
| | **2,098** | **2,288** | **—** | **2,021** | **11** |
| With an allowance recorded | | | | | |
| Residential: | | | | | |
| One-to four-family | **—** | **—** | **—** | **—** | **—** |
| Home equity and HELOCs | **—** | **—** | **—** | **—** | **—** |
| Commercial: | | | | | |
| Commercial real estate | **—** | **—** | **—** | **—** | **—** |
| Commercial business | **—** | **—** | **—** | **—** | **—** |
| Construction | **—** | **—** | **—** | **—** | **—** |
| | **—** | **—** | **—** | **—** | **—** |
| | **$ 2,098** | **$ 2,288** | **$ —** | **$ 2,021** | **$ 11** |

| *(Dollars in thousands)* | 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 |

If these loans were performing under the original contractual rate, interest income on such loans would have increased approximately $73,000 and $102,000 for the year ended December 31, 2022 and 2021, respectively.

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2022 and 2021:

| *(Dollars in thousands)* | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Residential: | | |
| One-to four-family | **$ 1,885** | $ 1,064 |
| Home equity and HELOCs | **62** | 68 |
| Commercial: | | |
| Commercial real estate | **—** | — |
| Commercial business | — | 95 |
| SBA PPP loans | — | — |
| Main Street Lending Program | — | — |
| Construction | — | 1,168 |
| Consumer: | | |
| Medical education | **1,079** | 1,358 |
| Other | — | — |
| | **$ 3,026** | $ 3,753 |

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, 2022 and 2021:

| | December 31, 2022 | | | | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | Pass | Special Mention | Substandard | Doubtful | Total |
| Residential: | | | | | |
| One-to four-family | **$ 153,068** | **$ —** | **$ 1,885** | **$ —** | **$ 154,953** |
| Home equity and HELOCs | **2,231** | **—** | **62** | **—** | **2,293** |
| Commercial: | | | | | |
| Commercial real estate | **184,214** | **1,484** | **113** | **—** | **185,811** |
| Commercial business | **54,426** | **—** | **38** | **—** | **54,464** |
| SBA PPP loans | **472** | **—** | **—** | **—** | **472** |
| Main Street Lending Program | **1,564** | **—** | **—** | **—** | **1,564** |
| Construction | **69,195** | **—** | **—** | **—** | **69,195** |
| Consumer: | | | | | |
| Medical education | **2,616** | **—** | **1,079** | **—** | **3,695** |
| Other | **376** | **—** | **—** | **—** | **376** |
| | **$ 468,162** | **$ 1,484** | **$ 3,177** | **$ —** | **$ 472,823** |

| | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | 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 |
| | $ 322,820 | $ 1,537 | $ 4,005 | $ — | $ 328,362 |

The following tables present the segments of the loan portfolio summarized by aging categories as of December 31, 2022 and 2021:

| | December 31, 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | 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 | $ 760 | $ 166 | $ 1,262 | $ 2,188 | $ 152,765 | $ 154,953 | $ — |
| Home equity and HELOCs | 22 | — | — | 22 | 2,271 | 2,293 | — |
| Commercial: | | | | | | | |
| Commercial real estate | — | — | — | — | 185,811 | 185,811 | — |
| Commercial business | — | — | — | — | 54,464 | 54,464 | — |
| SBA PPP loans | 18 | — | — | 18 | 454 | 472 | — |
| Main Street Lending Program | — | — | — | — | 1,564 | 1,564 | — |
| Construction | — | — | — | — | 69,195 | 69,195 | — |
| Consumer: | | | | | | | |
| Medical education | 381 | 149 | 514 | 1,044 | 2,651 | 3,695 | — |
| Other | — | — | — | — | 376 | 376 | — |
| | $ 1,181 | $ 315 | $ 1,776 | $ 3,272 | $ 469,551 | $ 472,823 | $ — |

| | December 31, 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | 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 | — |
| | $ 1,839 | $ 742 | $ 1,955 | $ 4,536 | $ 323,826 | $ 328,362 | $ — |

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.

At December 31, 2022 and 2021, the Bank had two loans identified as TDRs totaling $151,000 and $193,000, respectively. At December 31, 2022 and 2021, 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 2022 and 2021. No additional loan commitments were outstanding to these borrowers at December 31, 2022 and 2021. At December 31, 2022 and 2021, there were no specific reserves related to the TDRs.

The following table details the Bank's TDRs at December 31, 2022:

| *(Dollars in thousands)* | Number Of Loans | Accrual Status | Non-Accrual Status | Total TDRs |
|---|---|---|---|---|
| Commercial real estate | **1** | **$ 113** | **$ —** | **$ 113** |
| Commercial business | **1** | **38** | **—** | **38** |
| **Total** | **2** | **$ 151** | **$ —** | **$ 151** |

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

| *(Dollars in thousands)* | 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 |

**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, 2022 and 2021, the value of the mortgage servicing rights associated with the loan sales totaled $202,000 and $3.4 million. During the year ended December 31, 2022, the Company had a bulk sale of MSRs with an underlying unpaid principal balance of $350 million in loans to an unrelated party for a gain of $972,000. 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 $272,000 and $858,000 for the year ended December 31, 2022 and 2021.

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, 2022 and 2021:

| *(Dollars in thousands)* | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Balance at beginning of period** | **$ 3,382** | $ 2,041 |
| Servicing rights retained from loans sold | **216** | 2,137 |
| Amortization and other | **(206)** | (796) |
| Mortgage servicing rights sold | **(3,190)** | — |
| Valuation allowance provision | **—** | — |
| **Balance at end of period** | **$ 202** | $ 3,382 |
| **Fair value, end of year** | **$ 241** | $ 4,249 |

The key data and assumptions used in estimating the fair value of the Company's mortgage servicing rights as of December 31, 2022 and 2021 were as follows:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Long run Constant Prepayment Rate | **4.99 %** | 7.67 % |
| Weighted-Average Life (in years) | **28.1** | 27.4 |
| Weighted-Average Note Rate | **4.259 %** | 2.924 % |
| Weighted-Average Discount Rate | **9.50 %** | 9.00 % |

**6. Premises and Equipment**

Premises and equipment are summarized by major classification at December 31, 2022 and 2021, as follows:

| *(Dollars in thousands)* | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Automobile | **$ 119** | $ 119 |
| Land | **334** | 334 |
| Land improvements | **477** | 477 |
| Office buildings and improvements | **722** | 722 |
| Leasehold improvements | **1,563** | 1,557 |
| Furniture and equipment | **5,430** | 5,320 |
| Total Cost | **8,645** | 8,529 |
| Accumulated depreciation | **(6,043)** | (5,369) |
| | **$ 2,602** | $ 3,160 |

Depreciation expense for the year ended December 31, 2022 and 2021, was $674,000 and $706,000, respectively.

## 7. Deposits

Deposits at December 31, 2022 and 2021 consisted of the following:

| *(Dollars in thousands)* | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Demand accounts-interest bearing | $ **86,668** | $ 76,474 |
| Demand accounts-non-interest bearing | **202** | 174 |
| Money market deposit accounts | **111,707** | 101,309 |
| Passbook and statement accounts | **38,259** | 37,359 |
| Checking accounts | **221,385** | 216,499 |
| Subtotal - core deposits | **458,221** | 431,815 |
| Certificates of deposit | **67,017** | 32,174 |
| Total deposits | $ **525,238** | $ 463,989 |

At December 31, 2022, scheduled maturities of certificates of deposit for the periods are as follows:

| *(Dollars in thousands)* | |
|---|---|
| December 31, 2023 | $ **57,878** |
| December 31, 2024 | **5,559** |
| December 31, 2025 | **2,544** |
| December 31, 2026 | **669** |
| December 31, 2027 | **325** |
| December 31 2028 and thereafter | **42** |
| | $ **67,017** |

At December 31, 2022 and 2021, brokered deposits totaled $40.9 million and $10.0 million, respectively. In addition, the Company has certificates of deposit in denominations of $250,000 or more of $4.7 million and $7.1 million at December 31, 2022 and 2021.

## 8. Borrowings

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

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

| Issue Date | Maturity | Advance Type | Interest Rate | (Dollars in thousands) December 31, 2021 |
|---|---|---|---|---|
| 05/19/20 | 04/14/22 | Fixed Rate | 0.350% | $ **10** |
| 05/21/20 | 04/15/22 | Fixed Rate | 0.350% | **2,785** |
| 05/21/20 | 04/19/22 | Fixed Rate | 0.350% | **70** |
| 05/29/20 | 04/21/22 | Fixed Rate | 0.350% | **249** |
| 07/27/20 | 05/04/22 | Fixed Rate | 0.350% | **5** |
| | | | | $ **3,119** |

The borrowings were fully collateralized by the PPP loans originated by the Bank. There were no outstanding advances from the PPPLF as of December 31, 2022.

The following table details the Company's fixed rate advances from the FHLB as of December 31, 2022 and 2021:

**FHLB long-term borrowings:**

| | | | | (Dollars in thousands) | |
|---|---|---|---|---|---|
| **Issue Date** | **Maturity** | **Advance Type** | **Interest Rate** | **December 31, 2022** | **December 31, 2021** |
| 07/07/20 | 07/07/25 | Fixed Rate | 0.851% | **$ 26,593** | $ 26,431 |
| | | | | **$ 26,593** | $ 26,431 |

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 $204.0 million as of December 31, 2022. 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, 2022 and 2021, the Company had no borrowings outstanding under the Open Repo Plus line. The Company had outstanding FHLB advances totaling $26.6 million and $26.4 million as of December 31, 2022 and 2021, respectively. The Company had $61.5 million outstanding in letters of credit to secure deposits, which reduced the maximum borrowing capacity at December 31, 2022.

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

The Company also has available lines of credit totaling $6.0 million with ACBI which the Company had not borrowed against for the year ended December 31, 2022. The Company 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.

**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, 2022 are as follows (in thousands):

| **(Dollars in thousands)** | **Principle** | **Unamortized Debt Issuance Costs** | **Net Balance** |
|---|---|---|---|
| 4.5% subordinated notes, due May 28, 2031 | **$ 10,000** | **$ (3)** | **$ 9,997** |

**10. Regulatory Capital**

Information presented for December 31, 2022 and 2021, 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, 2022, the Bank met all the capital adequacy requirements to which they were subject. In February 2022, the Company infused $5.0 million to the Bank as Tier 1 capital. At December 31, 2022, 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, 2022 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):

| | Actual | | Capital Adequacy Purposes | | To Be Well Capitalized Under the Prompt Corrective Action Provision | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **As of December 31, 2022** | | | | | | |
| Total risk-based capital (to risk-weighted assets) | **$ 57,321** | **11.4%** | **$ 40,282** | **≥ 8.0%** | **$ 50,353** | **≥ 10.0%** |
| Tier 1 capital (to risk-weighted assets) | **53,734** | **10.7** | **≥30,212** | **≥6.0** | **≥40,282** | **≥8.0** |
| Tier 1 capital (to average assets) | **53,734** | **8.7** | **≥24,754** | **≥4.0** | **≥30,942** | **≥5.0** |
| Tier 1 common equity (to risk-weighted assets) | **53,734** | **10.7** | **≥22,659** | **≥4.5** | **≥32,729** | **≥6.5** |
| **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 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, 2022 and 2021, the Bank maintained the minimum required net worth levels.

The Bank must hold a capital conservation buffer. As of December 31, 2022, the Bank is required to maintain a capital conservation buffer of 2.50%. At December 31, 2022, the Bank met the regulatory minimum capital requirements. Failure to maintain the full amount of the buffer will result in restrictions on the Bank's ability to make capital distributions and to pay discretionary bonuses to executive officers.

**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, 2022 and 2021. The following tables summarize the amounts recorded in the Company's Consolidated Statement of Financial Condition for derivatives not designated as hedging instruments as of December 31, 2022 and 2021, (dollars in thousands):

***December 31, 2022***

**Asset Derivatives**

| | Balance Sheet Presentation | Fair Value | Notional Amount |
|---|---|---|---|
| **IRLCs** | **Mortgage banking derivatives** | **$ 612** | **$ 38,675** |
| **Forward loan sales commitments** | **Mortgage banking derivatives** | **—** | **—** |
| **TBA securities** | **Mortgage banking derivatives** | **—** | **—** |

**Liability Derivatives**

| | Balance Sheet Presentation | Fair Value | Notional Amount |
|---|---|---|---|
| **IRLCs** | **Other liabilities** | **$ —** | **$ —** |
| **Forward loan sales commitments** | **Other liabilities** | **2** | **1,130** |
| **TBA securities** | **Other liabilities** | **—** | **—** |

***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 |

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, 2022 and 2021 (dollars in thousands):

| | Consolidated Statements of Income Presentation | Gain/(Loss) | |
|---|---|---|---|
| | | **For the year ended December 31, 2022** | For the year ended December 31, 2021 |
| IRLCs | Loss from derivative instruments | **$ (734)** | $ (1,195) |
| Forward loan sales commitments | Loss from derivative instruments | **(42)** | (85) |
| TBA securities | (Loss) gain from derivative instruments | **(1)** | 77 |
| | Total loss from derivative instruments | **$ (777)** | $ (1,203) |

**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, 2022, there were 237,300 stock options outstanding of which 109,340 of the stock options were vested and exercisable at December 31, 2022. At December 31, 2022, there were 167,000 restricted stock shares outstanding of which 53,400 restricted stock shares were vested and exercisable at December 31, 2022. For the year ended December 31, 2022, 35,000 stock options outstanding and 2,800 restricted stock shares outstanding were not included in the computation of diluted net income per share as their effect was anti-dilutive. 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.

The calculation of EPS for the year ended December 31, 2022 and 2021, is as follows (dollars in thousands, except per share data):

| | For the Year Ended December 31, 2022 | For the Year Ended December 31, 2021 |
|---|---|---|
| Net income (basic and diluted) | **$ 2,230** | $ 4,052 |
| | | |
| Weighted average number of shares issued | **2,317,906** | 2,272,167 |
| Less weighted average number of treasury shares | **(111,085)** | (96,032) |
| Less weighted average number of unearned ESOP shares awards | **(128,936)** | (134,935) |
| Less weighted average number of unvested restricted stock awards | **(82,140)** | (56,770) |
| Basic weighted average shares outstanding | **1,995,745** | 1,984,430 |
| Add dilutive effect of stock options | **57,144** | 46,693 |
| Add dilutive effect of restricted stock awards | **56,844** | 13,954 |
| Diluted weighted average shares outstanding | **2,109,733** | 2,045,077 |
| | | |
| Net income per share | | |
| Basic | **$ 1.12** | $ 2.04 |
| Diluted | **$ 1.06** | $ 1.98 |

**13. Employee Benefits**

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

The ESOP trustee purchased, on behalf of the ESOP, 8% of the total number of shares of HV Bancorp common stock issued in the offering. The ESOP funded the stock purchase with a loan from HV Bancorp equal to the aggregate purchase price of the common stock. The loan will be repaid principally through Huntingdon Valley Bank’s contribution to the ESOP and dividends payable on common stock held by the ESOP over the anticipated 20-year term of the loan. The interest rate for the ESOP loan is an adjustable rate equal to the prime rate, as

published in The Wall Street Journal, beginning on the closing date of the conversion. Thereafter the interest rate will adjust annually and will be the prime rate on the first business day of the calendar year, retroactive to January 1 of such year. The collateral for the loan is the common stock of the Company purchased by the ESOP.

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

During the year ended June 30, 2017, the ESOP purchased 8% of the total shares issued which equated to 174,570 shares of the Company's common stock in the open market ranging from $12.50 per share to $14.21 per share for a weighted average price per share of $13.92, and a total purchase price of $2,430,000. The Company recognized ESOP expense of $46,000 and $166,000 for the year ended December 31, 2022 and 2021, respectively.

The following table presents the components of the ESOP Shares at December 31, 2022 and 2021:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Allocated shares | **44,813** | 43,595 |
| Committed shares | — | — |
| Unreleased shares | **128,776** | 130,928 |
| Total ESOP shares | **173,589** | 174,523 |
| | | |
| Fair value of unreleased shares (in thousands) | **$ 3,662** | $ 2,854 |

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. During the year ended December 31, 2022, the Company made no contributions to the Plan. The Company made a $150,000 contribution to the Plan during the year ended December 31, 2021.

**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, 2022, 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, 2022, there were 115,000 grants issued under the 2021 Equity Incentive Plan with 60,000 shares available for future awards under this plan. There were no shares outstanding under the 2021 Equity Incentive Plan at December 31, 2021. During June 2022, 80,000 shares of restricted stock awards were granted which vest over a seven year period. 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. In addition, during June 2022, 35,000 shares of stock options were granted which vest 20% per year over a five year period.

Stock option expense was $102,000 and $58,000 for the year ended December 31, 2022 and 2021, respectively. At December 31, 2022, total unrecognized compensation cost related to stock options was $481,000.

A summary of the Company's stock option activity and related information for the year ended December 31, 2022 and 2021 was as follows:

| | **December 31, 2022** | | | |
|---|---|---|---|---|
| | Options | Weighted-Average Exercise Price | Weighted-Average Remaining contractual Life (in years) | Average Intrinsic Value |
| Outstanding, January 1, 2022 | **211,000** | **$ 14.92** | **6.6** | **$ 1,451,680** |
| Granted | **35,000** | **20.11** | — | — |
| Exercised | **(8,700)** | **15.46** | — | — |
| Forfeited | — | — | — | — |
| Outstanding, December 31, 2022 | **237,300** | **$ 15.67** | **6.2** | **$ 3,030,321** |
| Exercisable, December 31, 2022 | **109,340** | **$ 14.85** | **5.6** | **$ 1,485,931** |

| | **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 | 211,000 | $ 14.92 | 6.6 | $ 1,451,680 |
| Exercisable, December 31, 2021 | 88,220 | $ 14.89 | 6.6 | $ 609,600 |

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

| | Year Ended December 31, |
|---|---|
| | **2022** |
| Dividend yield | **0.00%** |
| Expected life | **10 years** |
| Expected volatility | **36.41%** |
| Risk-free interest rate | **3.33%** |
| Weighted average grant date fair value | **$ 10.62** |

Restricted stock expense was $433,000 and $182,000 for the year ended December 31, 2022 and 2021, respectively. At December 31, 2022, the expected future compensation expense relating to non-vested stock outstanding was $1.9 million.

A summary of the Company's restricted stock activity and related information for the year ended December 31, 2022 and 2021, is as follows:

| | Number of Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Non-vested, January 1, 2021 | 62,860 | $ 14.97 |
| Granted | — | — |
| Vested | (12,180) | 14.95 |
| Forfeited | — | — |
| Non-vested at December 31, 2021 | 50,680 | $ 14.98 |
| Granted | **80,000** | **20.11** |
| Vested | **(17,080)** | **15.09** |
| Forfeited | — | — |
| Non-vested at December 31, 2022 | **113,600** | **$ 18.58** |

**14. Income Taxes**

The table below summarizes the income tax expense for the year ended December 31, 2022 and 2021:

| *(Dollars in thousands)* | **For the year ended December 31, 2022** | **For the year ended December 31, 2021** |
|---|---|---|
| Current: | | |
| Federal | **$ 937** | $ 1,695 |
| State | **8** | 411 |
| | **945** | 2,106 |
| Deferred: | | |
| Federal | **(370)** | (642) |
| | **(370)** | (642) |
| Total income tax expense | **$ 575** | $ 1,464 |

The expense for income taxes for the year ended December 31, 2022 and 2021 differed from the federal income tax statutory rate due to the following:

| | For the year ended December 31, 2022 | | For the year ended December 31, 2021 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | Amount | Rate | Amount | Rate |
| Tax at statutory rate | **$ 589** | **21.0%** | $ 1,158 | 21.0% |
| State tax, net of federal benefit | **6** | **0.2%** | 326 | 5.9% |
| Bank-owned life insurance | **(124)** | **-4.4%** | (31) | -0.6% |
| Tax-exempt interest | **(11)** | **-0.4%** | (7) | -0.1% |
| Other, net | **115** | **4.1%** | 18 | 0.3% |
| | **$ 575** | **20.5%** | $ 1,464 | 26.5% |

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:

| *(Dollars in thousands)* | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for loan losses | **$ 753** | $ 497 |
| Non-accrual interest | **10** | 8 |
| Accrued expenses | **74** | 182 |
| Stock-based compensation | **57** | 30 |
| Unrealized loss on securities | **1,367** | 62 |
| Operating lease liabilities | **1,729** | 1,896 |
| Gross deferred tax assets | **$ 3,990** | $ 2,675 |
| | | |
| Deferred tax liabilities: | | |
| Depreciation | **$ 296** | $ 168 |
| Fair value adjustment of IRLC, TBA securities and forward loan sales commitments | **128** | 291 |
| Operating lease right-of-use assets | **1,647** | 1,820 |
| Gain on fair value of loans | **62** | 193 |
| | | |
| Gross deferred tax liabilities | **2,133** | 2,472 |
| | | |
| Net deferred tax asset | **$ 1,857** | $ 203 |

Retained earnings included $1.7 million at December 31, 2022 and 2021, for which no provision for federal income tax has been made. This amount represents deductions for bad debt reserves for tax purposes, which were only allowed to savings institutions that met certain criteria prescribed by the Internal Revenue Code of 1986, as amended. The Small Business Job Protection Act (the Act) eliminated the special bad debt deduction granted solely to thrifts. Under the terms of the Act, there would be no recapture of the pre-1988 (base year) reserves. However, these pre-1988 reserves would be subject to recapture under the rules of the Internal Revenue Code if the Company pays a cash dividend in excess of earnings and profits, or liquidates.

**15. Fair Value of Financial Instruments**

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

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

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

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

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

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

Assets measured at fair value on a recurring basis at December 31, 2022 and 2021 are summarized below:

| *(Dollars in thousands)* | December 31, 2022 Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investment securities available-for-sale: | | | | |
| U.S. governmental securities | **$ —** | **$ 2,887** | **$ —** | **$ 2,887** |
| U.S. Treasury securities | **38,556** | **—** | **—** | **38,556** |
| Corporate notes | **—** | **11,782** | **—** | **11,782** |
| Collateralized mortgage obligations - agency residential | **—** | **1,681** | **—** | **1,681** |
| Mortgage-backed securities - agency residential | **—** | **511** | **—** | **511** |
| Bank CDs | **—** | **247** | **—** | **247** |
| Loans held-for-sale | **—** | **15,239** | **—** | **15,239** |
| Interest rate lock commitments | **—** | **—** | **612** | **612** |
| Forward loan sales commitments | **—** | **—** | **—** | **—** |
| TBA securities | **—** | **—** | **—** | **—** |
| | **$ 38,556** | **$ 32,347** | **$ 612** | **$ 71,515** |

| *(Dollars in thousands)* | 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 |
| | $ — | $ 82,026 | $ 4,424 | $ 86,450 |

Liabilities measured at fair value on a recurring basis at December 31, 2022 and 2021 are summarized below:

| *(Dollars in thousands)* | December 31, 2022 Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Interest rate lock commitments | **$ —** | **$ —** | **$ —** | **$ —** |
| Forward loan sales commitments | **—** | **2** | **—** | **2** |
| TBA securities | **—** | **—** | **—** | **—** |
| | **$ —** | **$ 2** | **$ —** | **$ 2** |

| *(Dollars in thousands)* | December 31, 2021 Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Interest rate lock commitments | $ — | $ — | $ 36 | $ 36 |
| Forward loan sales commitments | — | 35 | — | 35 |
| TBA securities | — | — | — | — |
| | $ — | $ 35 | $ 36 | $ 71 |

There were no assets measured at fair value on a nonrecurring basis at December 31, 2022 and 2021.

The estimated fair values of the Company's financial instruments that are not required to be measured at fair value were as follows at December 31, 2022 and 2021 (in thousands):

| December 31, 2022<br>*(Dollars in thousands)* | 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 |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Cash and cash equivalents | $ 16,280 | $ 16,280 | $ 16,280 | $ — | $ — |
| Investments securities, held-to-maturity | 29,771 | 27,663 | — | 26,761 | 902 |
| Equity securities | 500 | 500 | — | — | 500 |
| Loans receivable, net | 468,955 | 458,166 | — | — | 458,166 |
| Bank-owned life insurance | 10,263 | 10,263 | 10,263 | — | — |
| Restricted investment in bank stock | 2,052 | 2,052 | 2,052 | — | — |
| Accrued interest receivable | 2,473 | 2,473 | 2,473 | — | — |
| Mortgage Servicing Rights | 202 | 241 | — | — | 241 |
| Liabilities: | | | | | |
| Deposits | $ 525,238 | $ 523,920 | $ 458,221 | $ 65,699 | $ — |
| Advances from the FHLB | 26,593 | 24,236 | — | 24,236 | — |
| Federal Reserve PPPLF advances | — | — | — | — | — |
| Subordinated debt | 9,997 | 8,594 | — | — | 8,594 |
| Advances from borrowers for taxes and insurance | 503 | 503 | 503 | — | — |
| Accrued interest payable | 285 | 285 | 285 | — | — |
| Off-balance sheet: | | | | | |
| Commitment to extend credit | $ — | $ — | $ — | $ — | $ — |

| December 31, 2021 *(Dollars in thousands)* | 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 |
|---|---|---|---|---|---|
| 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 | $ — | $ — | $ — | $ — | $ — |

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 ended December 31, 2022, the Company transferred $935,000 out of Level 3 as a result of change in the classification of securities from available-for-sale to held-to-maturity. During the year ended 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.

The following tables represent assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31, 2022 and 2021:

| | Level 3 | | |
|---|---|---|---|
| | Corporate notes | IRLC- Asset | IRLC- Liability |
| **Beginning Balance: January 1, 2022** | **$ 3,042** | **$ 1,382** | **$ (36)** |
| Total gains (losses) (unrealized): | | | |
| Included in other comprehensive loss | **(107)** | — | — |
| Total (loss) gains included in earnings and held at reporting date | **—** | **(770)** | **36** |
| Purchases, sales and settlements | **(2,000)** | — | — |
| Transfers out of Level 3 | **(935)** | — | — |
| **Ending Balance: December 31, 2022** | **$ —** | **$ 612** | **$ —** |
| Change in unrealized (losses) gains for the period included in earnings (or changes in net assets) for assets held as of December 31, 2022 | — | **(770)** | **36** |
| Change in unrealized losses for the period included other comprehensive loss for assets held as of December 31, 2022 | **$ (107)** | **$ —** | **$ —** |

| | 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** | $ 3,042 | $ 1,382 | $ (36) |
| 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) | $ — | $ — |

At December 31, 2022, there were no corporate notes measured at fair value on a recurring basis. 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, 2022 and 2021, the Company has classified $612,000 and $1.3 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, 2022, the weighted average pull-through rates applied ranged from 69.6% to 99.3%.

Significant unobservable inputs for assets and liabilities measured at fair value on a recurring basis at December 31, 2022 and 2021:

**Quantitative Information about Level 3 Fair Value Measurements at December 31, 2022**

| *(Dollars in thousands)* | Fair Value | Valuation Technique | Significant Unobservable Input | Range | Weighted Average |
|---|---|---|---|---|---|
| Measured at Fair Value on a Recurring Basis: | | | | | |
| Net derivative asset and liability: | | | | | |
| IRLC | **$ 612** | Discounted cash flows | Pull-through Rates | **69.56%-99.29%** | **91.93%** |

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

| *(Dollars in thousands)* | 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% |

**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 (loss) (“AOCI”) for the year ended December 31, 2022 and 2021, respectively. All amounts are presented net of tax.

**Net unrealized holding (losses) gains on securities (1):**

| *(Dollars in thousands)* | Net unrealized gains and losses on available-for-sales securities | Net unrealized gains and losses on held-to-maturity securities |
|---|---|---|
| **Balance at beginning period** | **$ (148)** | **$ —** |
| Unrealized holding loss on available-for-sale securities before reclassification | **(3,622)** | — |
| Accretion of discount on securities transferred to held-to-maturity | **—** | **515** |
| Amount reclassified for investment securities gains included in net income | **(11)** | — |
| Net current-period other comprehensive (loss) income | **(3,633)** | **515** |
| **Balance at ending period** | **$ (3,781)** | **$ 515** |

**(1) All amounts are net of tax. Related income tax expense or benefit is calculated using an income tax rate approximately 29.5% for the year ended December 31, 2022.**

**Net unrealized holding (losses) gains on available-for-sale securities (1):**

| *(Dollars in thousands)* | For the Year Ended December 31, 2021 |
|---|---|
| **Balance at beginning period** | $ 238 |
| Unrealized holding loss on available-for-sale securities before reclassification | (311) |
| Amount reclassified for investment securities gains included in net income | (75) |
| Net current-period other comprehensive loss | (386) |
| **Balance at ending period** | $ (148) |

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

The following table present reclassifications out of AOCI by component for the year ended December 31, 2022 and 2021, respectively:

| | For the Year Ended December 31, 2022 | For the Year Ended December 31, 2021 | |
|---|---|---|---|
| *(Dollars in thousands)* | Amount reclassified from AOCI (2) | Amount reclassified from AOCI (2) | Affected line item in the Consolidated Statement of Income |
| **Net unrealized gain on available-for securities (1)** | **$ 16** | $ 106 | **Gain on sale of investment securities, net** |
| | **(5)** | (31) | **Income Tax Expense** |
| | **$ 11** | $ 75 | |

**(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, 2022 and 2021 are $23.7 million and $39.7 million, respectively. Open commercial loan commitments granted to loan applicants at December 31, 2022 and 2021, are $7.0 million and $8.4 million, respectively.

At December 31, 2022, the Company had no forward loan sales commitments compared to $2.3 million at December 31, 2021. The Company had no mandatory TBAs at December 31, 2022 compared to $250,000 at December 31, 2021.

The undisbursed portion of open-ended HELOCs at December 31, 2022 and 2021 is $7.7 million and $8.9 million, respectively. The undisbursed portion of open-ended commercial and commercial real estate lines of credit at December 31, 2022 and 2021 are $86.5 million and $61.3 million, respectively. At December 31, 2022 and 2021, there was an open commercial letter of credit of $805,000 and $655,000.

There was $61.5 million and $63.8 million outstanding in letters of credit issued by the FHLB to secure certain deposits performance standby letters of credit at December 31, 2022 and 2021.

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, 2022 and 2021.

Residential mortgage loans serviced for others at December 31, 2022 and 2021 totaled $22.9 million and $371.9 million, respectively.

**18. Concentrations**

At December 31, 2022 and 2021, the Company's lending activities were 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:

| *(Dollars in thousands)* | Number of Investors | Percentages of Mortgages Sold |
|---|---|---|
| **December 31, 2022** | **3** | **69%** |
| December 31, 2021 | 3 | 85% |

**19. Related Party**

In the ordinary course of business, the Company has granted loans to related parties. The amount outstanding at December 31, 2022 and 2021 was $8.6 million and $2.0 million. Originations to related parties and repayments from related parties during the year-ended December 31, 2022 were $9.8 million and $3.2 million, respectively. During the year-ended December 31, 2021, originations to related parties and repayments from related parties were $4.0 million and $4.0 million, respectively.

The Company held deposits of approximately $11.1 million and $16.0 million for related parties at December 31, 2022 and 2021, 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 $4.6 million and $881,000 at December 31, 2022 and 2021, and for which we received no fee income for the year ended December 31, 2022 and 2021.

**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.

The following table presents noninterest income for the year ended December 31, 2022 and 2021:

| *(Dollars in thousands)* | Year Ended December 31, 2022 | Year Ended December 31, 2021 |
|---|---|---|
| **Non-Interest Income** | | |
| **In-scope of Topic 606:** | | |
| Fee income | **$ 487** | $ 309 |
| Insufficient fund fees | **96** | 75 |
| Other service charges | **232** | 97 |
| ATM interchange fee income | **18** | 14 |
| Other income | **5** | 2 |
| **Total Non-Interest Income (in-scope of Topic 606)** | **$ 838** | $ 497 |
| **Out-of-scope of Topic 606:** | | |
| Increase in cash surrender value of bank-owned life insurance | **$ 236** | $ 149 |
| Gain on sale of loans, net | **6,492** | 14,853 |
| Gain on sale of available-for-sale securities | **16** | 106 |
| (Loss) gain from derivative instruments | **(777)** | (1,203) |
| Change in fair value for loans held-for-sale | **(623)** | (1,353) |
| Gain on sale of mortgage servicing rights, net | **972** | — |
| Other | **724** | 375 |
| **Total Non-Interest Income (out-scope of Topic 606)** | **$ 7,040** | $ 12,927 |
| **Total Non-Interest Income (in-scope of Topic 606)** | **838** | 497 |
| **Total Non-Interest Income** | **$ 7,878** | $ 13,424 |

**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, 2022 | December 31, 2021 |
|---|---|---|---|
| **Lease Right-of-Use Assets** | **Classification** | | |
| Operating lease right-of-use assets | Operating lease right-of-use asset | **$ 7,841** | $ 8,669 |
| **Total Lease Right-of-Use Assets** | | **$ 7,841** | $ 8,669 |

| | | December 31, 2022 | December 31, 2021 |
|---|---|---|---|
| **Lease Liabilities** | **Classification** | | |
| Operating lease liabilities | Operating Lease liabilities | **$ 8,234** | $ 9,030 |
| **Total Lease Liabilities** | | **$ 8,234** | $ 9,030 |

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, 2022 | December 31, 2021 |
|---|---|---|
| **Weighted-average remaining lease term** | | |
| Operating leases | **10.1 years** | 11.0 years |
| **Weighted-average discount rate** | | |
| Operating leases | **2.05%** | 2.04% |

The following table represents lease costs:

| (Dollars in thousands) | For the year ended December 31, 2022 | For the year ended December 31, 2021 |
|---|---|---|
| Operating lease cost | **$ 828** | $ 859 |
| Short-term lease cost | **70** | 17 |
| Total | **$ 898** | $ 876 |

Future minimum payments for operating leases with initial or remaining terms of one year or more as of December 31, 2022 and 2021 were as follows:

| (Dollars in thousands) | December 31, 2022 |
|---|---|
| Twelve Months Ended: | |
| Within one year | **$ 987** |
| After one but within two years | **988** |
| After two but within three years | **937** |
| After three but within four years | **949** |
| After four but within five years | **962** |
| After five years | **4,354** |
| Total Future Minimum Lease Payments | **9,177** |
| Amounts Representing Interest | **(943)** |
| Present Value of Net Future Minimum Lease Payments | **$ 8,234** |

**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 present summary financial information for the reportable segments (in thousands):

| | For the year ended December 31, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Retail Banking | Mortgage Banking | Business Banking | Holding Company | Intercompany Eliminations | Consolidated |
| Total Interest Income | $ 7,331 | $ 820 | $ 14,699 | $ 50 | $ (29) | $ 22,871 |
| Total Interest Expense | 1,218 | 115 | 2,262 | 451 | (13) | 4,033 |
| Net Interest Income | 6,113 | 705 | 12,437 | (401) | (16) | 18,838 |
| Provision for Loan losses | 334 | — | 1,201 | — | — | 1,535 |
| Net interest income (loss) after provision for loan losses | 5,779 | 705 | 11,236 | (401) | (16) | 17,303 |
| Total non-interest income | 1,007 | 6,127 | 794 | — | (50) | 7,878 |
| Non-interest Expense: | | | | | | |
| Salaries and employee benefits | 5,231 | 4,368 | 3,926 | — | (16) | 13,509 |
| Other expenses | 4,542 | 2,598 | 1,493 | 284 | (50) | 8,867 |
| Total non-interest expenses | 9,773 | 6,966 | 5,419 | 284 | (66) | 22,376 |
| Income (loss) before income taxes | (2,987) | (134) | 6,611 | (685) | — | 2,805 |
| Income tax (benefit) expense | (615) | (28) | 1,362 | (144) | — | 575 |
| Net (loss) income | $ (2,372) | $ (106) | $ 5,249 | $ (541) | $ — | $ 2,230 |
| Total assets as of December 31, 2022 | $ 295,832 | $ 16,053 | $ 303,177 | $ 52,144 | $ (51,449) | $ 615,757 |

| | 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 |
| (Credit) Provision for Loan losses | (189) | — | 742 | — | — | 553 |
| Net interest income (loss) 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 (benefit) expense | (954) | 1,306 | 1,193 | (81) | — | 1,464 |
| Net (loss) income | $ (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 |

**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, 2022 | December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ **981** | $ 2,991 |
| Interest-bearing deposits with banks | **50** | 241 |
| Cash and cash equivalents | **1,031** | 3,232 |
| Investment securities available-for-sale, at fair value | **—** | 3,531 |
| Equity securities | **500** | 500 |
| Loan to ESOP | **1,967** | 1,993 |
| Accrued interest receivable | **—** | 31 |
| Investment in Subsidiary | **48,501** | 43,303 |
| Deferred income taxes, net | **—** | 7 |
| Other assets | **144** | 90 |
| **Total Assets** | $ **52,143** | $ 52,687 |
| **Liabilities and Shareholders' Equity** | | |
| **Liabilities** | | |
| Subordinated debt | $ **9,997** | $ 9,996 |
| Other liabilities | **53** | 55 |
| Shareholders' equity | **42,093** | 42,636 |
| **Total Liabilities and Shareholders' Equity** | $ **52,143** | $ 52,687 |

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

| | For the year ended December 31, 2022 | For the year ended December 31, 2021 |
|---|---|---|
| **Interest Income** | | |
| Interest and dividends on investments: | | |
| Taxable | $ 20 | $ 84 |
| Interest on mortgage-backed securities and collateralized mortgage obligations | — | 1 |
| Interest on interest-bearing deposits | 14 | 15 |
| Interest from ESOP Loan | 16 | 68 |
| **Total Interest Income** | 50 | 168 |
| **Interest Expense** | | |
| Interest on subordinated debt | 451 | 268 |
| **Total Interest Expense** | 451 | 268 |
| **Net Interest Loss** | (401) | (100) |
| **Non-Interest Income** | | |
| Gain on sale of available-for-sale securities, net | — | 18 |
| **Total Non-Interest Income** | — | 18 |
| **Non-Interest Expense** | | |
| Professional fees | 119 | 144 |
| Other expenses | 165 | 162 |
| **Total Non-Interest Expense** | 284 | 306 |
| **Loss before income taxes** | (685) | (388) |
| **Income Tax Benefit** | (144) | (81) |
| **Loss before equity in undistributed net earnings of subsidiary** | (541) | (307) |
| **Equity in undistributed net earnings of subsidiary** | 2,771 | 4,359 |
| **Net Income** | $ 2,230 | $ 4,052 |
| | | |
| Other comprehensive (loss) income, net of tax | | |
| Unrealized loss on available-for-sale securities (pre-tax ($4,407), and $(441)) | $ (3,622) | $ (311) |
| Accretion of discount on securities transferred to held-to- maturity | 515 | — |
| Reclassification adjustment for gains included in income (pre-tax ($16) and ($106), respectively | (11) | (75) |
| Other comprehensive loss | (3,118) | (386) |
| **Comprehensive (Loss) Income** | $ (888) | $ 3,666 |
| | | |
| **Net Income per share:** | | |
| Basic | $ 1.12 | $ 2.04 |
| Diluted | $ 1.06 | $ 1.98 |

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

| | For the year ended December 31, 2022 | For the year ended December 31, 2021 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | **$ 2,230** | $ 4,052 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Equity in undistributed net earnings of subsidiary | **(2,771)** | (4,359) |
| Net amortization of securities premiums and discounts | **—** | 5 |
| Gain on sale of available-for-sale securities, net | **—** | (18) |
| Decrease (increase) in: | | |
| Accrued interest receivable | **31** | (18) |
| Prepaid federal income taxes | **(61)** | (68) |
| Prepaid and other assets | **7** | 251 |
| Other liabilities | **(2)** | 11 |
| Net cash used in operating activities | **(566)** | (144) |
| **Cash Flows from Investing Activities** | | |
| ESOP repayment | **42** | 102 |
| Activity in available-for-sale securities: | | |
| Proceeds from sales | **—** | 1,090 |
| Maturities and repayments | **—** | 221 |
| Purchases | **—** | (3,616) |
| Investment in Subsidiary | **(1,441)** | (5,000) |
| Net cash used in investing activities | **(1,399)** | (7,203) |
| **Cash Flows from Financing Activities** | | |
| Net proceeds from issuance of subordinated debt | **—** | 9,996 |
| Proceeds from stock option exercise | **136** | 28 |
| Purchase of treasury stock | **(372)** | (391) |
| Net cash (used in) provided by financing activities | **(236)** | 9,633 |
| **(Decrease) Increase in Cash and Cash Equivalents** | **$ (2,201)** | $ 2,286 |
| **Cash and Cash Equivalents, beginning of year** | **$ 3,232** | $ 946 |
| **Cash and Cash Equivalents, end of year** | **$ 1,031** | $ 3,232 |
| **Supplementary Schedule of Noncash Investing Activities** | | |
| Transfer of investments securities available-for-sale to Subsidiary | **$ 3,796** | $ — |

**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, 2022. 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, 2022 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, 2022 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 | /s/ Joseph C. O'Neill, Jr. |
| --- | --- |
| Travis J. Thompson | Joseph C. O'Neill, Jr. |
| Chief Executive Officer | 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, 2022 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**

Our Board of Directors is comprised of six members. Our Bylaws provide that directors are divided into three classes, with one class of directors elected annually. Our directors are generally elected to serve for a three-year period and until their respective successors shall have been elected and shall qualify.

The table below sets forth certain information regarding members of our Board of Directors, and executive officers who are not directors, including the terms of office of board members.

| Name | Position(s) Held With HV Bancorp, Inc. | Age(1) | Director Since (2) | Current Term Expires |
|---|---|---|---|---|
| **BOARD MEMBERS** | | | | |
| Scott W. Froggatt | Director | 63 | 1999 | 2023 |
| Travis J. Thompson | CEO and Chairman of the Board | 50 | 2007 | 2023 |
| Carl Hj. Asplundh III | Director | 59 | 2018 | 2024 |
| Michael L. Hammer | Director | 46 | 2020 | 2024 |
| Robert J. Marino | President and Vice Chair of the Board | 58 | 2018 | 2024 |
| John D. Behm | Director | 55 | 2016 | 2025 |
| **EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS** | | | | |
| Joseph C. O'Neill, Jr. | Executive Vice President and Chief Financial Officer | 64 | N/A | N/A |
| J. Chris Jacobsen | Executive Vice President and Chief Operating Officer | 55 | N/A | N/A |
| Charles S. Hutt | Executive Vice President and Chief Operations Officer- Mortgage Division | 64 | N/A | N/A |
| Hugh W. Connelly | Executive Vice President and Chief Lending Officer- Business Banking | 57 | N/A | N/A |
| Derek P.B. Warden | Executive Vice President and Chief Credit Officer- Business Banking | 61 | N/A | N/A |

(1) As of December 31, 2022.
(2) Includes service with Huntingdon Valley Bank and HV Bancorp, Inc.

The biographies of each of the board members and executive officers are set forth below. With respect to directors, the biographies also contain information regarding the person's business experience and the experiences, qualifications, attributes or skills that caused the Nominating and Corporate Governance Committee to determine that the person should serve as a director. Each director of HV Bancorp, Inc. is also a director of Huntingdon Valley Bank.

**Directors**

***John D. Behm*** is a Managing Principal of Cresa Global Inc., the world's largest occupier-focused commercial real estate firm. Mr. Behm began working at Cresa in 1996 as co-founder and co-Managing Principal of its Philadelphia and Princeton offices. Mr. Behm has worked on a variety of commercial real estate matters at Cresa, including process management, real estate administration, planning, managing and negotiating leases, building sales/purchases, build-to-suit projects, land sales/purchases, and renewals and dispositions for end users of space on a local, national and international basis. Mr. Behm's business experience and contacts in the local community are among his qualifications as a director.

***Scott W. Froggatt*** is currently a Senior Vice President at Land Services USA, Inc., a large title insurance agency located in Philadelphia, a position he has held since May 2015. Previously, Mr. Froggatt was an Executive Vice President at Robert Chalphin Associates Inc., a title insurance agency and had worked for Robert Chalphin Associates since 1981. He has chaired and served on many committees for Pennsylvania Land Title Association, and has earned the designation of Associate Land Title Professional. Mr. Froggatt's business and financial experience and contacts in the local community are among his qualifications to serve as a director.

***Travis J. Thompson*** was appointed Chief Executive Officer of Huntingdon Valley Bank in January 2013 and Chairman of the Board in July 2016. Mr. Thompson had also been appointed President of Huntingdon Valley Bank in January 2013, and served in that capacity until November 30, 2021. From 2006 through 2012, Mr. Thompson was an executive officer of Suburban Marble & Granite Inc., first as its Chief Operating Officer and later as its President. From 1998 to 2006, Mr. Thompson was an associate, shareholder and managing shareholder at the law firm of Liederbach, Hahn, Foy, VanBlunk & Thompson PC, which merged into the law firm of Stark & Stark. Mr. Thompson was solicitor to Huntingdon Valley Bank for most of this period and represented several other local community banks in the late 1990s and early 2000s. Mr. Thompson's business and legal experience, as well as his long relationship with Huntingdon Valley Bank, are among his qualifications to serve as a director.

***Carl Hj. Asplundh III*** is currently the majority owner, president and CEO of Argo American, LLC, which is an international exporter of heavy vehicles and equipment to and throughout the Caribbean, a position he has held since 2016. Previously, Mr. Asplundh was a regional sales manager at Altec Industries, Inc., serving from 2001 to 2016. From 1987 through 2001, Mr. Asplundh worked at Asplundh Tree Expert Company where he held various jobs in the operations of the company prior to attaining the title of Vice President for the tree company. Mr. Asplundh's extensive business knowledge and contacts in the local community are among his qualifications to serve as a director.

***Michael L. Hammer*** is currently the Portfolio Manager and Chief Compliance Officer of Veteri Place Corporation, since February 2008 and March 2014 respectively. In addition, Mr. Hammer has been a Portfolio Manager with Seidman and Associates, LLC, which is a hedge fund operated by Veteri Place Corporation, since February 2008. Mr. Hammer served on the Board of Directors of SBT Bancorp, Inc. and its banking subsidiary, Simsbury Bank, from January 2018 to October 2019. Previously, he was a member of the Advisory Board of Union Center National Bank, from 2009 to 2014. In addition to his positions of Portfolio Manager and Chief Compliance Officer of Veteri Place Corporation, since December 2018, Mr. Hammer has been an independent registered representative of Western International Securities, Inc., a national financial advisory firm serving institutional and individual clients. Mr. Hammer's banking and financial experience are among his qualifications to serve as a director.

***Robert J. Marino*** was appointed Vice Chair of the Board of Directors in January 2021 and President of Huntingdon Valley Bank effective December 1, 2021. Mr. Marino was a founder, director and Division President at Spring Garden Lending LLC from January 2018 through November 2021. Mr. Marino co-founded and was a founding Board Member of Spring Garden Lending LLC in September 2016. Previously, Mr. Marino was President and CEO of Broad Street Consulting Advisors which he founded in January 2016. Broad Street Consulting Advisors focuses on sales and sales force development, and marketing services to banks and other financial institutions. Before founding Broad Street Consultants, Mr. Marino was President of Valley Green Bank's Delaware Valley Region, and a member of its Board of Directors from 2010 through 2015. Prior to joining Valley Green Bank, Mr. Marino was President of National Penn Bank's Southern Region, which operated in Philadelphia, Montgomery, Delaware and Chester Counties. Mr. Marino joined National Penn Bank in 1995 as Director of Cash Management and Government Banking Groups and Director of Corporate Market Management. Mr. Marino's extensive banking background, business knowledge and contacts in the local community are among his qualifications to serve as a director.

**Executive Officers Who Are Not Directors**

***Joseph C. O'Neill, Jr.*** was appointed Executive Vice President and Chief Financial Officer on July 1, 2016. He was previously Senior Vice President and Chief Financial Officer of Huntingdon Valley Bank beginning in January 2010, and assumed the additional duties of Chief Operating Officer from January 2013 until June 2016. In his current position, Mr. O'Neill is responsible for Huntingdon Valley Bank's finance, accounting and

compliance, including policies and procedures, as well as coordination and maintenance of accounting and management reporting systems. Mr. O'Neill is also responsible for regulatory reporting, tax and cost accounting and Huntingdon Valley Bank's investment portfolio. From 1999 to 2009, Mr. O'Neill held various positions with General Motors and General Motors Acceptance Corporation, including chief financial officer for General Motors' wholly owned thrift subsidiary, vice president for financial reporting for GMAC Commercial Mortgage and divisional controller for GMAC Residential Mortgage. Mr. O'Neill is a Certified Public Accountant (CPA) licensed in the state of Pennsylvania.

***Charles S. Hutt*** has been employed by Huntingdon Valley Bank since 2007. He was appointed Executive Vice President and Chief Credit Officer on July 1, 2016. Effective January 1, 2020, he was appointed Executive Vice President and Chief Operations Officer-Mortgage Division. Previously, he was Senior Vice President and Chief Credit Officer beginning in January 2013. Between 2007 and 2013, Mr. Hutt was Senior Vice President of Residential Lending at Huntingdon Valley Bank. Mr. Hutt is responsible for Huntingdon Valley Bank's lending portfolio, as well as for retail loan originations and sales operations.

***J. Chris Jacobsen*** was appointed Executive Vice President and Chief Operating Officer in June 2016. In his current position, Mr. Jacobsen is responsible for the retail branch network, information technology, deposit operations, marketing and human resources. Mr. Jacobsen has more than 25 years of banking experience, including serving as Senior Vice President/Retail Banking at Roxborough-Manayunk Bank from 2000 to 2003 when it was acquired by Citizens Bank. Following the acquisition, Mr. Jacobsen was appointed Senior Vice President/Business Strategy at Citizens Bank where he worked on mergers and acquisitions. In 2005, Mr. Jacobsen joined St. Edmond's Federal Savings Bank and was appointed Executive Vice President and Chief Operating Officer, a position he held until 2012 when the bank was acquired by Beneficial Bank where Mr. Jacobsen subsequently served as Market Director prior to joining Huntingdon Valley Bank.

***Hugh W. Connelly*** was appointed Executive Vice President, Business Banking of Huntingdon Valley Bank in February 2019. In his current position, Mr. Connelly and his team focus on business banking services for small to mid-sized businesses and entrepreneurs throughout the Greater Philadelphia area. Prior to joining Huntingdon Valley Bank, Mr. Connelly led Business Banking, Cash Management and SBA Lending as Market President for Univest Bank and Trust Co. Mr. Connelly was also the President of Univest Capital, Inc. a nationwide equipment finance company. In 2015, Mr. Connelly led the development of a small business banking subscription product, which was recognized by Bank Director Magazine as one of the year's top 5 Fin Tech innovations. Mr. Connelly has earned the professional certifications of the Chartered Financial Analyst (CFA) and Certified Treasury Professional (CTP) as well as the Microfinance Certification jointly issued by the London based Microfinance Association and The University of Rome.

***Derek P.B. Warden*** was appointed Executive Vice President and Chief Credit Officer in December 2019. Mr. Warden joined Huntingdon Valley Bank in December 2019 from Penn Community Bank where he had served as Executive Vice President and Chief Lending Officer for over nine years. Mr. Warden has more than 35 years in banking and possesses an extensive professional background in commercial lending, credit administration, with previous experience serving as both Credit Officer and Chief Lending Officer.

**Delinquent Section 16(a) Reports**

; and directors and beneficial owners of greater than 10% of the outstanding shares of common stock are required to file reports with the SEC disclosing beneficial ownership and changes in beneficial ownership of our common stock. SEC rules require disclosure if an executive officer, director or 10% beneficial owner fails to file these reports on a timely basis.

The Company during the year ended December 31, 2022 believes all filing requirements under Section 16(a) applicable to its directors and executive officers were met in a timely manner.

**Code of Ethics**

HV Bancorp, Inc. has adopted a Code of Ethics that is applicable to its senior financial officers, including the principal executive officer, principal financial officer, principal accounting officer and all officers performing similar functions. We have posted this Code of Ethics on the Investor Relations link on our Internet website at www.myhvb.com. Amendments to and waivers from the Code of Ethics will also be disclosed on HV Bancorp, Inc.'s website.

**Audit Committee**

The Audit Committee is comprised of Directors Behm (Chair), Mr. Asplundh III and Mr. Hammer, each of whom is "independent" in accordance with applicable SEC rules and Nasdaq listing standards. The Audit Committee also serves as the Audit Committee of the Board of Directors of Huntingdon Valley Bank. The Board of Directors has determined that John D. Behm qualifies as an "audit committee financial expert" as defined under applicable SEC rules. In addition, each Audit Committee member has the ability to analyze and evaluate our financial statements as well as an understanding of the Audit Committee's functions.

Our Board of Directors has adopted a written charter for the Audit Committee, which is available on our Investor Relations link on our Internet website at www.myhvb.com. As more fully described in the Audit Committee Charter, the Audit Committee reviews the financial records and affairs of HV Bancorp, Inc. and monitors adherence in accounting and financial reporting to accounting principles generally accepted in the United States of America. The Audit Committee of HV Bancorp, Inc. met six times during the year ended December 31, 2022.

**Item 11. Executive Compensation**

**Executive Officer Compensation**

***Summary Compensation Table.*** The following table sets forth the total compensation paid to Travis J. Thompson, who served as principal executive officer of HV Bancorp, Inc. and the total compensation paid to our two other most highly compensated executive officers who earned total compensation in excess of $100,000 for the year ended December 31, 2022. Each individual listed in the table below is referred to as a named executive officer.

| Name and principal position | Year | Salary ($) (1) | Bonus ($) (1) | Stock Awards ($) (2) | Option Awards ($) | All Other Compensation ($) (3) | Total ($) |
|---|---|---|---|---|---|---|---|
| Travis J. Thompson | **2022** | **200,000** | **144,000** | **402,200** | **-** | **20,846** | **767,046** |
| Chief Executive Officer | 2021 | 200,000 | 350,000 | - | - | 22,713 | 572,713 |
| Robert J. Marino. | **2022** | **300,000** | **80,000** | **502,750** | **-** | **8,640** | **891,390** |
| President and Vice-Chair | | | | | | | |
| Hugh W. Connelly | **2022** | **275,000** | **60,000** | **502,750** | **-** | **21,524** | **859,274** |
| Executive Vice President and Chief Lending Officer-Business Banking | | | | | | | |

(1) See "—Bonuses," below, for a description of the amounts in this column.
(2) The amounts for the year ended December 31, 2022 represent the grant date fair value of the stock awards granted to the named executive officers under the 2021 Equity Incentive Plan. The grant date fair value of the stock awards have been computed in accordance with the stock-based compensation accounting rules (FASB ASC Topic 718). Assumptions used in the calculations of these amounts are included in note 13 to our financial statements.
(3) The compensation represented by the amount for 2022 and 2021 set forth in the All Other Compensation column for the Name Executive Officers is detailed in the following table. ESOP Allocations for the year ended December 31, 2022 were 66 shares for Mr. Thompson, and 66 shares for Mr. Connelly with the ESOP value based on HV Bancorp, Inc.'s closing stock price as of December 31, 2022 of $28.44 per share.

| | | Other Compensation | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Year | ESOP Contributions | Country Club Allowance | Insurance Premiums | Company Auto (1) | Cell Phone Allowance | Auto Allowance | Total All Other Compensation |
| Travis J. Thompson | **2022** | **$ 1,889** | **$ 12,517** | **$ 5,000** | **$ -** | **$ 1,440** | **$ -** | **$ 20,846** |
| | 2021 | 5,380 | 9,000 | 5,267 | 1,626 | 1,440 | - | 22,713 |
| Robert J. Marino | **2022** | **-** | **-** | **-** | **-** | **1,440** | **7,200** | **8,640** |
| Hugh W. Connelly | **2022** | **1,889** | **6,195** | **-** | **-** | **1,440** | **12,000** | **21,524** |

(1) Personal-use expense for company-provided automobile.

***Outstanding Equity Awards at Year End.*** The following table sets forth information with respect to outstanding equity awards as of December 31, 2022, for the named executive officers. Equity awards reflected in this table were granted pursuant to the 2018 Equity Incentive Plan and the 2021 Equity Plan, described below.

| | | Option Awards | | | | Stock Awards | |
|---|---|---|---|---|---|---|---|
| | | Number of securities underlying unexercised options | | Option Exercise Price ($) | Option Expiration Date | Number of shares or units of stock that have not vested (#) | Market value of shares or units of stock that have not vested (#) (3) |
| **Name** | **Grant date** | **Exercisable** | **Unexercisable** | | | | |
| Travis J. Thompson | 6/15/2022 (2) | **-** | **-** | **-** | **-** | **20,000** | **568,800** |
| | 6/13/2018 (1) | **29,000** | **21,000** | **14.80** | **6/13/2028** | **8,400** | **238,896** |
| Robert J. Marino | 6/15/2022 (2) | **-** | **-** | **-** | **-** | **25,000** | **711,000** |
| | 6/13/2019 (1) | **-** | **5,600** | **15.92** | **6/13/2029** | **-(4)** | **-** |
| Hugh W. Connelly | 6/15/2022 (2) | **-** | **-** | **-** | **-** | **25,000** | **711,000** |
| | 2/11/2019 (1) | **2,200** | **2,800** | **15.21** | **2/11/2029** | **2,240** | **63,706** |

(1) Granted pursuant to the 2018 Equity Incentive Plan and vests in seven annual installments, with the first installment of 16% and the succeeding six equal annual installments of 14% commencing on grant date.
(2) Granted pursuant to the 2021 Equity Incentive Plan and stock awards vest in seven annual installments, with the first installment of 16% and the succeeding six equal annual installments of 14% commencing on grant date.
(3) Based on the $28.44 per share trading price of HV Bancorp, Inc. common stock on December 31, 2022.
(4) On December 21, 2022, the Compensation Committee approved the acceleration of vesting of 2,800 shares of restricted stock aspart of the merger.

**Employment Agreement with Travis J. Thompson**

Huntingdon Valley Bank entered into individual employment agreement with Travis J. Thompson which has an initial term of three years. Commencing on the first anniversary date of the agreement and continuing on each anniversary date thereafter, the term of the agreement will renew for one year, unless written notice of non-renewal is provided by the Board of Directors at least 30 days prior to any anniversary date. Prior to each notice period for non-renewal, the disinterested members of the Board of Directors will conduct a comprehensive performance evaluation of the executive for purposes of determining whether to take action regarding non-renewal of his employment agreement.

The employment agreement provides a base salary for Mr. Thompson in the amount of $200,000. The base salary may be increased, but not decreased (other than a decrease which is applicable to all senior officers). In addition to base salary, the executive will be entitled to participate in any bonus program and benefit plan made available to senior management employees, and will be reimbursed for all reasonable business expenses incurred.

In the event of the executive's involuntary termination of employment for reasons other than cause, disability or death, or in the event of his resignation for "good reason," (a "qualifying termination event"), the executive will receive a lump sum cash severance payment equal to the amount base salary that he would have earned had he remained employed for the duration of his "benefit period." The benefit period for Mr. Thompson is 12 months or, if greater, the remaining term of his agreement as of his date of termination. In addition, the executive will be entitled to receive life insurance and non-taxable medical and dental insurance coverage substantially comparable to the coverage maintained by Huntingdon Valley Bank for the aforementioned benefit period or, if earlier, until the date on which the executive becomes a full-time employee of another employer and receives comparable health and welfare benefits. For purposes of the employment agreement, "good reason" is defined as: (1) a material reduction in base salary or benefits (other than reduction by Huntingdon Valley Bank that is part of a good faith, overall reduction of such benefits applicable to all employees); (2) a material reduction in the executive's duties or responsibilities; (3) a relocation of the executive's principal place of employment by more than 25 miles from the executive's principal place of employment as of the initial effective date of the employment agreement; or (4) a material breach of the employment agreement by Huntingdon Valley Bank. In order to be entitled to the severance benefits set forth above, the executive will be required to enter into a release of claims against Huntingdon Valley Bank related to his employment.

If the executive's qualifying termination event occurs on or after the effective date of a change in control of HV Bancorp, Inc. or Huntingdon Valley Bank, the executive will be entitled to (in lieu of the payments and benefits described in the previous paragraph) a severance payment equal to three times the executive's highest annual rate of base salary and bonus paid, or earned, during the calendar year of the change in control or either of the two calendar years immediately preceding the change in control. Such payment will be payable in a lump sum within 30 days following the executive's date of termination. In addition, Huntingdon Valley Bank (or its successor) will continue to provide the executive with life insurance and non-taxable medical and dental insurance coverage substantially comparable to the coverage provided to the executive immediately prior to his date of termination at no cost to the executive. Such continued coverage will cease upon the earlier of: (1) the date which is three years after the executive's date of termination; or (2) the date on which the executive becomes a full-time employee of another employer and receives comparable health and welfare benefits.

In addition, if the executive dies while employed, the executive's estate or beneficiary will be paid his base salary for one year following death, and his family will continue to receive non-taxable medical and dental coverage for one year after his death. The executive will not receive any additional compensation or benefits under his employment agreement in the event he becomes disabled.

Concurrent with the signing of the merger agreement with Citizens Financial Services, Inc., Mr. Thompson entered into a settlement and non-competition and non-solicitation agreement with HV Bancorp, Huntingdon Valley Bank and Citizens Financial Services, Inc., that will terminate and supersede his employment agreement effective as of the closing date of the merger. As a result, Mr. Thompson will not receive any payments or benefits under the employment agreement in connection with the merger.

**Employment Agreement with Robert J. Marino**

HV Bancorp and Huntingdon Valley Bank entered into an employment agreement with Robert J. Marino, President of HV Bancorp and Huntingdon Valley Bank, originally effective as of December 1, 2021. The employment agreement provides that, if a change in control of HV Bancorp occurs and if Mr. Marino experiences an involuntary termination of employment, or he resigns for "good reason" (as defined in the agreement), and if Mr. Marino has completed fewer than three full years of service, Mr. Marino will be entitled to a severance payment equal to two times his annual rate of base salary. The payment will be payable in a lump sum within 30 days following his date of termination of employment. In addition, Huntingdon Valley Bank (or its successor) will continue to provide him with all life, disability, medical insurance and other normal health and welfare benefits in effect with respect to the executive at the time of termination of employment. Such continued coverage will cease upon the earlier of: (1) the date which is one year after his date of termination of employment; or (2) the date on

which he secures comparable coverage though other employment. If the aggregate amount of payments to Mr. Marino in connection with a change in control would be subject to an excise tax under Sections 280G and 4999 of the Internal Revenue Code, the amount payable to Mr. Marino under his employment agreement would be reduced as necessary to avoid the imposition of such excise tax.

Concurrent with the signing of the merger agreement, Mr. Marino entered into a settlement and non-competition and non-solicitation agreement with HV Bancorp, Huntingdon Valley Bank, and Citizens Financial Services, Inc. that will terminate and supersede his employment agreement effective as of the closing date of the merger. As a result, Mr. Marino will not receive any payments or benefits under the employment agreement in connection with the merger.

**Bonuses**

***Discretionary Bonuses***. The Compensation Committee has the authority to award discretionary bonus payments to the named executive officers. While strict numerical formulas are not used to quantify the named executive officers' bonus payments, both company-wide and individually-based performance objectives are used to determine bonus payments. Company-wide performance objectives focus on earnings, growth, expense control and asset quality, which are customary metrics used by similarly-situated financial institutions in measuring performance. Individually-based performance objectives are determined based on the individual's responsibilities and contributions to our successful operation. Both the company-wide and individually-based performance objectives are evaluated by the Compensation Committee on an annual basis and also as a trend of performance measured over the prior three years. The Compensation Committee also takes into consideration outside factors that impact our performance, such as national and local economic conditions, the interest rate environment, regulatory mandates and the level of competition in our primary market area.

Based on the foregoing, for the year ended December 31, 2022, Messrs. Thompson, Marino and Connelly earned a bonus of $144,000, $80,000 and $60,000, respectively, in recognition of their performance and effort.

**Benefit Plans**

***401(k) Plan***. Huntingdon Valley Bank maintains the Huntingdon Valley Bank 401(k) Profit Sharing Plan and Trust (the "401(k) Plan"). The named executive officers are eligible to participate in the 401(k) Plan just like any other employee. Employees of the Bank are eligible to participate in the Plan when the individual has satisfied the eligibility condition of attainment of age of 21. However, an employee will actually become a participant in the plan once the employee reaches the entry date which is the first day of the month coinciding with or next following the date the individual satisfied the eligibility requirement.

Under the 401(k) Plan a participant may elect to defer, on a pre-tax basis, up to 96% of his or her salary in any plan year, subject to limits imposed by the Internal Revenue Code. For 2022, the salary deferral contribution limit is $20,500, provided, however, that a participant over age 50 may contribute an additional $6,500, for a total contribution of $27,000. In addition to salary deferral contributions, Huntingdon Valley Bank may make during the plan year: (1) a discretionary matching contribution to each participant's account based on a percentage of the participant's salary deferral contribution; and/or (2) a profit sharing contribution that would be allocated to each participant's account pro-rata on the basis of each participant's compensation relative to the aggregate compensation of all participants. For the year ended December 31, 2022, there was no profit sharing contribution to the 401(k) Plan. A participant is always 100% vested in his or her salary deferral contributions. However, a participant will vest in his or her employer contributions at a rate of 20% per year after the completion of two years of credited service, such that the participant will be 100% vested upon completion of six years of credited service. The 401(k) Plan permits a participant to direct the investment of his or her own account into various investment options offered, including HV Bancorp, Inc. common stock through the Stock Fund.

Generally, a participant (or participant's beneficiary) may receive a distribution from his or her vested account beginning at retirement, age 59 ½ (while employed with Huntingdon Valley Bank), death, disability or termination of employment, and elect for the distribution to be paid in the form of a lump sum payment or annuity or installment payments.

***Employee Stock Ownership Plan.*** Concurrent with the completion of the mutual-to-stock conversion of Huntingdon Valley Bank and initial public offering of HV Bancorp, Inc. (collectively, the "conversion"), Huntingdon Valley Bank adopted the Huntingdon Valley Bank Employee Stock Ownership Plan (the "ESOP") for eligible employees. Eligible employees who have attained age 21 and are employed with Huntingdon Valley Bank as of January 11, 2017, began participation 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.

On behalf of the ESOP, the ESOP trustee purchased 174,570 shares of HV Bancorp, Inc. common stock issued in the after-market following the completion of the conversion. The ESOP funded its stock purchase with a loan from HV Bancorp, Inc. 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 initial interest rate for the ESOP loan was an adjustable rate equal to the prime rate, as published in *The Wall Street Journal*, on January 11, 2017. 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 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 trustee repays the loan. The trustee will allocate the shares released among participants on the basis of each participant's proportional share of compensation relative to all participants. Each participant will vest in his or her benefit at a rate of 20% per year beginning in the second year, such that the participant will be fully vested upon completion of six years of credited service. However, each participant who was employed by Huntingdon Valley Bank prior to the offering will receive credit for vesting purposes for years of service prior to the adoption of the ESOP. A participant also will become fully vested automatically in his or her benefit upon normal retirement, death or disability, or termination of the ESOP. Generally, a participant will receive a distribution from the ESOP upon separation from service. The ESOP reallocates any unvested shares forfeited upon termination of employment among the remaining participants.

***2018 Equity Incentive Plan.*** On June 13, 2018, the stockholders of HV Bancorp, Inc. approved the 2018 Equity Incentive Plan which provides for the grant of stock based awards to its employees, directors and executive officers of HV Bancorp, Inc. and Huntingdon Valley Bank. The 2018 Equity Plan authorizes the issuance or delivery of up to 305,497 shares of HV Bancorp, Inc. common stock pursuant to grants of incentive and non-qualified stock options, restricted stock awards, restricted stock units; provided, however, that the maximum number of shares of stock that may be delivered pursuant to the exercise of stock options is 218,212 and the maximum number of shares of restricted stock awards or restricted stock units that may be granted is 87,285 shares.

The 2018 Equity Incentive Plan is administered by the members of HV Bancorp, Inc.'s Compensation Committee of the Board of Directors who are "Disinterested Board Members" as defined in the 2018 Equity Incentive Plan. The Compensation Committee has the authority and discretion to select the persons who will receive the awards; establish the terms and conditions relating to each award; adopt rules and regulations relating to the 2018 Equity Incentive Plan; and interpret the 2018 Equity Incentive Plan. The 2018 Equity Incentive Plan also permits the Compensation Committee to delegate all or any portion of its responsibilities and powers.

Our executive officers and outside directors are eligible to receive awards under the 2018 Equity Incentive Plan. Awards may be granted in a combination of restricted stock awards, restricted stock units, incentive stock options, and non-qualified stock options. The exercise price of stock options granted under the 2018 Equity Incentive Plan may not be less than the fair market value on the date the stock option is granted. Stock options are subject to vesting conditions and restrictions as determined by the Compensation Committee. Stock awards under 2018 Equity Incentive Plan will be granted only in whole shares of common stock. All restricted stock and stock option grants will be subject to conditions established by the Compensation Committee that are set forth in the award agreement.

The stock option and restricted stock awards granted to named executive officers will vest over a seven-year period, with 16 percent becoming vested after the completion of one year of service following the date of grant and then 14 percent becoming vested each year of continued service thereafter for the next six years. Notwithstanding the foregoing, these awards would vest upon death, disability or involuntary termination of

employment following a change in control. The time-based component of the awards serves as a retention tool for the named executive officers, and the stock options are viewed by the Compensation Committee as performance-based because value is only realized if there is stock price appreciation over the term of the options.

At December 31, 2022, 3,997 shares of HV Bancorp, Inc. common stock were available for awards under the 2018 Equity Stock Incentive Plan.

***2021 Equity Incentive Plan.*** On May 19, 2019, the stockholders of HV Bancorp, Inc. approved the 2021 Equity Incentive Plan which provides for the grant of stock based awards to its employees, directors and executive officers of HV Bancorp, Inc. and Huntingdon Valley Bank. 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. No employee participant may receive more than 20%, or 35,000 shares, of the awards available under the 2021 Equity Incentive Plan, all of which, may be granted during any calendar year.

The 2021 Equity Incentive Plan is administered by the members of HV Bancorp, Inc.'s Compensation Committee of the Board of Directors who are "Disinterested Board Members" as defined in the 2021 Equity Incentive Plan. The Compensation Committee has the authority and discretion to select the persons who will receive the awards; establish the terms and conditions relating to each award; adopt rules and regulations relating to the 2021 Equity Incentive Plan; and interpret the 2021 Equity Incentive Plan. The 2021 Equity Incentive Plan also permits the Compensation Committee to delegate all or any portion of its responsibilities and powers.

Our executive officers and outside directors are eligible to receive awards under the 2021 Equity Incentive Plan. Awards may be granted in a combination of restricted stock awards, restricted stock units, incentive stock options, and non-qualified stock options. The maximum number of shares of common stock that may be awarded to non-employee directors under the plan is 52,500 shares or 30% of the shares available under the 2021 Equity Incentive Plan. The exercise price of stock options granted under the 2021 Equity Incentive Plan may not be less than the fair market value on the date the stock option is granted. Stock options are subject to vesting conditions and restrictions as determined by the Compensation Committee. Stock awards under 2021 Equity Incentive Plan will be granted only in whole shares of common stock. All restricted stock and stock option grants will be subject to conditions established by the Compensation Committee that are set forth in the award agreement.

A total of 80,000 restricted stock shares and 35,000 stock options were awarded by the Compensation Committee under the 2021 Equity Incentive Plan during 2022 with 60,000 shares available for future awards under this plan.

The restricted stock awards granted to the Named Executive Officers will vest over a seven-year period, with 16 percent becoming vested after the completion of one year of service following the date of grant and then 14 percent becoming vested each year of continued service thereafter for the next six years. Notwithstanding the foregoing, these awards would vest upon death, disability or involuntary termination of employment following a change in control. The time-based component of the awards serves as a retention tool for the named executive officers, and the stock options are viewed by the Compensation Committee as performance-based because value is only realized if there is stock price appreciation over the term of the options.

**Director Compensation**

The following table sets forth for the year ended December 31, 2022, certain information as to the total remuneration we paid to our directors other than Travis J. Thompson and Robert J. Marino.

| Name | Fees earned or paid in cash ($) | Stock Awards ($) (3) | Option Awards ($) (3) | All Other Compensation ($) (1) | Total |
|---|---|---|---|---|---|
| Carl Hj. Asplundh III | 22,000 | - | - | - | 22,000 |
| Joseph F. Kelly (2) | 24,750 | - | - | - | 24,750 |
| John D. Behm | 27,100 | - | - | - | 27,100 |
| Michael L. Hammer | 27,550 | - | - | - | 27,550 |
| Scott W. Froggatt | 24,850 | - | - | - | 24,850 |

(1) No director received perquisites or personal benefits that, in the aggregate, were greater than or equal to $10,000 in the year ended December 31, 2022.
(2) Mr. Kelly passed away in December 2022.
(3) As of December 31, 2022, each of our outside directors held the following aggregate number of unvested stock awards and outstanding options:

| | Aggregate Number of Equity Awards Outstanding at December 31, 2022 | |
|---|---|---|
| Name | Stock Awards | Option Awards |
| Carl Hj. Asplundh III | 2,800 | 10,000 |
| Joseph F. Kelly | - | 10,000 |
| John D. Behm | 2,100 | 10,000 |
| Scott W. Froggatt | 2,100 | 10,000 |

During the year ended December 31, 2022, each non-employee director of Huntingdon Valley Bank was paid an annual retainer fee of $5,000. Additionally, each non-employee director was paid $1,500 per meeting attended, a fee for his service on a committee in the amount of $350 for each committee meeting attended and the chairman of such committee was paid $450 for each committee meeting attended. For the year ended December 31, 2022, each person who served as a director of HV Bancorp, Inc. also served as a director of Huntingdon Valley Bank and earned director and committee fees only in his or her capacity as a board or committee member of Huntingdon Valley Bank. Neither Mr. Thompson nor Mr. Marino received any director compensation for his service on the Board of Directors.

***2018 Equity Incentive Plan.*** Our directors are eligible to participate in the 2018 Equity Incentive Plan. However, no grants were awarded in 2022. The 2018 Equity Incentive Plan is described under "Benefit Plans—2018 Equity Incentive Plan" above.

***2021 Equity Incentive Plan.*** Our directors are eligible to participate in the 2021 Equity Incentive Plan. However, no grants were awarded to outside directors in 2022. The 2021 Equity Incentive Plan is described under "Benefit Plans—2021 Equity Incentive Plan" above.

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

Persons and groups who beneficially own in excess of 5% of the shares of our common stock are required to file certain reports with the Securities and Exchange Commission ("SEC") regarding such ownership. The following table sets forth, as of March 27, 2023, the shares of common stock beneficially owned by our directors and named executive officers, individually and directors and executive officers as a group, and by each person who was known to us as the beneficial owner of more than 5% of the outstanding shares of our common stock. The

mailing address for each of our directors and executive officers is 2005 South Easton Road, Suite 304, Doylestown, Pennsylvania 18901.

| Name and Address of Beneficial Owners | Amount of Shares Owned and Nature of Beneficial Ownership (1) | | Percent of Shares of Common Stock Outstanding |
|---|---|---|---|
| **Five Percent Stockholders** | | | |
| Lawrence B. Seidman | **208,614** | (2) | **9.3%** |
| 100 Lanidex Plaza, 1st Floor | | | |
| Parsippany, New Jersey 07054 | | | |
| | | | |
| Huntingdon Valley Bank ESOP | **173,589** | (3) | **7.8%** |
| 1901 Frederic Avenue, Suite 100 | | | |
| St. Joseph, Missouri 64501 | | | |
| | | | |
| AllianceBerstein L.P. | **210,523** | (4) | **9.4%** |
| 1345 Avenue of the Americas | | | |
| New York, New York 10105 | | | |
| | | | |
| **Directors** | | | |
| Carl Hj. Asplundh III, Director | **9,400** | (5) | ** |
| John D. Behm, Director | **40,800** | (6) | **1.8%** |
| Michael L. Hammer, Director | **10,000** | (7) | ** |
| Scott W. Froggatt, Director | **31,774** | (8) | **1.4%** |
| Travis J. Thompson, Chairman and Chief Executive Officer * | **104,419** | (9) | **4.6%** |
| Robert J. Marino, Vice-Chair and President* | **112,886** | (10) | **5.0%** |
| | | | |
| Named Executive Officers | | | |
| **Hugh W. Connelly, Executive Vice President and Chief Lending Officer- Business Banking** | **40,114** | (11) | **1.8%** |
| | | | |
| All directors and executive officers as a group (11 persons) | **494,273** | (12) | **22.0%** |

*Also named executive officer

** Less than one percent of shares outstanding.

(1) In accordance with Rule 13d-3 under the Securities Exchange Act of 1934, a person is deemed to be the beneficial owner for purposes of this table, of any shares of common stock if he or she has shared voting or investment power with respect to such security, or has a right to acquire beneficial ownership at any time within 60 days from the date as of which beneficial ownership is being determined. As used herein, "voting power" is the power to vote or direct the voting of shares and "investment power" is the power to dispose or direct the disposition of shares, and includes all shares held directly as well as by spouses and minor children, in trust and other indirect ownership, over which shares the named individuals effectively exercise sole or shared voting or investment power.

(2) On a Schedule 13D/A filed with the SEC on December 17, 2018, Seidman and Associates, L.L.C. reported sole dispositive and voting power with respect to 44,146 shares of our common stock; Seidman Investment Partnership, L.P. reported sole dispositive and voting power with respect to 28,344 shares of our common stock; Seidman Investment Partnership II, L.P. reported sole dispositive and voting power with respect to 37,984 shares of our common stock; Seidman Investment Partnership III, L.P. reported sole dispositive and voting power with respect to 12,897 shares of our common stock; LSBK06-08, L.L.C. reported sole dispositive and voting power with respect to 21,645 shares of our common stock; Broad Park Investors, L.L.C. reported sole dispositive and voting power with respect to 25,638 shares of our common stock; Chewy Gooey Cookies, L.P. reported sole dispositive and voting power with respect to 12,500 shares of our common stock; CBPS, LLC reported sole dispositive and voting power with respect to 25,460 shares of our common stock; Veteri Place Corporation reported sole dispositive and voting power with respect to 113,433 shares of our common stock; JBRC I, LLC

reported sole dispositive and voting power with respect to 12,897 shares of our common stock; and Lawrence B. Seidman reported sole dispositive and voting power with respect to 208,614 shares of our common stock.

(3) On a Schedule 13G/A filed with the SEC on February 2, 2023, Pentegra Trust Company reported sole voting power with respect to 128,776 shares of our common stock and shared voting power with respect to 44,813 shares of our common stock, and sole dispositive power with respect to 174,523 shares of our common stock.

(4) On a Schedule 13G/A filed with the SEC on February 14, 2023, AllianceBernstein L.P. reported sole dispositive and voting power with respect to 210,523 shares of our common stock.

(5) Includes 5,000 shares of restricted stock as to which Mr. Asplundh III and 4,400 shares of stock options, which are exercisable within 60 days from March 27, 2023.

(6) Includes 30,000 shares held in a living trust, 5,000 shares of restricted stock as to which Mr. Behm has voting power and 5,800 shares of stock options, which are exercisable within 60 days from March 27, 2023.

(7) Includes 2,000 shares held in trust for children.

(8) Includes 5,000 shares of restricted stock as to which Mr. Froggatt has voting power, 20,974 shares held in his individual retirement account and 5,800 shares of stock options, which are exercisable within 60 days from March 27, 2023.

(9) Includes 40,000 shares of shares of restricted stock as to which Mr. Thompson has voting power, 29,000 shares of stock options, which are exercisable within 60 days from March 27, 2023, 2,060 shares allocated to his ESOP account and 259 shares held in his 401(k) account.

(10) Includes 79,606 shares held in Mr. Marino's individual retirement account, 30,000 shares of restricted stock as to which he has voting power and 1,414 shares held in his 401(k) account.

(11) Includes 1,884 shares held in Mr. Connelly's individual retirement account, 27,692 shares of shares of restricted stock as to which he has voting power, 2,900 shares of stock options, which are exercisable within 60 days from March 27, 2023, 495 shares allocated to his ESOP account and 7,143 shares held in his 401(k) account.

(12) Includes 35,000 shares of restricted stock as to which four additional executive officers have voting power, 43,500 shares of exercisable stock options, which are exercisable within 60 days from March 27, 2023 for three executive officers, 30,208 shares held in three executive officer's 401(k) accounts and 5,526 shares allocated to four executive officer's ESOP account.

(d) Equity Compensation Plan Information

The following table summarizes share and exercise price information about HV Bancorp's equity plans as of December 31, 2022.

| 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 approved by security holders: | | | |
| HV Bancorp Inc. 2018 Equity Incentive Plan (1) | **202,300** | **$14.90** | **3,712** |
| HV Bancorp Inc. 2021 Equity Incentive Plan (2) | **35,000** | **$20.11** | **60,000** |
| Equity compensation plans not approved by security holders | **N/A** | **N/A** | **N/A** |
| Total | **237,300** | **$15.67** | **63,712** |

(1) As of December 31, 2022, 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.

(2) As of December 31, 2022, 80,000 shares of restricted stock awards had been granted under the HV Bancorp Inc. 2021 Equity Incentive 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**

**Transactions with Certain Related Persons**

***Loans and Extensions of Credit.*** The Sarbanes-Oxley Act generally prohibits publicly traded companies from making loans to their executive officers and directors, but it contains a specific exemption from such prohibition for loans made by federally insured financial institutions, such as Huntingdon Valley Bank, to their executive officers and directors in compliance with federal banking regulations.

The aggregate outstanding amount of our loans to our executive officers, directors and their related parties was $8.6 million at December 31, 2022. At December 31, 2022, all of our loans to directors, executive officers and their related parties were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to Huntingdon Valley Bank, and did not involve more than the normal risk of collectability or present other unfavorable features. These loans were performing according to their original terms at December 31, 2022, and were made in compliance with federal banking regulations.

Additionally, any transactions that would be required to be reported must be reviewed by our audit committee or another independent body of the Board of Directors. Any transaction with a director is reviewed by and subject to approval of the members of the Board of Directors who are not directly involved in the proposed transaction to confirm that the transaction is on terms that are no more favorable than those that would be available to us from an unrelated third party through an arms-length transaction.

**Board Independence**

The Board of Directors has determined that each of our directors, with the exception of Chairman and Chief Executive Officer Travis J. Thompson and Vice Chair and President Robert J. Marino, is "independent" as defined in the listing standards of the Nasdaq Stock Market. Mr. Thompson and Mr. Marino are not independent because each is an executive officer of HV Bancorp, Inc. In determining the independence of the other directors, the Board of Directors considered loans made to Director Asplundh and/or his related parties.

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

Our independent registered public accounting firm for the year ending December 31, 2022 and 2021 was S.R. Snodgrass, P.C.

Set forth below is certain information concerning aggregate fees billed for professional services rendered for the years ended December 31, 2022 and 2021.

| | | **2022** | | 2021 |
|---|---|---|---|---|
| Audit Fees | **$** | **163,005** | $ | 123,346 |
| Audit-Related Fees | **$** | **-** | $ | - |
| Tax Fees | **$** | **17,700** | $ | 13,350 |
| All Other Fees | **$** | **16,647** | $ | **-** |

***Audit Fees.*** The aggregate fees billed to us for professional services rendered for the audit of our annual consolidated financial statements, review of the consolidated financial statements included in our Quarterly Reports on Form 10-Q, review of Form S-4 and consent and services that are normally provided in connection with our engagement. For the years ended December 31, 2022 and 2021, audit fees were $163,005 and $123,346.

***Audit Related Fees.*** There were no audit related fees during the years ended December 31, 2022 and 2021, respectively.

***Tax Fees.*** The aggregate fees billed to us for professional services rendered for tax preparation, tax consultation and tax compliance by S.R. Snodgrass, P.C were $17,700 and $13,350 for the years ended December 31, 2022 and 2021, respectively.

***All Other Fees.*** There were $16,647 in other fees billed to us during the year ended December 31, 2022. There were no other fees billed to us during the year ended December 31, 2021. All other fees billed for the year ended December 31, 2022 related to professional services rendered for the 401(k) plan audit.

**Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services of Independent Registered Public Accounting Firm**

The Audit Committee has considered whether the provision of non-audit services, which relate primarily to tax compliance services and tax advice rendered was compatible with maintaining the independence of S.R. Snodgrass, P.C. The Audit Committee concluded that performing such services did not affect the independence of S.R. Snodgrass, P.C. in performing its function as our independent registered public accounting firm.

The Audit Committee's policy is to pre-approve all audit and non-audit services provided by the independent registered public accounting firm, either by approving an engagement prior to the engagement or pursuant to a pre-approval policy with respect to particular services. These services may include audit services, audit-related services, tax services and other services. The Audit Committee may delegate pre-approval authority to one or more members of the Audit Committee when expedition of services is necessary. The independent registered public accounting firm and management are required to periodically report to the full Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. The audit-related fees and all other fees described above were approved as part of our engagement of S.R. Snodgrass, P.C.

## 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 2022 Annual Report to Shareholders:

(A) Report of Independent Registered Public Accounting Firm (PCAOB ID 00074)

(B) Consolidated Statements of Financial Condition - at December 31, 2022 and 2021

(C) Consolidated Statements of Income – Year Ended December 31, 2022 and 2021

(D) Consolidated Statements of Comprehensive Income – Year Ended December 31, 2022 and 2021

(E) Consolidated Statements of Cash Flows – Year Ended December 31, 2022 and 2021

(F) Consolidated Statements of Changes in Shareholders' Equity– Year Ended December 31, 2022 and 2021

(G) Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

None.

(a)(3) Exhibits

| | |
|---|---|
| 2.1 | Agreement and Plan of Merger (1) |
| 3.1 | Articles of Incorporation of HV Bancorp, Inc. (2) |
| 3.2 | Bylaws of HV Bancorp, Inc. (3) |
| 4.1 | Form of Common Stock Certificate of HV Bancorp, Inc. (4) |
| 4.2 | Form of Subordinated Note (15) |
| 4.6 | Description of Registrant's Securities * |
| 10.1 | Employment Agreement between Huntingdon Valley Bank and Travis J. Thompson (5) |
| 10.2 | Employment Agreement between Huntingdon Valley Bank and Charles S. Hutt (6) |
| 10.3 | HV Bancorp, Inc. 2018 Equity Plan (8) |
| 10.4 | Form of Restricted Stock Award Agreement (9) |
| 10.5 | Form of Incentive Stock Option Award Agreement (10) |
| 10.6 | Form of Non-Qualified Stock Option Award Agreement (11) |
| 10.7 | Employment Agreement between Huntingdon Valley Bank and Robert J. Marino (13) |
| 10.8 | HV Bancorp, Inc. 2021 Equity Plan (14) |
| 10.9 | Form of Subordinated Note Purchase Agreement (16) |
| 10.10 | Settlement and Non-Competition and Non-Solicitation Agreement, by and among Citizens Financial Services, Inc., HV Bancorp, Inc., Huntingdon Valley Bank and Travis J. Thompson (17) |
| 10.11 | Settlement and Non-Competition and Non-Solicitation Agreement, by and among Citizens Financial Services, Inc., HV Bancorp, Inc., Huntingdon Valley Bank and Robert J. Marino (18) |
| 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 2.1 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 October 20, 2022.
(2) 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.
(3) 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.
(4) 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.
(5) 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.
(6) 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.
(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 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.
(14) 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.
(15) Incorporated by reference to Exhibit 4.1 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 June 01, 2021.
(16) Incorporated by reference to Exhibit 10.1 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 June 01, 2021.
(17) Incorporated by reference to Exhibit 10.1 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 October 20, 2022.

(18) 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 October 20, 2022.

* Filed herein

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

None.

## SIGNATURES

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

**HV BANCORP, INC.**

Date: March 30, 2023

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.

| Signatures | Title | Date |
|---|---|---|
| /s/ Travis J. Thompson<br>Travis J. Thompson | Chairman and Chief Executive Officer<br>(Principal Executive Officer) | March 30, 2023 |
| /s/ Joseph C. O'Neill, Jr.<br>Joseph C. O'Neill, Jr. | Executive Vice President and Chief Financial Officer<br>(Principal Accounting and Financial Officer) | March 30, 2023 |
| /s/ Robert J. Marino<br>Robert J. Marino | Vice-Chair and President | March 30, 2023 |
| /s/ Carl Hj. Asplundh III<br>Carl Hj. Asplundh III | Director | March 30, 2023 |
| /s/ John D. Behm<br>John D. Behm | Director | March 30, 2023 |
| /s/ Scott W. Froggatt<br>Scott W. Froggatt | Director | March 30, 2023 |
| /s/ Michael L. Hammer<br>Michael L. Hammer | Director | March 30, 2023 |

**Exhibit 4.6**

**DESCRIPTION OF COMMON STOCK OF HV BANCORP, INC.**

**General**

HV Bancorp is authorized to issue 20,000,000 shares of common stock, par value of $0.01 per share, and 2,000,000 shares of preferred stock, par value $0.01 per share. As of March 10, 2023, there were 2,237,213 shares of HV Bancorp common stock and no shares of HV Bancorp preferred stock outstanding. Each share of HV Bancorp common stock has the same relative rights as, and is identical in all respects to, each other share of common stock.

**Common Stock**

***Dividends.*** HV Bancorp cannot pay dividends on its common stock if, after giving effect to such distribution, (i) HV Bancorp would be unable to pay its debts as they become due in the usual course of business or (ii) HV Bancorp's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if HV Bancorp were to be dissolved at the time the distribution is measured, to satisfy the stockholders whose preferential rights are superior to those receiving the distribution. The holders of common stock of HV Bancorp are entitled to receive and share equally in dividends as may be declared by our board of directors out of funds legally available therefor. If HV Bancorp issues shares of preferred stock, the holders thereof may have a priority over the holders of the common stock with respect to dividends.

***Voting Rights.*** The holders of common stock of HV Bancorp have exclusive voting rights in HV Bancorp. They elect HV Bancorp's board of directors and act on other matters as are required to be presented to them under Pennsylvania law or as are otherwise presented to them by the board of directors. Generally, each holder of common stock is entitled to one vote per share and does not have any right to cumulate votes in the election of directors. Any person who beneficially owns more than 10% of the then-outstanding shares of HV Bancorp's common stock, however, will not be entitled or permitted to vote any shares of common stock held in excess of the 10% limit absent certain exceptions. If HV Bancorp issues shares of preferred stock, holders of the preferred stock may also possess voting rights. Amendments to the articles of incorporation generally require, in addition to majority approval by the board of directors, majority approval of the outstanding shares eligible to vote, and certain amendments may require the approval of 75% of the outstanding shares eligible to vote if the board of directors has not approved such amendment.

As a Pennsylvania stock savings bank, corporate powers and control of Huntingdon Valley Bank are vested in its board of directors, who elect the officers of Huntingdon Valley Bank and who fill any vacancies on the board of directors. Voting rights of Huntingdon Valley Bank are vested exclusively in the owner of the shares of capital stock of Huntingdon Valley Bank, which is HV Bancorp, and voted at the direction of HV Bancorp's board of directors. Consequently, the holders of the common stock of HV Bancorp will not have direct control of Huntingdon Valley Bank.

***Liquidation.*** In the event of any liquidation, dissolution or winding up of Huntingdon Valley Bank, HV Bancorp, as the holder of 100% of Huntingdon Valley Bank's capital stock, would be entitled to receive all assets of Huntingdon Valley Bank available for distribution, after payment or provision for payment of all debts and liabilities of Huntingdon Valley Bank, including all deposit accounts and accrued interest thereon, and after distribution of the balance in the liquidation account to Eligible Account Holders and Supplemental Eligible Account Holders. In the event of liquidation, dissolution or

winding up of HV Bancorp, the holders of its common stock would be entitled to receive, after payment or provision for payment of all its debts and liabilities, all of the assets of HV Bancorp available for distribution. If preferred stock is issued, the holders thereof may have a priority over the holders of the common stock in the event of liquidation or dissolution.

***Preemptive Rights.*** Holders of the common stock of HV Bancorp are not entitled to preemptive rights with respect to any shares that may be issued, unless such preemptive rights are approved by the board of directors. The common stock is not subject to redemption.

## RESTRICTIONS ON ACQUISITION OF HV BANCORP, INC.

The following discussion is a general summary of the material provisions of HV Bancorp's articles of incorporation and bylaws, Pennsylvania corporation law and certain other regulatory provisions that may be deemed to have an "anti-takeover" effect. The following description of certain of these provisions is necessarily general and, with respect to provisions contained in HV Bancorp's articles of incorporation and bylaws, reference should be made in each case to the document in question.

### HV Bancorp's Articles of Incorporation and Bylaws

HV Bancorp articles of incorporation and bylaws contain a number of provisions relating to corporate governance and rights of stockholders that might discourage future takeover attempts. As a result, stockholders who might desire to participate in such transactions may not have an opportunity to do so. In addition, these provisions will also render the removal of the board of directors or management of HV Bancorp more difficult.

***Directors***. The board of directors is divided into three classes. The members of each class are elected for a term of three years and only one class of directors is elected annually. Thus, it would take at least two annual elections to replace a majority of our directors. The bylaws establish qualifications for board members, including:

- a prohibition on service as a director by a person who is a director, officer or a 10% stockholder of a competitor of Huntingdon Valley Bank or any other subsidiary of HV Bancorp;
- a prohibition on service as a director by a person (i) who has been convicted of a crime involving dishonesty or breach of trust that is punishable by imprisonment for a term exceeding one year under state or federal law, (ii) who is currently charged in an information, indictment or other complaint with the commission of or participation in such a crime, (iii) against whom a financial or securities regulatory agency has, within the past ten years, issued a cease and desist, consent, other formal order, agreement or other written statement, which is subject to public disclosure by such agency;
- a prohibition on service as a director by a person who is party to any agreement, understanding or commitment with respect to how he or she would act or vote on any issue or question before the board of directors or that would otherwise impact his or her ability to discharge his or her fiduciary duties as a director;
- a prohibition on any director who does not agree in writing to comply with all of the HV Bancorp policies applicable to directors, in addition to written confirmation that such director is qualified to serve;

- a requirement that any person proposed to serve as director have maintained his or her principal residence within 25 miles of an office of HV Bancorp or Huntingdon Valley Bank, for a period of at least one year prior to his or her appointment or election to the board of directors;

- a restriction on eligibility for election, re-election, appointment or re-appointment to the board of directors (excluding the current directors) if, at the time of such election, re-election, appointment or re-appointment, such person has reached the age of 72; however, the board of directors may waive this director qualification if the board of directors determines, by 2/3 vote, that such waiver is the best interest of HV Bancorp; and

- a prohibition on service by nominees or representatives (as defined in applicable Federal Reserve Board regulations) of another person who would not be eligible for service or of an entity the partners or controlling persons of which would not be eligible for service.

Further, the bylaws impose notice and information requirements in connection with the nomination by stockholders of candidates for election to the board of directors or the proposal by stockholders of business to be acted upon at an annual meeting of stockholders. Such notice and information requirements are applicable to all stockholder business proposals and nominations, and are in addition to any requirements under the federal securities laws.

***Evaluation of Offers.*** The articles of incorporation of HV Bancorp provide that its board of directors, when evaluating a transaction that would or may involve a change in control of HV Bancorp (whether by purchases of its securities, merger, consolidation, share exchange, sale of all or substantially all of its assets or otherwise), may, in connection with the exercise of its judgment in determining what is in the best interests of HV Bancorp and its stockholders and in making any recommendation to the stockholders, give due consideration to all relevant factors, including, but not limited to:

- the social and economic effect on the present and future customers and employees, the communities in which HV Bancorp and its subsidiaries operate or are located; and

- the ability of HV Bancorp to fulfill its objectives as a financial institution holding company and on the ability of its subsidiary financial institution to fulfill the objectives of a federally insured financial institution under applicable statutes and regulations.

In addition, if any action is required or permitted to be taken by the stockholders relating to mergers, consolidations, a share exchange, sale of assets, voluntary dissolution and winding up then approval by at least 75% of the outstanding voting stock is generally required unless at least two-thirds of the board of directors recommends such action in which case the action will require only the affirmative vote as is required by law. If the board of directors determines that any proposed transaction should be rejected, it may take any lawful action to defeat such transaction.

***Restrictions on Calling Special Meetings.*** The articles of incorporation provide that special meetings of stockholders can be called only by a majority of the total number of directors then in office, or upon the written request of stockholders entitled to cast at least a majority of all votes entitled to vote at the meeting.

***Prohibition of Cumulative Voting.*** The articles of incorporation prohibit cumulative voting for the election of directors.

***Limitation of Voting Rights.*** The articles of incorporation provide that in no event will any person who beneficially owns more than 10% of the then-outstanding shares of common stock, be entitled or permitted to vote any of the shares of common stock held in excess of the 10% limit. The 10% limit shall not apply if, before the stockholder acquires shares in excess of the 10% limit, the acquisition is approved by 80% of the directors then in office.

***Restrictions on Removing Directors from Office.*** The articles of incorporation provide that directors may be removed only for cause, and only by the affirmative vote of the holders of not less than two-thirds of the total votes eligible to be cast by stockholders at a duly constituted meeting of stockholders called expressly for such purpose.

***Stockholder Nominations and Proposals.*** The bylaws provide that any stockholder desiring to make a nomination for the election of directors or a proposal for new business at an annual meeting of stockholders must submit written notice to HV Bancorp at least 110 days prior and not earlier than 120 days prior to the anniversary date of the prior year's annual meeting; provided, however, that if the date of the annual meeting is advanced more than 30 days prior to the anniversary of the preceding year's annual meeting, a stockholder's written notice shall be timely only if delivered or mailed to and received by the Secretary of HV Bancorp at the principal executive office of HV Bancorp no earlier than the day on which public disclosure of the date of such annual meeting is first made and no later than the tenth day following the day on which public disclosure of the date of such annual meeting is first made.

***Authorized but Unissued Shares***. The articles of incorporation authorize 20,000,000 shares of common stock and 2,000,000 shares of serial preferred stock. HV Bancorp is authorized to issue preferred stock from time to time in one or more series subject to applicable provisions of law, and the board of directors is authorized to fix the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of such shares. An effect of the possible issuance of preferred stock therefore may be to deter a future attempt to gain control of HV Bancorp.

***Amendments to Articles of Incorporation and Bylaws.*** Except as otherwise allowed by law, any amendment to the articles of incorporation must be approved by a majority of our board of directors and also by a majority of the outstanding shares of our voting stock; provided, however, that approval by at least 75% of the outstanding voting stock is generally required to amend the following provisions if such amendment did not receive the approval of 80% of the board of directors then in office:

(i) the authorized amount of capital stock, the authority of the board to fix terms of preferred stock, the terms of common stock and preemptive rights;

(ii) the limitation on voting rights of persons who directly or indirectly beneficially own more than 10% of the outstanding shares of common stock;

(iii) the ability of the board of directors or a majority of the stockholders to call a special meeting;

(iv) the ability of stockholders to act by unanimous written consent;

(v) the ability of the board of directors to fill vacancies on the board;

(vi) the prohibition of cumulative voting and division of the board of directors into three staggered classes;

(vii) the liability of directors and officers;

(viii) the requirement that not less than two-thirds of stockholders must vote to remove directors, and can only remove directors for cause;

(ix) the ability of stockholders to approve certain corporate actions;

(x) the ability of the board of directors to evaluate certain factors in evaluating offers to purchase or otherwise acquire HV Bancorp;

(xi) the ability of the board of directors to amend and repeal the bylaws and the required stockholder vote to amend or repeal the bylaws; and

(xii) the provision of the articles of incorporation requiring approval of at least 75% of the outstanding voting stock (if 80% of the board of directors has not approved such amendment) to amend the provisions of the articles of incorporation set forth in (i) through (xi) of this list and the provisions related to amendment of the articles of incorporation.

The articles of incorporation also provide that the bylaws may be amended by the affirmative vote of a majority of the total number of directors that HV Bancorp would have if there were no vacancies on the board of directors or by the stockholders by the affirmative vote of at least 75% of the votes entitled to be cast in the election of directors (after giving effect to the limitation on voting rights discussed above in "HV Bancorp's Articles of Incorporation and Bylaws—Limitation of Voting Rights").

**Pennsylvania Corporate Law**

Under the PBCL, a registered corporation may not engage in a business combination with an interested stockholder except for certain types of business combinations as enumerated under Pennsylvania law. The PBCL defines a "business combination" generally to include, with respect to a corporation, certain sales, purchases, exchanges, leases, mortgages, pledges, transfers or dispositions of assets, mergers or consolidations, certain issuances or reclassifications of securities, liquidations or dissolutions or certain loans, guarantees or financial assistance, pursuant to an agreement or understanding between such corporation or any subsidiaries, on the one hand, and uninterested stockholder or an "affiliate" or "associate" thereof, on the other hand. An "interested stockholder" is defined generally to include any individual, partnership, association or corporation which is the beneficial owner, as defined, of at least 20% of the outstanding voting stock of the corporation or which is an affiliate or associate of such corporation and at any time within the five-year period prior to the date in question was the beneficial owner of at least 20% of the outstanding voting stock.

**Change in Control Regulations**

Under the Change in Bank Control Act, no person may acquire control of an insured state savings bank or its parent holding company unless the Federal Reserve Board has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition. The Federal Reserve Board takes into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. In addition, federal regulations provide that no company may acquire control of a state savings bank 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.

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 company's directors, or a determination by the Federal Reserve Board that the acquiror has the power to direct, or 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. Federal Reserve Board regulations provide that parties seeking to rebut control will be provided an opportunity to do so in writing.

**Exhibit 23.1**

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements File No. 333-257216 on Form S-8 of HV Bancorp, Inc. of our report dated March 30, 2023, 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, 2022.

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

King of Prussia, Pennsylvania
March 30, 2023

**Exhibit 31.1**

**CERTIFICATION**

I, Travis J. Thompson, certify that:

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

Date: March 30, 2023

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

**Exhibit 31.2**

**CERTIFICATION**

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

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

Date: March 30, 2023

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

**Exhibit 32**

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, 2022 and that to the best of their knowledge:

(1) the report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Date: March 30, 2023

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

Date: March 30, 2023

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