

# 2020 Annual Report





**Corporate Headquarters  
Malvern Bancorp, Inc.**

42 E. Lancaster Ave  
Paoli, PA 19301

[www.ir.malvernbankcorp.com](http://www.ir.malvernbankcorp.com)

[www.MyMalvernBank.com](http://www.MyMalvernBank.com)

**Annual Shareholders Meeting**

The Annual Meeting will be held online at [www.virtualshareholdermeeting.com/MLVF2021](http://www.virtualshareholdermeeting.com/MLVF2021), on Wednesday, March 10, 2021 at 9:30 a.m., Eastern Time.

**Where to Obtain Additional Information**

Persons may obtain a copy, free of charge, of the Malvern Bancorp, Inc. 2020 Annual Report and Form 10-K (excluding exhibits) as filed with the Securities and Exchange Commission. Investors, security analysts and others desiring financial information, or a copy of such reports should contact Anthony C. Weagley, President & CEO, or Joseph D. Gangemi, EVP & CFO at 610.644.9400.

**Shareholder Inquiries**

For information regarding your shares of common stock of Malvern Bancorp, Inc., please contact Anthony C. Weagley, President & CEO, or Joseph D. Gangemi, EVP & CFO at 610.644.9400.

**Stock Listing**

NASDAQ Stock Market – MLVF  
Malvern Bancorp, Inc. Common Stock is traded on the NASDAQ Stock Market under the symbol MLVF.

**Registrar and Transfer Agent**

Broadridge Corporate Issuer Solutions  
1155 Long Island Avenue  
Englewood, NY 11717

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## **To our Shareholders, Customers and Friends:**

In our 133<sup>rd</sup> year of operation – a year that was like no other due, primarily, to the coronavirus (COVID-19) pandemic – Malvern Bank has carefully, thoughtfully and, I believe, successfully navigated the unprecedented challenges.

Since the start of the health crisis, our priorities have been to keep our staff and clients safe and continue to assist our clients with their financial needs. In support of these priorities, Malvern Bank took the following actions, beginning in the first calendar quarter of 2020:

- ❖ In mid-March, all our Financial Centers began operating on an amended-hours or by-appointment schedule, and we began further utilizing our drive-through services with increased safety measures.
- ❖ Also, in mid-March, we implemented a work-from-home policy for employees who were able to do so and began providing guidance on hygiene and social distancing.
- ❖ We encouraged clients to utilize our electronic banking services, including online and mobile banking, telephone banking, as well as night drops and ATMs.
- ❖ We were proactive in our outreach to our clients and offered hardship assistance, including participation in the Coronavirus Aid, Relief, and Economic Security Act (CARES) programs.
- ❖ We assisted new and existing customers as an active participant in the Paycheck Protection Program. As of September 30, 2020, we had funded 255 Small Business Administration loans, totaling \$20.8 million. These efforts assisted local small businesses to retain an estimated 1,769 employees.
- ❖ We provided payment deferrals and forbearances to consumers and business customer that had experienced hardship because of the crisis.

I am proud of our team's performance in responding to the COVID-19 pandemic. I believe our responsiveness to new and existing customers and our strong capital position have enabled us to weather this unprecedented storm.

Still, the pandemic has provided lessons for the entire banking industry that will serve us well in the long-term. We cannot return to our pre-pandemic business practices. In a post-pandemic, low interest rate environment, banks will need to focus on customer needs while driving efficiency and building resilience. The quality of the customer experience will continue to take priority over the banking transaction. And, we must be adept at anticipating customer needs and desires – not just responding to them.

Malvern Bank will continue to leverage data and technology to benefit our customers. Customers have become accustomed to greater flexibility in their banking transactions during the pandemic – and they expect to continue with this new flexibility with increased security.

Looking forward into 2021, we are cautiously optimistic that the virus will be controlled and abated and allow things to return to what we deemed normal in the past. Our focus in 2021, at this point remains largely focused on being resilient and proactive during the remainder of the pandemic and managing asset quality. You can also expect our focus on the following:

- ❖ Managing portfolio of assets with the loan and specifically, commercial sectors of the portfolio.
- ❖ Continuing to improve margin through this low rate environment without damaging our core funding base and improving branch profitability.
- ❖ Customer retention and expansion.

- ❖ Reengineering service lines and products consistent with the acceleration of the acceptance of digital platforms.
- ❖ Managing operational overhead commensurate with the new dynamics created during the pandemic.

In this unprecedented environment, we are learning as we go, but I am convinced that Malvern Bank will emerge from the global pandemic even stronger than before. We at Malvern Bank are applying what we learn to continue building our business and sustaining the trust our customers have placed in us.

Our Annual Meeting is on Wednesday, March 10, 2021 at 11:00 a.m., Eastern Time, and will be held online at **[www.virtualshareholdermeeting.com/MLVF2021](http://www.virtualshareholdermeeting.com/MLVF2021)**. We look forward to speaking with you and sharing our accomplishments and our continued vision for your company. As always, I welcome your comments and suggestions.

Very truly yours,



Anthony C. Weagley  
President & Chief Executive Officer



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

(Mark One)

☒ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the fiscal year ended: September 30, 2020

**or**

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-54835

**MALVERN BANCORP, INC.**

(Exact name of Registrant as specified in its charter)

<u>Pennsylvania</u> (State or Other Jurisdiction of Incorporation or Organization)	<u>45-5307782</u> (I.R.S. Employer Identification Number)
<u>42 E. Lancaster Avenue, Paoli, Pennsylvania</u> (Address of Principal Executive Offices)	<u>19301</u> (Zip Code)

Registrant's telephone number, including area code: (610) 644-9400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$.01 par value per share	MLVF	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 12 months and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately \$142.9 million, based on the last sale price on the NASDAQ Stock Market for the last business day of the Registrant's most recently completed second fiscal quarter.

The number of shares of the Issuer's common stock, par value \$0.01 per share, outstanding as of January 25, 2021 was 7,609,953.

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# MALVERN BANCORP, INC.

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## EXPLANATORY NOTE REGARDING RESTATEMENT

As disclosed in Malvern Bancorp, Inc.'s Current Report on Form 8-K filed on January 20, 2021, the Audit Committee of the Board of Directors (the "Audit Committee") of Malvern Bancorp, Inc. and its subsidiaries (together, the "Company", "we", "us" or "our"), after considering the recommendations of management, concluded that the Company's audited annual consolidated financial statements for the fiscal year ended September 30, 2019 and the unaudited interim consolidated financial statements for the quarterly periods ended December 31, 2019, March 31, 2020 and June 30, 2020 (together, the "Restated Periods"), should not be relied upon due to errors identified in such consolidated financial statements. Specifically, the Company has determined that participation interests relating to two commercial real estate loans totaling approximately \$4.2 million should be treated as secured borrowings rather than sold loans as of the Restated Periods. In addition, investors should no longer rely upon the preliminary earnings release, dated November 9, 2020, for the fourth fiscal quarter and fiscal year ended September 30, 2020 due to the impairment of a single \$13.5 million commercial real estate credit as collateral dependent, based on information that was received from the borrower in December 2020. Specifically, the Company has determined that based on information received in December 2020 an adjustment to the allowance for loan losses is required as of September 30, 2020. Unless otherwise noted herein, all monetary amounts in this report, other than share and per share amounts, are stated in thousands.

The prior period restatement referenced above is related to two commercial loan participation agreements that were partial participation sales, originated by the Company and which the Company intended to sell to another financial institution. Upon further review of the two agreements for compliance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 860-10-40, which relates to sale accounting treatment of participation interests, it was determined that the two agreements should have been recorded as secured borrowing arrangements as opposed to what was intended to be sales of participation interests. The related balance sheet adjustment for treating such participation interests as secured borrowing arrangements as of September 30, 2020 is gross up "Loans Receivable" of approximately \$4.2 million and to record a "Participating Borrowing" of approximately \$4.2 million. The balance sheet reclassification did not have any impact on the provision for loan losses, net (loss) income or Earnings Per Share ("EPS").

Subsequent to the Company's release on November 9, 2020 of its preliminary earnings release for the fourth fiscal quarter and fiscal year ended September 30, 2020, additional information was received concerning the \$13.5 million commercial real estate loan relationship ("the Loan"), which was classified as an accruing COVID-19 deferred loan as of September 30, 2020. The Loan is a retail property located in New York City that was directly affected by the COVID-19 pandemic, and the borrower under the Loan was provided temporary payment relief under the CARES Act. As per FASB ASC 855-10-20, this new information received in December 2020 constituted a subsequent event type 1, providing additional evidence about events and conditions that existed at the balance sheet date and as such management has recorded the adjustment at September 30, 2020.

In determining the allowance for loan loss and impairment on the Loan as of September 30, 2020, the Company followed guidance under ASC 310-10-35. When measuring impairment on an individual basis under ASC 310-10-35, the Company considered the fair value of the Loan's collateral, given that, based on available information received in December 2020, the Loan was collateral dependent. The Company has estimated the fair value of the collateral and recorded a partial charge down of approximately \$2.9 million and a specific reserve of approximately \$581,000, and has placed the Loan on non-accrual status during the three months ended September 30, 2020, pending the receipt of a third party appraisal; based on the results of the appraisal, the Company may adjust the value of the collateral in accordance with such appraisal, which could result in further impairment. The Company recorded an additional \$3.45 million provision for loan losses for the three months ended September 30, 2020 and reversed approximately \$266,000 of interest income (related to the September 30, 2020 principal and interest accrual). The increase in the provision for loan losses and reversal of interest income, as well as adjustments to income tax expense, reduced the Company's net income for the quarter ended September 30, 2020 from \$2.2 million, or \$0.30 per diluted share, to a net loss of \$546,000, or a loss of \$0.07 per diluted share, and for the fiscal year ended September 30, 2020 from net income of \$6.4 million, or \$0.84 per fully diluted share, to net income of \$3.6 million, or \$0.47 per fully diluted share.

This Annual Report on Form 10-K restates amounts included in the 2019 Annual Report described above, including the audited consolidated financial statements for the years ended September 30, 2019, which will allow investors to review all pertinent data in a single presentation. The Company does not intend to file amendments to its annual report for the fiscal year ended September 30, 2019, quarterly reports for the quarterly periods ended December 31, 2019, March 31, 2020 and June 30, 2020, or the preliminary earnings release for the quarterly period ended September 30, 2020 furnished on a Form 8-K filed on November 9, 2020 (collectively, the "Affected Reports"). Accordingly, investors should rely only on the financial information and other disclosures regarding the Restated

Periods that are contained in this Form 10-K, and not on the Affected Reports or any reports, earnings releases or similar communications relating to those periods.

For more information regarding the restatement and its impact on our consolidated financial statements, refer to the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section included within Item 7 of this Annual Report on Form 10-K and Note 3, *Restatement of Previously Issued Consolidated Financial Statements* and Note 22, *Quarterly Financial Information (Unaudited)* of the Notes to the Consolidated Financial Statements included within this Annual Report on Form 10-K.

### **Control Considerations**

In connection with the restatement and loan impairment noted above management has assessed the effectiveness of our disclosure controls and procedures and has included applicable disclosure in Item 9A of this Annual Report on Form 10-K, “Controls and Procedures.” Management identified material weaknesses in our internal control over financial reporting as described under “Management’s Report on Internal Control over Financial Reporting” in Item 9A of this Form 10-K, resulting in the conclusion by our Chief Executive Officer and Chief Financial Officer that our disclosure controls and procedures and internal control over financial reporting were not effective at a reasonable assurance level as of September 30, 2020. Management has taken and is taking additional steps, as described under “Remediation Plan and Status” in Item 9A of this Annual Report on Form 10-K, to remediate these material weaknesses in our internal control over financial reporting.

***Information included in or incorporated by reference in this Annual Report on Form 10-K, other filings with the Securities and Exchange Commission, the Company's press releases or other public statements, contain or may contain forward looking statements. Please refer to a discussion of the Company's forward looking statements and associated risks in "Item 1 — Business" and "Item 1A — Risk factors" in this Annual Report on Form 10-K.***

## **PART I.**

*This report, in Item 1, Item 7 and elsewhere, includes forward-looking statements within the meaning of Sections 27A of the Securities Act of 1933, as amended, and 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that involve inherent risks and uncertainties. This report contains certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of Malvern Bancorp, Inc. and its subsidiaries, including statements preceded by, followed by or that include words or phrases such as "believes," "expects," "anticipates," "plans," "trend," "objective," "continue," "remain," "pattern" or similar expressions or future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may" or similar expressions. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to: (1) the impact on our business, operations, financial condition, liquidity, results of operations, prospects and trading prices of our shares arising out of the coronavirus ("COVID-19") pandemic; (2) competitive pressures among depository institutions may increase significantly; (3) changes in the interest rate environment may reduce interest margins; (4) prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions may vary substantially from period to period; (5) general economic conditions may be less favorable than expected; (6) political developments, wars or other hostilities may disrupt or increase volatility in securities markets or other economic conditions; (7) legislative or regulatory changes or actions may adversely affect the businesses in which Malvern Bancorp, Inc. is engaged; (8) changes and trends in the securities markets may adversely impact Malvern Bancorp, Inc.; (9) difficulties in integrating any businesses that we may acquire, which may increase our expenses and delay the achievement of any benefits that we may expect from such acquisitions; (10) the impact of reputation risk created by the developments discussed above on such matters as business generation and retention, funding and liquidity could be significant; and (11) the outcome of any regulatory or legal investigations and proceedings may not be anticipated. Further information on other factors that could affect the financial results of Malvern Bancorp, Inc. are included in Item 1A of this Annual Report on Form 10-K and in Malvern Bancorp's other filings with the Securities and Exchange Commission ("SEC"). These documents are available free of charge at the Commission's website at <http://www.sec.gov> and/or from Malvern Bancorp, Inc. Malvern Bancorp, Inc. assumes no obligation to update forward-looking statements at any time.*

### **Item 1. Business**

#### **General**

Malvern Bancorp, Inc. (the "Company" or "Malvern Bancorp"), a Pennsylvania corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the "Holding Company Act"). Malvern Bancorp is the holding company for Malvern Bank, National Association ("Malvern Bank" or the "Bank"), a national bank that was originally organized in 1887 as a federally-chartered savings bank.

The Company's primary business is the ownership and operation of the Bank. The Bank's principal business consists of attracting deposits from businesses and the general public and investing those deposits, together with borrowings and funds generated from operations, in commercial and multi-family real estate loans, one- to four-family residential real estate loans, construction and development loans, commercial business loans, home equity loans and lines of credit and other consumer loans. We also invest in and maintain a portfolio of investment securities, primarily comprised of corporate bonds, mortgage-backed securities, U.S. agency and bank qualified municipal obligations. Malvern Bank is one of the oldest banks headquartered on the Philadelphia Main Line. For more than a century, the Bank has been committed to helping people build prosperous communities as a trusted financial partner, forging lasting relationships through teamwork, respect and integrity. The Bank's primary market niche is providing personalized service to its client base.

We derive substantially all of our income from our net interest income (i.e., the difference between the interest we receive on our loans and securities and the interest we pay on deposits and other borrowings). The Bank's revenues are derived principally from interest on loans and investment securities, loan commitment and customer service fees and our mortgage banking operation. We also generate non-interest revenue through insufficient funds fees, stop payment fees, safe deposit rental fees, card income, including credit and debit card interchange fees, gift card fees, borrowings (including from the Federal Home Loan Bank of Pittsburgh), and other miscellaneous fees. In addition, the Bank generates non-interest revenue associated with residential loan origination and sale, back to back customer swaps, loan servicing, late fees and merchant services.

Our primary sources of funds are deposits, borrowings and principal and interest payments on loans and securities, as well as the sale of residential loans in the secondary market. The Bank's primary expenses are interest expense on deposits and borrowings, provisions for loan losses and general operating expenses.

The Bank conducts business from its headquarters in Paoli, Pennsylvania, a suburb of Philadelphia, and through its nine other banking locations in Chester and Delaware counties, Pennsylvania, Morristown, New Jersey, its New Jersey regional headquarters and Palm Beach, Florida. The Bank also maintains representative offices in Wellington, Florida and Allentown, Pennsylvania.

The Bank has the following subsidiary interests:

- The Bank owns 100 percent of Malvern Insurance Associates, LLC ("Malvern Insurance"), a Pennsylvania limited liability company. Malvern Insurance is a licensed insurance broker under Pennsylvania and New Jersey law.
- Certain mortgage-backed securities of the Bank are held through Delaware statutory trusts, 5 percent of which are owned by the Bank and 95 percent of which are owned by Coastal Asset Management Co., a Delaware corporation which is wholly owned by the Bank.
- The Bank owns a 10 percent non-controlling interest in Bell Rock Capital, LLC ("Bell Rock"), an investment advisor registered with the SEC.
- The Bank owns a 3.39 percent interest in Bankers Settlement Services Capital Region, LLC, a Pennsylvania limited liability company which acts as a title insurance agent or agency.
- The Bank owns 100 percent of Joliet 55 LLC., an Illinois limited liability company which holds an other real estate owned ("OREO") asset.

## **SEC Reports and Corporate Governance**

The Company makes its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments thereto available on its website at <http://ir.malvernbankcorp.com> without charge as soon as reasonably practicable after filing with or furnishing them to the SEC. Also available on the website are the Company's corporate code of ethics that applies to all of the Company's employees, including principal officers and directors, and charters for the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee.

Additionally, the Company will provide without charge a copy of its Annual Report on Form 10-K to any shareholder by mail, upon request. Requests should be sent to Malvern Bancorp, Inc., Attention: Shareholder Relations, 42 East Lancaster Avenue, Paoli, Pennsylvania, 19301. Our telephone number is (610) 644-9400.

## **Business Strategy**

Our strategy is to compete for business by providing high quality, personal service to customers, enhanced local presence and customer access to our decision-makers, rapid decision-making, and competitive interest rates and fees. We develop business relationships by increasing our profile in our communities through the involvement of our management team and Board of Directors. We believe we will continue to drive growth and increase profitability, while maintaining our high levels of asset quality, by doing the following:

### **Expand Relationships in Our Communities**

We emphasize household relationship banking by maintaining and growing our customers and contacts with personal interaction by our Board and management team in the communities that we serve. We will continue to do so by offering a full suite of competitive banking products through efficient and varied delivery channels tailored to the needs and successes of our customers and potential customers. The Bank, through its Private Banking division, also offers investment and advisory solutions through our affiliation with an SEC Registered Investment Advisor. Our approach is personalized and focused on what our clients need. We provide individuals, families, business and non profits with personalized investment management, 401 (k) advisory services for employers, financial planning, trust services, and tailored lending. In addition, we also offer insurance solutions through our insurance subsidiary.

### ***Measured Loan Portfolio Growth while Aiding Borrowers Impacted by COVID-19***

Our loan growth strategy is to originate high quality loans with strong sponsors on the commercial side and favorable credit metrics on the retail side in order to achieve measured growth and a balance of commercial and residential loans.

We think it is critical to have as a strategic initiative a plan to work with our customers, in the short and medium terms, in navigating the impact of COVID-19 on both a personal and business level. As part of this plan, we are focused on the inevitable changing needs and preferences of such customers in a post-COVID-19 environment, including but not limited to the offering and delivery of products and services. We plan to use the resources at our disposal, including loan modifications and payment deferrals, to proactively aid such borrowers in remaining current on their loan payments.

As of September 30, 2020, the Company had 43 COVID-19 loan modification agreements with respect to \$147.9 million representing 14.2 percent of loans outstanding. The COVID-19 loan modifications do not classify as TDRs as they fall under the CARES Act Section 4013, and further details regarding these modifications are provided in the table on page 28. At January 15, 2020, the Company had 15 COVID-19-related modified loan deferrals totaling \$71.3 million or 7.1% of total loans. Of the remaining \$71.3 million deferrals, approximately \$37.3 million or 52.3% of the deferrals are paying the contractual interest payments. For loans subject to the program, each borrower is required to resume making regularly scheduled loan payments at the end of the modification period and the deferred amounts will be moved to the end of the loan term. Management anticipates this activity will continue beyond fiscal year 2020.

### ***Core Deposit Growth***

We plan to continue to focus on growing and diversifying our core, retail, non-maturity deposit base with an emphasis on household relationship banking. Our business model includes using industry best practices for community banks, including personalized service, technology and extended hours. We believe that these generate deposit accounts with larger average balances than might be attracted otherwise. From time to time we also use pricing techniques in our efforts to attract banking relationships having larger than average balances. During fiscal 2020 we successfully shifted our funding mix away from brokered, wholesale funding and time deposits and will work to continue this trend in fiscal 2021 and thereafter.

### ***Leverage Our Residential Mortgage Banking Infrastructure***

We leverage our mortgage banking infrastructure to support the origination of residential mortgage loans for sale into the secondary market. Mortgage loan originations and sales activity are strategies utilized to support growth in our non-interest income, while also serving to help manage the Company's exposure to interest rate risk through the sale of longer-duration, fixed-rate loans into the secondary market.

### ***Improve Our Operating Efficiency***

Expense discipline is a key strategy to improve operating efficiency and contribute to earnings growth. We also strive to operate more efficiently by incorporating technology into our client offerings.

### ***Maintain Robust Capital and Liquidity Levels***

The Company's capital position provides a source of strength and continues to significantly exceed all regulatory capital guidelines, as demonstrated by the September 30, 2020 Tier 1 Leverage ratios of the Company and the Bank of 11.87 percent and 13.03 percent, respectively. We plan to continue to maintain robust capital reserves, in part due to the risks and uncertainties associated with the COVID-19 pandemic.

In addition to our robust capital levels, we maintain significant sources of both on- and off-balance sheet liquidity and plan to continue to do so. At September 30, 2020, our liquid assets included \$61.4 million of short-term cash and equivalents supplemented by \$31.5 million of investment securities classified as available for sale which can be readily sold or pledged as collateral, if necessary. In addition, we had the capacity to borrow additional funds totaling \$128.0 million via unsecured lines of credit and \$364.9 million, without pledging additional collateral, from the Federal Home Loan Bank of Pittsburgh.

## ***Ensure the Adequacy of Our Allowance for Credit Losses***

The economic implications of the COVID-19 pandemic and the resulting impact on our asset quality remain unclear at this time. Notwithstanding this uncertainty reserve levels remained adequate with total allowance amounting to \$11.6 million at September 30, 2020.

## **Market Area and Competition**

At September 30, 2020, our primary market area consisted of the counties in which we currently operate branches, private banking offices and representative offices, including Chester, Delaware and Lehigh counties in Pennsylvania, Morris County New Jersey and Palm Beach County Florida. Our lending is concentrated in these markets and our predominant sources of deposits are the communities in which our offices are located as well as the neighboring communities.

The banking business is highly competitive. We face substantial competition both in attracting deposits and in originating loans. We compete with numerous commercial banks, savings banks and savings and loan associations. Other competitors include money market mutual funds, mortgage bankers, insurance companies, stock brokerage firms, unregulated small loan companies, credit unions and issuers of commercial paper and other securities. Many of our competitors have greater assets, capital, lending limits, and financial resources to, among other things, invest in technology and finance wide-ranging advertising campaigns.

## **Products and Services**

We offer a broad range of deposit and loan products and other banking services. These include personal and business checking accounts, retirement accounts, money market accounts, time and savings accounts, safe deposit boxes, credit cards, wire transfers, access to automated teller services, internet banking, ACH origination, telephone banking, and mobile banking. The Bank also offers remote deposit capture banking for both retail and business customers, providing the ability to electronically scan and transmit checks for deposit.

Time deposits consist of certificates of deposit, including those held in IRA accounts. Reciprocal deposits are offered through the Bank's participation in Promontory Interfinancial Network, LLC (the "Network") and Impact Deposit Corp. Customers who are Federal Deposit Insurance Corporation ("FDIC") insurance sensitive are able to place large dollar deposits with the Bank and the Bank uses either outlet to place those funds into certificates of deposit or money markets issued by other banks in the Network. This occurs in increments of less than the FDIC insurance limits so that both the principal and interest are eligible for complete FDIC insurance coverage. The FDIC currently considers these funds as brokered deposits.

We offer personal and commercial business loans on a secured and unsecured basis, revolving lines of credit, commercial mortgage loans, and residential mortgages on both primary and secondary residences, home equity loans, bridge loans and other personal purpose loans. However, we are not and have not historically been a participant in the sub-prime lending market.

Commercial loans are loans made for business purposes and are primarily secured by collateral such as cash balances with the Bank, marketable securities held by or under the control of the Bank, business assets including accounts receivable, inventory and equipment, and liens on commercial and residential real estate.

Commercial construction loans are loans to finance the construction of commercial or residential properties secured by first liens on such properties. Commercial real estate loans include loans secured by first liens on completed commercial properties, including multi-family properties, to purchase or refinance such properties. Residential mortgages include loans secured by first liens on residential real estate to purchase or refinance primary and secondary residences. Home equity loans and lines of credit include loans secured by first or second liens on residential real estate for primary or secondary residences.

Consumer loans are made to individuals who qualify for auto loans, cash reserve, credit cards and installment loans. Our consumer loan portfolio includes unsecured overdraft lines of credit and personal loans as well as loans secured by savings accounts and certificates of deposit on deposit with the Bank.

Our portfolio lending activities include the origination of one- to four-family first mortgage loans, primarily in our designated market area. The fixed-rate residential mortgage loans that we originate for portfolio generally meet the secondary mortgage market standards. As a complement to our residential one- to four-family portfolio lending activities, we operate a mortgage banking platform which supports the origination of one- to four-family mortgage

loans for sale into the secondary market. The loans we originate for sale generally meet the secondary mortgage market standards. Such loans are generally originated by and sourced from the same resources and markets as those loans originated and held in our portfolio.

Through our Private Banking division and our affiliation with Bell Rock, an SEC Registered Investment Advisor, we offer investment advisory services to individuals, families, businesses and non-profits with personalized investment management, 401(k) advisory services for employers, financial planning, trust services, and tailored lending.

We offer a broad range of risk and insurance solutions including life and health insurance, long term care, automobile, homeowners and liability insurance through Malvern Insurance.

## **Human Capital Resources**

At September 30, 2020, we employed a total of 82 full-time equivalent employees spanning across 4 states and 9 offices. It is through our employees, and their ties to the local community, that we are able to dutifully support the communities we serve. Working within, and giving back to, the local community is the hallmark of a true community bank, and we believe that the strength and commitment of our workforce to our communities is what sets us apart from other community banks.

We have long been committed to comprehensive and competitive compensation and benefits programs as we recognize that we operate in intensely competitive environments for talent. Retention of skilled and highly trained employees is critical to our strategy of being a trusted resource to our communities and strengthening relationships with our clients through our employees. Furthering our philosophy to attract and retain a pool of talented and motivated employees who will continue to advance our purpose and contribute to our overall success, our compensation and benefits programs include: an Employees' Savings & Profit Sharing Plan, with matching contributions, for all employees; a performance-based Executive Achievement Incentive Compensation Plan for executives; a Loan Incentive Plan for our lending officers; and an Employee Stock Ownership Plan for all employees. Our Employee Stock Ownership Plan fosters a tangible sense of ownership for our entire workforce and does not require a monetary contribution by employees.

We invest in our employees' future by sponsoring and prioritizing continued education throughout the Company's employee ranks. Three employees every year are enrolled into the American Bankers Association, Stonier School of Banking. All of our employees are able to participate in regular educational seminars run by outside parties, including but not limited to the Office of the Comptroller of the Currency and the American Bankers Association.

In order to develop a workforce that aligns with our corporate values, we regularly sponsor local community events so that our employees can better integrate themselves in our communities. We believe that our employees' well-being and personal and professional development is fostered by our outreach to the communities we serve. Our employees' desire for active community involvement enables us to sponsor a number of local community events and initiatives, including quarterly food drives with local food banks in each of our markets, an annual back-to-school supply drive, an annual book drive that supports the Children's Scholarship Fund Philadelphia and Great Philly Schools school fair, new home buyer seminars, and financial awareness and cyber threat awareness seminars for local senior citizens.

We strive to place the health and well-being of our employees above all else. Never has this been more necessary than during the COVID-19 pandemic. In response to the COVID-19 pandemic, we have taken significant steps to protect the health and well-being of our employees and clients, including implementing a work-from-home policy for over 60% of employees, limiting lobby hours throughout our branch offices, and prioritizing drive-thru and appointment banking.

## **Supervision and Regulation**

The banking industry is highly regulated. Earnings of the Company are affected by state and federal laws and regulations and by policies of various regulatory authorities. Changes in applicable law or in the policies of various regulatory authorities could affect materially the business and prospects of the Company and the Bank. The following discussion of supervision and regulation is qualified in its entirety by reference to the statutory and regulatory provisions discussed.



### ***Regulation of Malvern Bancorp, Inc.***

Malvern Bancorp is a bank holding company within the meaning of the Holding Company Act. As a bank holding company, Malvern Bancorp is supervised by the Board of Governors of the Federal Reserve System (the “FRB”) and is required to file reports with the FRB and provide such additional information as the FRB may require.

The Holding Company Act prohibits Malvern Bancorp, with certain exceptions, from acquiring direct or indirect ownership or control of more than five percent of the voting shares of any company which is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to subsidiary banks, except that it may, upon application, engage in, and may own shares of companies engaged in, certain businesses found by the FRB to be so closely related to banking “as to be a proper incident thereto.” The Holding Company Act requires prior approval by the FRB of the acquisition by Malvern Bancorp of more than five percent of the voting stock of any other bank. Satisfactory capital ratios, Community Reinvestment Act ratings, and anti-money laundering policies are generally prerequisites to obtaining federal regulatory approval to make acquisitions. The Dodd-Frank Wall Street Reform and Consumer Protection Act (“the Dodd-Frank Act”) requires a bank holding company where so directed by the FRB to act as a source of financial and managerial strength to its subsidiary bank and to commit resources to support its subsidiary bank in circumstances in which it might not be otherwise inclined to do so. Acquisitions by Malvern Bank require approval of the Office of the Comptroller of the Currency (the “OCC”).

The Holding Company Act does not place territorial restrictions on the activities of non-bank subsidiaries of bank holding companies.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 enables bank holding companies to acquire banks in states other than the bank holding company’s home state and to open branches of such banks in other states, subject to certain restrictions. The Dodd-Frank Act, discussed below, authorized interstate *de novo* branching regardless of state law.

### ***Regulation of Malvern Bank***

As a national bank, Malvern Bank is subject to the supervision of, and to regular examination by the OCC. Various laws and the regulations applicable to Malvern Bancorp and Malvern Bank impose restrictions and requirements in many areas, including capital requirements, the maintenance of reserves, establishment of new offices, the making of loans and investments, consumer protection, employment practices, bank acquisitions and entry into new types of business. There are various legal limitations, including Sections 23A and 23B of the Federal Reserve Act, that govern the extent to which a bank subsidiary may finance or otherwise supply funds to or engage in certain other types of transactions with its holding company or its holding company’s non-bank subsidiaries. Under federal law, no bank subsidiary may, subject to certain limited exceptions, make loans or extensions of credit to, or investments in the securities of, its parent or the non-bank subsidiaries of its parent (other than direct subsidiaries of such bank which are not financial subsidiaries) or take their securities as collateral for loans to any borrower. Each bank subsidiary is also subject to collateral security requirements for any loans or extensions of credit permitted by such exceptions.

### ***Capital Requirements***

Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), each federal banking agency has promulgated regulations specifying the levels at which a financial institution would be considered “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” or “critically undercapitalized,” and authorizing certain mandatory and discretionary supervisory actions based on the capital level of the institution.

In July 2013, the FRB and the OCC published final rules establishing a new comprehensive capital framework for U.S. banking organizations, referred to as the Basel III rules. Basel III (i) introduced a new capital measure called “Common Equity Tier 1,” or CET1, (ii) specified that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting specified requirements, (iii) applied most deductions/adjustments to regulatory capital measures to CET1 and not to the other components of capital, thus potentially requiring higher levels of CET1 in order to meet minimum ratios, and (iv) expanded the scope of the reductions/adjustments from capital as compared to existing regulations.

Under Basel III, the minimum capital ratios for Malvern Bancorp and Malvern Bank are as follows:

- 4.5 percent CET1 to risk-weighted assets
- 6.0 percent Tier 1 capital (i.e., CET1 plus Additional Tier 1) to risk-weighted assets
- 8.0 percent Total capital (i.e., Tier 1 plus Tier 2) to risk-weighted assets
- 4.0 percent Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the “leverage ratio”).

Basel III also requires Malvern Bancorp and Malvern Bank to maintain a 2.5 percent “capital conservation buffer”, composed entirely of CET1, on top of the minimum risk-weighted asset ratios, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7.0 percent, (ii) Tier 1 capital to risk-weighted assets of at least 8.5 percent, and (iii) total capital to risk-weighted assets of at least 10.5 percent. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of (i) CET1 to risk-weighted assets, (ii) Tier 1 capital to risk-weighted assets or (iii) total capital to risk-weighted assets above the respective minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and discretionary bonus payments to executive officers based on the amount of the shortfall. The implementation of the capital conservation buffer began to be phased in on January 1, 2016 at the 0.625 percent level and increased by 0.625 percent on each subsequent January 1st, until it became fully implemented at 2.5 percent on January 1, 2019.

Basel III provides for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets (“DTAs”) dependent upon future taxable income and significant investments in common equity issued by nonconsolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10 percent of CET1 or all such categories in the aggregate exceed 15 percent of CET1. The deductions and other adjustments to CET1 were being phased in incrementally between January 1, 2015 and January 1, 2018. However, in November 2017, banking regulators announced that the phase in of certain of these adjustments for non-advanced approaches banking organizations, such as Malvern Bank, was frozen.

Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under Basel III, the effects of certain accumulated other comprehensive items are not excluded; however, non-advanced approaches banking organizations, including Malvern Bancorp and Malvern Bank, were permitted to make a one-time permanent election to continue to exclude these items effective as of January 1, 2015. We made this one-time election in the applicable bank regulatory reports as of March 31, 2015.

With respect to Malvern Bank, Basel III also revised the “prompt corrective action” regulations pursuant to Section 38 of FDICIA, by (i) introducing a CET1 ratio requirement at each capital quality level (other than critically undercapitalized); (ii) increasing the minimum Tier 1 capital ratio requirement for each category; and (iii) requiring a leverage ratio of 5 percent to be well-capitalized. The OCC’s regulations implementing these provisions of FDICIA provide that an institution will be classified as “well capitalized” if it (i) has a total risk-based capital ratio of at least 10.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 8.0 percent, (iii) has a CET1 ratio of at least 6.5 percent, (iv) has a Tier 1 leverage ratio of at least 5.0 percent, and (v) meets certain other requirements. An institution will be classified as “adequately capitalized” if it meets the aforementioned minimum capital ratios under Basel III. An institution will be classified as “undercapitalized” if it (i) has a total risk-based capital ratio of less than 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 6.0 percent, (iii) has a CET1 ratio of less than 4.5 percent or (iv) has Tier 1 leverage ratio of less than 4.0 percent. An institution will be classified as “significantly undercapitalized” if it (i) has a total risk-based capital ratio of less than 6.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 4.0 percent, (iii) has a CET1 ratio of less than 3.0 percent or (iv) has a Tier 1 leverage ratio of less than 3.0 percent. An institution will be classified as “critically undercapitalized” if it has a tangible equity to total assets ratio that is equal to or less than 2.0 percent. An insured depository institution may be deemed to be in a lower capitalization category if it receives an unsatisfactory examination rating. Similar categories apply to bank holding companies. The capital ratios applicable to depository institutions under Basel III currently exceed the ratios to be considered well-capitalized under the prompt corrective action regulations. See “—Economic Growth, Regulatory Relief and Consumer Protection Act” below.

Basel III prescribes a standardized approach for calculating risk-weighted assets that expand the risk-weighting categories from the four Basel I-derived categories (0 percent, 20 percent, 50 percent and 100 percent) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets.

In November 2019, the federal banking regulators published final rules implementing a simplified measure of capital adequacy for certain banking organizations that have less than \$10 billion in total consolidated assets. Under the final rules, which went into effect on January 1, 2020, depository institutions and depository institution holding companies that have less than \$10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio of greater than 9%, off-balance-sheet exposures of 25% or less of total consolidated assets and trading assets plus trading liabilities of 5% or less of total consolidated assets, are deemed “qualifying community banking organizations” and are eligible to opt into the “community bank leverage ratio framework.” A qualifying community banking organization that elects to use the community bank leverage ratio framework and that maintains a leverage ratio of greater than 9% is considered to have satisfied the generally applicable risk-based and leverage capital requirements under the Basel III rules and, if applicable, is considered to have met the “well capitalized” ratio requirements for purposes of its primary federal regulator’s prompt corrective action rules, discussed below. The final rules include a two-quarter grace period during which a qualifying community banking organization that temporarily fails to meet any of the qualifying criteria, including the greater-than-9% leverage capital ratio requirement, is generally still deemed “well capitalized” so long as the banking organization maintains a leverage capital ratio greater than 8%. A banking organization that fails to maintain a leverage capital ratio greater than 8% is not permitted to use the grace period and must comply with the generally applicable requirements under the Basel III rules and file the appropriate regulatory reports. We do not have any immediate plans to elect to use the community bank leverage ratio framework but may make such an election in the future.

As indicated in the following tables, as of September 30, 2020 Malvern Bank’s and Malvern Bancorp’s current capital levels exceed the required capital amounts to be considered “well capitalized” and also meet the fully-phased in minimum capital requirements, including the related capital conservation buffers, as required by the Basel III capital rules.

Malvern Bank’s capital ratios as of September 30, 2020 are as follows:

	<b>Actual</b>		<b>Required for Capital Adequacy Purposes</b>		<b>To Be Well Capitalized Under Prompt Corrective Action Provisions</b>		<b>Excess Over Well-Capitalized Provision</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
<i>(Dollars in thousands)</i>								
Tier 1 leverage (core) capital (to adjusted tangible assets)	\$158,532	13.03%	\$48,685	4.00%	\$60,856	5.00%	\$97,676	8.03%
Common equity Tier 1 (to risk-weighted assets)	\$158,532	15.65	45,591	4.50	65,854	6.50	92,678	9.15
Tier 1 risk-based capital (to risk-weighted assets)	\$158,532	15.65	60,788	6.00	81,051	8.00	77,481	7.65
Total risk-based capital (to risk-weighted assets)	\$170,237	16.80	81,051	8.00	101,314	10.00	68,923	6.80

Failure to meet any of the capital requirements could result in enforcement actions by the regulators, including a capital directive, a cease and desist order, civil money penalties, the establishment of restrictions on the institution's operations, termination of federal deposit insurance and the appointment of a conservator or receiver.

Malvern Bancorp's capital ratios as of September 30, 2020 are as follows:

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions		Excess Over Well-Capitalized Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(Dollars in thousands)</i>								
Tier 1 leverage (core) capital (to adjusted tangible assets)	\$144,638	11.87%	\$48,743	4.00%	\$60,929	5.00%	\$83,709	6.87%
Common equity Tier 1 (to risk-weighted assets)	\$144,638	14.25	45,660	4.50	65,954	6.50	78,684	7.75
Tier 1 risk-based capital (to risk-weighted assets)	\$144,638	14.25	60,880	6.00	81,174	8.00	63,464	6.25
Total risk-based capital (to risk-weighted assets)	\$181,119	17.85	81,174	8.00	101,467	10.00	79,652	7.85

### ***The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010***

On July 21, 2010, Congress enacted the Dodd-Frank Act which has significantly changed the bank regulatory structure and impacted the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act required various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The discussion below generally discusses the material provisions of the Dodd-Frank Act applicable to the Company and the Bank and is not complete or meant to be an exhaustive discussion.

The following aspects of the Dodd-Frank Act are related to the operations of the Bank:

- A new independent consumer financial protection bureau was established within the FRB, empowered to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws. Financial institutions with assets of \$10 billion or less, such as the Bank, are subject to the supervision and enforcement of their primary federal banking regulator with respect to the federal consumer financial protection laws.
- Tier 1 capital treatment for “hybrid” capital items like trust preferred securities was eliminated subject to various grandfathering and transition rules.
- The prohibition on payment of interest on demand deposits was repealed.
- State consumer financial law is preempted only if it would have a discriminatory effect on a national bank, prevents or significantly interferes with the exercise by a national bank of its powers or is preempted by any other federal law. The OCC must make a preemption determination on a case-by-case basis with respect to a particular state law or another state law with substantively equivalent terms.
- Deposit insurance has been permanently increased to \$250,000.
- The deposit insurance assessment base calculation equals the depository institution's total assets minus the sum of its average tangible equity during the assessment period.
- The minimum reserve ratio of the Deposit Insurance Fund increased to 1.35 percent of estimated annual insured deposits or assessment base; however, FDIC was directed to “offset the effect” of the increased reserve ratio for insured depository institutions with total consolidated assets of less than \$10 billion.

The following aspects of the Dodd-Frank Act are related to the operations of the Company:

- The Federal Deposit Insurance Act was amended to direct federal regulators to require depository institution holding companies to serve as a source of strength for their depository institution subsidiaries.
- Public companies are required to provide their shareholders with a non-binding vote: (i) at least once every three years on the compensation paid to executive officers, and (ii) at least once every six years on whether they should have a “say on pay” vote every one, two or three years.
- A separate, non-binding shareholder vote is required regarding golden parachutes for named executive officers when a shareholder vote takes place on mergers, acquisitions, dispositions or other transactions that would trigger the parachute payments.
- Securities exchanges are required to prohibit brokers from using their own discretion to vote shares not beneficially owned by them for certain “significant” matters, which include votes on the election of directors, executive compensation matters, and any other matter determined to be significant.
- Stock exchanges, which includes The Nasdaq Stock Market, LLC (“Nasdaq”), will be prohibited from listing the securities of any issuer that does not have a policy providing for (i) disclosure of its policy on incentive compensation payable on the basis of financial information reportable under the securities laws, and (ii) the recovery from current or former executive officers, following an accounting restatement triggered by material noncompliance with securities law reporting requirements, of any incentive compensation paid erroneously during the three-year period preceding the date on which the restatement was required that exceeds the amount that would have been paid on the basis of the restated financial information. See “—Incentive Compensation” below.
- Disclosure in annual proxy materials will be required concerning the relationship between the executive compensation paid and the financial performance of the issuer.

#### ***Transactions with Affiliates, Directors, Executive Officers and Shareholders***

Sections 23A and 23B of the Federal Reserve Act and FRB Regulation W generally:

- limit the extent to which a bank or its subsidiaries may engage in “covered transactions” with any one affiliate;
- limit the extent to which a bank or its subsidiaries may engage in “covered transactions” with all affiliates; and
- require that all such transactions be on terms substantially the same, or at least as favorable to the bank or subsidiary, as those provided to a non-affiliate.

An affiliate of a bank is any company or entity which controls, is controlled by, or is under common control with the bank. The term “covered transaction” includes the making of loans to the affiliate, the purchase of assets from the affiliate, the issuance of a guarantee on behalf of the affiliate, the purchase of securities issued by the affiliate, and other similar types of transactions.

A bank’s authority to extend credit to executive officers, directors and greater than 10 percent shareholders, as well as entities such persons control, is subject to Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O promulgated thereunder by the FRB. Among other things, these loans must be made on terms (including interest rates charged and collateral required) substantially the same as those offered to unaffiliated individuals or be made as part of a benefit or compensation program and on terms widely available to employees and must not involve a greater than normal risk of repayment. In addition, the amount of loans a bank may make to these persons is based, in part, on the bank’s capital position, and specified approval procedures must be followed in making loans which exceed specified amounts.

#### ***Incentive Compensation***

The Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities with at least \$1 billion in total assets, such as Malvern Bancorp and the Bank, that encourage inappropriate risks by providing an executive

officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these agencies must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011 and subsequently proposed revised regulations in May 2016, but the revised regulations have not been finalized. If the revised regulations are adopted in the form proposed, they will impose limitations on the manner in which Malvern Bancorp may structure compensation for its executives and employees.

In 2010, the FRB, OCC and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act.

The FRB will review, as part of its regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as Malvern Bancorp, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

#### ***Dividend Limitations***

Malvern Bancorp is a legal entity separate and distinct from its subsidiaries. Malvern Bancorp's revenues (on a parent company only basis) result in substantial part from dividends paid by the Bank. The Bank's dividend payments, without prior regulatory approval, are subject to regulatory limitations. Under the National Bank Act, dividends may be declared only if, after payment thereof, capital would be unimpaired and remaining surplus would equal 100 percent of capital. Moreover, a national bank may declare, in any one year, dividends only in an amount aggregating not more than the sum of its net profits for such year and its retained net profits for the preceding two years. However, declared dividends in excess of net profits in either of the preceding two years can be offset by retained net profits in the third and fourth years preceding the current year when determining the Bank's dividend limitation. In addition, the bank regulatory agencies have the authority to prohibit the Bank from paying dividends or otherwise supplying funds to Malvern Bancorp if the supervising agency determines that such payment would constitute an unsafe or unsound banking practice.

#### ***Loans to Related Parties***

Malvern Bank's authority to extend credit to its directors, executive officers and 10 percent shareholders, as well as to entities controlled by such persons, is currently governed by the requirements of the National Bank Act, Sarbanes-Oxley Act and Regulation O of the FRB thereunder. Among other things, these provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. In addition, extensions of credit in excess of certain limits must be approved by the Bank's Board of Directors. Under the Sarbanes-Oxley Act, Malvern Bancorp and its subsidiaries, other than the Bank under the authority of Regulation O, may not extend or arrange for any personal loans to its directors and executive officers.

#### ***Lending Limits***

As a national bank, the Bank's lending limit to any one borrower is 15 percent of the Bank's capital and surplus (defined as Tier 1 and Tier 2 capital calculated under the risk-based capital standards applicable to the Bank plus the allowance for loan losses ("ALLL", "allowance") not included in the Bank's Tier 2 capital) for most loans (\$25.5 million at September 30, 2020) and 25 percent of the Bank's capital and surplus for loans secured by readily

marketable collateral (\$42.6 million at September 30, 2020). At September 30, 2020, the Bank's largest committed relationship totaled \$23.1 million.

### ***Economic Growth, Regulatory Relief and Consumer Protection Act***

On May 24, 2018, President Trump signed into law the first major financial services reform bill since the enactment of the Dodd-Frank Act. The Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Regulatory Relief Act") modifies or eliminates certain requirements on community and regional banks and nonbank financial institutions. For instance, under the Reform Act and related rule making:

- banks that have less than \$10 billion in total consolidated assets and total trading assets and trading liabilities of less than five percent of total consolidated assets are exempt from Section 619 of the Dodd-Frank Act, known as the "Volcker Rule", which prohibits "proprietary trading" and the ownership or sponsorship of private equity or hedge funds that are referred to as "covered funds";
- the asset threshold for bank holding companies to qualify for treatment under the "Small Bank Holding Company and Savings and Loan Holding Company Policy Statement" was raised from \$1 billion to \$3 billion, which exempts these institutions (including the Company) from certain regulatory requirements including the Basel III capital rules;
- a new "community bank leverage ratio" was adopted, which is applicable to certain banks and bank holding companies with total assets of less than \$10 billion (as described above under "Capital Requirements"); and
- banks with up to \$3 billion in total consolidated assets may be examined by their federal banking regulator every 18 months (as opposed to every 12 months).

### ***Community Reinvestment***

Under the Community Reinvestment Act ("CRA"), as implemented by OCC regulations, a national 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. The CRA requires the OCC, in connection with its examination of a national 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 association. The CRA also requires all institutions to make public disclosure of their CRA ratings. Malvern Bank received an overall "satisfactory" CRA rating in its most recent examination. A bank which does not have a CRA program that is deemed satisfactory by its regulator will be prevented from making acquisitions.

In December 2019, the OCC and the FDIC proposed changes to the regulations implementing the CRA, which, if adopted will result in changes to the current CRA framework. The FRB did not join the proposal.

### ***Corporate Governance***

The Sarbanes-Oxley Act of 2002 added new legal requirements for public companies affecting corporate governance, accounting and corporate reporting, to increase corporate responsibility and to protect investors. Among other things, the Sarbanes-Oxley Act of 2002:

- required our management to evaluate our disclosure controls and procedures and our internal control over financial reporting, and required our auditors to issue a report on our internal control over financial reporting;
- imposed on our chief executive officer and chief financial officer additional responsibilities with respect to our external financial statements, including certification of financial statements within the Annual Report on Form 10-K and Quarterly Reports on Form 10-Q by the chief executive officer and the chief financial officer;
- established independence requirements for audit committee members and outside auditors;
- created the Public Company Accounting Oversight Board which oversees public accounting firms; and
- increased various criminal penalties for violations of securities laws.

Nasdaq, where Malvern Bancorp's common stock is listed, has corporate governance listing standards, including rules strengthening director independence requirements for boards, as well as the audit committee and the compensation committee, and requiring the adoption of charters for the nominating, corporate governance, compensation and audit committees.

### ***Privacy and Data Security Laws***

The federal Gramm-Leach-Bliley Act includes limitations on financial institutions' disclosure of nonpublic personal information about a consumer to nonaffiliated third parties, in certain circumstances requires financial institutions to limit the use and further disclosure of nonpublic personal information by nonaffiliated third parties to whom they disclose such information, and requires financial institutions to disclose certain privacy policies and practices with respect to information sharing with affiliated and nonaffiliated entities as well as to safeguard personal customer information. We have a detailed privacy policy, which is accessible from every page of our website. We maintain consumers' personal information securely, and only share such information with third parties for marketing purposes in accordance with our privacy policy and with the consent of the consumer. In addition, we take measures to safeguard the personal information of our borrowers and investors and protect against unauthorized access to this information.

### ***USA PATRIOT Act***

As part of the USA PATRIOT Act, Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the "Anti Money Laundering Act"). The Anti Money Laundering Act authorizes the Secretary of the U.S. Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to financial institutions such as banks, bank holding companies, broker-dealers and insurance companies. Among its other provisions, the Anti Money Laundering Act requires each financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls that are reasonably designed to detect and report instances of money laundering in United States private banking accounts and correspondent accounts maintained for non-United States persons or their representatives; and (iii) to avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign shell bank that does not have a physical presence in any country.

Regulations implementing the due diligence requirements require minimum standards to verify customer identity and maintain accurate records, encourage cooperation among financial institutions, federal banking agencies, and law enforcement authorities regarding possible money laundering or terrorist activities, prohibit the anonymous use of "concentration accounts," and require all covered financial institutions to have in place an anti-money laundering compliance program.

The OCC, along with other banking agencies, have strictly enforced various anti-money laundering and suspicious activity reporting requirements using formal and informal enforcement tools to cause banks to comply with these provisions.

A bank which is issued a formal or informal enforcement requirement with respect to its Anti Money Laundering program will be prevented from making acquisitions.

### ***Insurance of Accounts***

The deposits of the Bank are insured to the maximum extent permitted by the Deposit Insurance Fund and are backed by the full faith and credit of the U.S. Government. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the FDIC. The FDIC also has the authority to initiate enforcement actions against national banks, after giving the OCC an opportunity to take such action.



The FDIC's risk-based premium system provides for quarterly assessments. Each insured institution is placed in one of four risk categories depending on supervisory and capital considerations. Within its risk category, an institution is assigned to an initial base assessment rate which is then adjusted to determine its final assessment rate based on its brokered deposits, secured liabilities and unsecured debt. To implement the Dodd-Frank Act, the FDIC amended its deposit insurance regulations (1) to change the assessment base for insurance from domestic deposits to average assets minus average tangible equity and (2) to lower overall assessment rates. The revised assessments rates are between 2.5 to 9 basis points for banks in the lowest risk category and between 30 to 45 basis points for banks in the highest risk category.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, or FICO, a mixed-ownership government corporation established to recapitalize the predecessor to the Deposit Insurance Fund. The Bank paid these assessments until the FICO bonds matured in 2019 and the FICO assessments ended.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is not aware of any existing circumstances which could result in termination of the Bank's deposit insurance.

As noted above, the Dodd-Frank Act raises the minimum reserve ratio of the Deposit Insurance Fund from 1.15 percent to 1.35 percent and requires the FDIC to offset the effect of this increase on insured institutions with assets of less than \$10 billion (small institutions). The FDIC has adopted a rule to accomplish this by imposing a surcharge on larger institutions commencing when the reserve ratio reaches 1.15 percent and ending when it reaches 1.35 percent. The reserve ratio reached 1.15 percent on June 30, 2016. Accordingly, surcharges began on July 1, 2016. Small institutions will receive credits for the portion of their regular assessments that contributed to growth in the reserve ratio between 1.15 percent and 1.35 percent. The credits will apply for each quarter the reserve ratio is above 1.38 percent, in amounts as determined by the FDIC.

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

Malvern Bank is a member of the Federal Home Loan Bank of Pittsburgh, which is one of 12 regional Federal Home Loan Banks ("FHLB"). Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the FHLB. At September 30, 2020, the Bank had \$130.0 million of FHLB advances and \$150.0 million available on its line of credit with the FHLB.

As a member, the Bank is required to purchase and maintain stock in the FHLB of Pittsburgh in an amount equal to at least 1.0 percent of its aggregate unpaid residential mortgage loans or similar obligations at the beginning of each year. At September 30, 2020, Malvern Bank had \$6.9 million in FHLB stock, which was in compliance with this requirement.

#### ***Federal Reserve System.***

The FRB requires all depository institutions to maintain reserves against their transaction accounts (primarily NOW and Super NOW checking accounts) and non-personal time deposits. Because required reserves must be maintained in the form of vault cash or a noninterest-bearing account at a Federal Reserve Bank, the effect of this reserve requirement is to reduce an institution's earning assets. At September 30, 2020, the Bank had met its reserve requirement.

#### ***Federal Securities Laws.***

Malvern Bancorp has registered its common stock with the SEC under Section 12(b) of the Exchange Act. Accordingly, Malvern Bancorp is subject to the proxy and tender offer rules, insider trading reporting requirements and restrictions, and certain other requirements under the Exchange Act.

### ***Other Regulations.***

Malvern Bank is subject to federal consumer protection statutes and regulations promulgated under those laws, including, but not limited to, the:

- Truth-In-Lending Act and Regulation Z, governing disclosures of credit terms to consumer borrowers;
- the Real Estate Settlement Procedures Act (“RESPA”) and Regulation X, which governs certain mortgage loan origination activities and practices and the actions of servicers related to escrow accounts, loan servicing transfers, lender-placed insurance, loss mitigation, error resolution and other customer communications and
- Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records.

### **Item 1A. Risk Factors.**

*Ownership of our common stock involves certain risks. The risks and uncertainties described below are not the only ones we face. You should carefully consider the risks described below, as well as all other information contained in this Annual Report on Form 10-K. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occurs, our business, financial condition or results of operations could be materially, adversely affected.*

#### **Risks Related to the COVID-19 Pandemic**

***The recent global COVID-19 pandemic has led to periods of significant volatility in financial, commodities and other markets and could harm our business and results of operations.***

In December 2019, a COVID-19 outbreak was reported in China, and, in March 2020, the World Health Organization declared it a pandemic. Since that time, the coronavirus has spread throughout the United States, including in the regions and communities in which the Company operates. In response, many state and local governments, including the Commonwealth of Pennsylvania and the State of New Jersey, have instituted various emergency restrictions that continue to substantially limit the operation of non-essential businesses and the activities of individuals. These restrictions could result in significant adverse effects on our borrowers and many different types of small and mid-sized businesses within the Company’s client base, particularly those in the retail, hotel, medical, leisure, hospitality and food and beverage industries, among many others, and have resulted in a significant number of layoffs and furloughs of employees nationwide and in the regions and communities in which we operate.

The ultimate effect of COVID-19 and related events, including those described above and those not yet known or knowable, could have a negative effect on the stock price, business prospects, financial condition and results of operations of the Company, including as a result of quarantines, market volatility, market downturns, changes in consumer behavior, business closures, deterioration in the credit quality of borrowers or the inability of borrowers to satisfy their obligations to the Company (and any related forbearances or restructurings that may be implemented), declines in the value of collateral securing outstanding loans, branch or office closures and business interruptions.

The outbreak has resulted in authorities implementing numerous measures to try to contain the virus, such as quarantines and shelter in place orders. These measures may continue to remain in place for a significant period of time and adversely affect our business, operations and financial condition, as well as the business, operations and financial conditions of our customers and business partners. The spread of the virus has also caused us to modify our business practices (including employee work locations and cancellation of physical participation in meetings) in ways that may become detrimental to our business (including working remotely and its attendant cybersecurity risks). We may take further actions as may be required by government authorities or that we determine are in the best interests of our employees and customers. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus or otherwise be satisfactory to government authorities.

***We are subject to increasing credit risk as a result of the COVID-19 pandemic, which could adversely impact our profitability.***

Our business depends on our ability to successfully measure and manage credit risk. We are exposed to the risk that the principal of, or interest on, a loan will not be paid timely or at all or that the value of any collateral supporting a loan will be insufficient to cover our outstanding exposure. In addition, we are exposed to risks resulting from changes in economic and industry conditions and risks inherent in dealing with loans and borrowers. As the overall

economic climate in the U.S., generally, and in our market areas specifically, experience material disruption due to the COVID-19 pandemic, our borrowers may have difficulties in repaying their loans. Governmental actions providing payment relief to borrowers affected by COVID-19 could preclude our ability to initiate foreclosure proceedings in certain circumstances and, as a result, the collateral we hold may decrease in value or become illiquid, and the level of our nonperforming loans, charge-offs and delinquencies could rise and require significant additional provisions for credit losses. Additional factors related to the credit quality of certain commercial real estate and multifamily residential loans include the duration of state and local moratoriums on evictions for non-payment of rent or other fees. The payment on these loans that are secured by income producing properties are typically dependent on the successful operation of the related real estate property and may subject us to risks from adverse conditions in the real estate market or the general economy.

Bank regulatory agencies and various governmental authorities are urging financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19. We are actively working to support our borrowers to mitigate the impact of the COVID-19 pandemic on them and on our loan portfolio, including through loan modifications that defer payments for those who experienced a hardship as a result of the COVID-19 pandemic. Although recent regulatory guidance provides that such loan modifications are exempt from the calculation and reporting of troubled debt restructurings (“TDRs”) and loan delinquencies, we cannot predict whether such loan modifications may ultimately have an adverse impact on our profitability in future periods. Our inability to successfully manage the increased credit risk caused by the COVID-19 pandemic could have a material adverse effect on our business, financial condition and results of operations.

***Interest rate volatility stemming from COVID-19 could negatively affect our net interest income, lending activities, deposits and profitability.***

Our net interest income, lending activities, deposits and profitability could be negatively affected by volatility in interest rates caused by uncertainties stemming from COVID-19. In March 2020, the FRB lowered the target range for the federal funds rate to a range from 0 to 0.25 percent, citing concerns about the impact of COVID-19 on markets and stress in certain sectors. A prolonged period of extremely volatile and unstable market conditions would likely increase our funding costs and negatively affect market risk mitigation strategies. Higher income volatility from changes in interest rates and spreads to benchmark indices could cause a loss of future net interest income and a decrease in current fair market values of our assets. Fluctuations in interest rates will impact both the level of income and expense recorded on most of our assets and liabilities and the market value of all interest-earning assets and interest-bearing liabilities, which in turn could have a material adverse effect on our net income, operating results, and financial condition.

***Unpredictable future developments related to or resulting from the COVID-19 pandemic could materially and adversely affect our business and results of operations.***

Given the ongoing and dynamic nature of the circumstances, it is not possible to predict the ultimate impact of the coronavirus outbreak on the stock price, business prospects, financial condition or results of operations of the Company. Any future development is highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the continued effectiveness of our work from home arrangements, third party providers’ ability to support our operation, and any actions taken by governmental authorities and other third parties in response to the pandemic. We are continuing to monitor the COVID-19 pandemic and related risks, although the rapid development and fluidity of the situation precludes any specific prediction as to its ultimate impact on us. However, if the pandemic continues to spread or otherwise results in a continuation or worsening of the current economic and commercial environments, our business, financial condition, results of operations and cash flows as well as our regulatory capital and liquidity ratios could be materially adversely affected and many of the risks described herein will be heightened.

***Our participation in the SBA PPP loan program exposes us to risks related to noncompliance with the Paycheck Protection Program (“PPP”), which could have a material adverse impact on our business, financial condition and results of operations.***

The Company is a participating lender in the PPP, a loan program administered through the SBA, which was created to help eligible businesses, organizations and self-employed persons fund their operational costs during the COVID-19 pandemic. Under this program, the SBA guarantees 100% of the amounts loaned under the PPP. As of September 30, 2020, the Company obtained approval from the SBA for 255 PPP loans totaling \$20.8 million for both existing and new customers, with an average loan size of approximately \$81,000. The net deferred fee related to PPP loan origination totaled \$609,000 at September 30, 2020. The Company may be exposed to credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which these loans were originated, funded, or serviced. If a deficiency is identified, the SBA may deny its liability under the guaranty, reduce the amount

of the guaranty or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from the Company.

## **Risks Related to Our Business**

***We are subject to credit risk in connection with our lending activities, and our financial condition and results of operations may be negatively impacted by economic conditions and other factors that adversely affect our borrowers.***

Our financial condition and results of operations are affected by the ability of our borrowers to repay their loans, and in a timely manner. The risks of non-payment and late payments are assessed through our underwriting and loan review procedures based on several factors including credit risks of a particular borrower, changes in economic conditions, the duration of the loan and in the case of a collateralized loan, uncertainties as to the future value of the collateral and other factors. Despite our efforts, we do and will experience loan losses, and our financial condition and results of operations will be adversely affected. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment, natural disasters, terrorist acts, or a combination of these or other factors.

***Our results of operations and financial condition may be adversely affected by changing economic conditions.***

A return to a recessionary period could negatively impact our customers in a manner that would adversely affect our results of operations and financial condition. Volatility in the housing markets, real estate values and unemployment levels, and the deterioration of economic conditions in our market area, could affect our customers' ability to repay loans and adversely affect our results of operations and future growth potential in the following ways:

- Loan delinquencies may increase;
- Problem assets and foreclosures may increase;
- Demand for our products and services may decline;
- The carrying value of our OREO may decline further; and
- Collateral for loans made by us, especially real estate, may decline in value, in turn reducing a customer's borrowing power, and reducing the value of assets and collateral associated with our loans.

***Changes in interest rates could adversely affect our financial condition and results of operation.***

Our net income depends primarily upon our net interest income. Net interest income is the difference between interest income earned on loans, investments and other interest-earning assets and the interest expense incurred on deposits and borrowed funds. The level of net interest income is primarily a function of the average balance of our interest-earning assets, the average balance of our interest-bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest-earning assets and our interest-bearing liabilities which, in turn, are impacted by such external factors as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve Board of Governors (the "FOMC"), and market interest rates.

Different types of assets and liabilities may react differently, and at different times, to changes in market interest rates. We expect that we will periodically experience gaps in the interest rate sensitivities of our assets and liabilities. That means either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. When interest-bearing liabilities mature or re-price more quickly than interest-earning assets, an increase in market rates of interest could reduce our net interest income. Likewise, when interest-earning assets mature or re-price more quickly than interest-bearing liabilities, falling interest rates could reduce our net interest income. We are unable to predict changes in market interest rates, which are affected by many factors beyond our control, including inflation, deflation, recession, unemployment, money supply, domestic and international events and changes in the United States and other financial markets.

We also attempt to manage risk from changes in market interest rates, in part, by controlling the mix of interest rate sensitive assets and interest rate sensitive liabilities. However, interest rate risk management techniques are not exact. A rapid increase or decrease in interest rates could adversely affect our results of operations and financial performance.

***Our high concentration of commercial real estate loans exposes us to increased lending risk.***

As of September 30, 2020, the primary composition of our total loan portfolio was as follows:

- commercial real estate loans of \$498.5 million, or 47.8 percent of total loans;
- residential real estate loans of \$242.1 million, or 23.2 percent of total loans;
- commercial and industrial loans of \$116.6 million, or 11.2 percent of total loans;
- construction and development loans of \$68.8 million, or 6.6 percent of total loans and
- consumer loans of \$30.7 million, or 2.9 percent of total loans.

Commercial real estate loans expose us to a greater risk of loss than do residential mortgage loans. Commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential loans. Consequently, an adverse development with respect to one commercial loan or one credit relationship exposes us to a significantly greater risk of loss compared to an adverse development with respect to one residential mortgage loan. Any significant failure to pay on time by our customers or a significant default by our customers would materially and adversely affect us.

Although the economy in our market area generally, and the real estate market in particular, have been relatively strong, we can give you no assurance that it will continue to grow or that the rate of growth will accelerate to historic levels. Many factors could reduce or halt growth in our local economy and real estate market. Accordingly, it may become more difficult for commercial real estate borrowers to repay their loans in a timely manner than in the current economic climate, as commercial real estate borrowers' ability to repay their loans frequently depends on the successful development of their properties. The deterioration of one or a few of our commercial real estate loans could cause a material increase in our level of nonperforming loans, which would result in a loss of revenue from these loans and could result in an increase in the provision for loan and lease losses and/or an increase in charge-offs, all of which could have a material adverse impact on our net income. We also may incur losses on commercial real estate loans due to declines in occupancy rates and rental rates, which may decrease property values and may reduce the likelihood that a borrower may find permanent financing alternatives. Weaknesses in the commercial real estate market in general could negatively impact our collateral. Any weakening of the commercial real estate market may increase the likelihood of default of these loans, which could negatively impact our loan portfolio's performance and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, we could incur material losses. Any of these events could increase our costs, require management time and attention, and materially and adversely affect our financial condition and results of operations.

***The concentration of our commercial real estate loan portfolio subjects us to heightened regulatory scrutiny.***

The FDIC, the FRB and the OCC have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending. Under the joint guidance, a financial institution that, like us, is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations. A financial institution may have a concentration in commercial real estate lending if, among other factors: (i) total reported loans for construction, land development, and other land represent 100 percent or more of total risk-based capital or (ii) total reported loans for construction, land development and other land and loans secured by multifamily and non-owner occupied non-farm residential properties (excluding loans secured by owner-occupied properties) represent 300 percent or more of total risk-based capital and the institution's commercial real estate loan portfolio has increased by 50 percent or more during the prior 36 month period. In such event, management should employ heightened risk management practices, including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing.

The Bank's total reported loans for construction, land development and other land represented 38.0 percent of risk based capital at September 30, 2020 as compared to 24.7 percent of capital at September 30, 2019. This ratio is

below the regulatory commercial real estate concentration guideline level of 100 percent for land and construction loans. The Bank's total reported commercial real estate loans to total risk based capital was 335.8 percent at September 30, 2020, as compared to 331.5 percent of capital at September 30, 2019. This ratio is above the regulatory commercial real estate concentration guideline level of 300 percent for all investor real estate loans. The Bank's commercial real estate portfolio has increased by 14.6 percent over the preceding 36 months.

***If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease.***

We make various assumptions and judgements about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the required amount of the allowance for loan losses, we evaluate certain loans individually and establish loan loss allowances for specifically identified impairments. For all non-impaired loans, including those not individually reviewed, we estimate losses and establish loan loss allowances based upon historical and environmental loss factors. If the assumptions used in our calculation methodology are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in further additions to our allowance. At September 30, 2020, our allowance for loan losses was 1.12 percent of total loans, and 1.14 percent of total loans less PPP loans, which do not require a specific reserve. Significant additions to our allowance could materially decrease our net income.

***Strong competition within our market area could hurt our profits and slow our growth.***

The banking and financial services industry in our market area is highly competitive. We may not be able to compete effectively in our markets, which could adversely affect our results of operations. The increasingly competitive environment is a result of changes in regulation, advances in technology and product delivery systems, and consolidation among financial service providers. Larger institutions have greater resources and access to capital markets, with higher lending limits, more advanced technology and broader suites of services. Competition at times requires increases in deposit rates and decreases in loan rates, and adversely impact our net interest margin.

## **Operational, Compliance and Legal Risks**

***The fair value of our investment securities can fluctuate due to market conditions outside of our control.***

As of September 30, 2020, the fair value of our investment securities portfolio was approximately \$47.1 million. We have historically adopted a conservative investment strategy, with concentrations of securities that are backed by government sponsored enterprises. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could have a material adverse effect on us. The process for determining whether impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security.

***Our growth-oriented business strategy could be adversely affected if we are not able to attract and retain skilled employees or if we lose the services of our senior management team.***

Our ability to manage growth will depend upon our ability to continue to attract, hire and retain skilled employees. The unanticipated loss of members of our senior management team, could have a material adverse effect on our results of operations and ability to execute our strategic goals. Our success will also depend on the ability of our officers and key employees to continue to implement and improve our operational and other systems, to manage multiple, concurrent customer relationships and to hire, train and manage our employees.

***A new accounting standard will likely require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.***

The Financial Accounting Standards Board ("FASB") has adopted a new accounting standard, the Current Expected Credit Loss ("CECL"), that will be effective for the Company and the Bank for fiscal years beginning on October 1, 2023. The CECL standard will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which would likely require us to

increase our allowance for loan losses, and to greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses may have a material adverse effect on our financial condition and results of operations.

***Reforms to and uncertainty regarding the US Dollar London Interbank Offered Rate (“LIBOR”) may adversely affect the business.***

In 2014, a committee of private-market participants and their regulators (as ex officio members) convened by the FRB, the Alternative Reference Rates Committee (“ARRC”), was created to identify an alternative reference interest rate to replace LIBOR. In 2017, the ARRC announced Secured Overnight Financing Rate (“SOFR”), a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities, as its preferred alternative to LIBOR. Also in 2017, the Chief Executive of the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, announced its intention to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. Subsequently, the Federal Reserve Bank announced final plans for the production of SOFR, which resulted in the commencement of its published rates by the Federal Reserve Bank of New York on April 3, 2018. Whether or not SOFR attains market traction as a LIBOR replacement tool remains in question and the future of LIBOR at this time is uncertain. The uncertainty as to the nature and effect of such reforms and actions and the political discontinuance of LIBOR may adversely affect the value of and return on the Company’s financial assets and liabilities that are based on or are linked to LIBOR, the Company’s results of operations or financial condition. In addition, these reforms may also require extensive changes to the contracts that govern these LIBOR based products, as well as the Company’s systems and processes.

LIBOR is used as a reference rate for many of our transactions, which means it is the base on which relevant interest rates are determined. Transactions include those in which we lend and borrow money, and enter into derivatives to manage our or our customers’ risk. Risks related to transitioning instruments to a new reference rate or to how LIBOR is calculated and its availability include impacts on the yield on loans or securities held by us, amounts paid on securities we have issued, or amounts received and paid on derivative instruments we have entered into. The value of loans, securities, or derivative instruments tied to LIBOR and the trading market for LIBOR-based securities could also be impacted upon its discontinuance or if it is limited.

While we expect LIBOR to continue to be available in substantially its current form until the end of 2021 or shortly before that, it is possible that LIBOR quotes will become unavailable prior to that point. This could result, for example, if sufficient banks decline to make submissions to the LIBOR administrator. In that case, the risks associated with the transition to an alternative reference rate will be accelerated and magnified. These risks may also be increased due to the shorter time for preparing for the transition. On November 30, 2020, ICE Benchmark Administration Limited, the administrator of LIBOR, announced that it will consult on its intention to cease the publication of the one week and two month LIBOR settings immediately following the LIBOR publication on December 31, 2021, and the remaining LIBOR settings immediately following the LIBOR publication on June 30, 2023. The outcome of such consultation and its impact on LIBOR could materially affect the economics as well as the timing of the transition away from LIBOR.

***We are dependent on our information technology and telecommunications systems and third-party servicers, and cyber-attacks, systems failures, interruptions or breaches of security could have a material adverse effect on us.***

Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, securities, deposits, and loans. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches (including privacy breaches), but such events may still occur and may not be adequately addressed if they do occur. In addition any compromise of our systems could deter customers from using our products and services. Although we rely on security systems to provide security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from compromises or breaches of security.

In addition, we outsource a majority of our data processing to certain third-party providers. If these third-party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any system failures, interruption, or breach of security could damage our reputation and result in a loss of customers and business thereby subjecting us to additional regulatory scrutiny, or could expose us to litigation and possible financial liability. Furthermore, we may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures arising from operational and security risks. Any of these events could have a material adverse effect on our financial condition and results of operations.

***Recent New Jersey legislative changes may increase our tax expense.***

In connection with adopting its 2019 fiscal year budget, the New Jersey legislature adopted, and the Governor signed, legislation that imposes a temporary surtax on corporations earning New Jersey allocated income in excess of \$1 million of 2.5 percent for tax years beginning on or after January 1, 2018 through December 31, 2019, and of 1.5 percent for tax years beginning on or after January 1, 2020 through December 31, 2021. The legislation also requires combined filing for members of an affiliated group for tax privilege periods ending on or after July 31, 2019, changing New Jersey's current status as a separate return state, and limits the deductibility of dividends received. These changes are not temporary. Regulations implementing the legislative changes have not yet been issued, and the Company cannot yet fully evaluate the impact of the legislation on overall tax expense or the valuation of the DTA. It is likely that the Company will lose benefits of various tax management strategies and, as a result, the total tax expense will increase.

***We operate in a highly regulated environment and we may be adversely affected by changes in laws and regulations.***

We are subject to extensive regulation, supervision and examination by the FRB, our primary federal regulator, the OCC, the Bank's primary federal regulator, and by the FDIC, as insurer of the Bank's deposits. Such regulation and supervision govern the activities in which an institution and its holding company may engage and are intended primarily for the protection of the insurance fund and the depositors and borrowers of the Bank rather than for holders of our common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations.

***Our risk management framework may not be effective in mitigating risk and reducing the potential for significant losses.***

Our risk management framework is designed to effectively manage and mitigate risk while minimizing exposure to potential losses. We seek to identify, measure, monitor, report and control our exposure to risk, including strategic, market, liquidity, compliance and operational risks. While we use a broad and diversified set of risk monitoring and mitigation techniques, these techniques are inherently limited because they cannot anticipate the existence or future development of currently unanticipated or unknown risks. Recent economic conditions and heightened legislative and regulatory scrutiny of the financial services industry, among other developments, have increased our level of risk. Accordingly, we could suffer losses as a result of our failure to properly anticipate and manage these risks.

***We could be adversely affected by failure in our internal controls.***

A failure in our internal controls could have a significant negative impact not only on our earnings, but also on the perception that customers, regulators and investors may have of us. We continue to devote a significant amount of effort, time and resources to continually strengthening our controls and ensuring compliance with complex accounting standards and banking regulations.

**Item 1B. Unresolved Staff Comments.**

None



**Item 2. Properties.**

At September 30, 2020, the Bank owns and maintains the premises in which the headquarters and five full-service financial centers are located in Paoli, Malvern, Coventry, Berwyn and Lionville, Pennsylvania. The Bank also leases the following: one financial center located in Glen Mills, Pennsylvania; one private banking office located in Villanova, Pennsylvania; one credit administrative office located in Quakertown, Pennsylvania; one private banking office located in Morristown, New Jersey; one private banking office located in Palm Beach, Florida; one representative office located in Wellington, Florida; and one representative office located in Allentown, Pennsylvania. The specific location of each of the offices are as follows:

Paoli Headquarters	42 East Lancaster Avenue, Paoli, PA 19301
Paoli Financial Center	34 East Lancaster Avenue, Paoli, PA 19301
Malvern Financial Center	100 West King Street, Malvern, PA 19355
Coventry Financial Center	1000 Ridge Road, Pottstown, PA 19465
Berwyn Financial Center	650 Lancaster Avenue, Berwyn, PA 19312
Lionville Financial Center	537 West Uwchlan Avenue, Downingtown, PA 19335
Glen Mills Financial Center	940 Baltimore Pike, Glen Mills, PA 19342
Villanova Private Banking Office	801 East Lancaster Avenue, Villanova, PA 19085
Quakertown Credit Administrative Office	2100 Quakertown Point Drive, Quakertown PA 18951
Morristown Private Banking Office	163 Madison Avenue, 3 <sup>rd</sup> Floor, Morristown, NJ 07960
Palm Beach Private Banking Office	205 Worth Avenue, Suite 308, Palm Beach, FL 33480
Wellington Representative Office	12773 W Forest Hill Blvd., Ste. 120, Wellington, FL 33414
Allentown Representative Office	1275 Glenlivet Drive, Ste. 100, Allentown, PA 18106

**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 is not expected to have a material adverse effect on the Company's financial condition or results of operations.

**Item 4. Mine Safety Disclosures.**

Not Applicable.

## PART II.

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

The common stock of the Company is traded on the Nasdaq Global Select Market under the symbol "MLVF". As of September 30, 2020, the Company had 385 stockholders of record, not including the number of persons or entities whose stock is held in nominee or "street" name through various brokerage firms and banks.

For the years ended September 30, 2020 and 2019, no cash dividends per share of common stock were declared by the Company. It is our policy to retain earnings, if any, to provide funds for use on our business. Although we have never declared or paid dividends on our common stock, our board of directors periodically reviews whether to declare or pay cash dividends taking into account, among other things, general business conditions, our financial results, future prospects, capital requirements, legal and regulatory restrictions, and such other factors as our board may deem relevant.

Our ability to pay dividends on our common stock is dependent on the Bank's ability to pay dividends to the Company. Various statutory provisions restrict the amount of dividends that the Bank can pay without regulatory approval. For information on the statutory and regulatory limitations on the ability of the Company to pay dividends to its stockholders and on the Bank to pay dividends to the Company, see "Item 1. Business-Supervision and Regulation—Dividend Limitations."

#### **Equity Compensation Plan Information**

The following table provides information about the Company's common stock that may be issued upon the exercise of stock options under our 2014 Long-Term Incentive Compensation Plan (the "2014 Plan") as of September 30, 2020. The 2014 Plan permits the grant of equity awards and other awards, including stock options and restricted stock.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	25,830	\$ 21.57	318,651
Equity compensation plans not approved by security holders	—	—	—
Total	<u>25,830</u>	<u>\$ 21.57</u>	<u>318,651</u>

#### **Information on Unregistered Sales and Stock Repurchases**

There were no unregistered sales of the Company's stock during the fourth quarter of 2020.

On March 14, 2019, the Company's Board of Directors approved a stock repurchase plan, under which the Company was authorized to repurchase up to 194,516 shares, or approximately 2.5 percent of the Company's current outstanding common stock. On February 28, 2020, the Company's Board of Directors extended the timeframe for its current stock repurchase program from March 31, 2020 to December 31, 2020. This repurchase authority may be exercised from time to time and in such amounts as market conditions warrant. The repurchases may be made on the open market, in block trades or otherwise. The program may be suspended or discontinued at any time. As of September 30, 2020, there were no shares remaining in the repurchase plan. The following table sets forth information regarding the Company's repurchases of its common stock during the three months ended September 30, 2020:

			Total Number of Shares Purchased as	Maximum Number of Shares that May yet be Purchased Under the Plan or Program
	Number of Shares Repurchased	Average Price Paid Per Share	Part of Publicly Announced Plans or Programs	
July 1, 2020 to				
July 31, 2020	-	\$ -	-	-
August 1, 2020 to				
August 31, 2020	-	\$ -	-	-
September 1, 2020 to				
September 30, 2020	-	\$ -	-	-
Total for the quarter ended September 30, 2020	-		-	

**Item 6. Selected Financial Data.**

This Item has been omitted based on the Company's status as a smaller reporting company.

## **Item 7. Management’s Discussion and Analysis (“MD&A”) of Financial Condition and Results of Operations.**

The purpose of this analysis is to provide the reader with information relevant to understanding and assessing the Company’s financial condition and results of operations for the periods indicated. To fully appreciate this analysis, the reader is encouraged to review the consolidated financial statements and accompanying notes thereto appearing under Item 8 of this report, and statistical data presented in this document.

### **CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

See the first page of this Annual Report on Form 10-K for information regarding forward-looking statements.

### **Critical Accounting Policies and Estimates**

Management’s Discussion and Analysis of Financial Condition and Results of Operations is based on our consolidated financial statements, which have been prepared in accordance with U. S. generally accepted accounting principles (“GAAP”). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Note 2 to our audited consolidated financial statements contains a summary of our significant accounting policies. Management believes our policy with respect to the methodology for the determination of the allowance for loan losses involves more complexity and requires management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could materially impact results of operations. This critical policy and its application are periodically reviewed with the Audit Committee and our Board of Directors.

### **Impact of COVID-19**

The Company continues to take the following significant steps to protect the health and well-being of its employees and clients and to assist clients who have been impacted by COVID-19.

- Continuing limited lobby hours; prioritizing drive-thru and appointment banking.
- High-risk designated hours offered to assist our high-risk clients.
- Continuing to assist customers in the Paycheck Protection Program.
- Continuing to provide payment deferrals and forbearances to business customers and mortgage customers that are experiencing hardship because of the crisis.

### **Paycheck Protection Program**

In response to COVID-19, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was passed by Congress and signed into law on March 27, 2020. The CARES Act provides an estimated \$2.2 trillion to fight the COVID-19 pandemic and stimulate the economy by supporting individuals and businesses through loans, grants, tax changes, and other types of relief. Section 4013 of the CARES Act, provides that, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 pandemic declared by the President of the United States under the National Emergencies Act terminates (the “applicable period”).

The CARES Act established the Paycheck Protection Program (“PPP”), an expansion of the Small Business Administration’s 7(a) loan program and the Economic Injury Disaster Loan Program (“EIDL”), administrated directly by the Small Business Administration (“SBA”).

The Company started accepting and processing applications for loans under the PPP in early April 2020, when the program was officially launched by the SBA and Treasury Department under the CARES Act. As of September 30, 2020, the Company obtained approval from the SBA for 255 PPP loans totaling \$20.8 million for both existing and new customers, with an average loan size of approximately \$81,000. Commercial and industrial loans represented 100 percent of PPP loans at September 30, 2020. These loans are expected to generate fee income of approximately \$574,000 to be recognized over the life of the loans or when the loan is forgiven.

### **Liquidity Sources**

Management has reviewed all primary and secondary sources of liquidity in preparation for any unforeseen funding needs due to the COVID-19 pandemic and prioritized based on available capacity, term flexibility, and cost.

As of September 30, 2020, the Company had adequate sources of liquidity (excluding the Company's ability to participate in the Paycheck Protection Program Liquidity Facility).

### **Capital Strength**

The Company's capital ratios continue to exceed the highest required regulatory benchmark levels. As of September 30, 2020, common equity Tier 1 capital ratio was 14.25 percent, Tier 1 leverage ratio was 11.87 percent, Tier 1 risk-based capital ratio was 14.25 percent and the total risk-based capital ratio was 17.85 percent.

### **Deferral Requests**

As of September 30, 2020, the Company had 43 COVID-19 loan modification agreements with respect to \$147.9 million representing 14.2 percent of loans outstanding. The COVID-19 loan modifications do not classify as TDRs as they fall under the CARES Act Section 4013, and further details regarding these modifications are provided in the table below. At January 15, 2020, the Company had 15 COVID-19-related modified loan deferrals totaling \$71.3 million or 7.1% of total loans. Of the remaining \$71.3 million deferrals, approximately \$37.3 million or 52.3% of the deferrals are paying the contractual interest payments. For loans subject to the program, each borrower is required to resume making regularly scheduled loan payments at the end of the modification period and the deferred amounts will be moved to the end of the loan term. Management anticipates this activity will continue beyond fiscal year 2020.

		September 30, 2020		
	Number of Loans	Loan Deferment Exposure	Gross Loans September 30, 2020	Percentage of Gross Loans on Deferral
<i>(Dollars in thousands)</i>				
<b>Residential mortgage</b>	5	\$ 1,288	\$ 242,090	0.12%
<b>Construction and Development:</b>				
Residential and commercial	-	-	65,703	0.00%
Land loans	-	-	3,110	0.00%
Total Construction and Development	-	-	68,813	0.00%
<b>Commercial:</b>				
Commercial real estate	21	134,488	498,538	12.90%
Farmland	1	2,288	7,517	0.22%
Multi-family	2	3,718	67,767	0.36%
Commercial and industrial	10	5,547	116,584	0.53%
Other	-	-	10,142	0.00%
Total Commercial	34	146,041	700,548	14.01%
<b>Consumer:</b>				
Home equity lines of credit	3	579	17,128	0.06%
Second mortgages	1	17	10,711	0.00%
Other	-	-	2,851	0.00%
Total Consumer	4	596	30,690	0.06%
<b>Total loans</b>	<b>43</b>	<b>\$ 147,925</b>	<b>\$ 1,042,141</b>	<b>14.19%</b>

Certain industries are widely expected to be particularly impacted by social distancing, quarantines, and the economic impact of the COVID-19 pandemic, such as the following:

		September 30, 2020	
	Number of Loans	Loan Deferment Exposure	Percentage of Gross Loans on Deferral
		<i>(Dollars in thousands)</i>	
Industries:			
Hotel	6	\$ 58,640	5.63%
Retail	9	28,315	2.72%
Office/Medical Office	1	6,927	0.66%
Fitness Centers	1	11,400	1.09%
Restaurants and food service	1	1,191	0.11%
Other	3	28,015	2.69%
Total Outstanding Exposure	<u>21</u>	<u>\$ 134,488</u>	<u>12.90%</u>

### Allowance for Loan Losses

The allowance for loan losses represents management's estimate of probable loan losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the Company's Consolidated Statements of Financial Condition.

The evaluation of the adequacy of the allowance for loan losses includes, among other factors, an analysis of historical loss rates by loan category applied to current loan totals and qualitative factors. However, actual loan losses may be higher or lower than historical trends, which vary. Actual losses on specified problem loans, which also are provided for in the evaluation, may vary from estimated loss percentages, which are established based upon a limited number of potential loss classifications. The allowance for loan losses is established through a provision for loan losses charged to expense. Management believes that the current allowance for loan losses will be adequate to absorb loan losses on existing loans that may become uncollectible based on the evaluation of known and inherent risks in the loan portfolio. The evaluation takes into consideration such factors as changes in the nature and size of the portfolio, overall portfolio quality, and specific problem loans and current economic conditions which may affect our borrowers' ability to pay.

The evaluation also details historical losses by loan category and the resulting loan loss rates which are projected for current loan total amounts. Loss estimates for specified problem loans are also detailed. In addition, the OCC, as an integral part of its examination process, periodically reviews our allowance for loan losses. The OCC may require us to make additional provisions for loan losses based upon information available at the time of the examination. All of the factors considered in the analysis of the adequacy of the allowance for loan losses may be subject to change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses may be required that could materially adversely impact earnings in future periods.

Qualitative or environmental factors that may result in further adjustments to the quantitative analyses include items such as changes in lending policies and procedures, economic and business conditions, nature and volume of the portfolio, changes in delinquency, concentration of credit trends, and value of underlying collateral. The total net adjustments due to all qualitative factors increased the allowance for loan losses by approximately \$9.2 million and \$6.7 million at September 30, 2020 and September 30, 2019, respectively.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

### Other Real Estate Owned

Assets acquired through foreclosure consist of OREO and financial assets acquired from debtors. OREO is carried at the lower of cost or fair value, less estimated selling costs. The fair value of OREO is determined using current

market appraisals obtained from approved independent appraisers, agreements of sale, and comparable market analysis from real estate brokers, where applicable. Changes in the fair value of assets acquired through foreclosure at future reporting dates or at the time of disposition will result in an adjustment in assets acquired through foreclosure expense or net gain (loss) on sale of assets acquired through foreclosure, respectively.

### **Fair Value Measurements**

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

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

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company’s own estimates of assumptions that market participants would use in pricing the asset.

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

Fair value measurements for assets where there exists limited or no observable market data and, therefore, are based primarily upon the Company’s or other third-party’s estimates, are often calculated based on the characteristics of the asset, the economic and competitive environment and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future valuations. At September 30, 2020, the Company had \$16.3 million of assets that were measured at fair value on a non-recurring basis using Level 3 measurements.

### **Income Taxes**

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

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

Realization of a DTA requires us to exercise significant judgment and is inherently uncertain because it requires the prediction of future occurrences. Our net DTA amounted to \$3.5 million and \$2.8 million at September 30, 2020 and at September 30, 2019, respectively. In accordance with ASC Topic 740, the Company evaluates on a quarterly



basis, all evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance for DTAs is needed. In conducting this evaluation, management explores all possible sources of taxable income available under existing tax laws to realize the net DTA beginning with the most objectively verifiable evidence first, including available carry back claims and viable tax planning strategies. If needed, management will look to future taxable income as a potential source. Management reviews the Company's current financial position and its results of operations for the current and preceding years. That historical information is supplemented by all currently available information about future years. The Company understands that projections about future performance are subjective. The Company did not have a DTA valuation allowance as of September 30, 2020 and September 30, 2019.

### **Other-Than-Temporary Impairment of Securities**

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

### **Derivatives**

The Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future uncertain cash amounts, the value of which are determined by interest rates. The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. The Company primarily uses interest rate swaps as part of its interest rate risk management strategy.

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

Other assets increased from \$12.5 million at September 30, 2019 to \$16.3 million at September 30, 2020 while other liabilities increased from \$8.5 million at September 30, 2019 to \$13.4 million at September 30, 2020 primarily due to the Bank's commercial loan hedging program during fiscal 2020.

### **Results of Operations**

Net income for the year ended September 30, 2020 was \$3.6 million as compared to \$9.3 million earned in fiscal 2019. Our net income for fiscal 2020 decreased by 61.4 percent compared to fiscal 2019. For fiscal 2020, the fully diluted earnings per common share was \$0.47 as compared with \$1.22 per share in fiscal 2019.

The decreases in net income and diluted earnings per share were primarily due to higher loan loss provision expense necessitated by the COVID-19 pandemic and lower net interest income, as well as the partial charge-off of \$2.3 million in the first fiscal quarter ended December 31, 2019 related to one commercial loan relationship and a

partial charge-off of \$2.9 million in the fourth fiscal quarter ended September 30, 2020 related to another separate commercial loan relationship.

For the year ended September 30, 2020, the Company's return on average equity ("ROAE") was 2.49 percent and its return on average assets ("ROAA") was 0.29 percent. The comparable ratios for the year ended September 30, 2019 were ROAE of 6.78 percent and ROAA of 0.80 percent.

## Net Interest Income and Margin

Net interest income is the difference between the interest earned on the portfolio of earning assets (principally loans and investments) and the interest paid for deposits and borrowings, which support these assets.

The following table presents the components of net interest income for the periods indicated.

### Net Interest Income

	Year Ended September 30,					
	2020			2019 (As Restated)		
	Amount	Increase (Decrease) from Prior Year	Percent Change	Amount	Increase (Decrease) from Prior Year	Percent Change
<i>(In thousands)</i>						
<b>Interest income:</b>						
Loans, including fees	\$ 41,441	\$ (2,313)	(5.29)	\$ 43,754	\$ 6,712	18.12
Investment securities	1,172	(17)	(1.43)	1,189	(156)	(11.60)
Dividends, restricted stock	631	4	0.64	627	160	34.26
Interest-bearing cash accounts	1,063	(1,202)	(53.07)	2,265	909	67.04
Total interest income	44,307	(3,528)	(7.38)	47,835	7,625	18.96
<b>Interest expense:</b>						
Deposits	12,846	(1,502)	(10.47)	14,348	5,148	55.96
Short-term borrowings	—	(7)	(100.00)	7	(61)	(89.71)
Long-term borrowings	2,898	25	0.87	2,873	493	20.71
Subordinated debt	1,531	(1)	(0.07)	1,532	5	0.33
Total interest expense	17,275	(1,485)	(7.92)	18,760	5,585	42.39
Net interest income	<u>\$ 27,032</u>	<u>\$ (2,043)</u>	<u>(7.03)</u>	<u>\$ 29,075</u>	<u>\$ 2,040</u>	<u>7.55</u>

Net interest income is directly affected by changes in the volume and mix of interest-earning assets and interest-bearing liabilities, which support those assets, as well as changes in the rates earned and paid.

Net interest income for the year ended September 30, 2020 decreased \$2.1 million, or 7.0 percent, to \$27.0 million, from \$29.1 million for fiscal 2019. The Company's net interest margin decreased twenty-six basis points to 2.30 percent in fiscal 2020 from 2.56 percent for the fiscal year ended September 30, 2019. During fiscal 2020, our net interest margin was impacted by a decrease in the yield on interest-earning assets, as well as a decrease in the cost of deposits and borrowings.

The decrease in net interest income during fiscal 2020 was attributable in part to the continued decrease in short-term interest rates throughout 2020. The Company experienced a decrease of \$5.3 million in non-interest bearing deposits during fiscal 2020 and a decrease of \$57.6 million in interest-bearing demand, savings, money market and time deposits during fiscal 2020. During the fiscal year ended September 30, 2020, the Company's net interest spread decreased by twenty-one basis points reflecting a forty-three basis points decrease in the average yield on interest-earning assets as well as a twenty-two basis points decrease in the average interest rates paid on interest-bearing liabilities.

For the fiscal year ended September 30, 2020, average interest-earning assets increased by \$37.3 million to \$1.2 billion, as compared with the fiscal year ended September 30, 2019. The fiscal 2020 change in average

interest-earning asset volume was primarily due to increased loan volume. Average interest-bearing liabilities increased by \$41.0 million in fiscal 2020 compared to fiscal 2019, due primarily to an increase in average interest-bearing deposits of \$24.7 million and a \$16.4 million increase in average borrowings.

The factors underlying the year-to-year changes in net interest income are reflected in the tables presented on page 34. The table on page 35 (Average Statements of Condition with Interest and Average Rates) shows the Company's consolidated average balance of assets, liabilities and shareholders' equity, the amount of income produced from interest-earning assets and the amount of expense incurred from interest-bearing liabilities, and net interest income as a percentage of average interest-earning assets.

### **Total Interest Income**

Interest income for the year ended September 30, 2020 decreased by approximately \$3.5 million or 7.4 percent as compared with the year ended September 30, 2019. This decrease was due primarily to a decrease in the rate earned on loans.

The average balance of the Company's loan portfolio increased \$48.3 million in fiscal 2020 to \$1.03 billion from \$977.9 million in fiscal 2019, primarily driven by an increase in commercial loans and residential loans.

The average loan portfolio represented approximately 87.5 percent of the Company's interest-earning assets (on average) during fiscal 2020 and 86.1 percent for fiscal 2019. Average investment securities decreased during fiscal 2020 by \$5.1 million compared to fiscal 2019. The average yield on interest-earning assets decreased from 4.21 percent in fiscal 2019 to 3.78 percent in fiscal 2020.

### **Interest Expense**

Interest expense for the year ended September 30, 2020 was principally impacted by rate related factors. The changes resulted in decreased expense of \$1.5 million primarily due to a decrease in rates paid on interest bearing liabilities from fiscal 2019 to fiscal 2020.

The Company's net interest spread, (i.e., the average yield on average interest-earning assets minus the average rate paid on interest-bearing liabilities) decreased twenty-one basis points to 2.09 percent in fiscal 2020 from 2.30 percent for the year ended September 30, 2019. The decrease in fiscal 2020 reflected a decrease between yields earned on interest-earning assets that exceeded the decrease in overall cost of funds.

The cost of total average interest-bearing liabilities decreased to 1.69 percent for the year ended September 30, 2020, a decrease of twenty-two basis points, from 1.91 percent for the year ended September 30, 2019.

### **Net Interest Margin**

The following table quantifies the impact on net interest income resulting from changes in average balances and average rates over the past two years. Any change in interest income or expense attributable to both changes in volume and changes in rate has been allocated in proportion to the relationship of the absolute dollar amount of change in each category.

## Analysis of Variance in Net Interest Income Due to Volume and Rates

(In thousands)	Fiscal 2020/2019 Increase (Decrease) Due to Change in:		
	Average Volume	Average Rate	Net Change
<b>Interest-earning assets:</b>			
Loans, including fees	\$ 2,161	\$ (4,474)	\$ (2,313)
Investment securities	(125)	108	(17)
Interest-bearing cash accounts	(159)	(1,043)	(1,202)
Dividends, restricted stock	79	(75)	4
Total interest-earning assets	1,956	(5,484)	(3,528)
<b>Interest-bearing liabilities:</b>			
Money market deposits	48	(824)	(776)
Savings deposits	(1)	2	1
Certificates of deposit	(395)	(70)	(465)
Other interest-bearing deposits	605	(867)	(262)
Total interest-bearing deposits	257	(1,759)	(1,502)
Borrowings	496	(479)	17
Total interest-bearing liabilities	753	(2,238)	(1,485)
Change in net interest income	<u>\$ 1,203</u>	<u>\$ (3,246)</u>	<u>\$ (2,043)</u>

The following table, “Average Statements of Condition with Interest and Average Rates” presents for the years ended September 30, 2020 and 2019, the Company’s average assets, liabilities and shareholders’ equity. The Company’s net interest income, net interest spreads and net interest income as a percentage of interest-earning assets (net interest margin) are also reflected.

	Year Ended September 30,					
	2020			2019 (As Restated)		
	Average Outstanding Balance	Interest Earned /Paid	Average Yield /Rate	Average Outstanding Balance	Interest Earned /Paid	Average Yield/ Rate
<i>(In thousands)</i>						
<b>ASSETS</b>						
Interest earning assets:						
Loans receivable <sup>(1)</sup>	\$ 1,026,221	\$ 41,441	4.04%	\$ 977,876	\$ 43,754	4.47%
Investment securities	43,237	1,172	2.71	48,327	1,189	2.46
Deposits in other banks	93,807	1,063	1.13	100,864	2,265	2.25
FHLB stock	10,089	631	6.25	8,954	627	7.00
Total interest earning assets <sup>(1)</sup>	1,173,354	44,307	3.78	1,136,021	47,835	4.21
Non-interest earning assets						
Cash and due from banks	15,365			1,426		
Bank owned life insurance	20,260			19,656		
Other assets	28,133			20,627		
Other real estate owned	5,796			4,510		
Allowance for loan losses	(10,386)			(9,562)		
Total non-interest earning assets	59,168			36,657		
Total assets	<u>\$ 1,232,522</u>			<u>\$ 1,172,678</u>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Interest bearing liabilities:						
Money Market accounts	\$ 280,427	\$ 4,010	1.43%	\$ 277,644	\$ 4,786	1.72%
Savings accounts	42,983	50	0.12	43,587	49	0.11
Certificate accounts	244,980	5,262	2.15	263,086	5,727	2.18
Other interest-bearing deposits	294,523	3,524	1.20	253,936	3,786	1.49
Total deposits	862,913	12,846	1.49	838,253	14,348	1.71
Borrowed funds	162,109	4,429	2.73	145,749	4,412	3.03
Total interest-bearing liabilities	1,025,022	17,275	1.69	984,002	18,760	1.91
Non-interest bearing liabilities						
Demand deposits	44,833			41,932		
Other liabilities	18,150			9,024		
Total non-interest-bearing liabilities	62,983			50,956		
Shareholders' equity	144,517			137,720		
Total liabilities and shareholders' equity	<u>\$ 1,232,522</u>			<u>\$ 1,172,678</u>		
Net interest spread			2.09%			2.30%
Net interest margin			2.30%			2.56%
Net Interest income		<u>\$ 27,032</u>			<u>\$ 29,075</u>	

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

## Other Income

The following table presents the principal categories of other ("non-interest") income for each of the years in the two-year period ended September 30, 2020.

	Year Ended September 30,			
	2020	2019	Increase (Decrease)	% Change
<i>(In thousands)</i>				
Service charges and other fees	\$ 1,316	\$ 1,796	\$ (480)	(26.73)%
Rental income-other	217	243	(26)	(10.70)
Net gains on sale of investments	330	28	302	1,078.57
Net gains on sale of loans	116	37	79	213.51
Earnings on bank-owned life insurance	509	488	21	4.30
Total other income	<u>\$ 2,488</u>	<u>\$ 2,592</u>	<u>\$ (104)</u>	<u>(4.01)%</u>

For the fiscal year ended September 30, 2020, total other income decreased \$104,000 compared to the fiscal year ended September 30, 2019. This decrease was primarily a result of decreases of \$480,000 in service charges and other fees, partially offset by increases of \$302,000 in gain on sale of investments and \$79,000 in gain on sale of loans.

The decrease in service charges and other fees during the fiscal year ended September 30, 2020 is primarily due to the recognition of approximately \$428,000 less of net swap fees through the Bank's commercial loan hedging program.

The increase on the sale of investments resulted from managing and optimizing normal portfolio activity, while the gain on sale of loans was a result of a strategic effort to originate and sell residential loans in the current low interest rate environment.

## Other Expense

The following table presents the principal categories of other expense for each of the years in the two-year period ended September 30, 2020.

	Year Ended September 30,			
	2020	2019	Increase (Decrease)	% Change
	<i>(In thousands)</i>			
Salaries and employee benefits	\$ 8,889	\$ 8,541	\$ 348	4.07%
Occupancy expense	2,309	2,256	53	2.35
Federal deposit insurance premium	155	221	(66)	(29.86)
Advertising	119	107	12	11.21
Data processing	1,105	1,024	81	7.91
Professional fees	1,995	1,799	196	10.89
Other real estate owned expense, net	88	192	(104)	(54.17)
Pennsylvania shares tax	678	431	247	57.31
Other operating expense	2,964	2,916	48	1.65
Total other expense	<u>\$ 18,302</u>	<u>\$ 17,487</u>	<u>\$ 815</u>	<u>4.66%</u>

For the fiscal year ended September 30, 2020, total other expense increased \$815,000, or 4.7 percent, compared to the fiscal year ended September 30, 2019.

This increase primarily reflects a \$348,000 increase in salaries and employee benefits, a \$247,000 increase in the Pennsylvania shares tax, and a \$196,000 increase in professional fees. These increases were partially offset by a \$104,000 decrease in OREO expense, net, and a \$66,000 decrease in the federal deposit insurance premium.

The increase in salaries and employee benefits during the fiscal year ended September 30, 2020 reflects normal increases to salary and benefits and additional hires to support overall franchise growth.

The increased Pennsylvania shares tax was due to the Bank not being subject to this tax until the second quarter of 2019.

The increase in professional fees was due to higher legal and professional services expenses of \$182,000 and \$160,000, respectively, partially offset by lower audit and accounting expenses of approximately \$143,000.

The decrease in OREO expense, net, was due to successfully managing and leasing the space while actively working to dispose of the associated property.

The reduction in the federal deposit insurance premium resulted from the Deposit Insurance Fund reserve ratio exceeding the official required reserve ratio, which in turn generated credits to qualified participating banks. These credits have been fully utilized in fiscal 2020.

## Financial Condition

### Investment Portfolio

For the year ended September 30, 2020, the average volume of investment securities decreased by \$5.1 million to approximately \$43.2 million or 3.7 percent of average interest-earning assets, from \$48.3 million or 4.3 percent of average interest-earning assets, in fiscal 2019. At September 30, 2020, the total investment portfolio amounted to \$46.5 million, an increase of \$5.6 million from September 30, 2019. The increase in the investment portfolio was primarily due to purchases of \$30.1 million, partially offset by maturities, calls and principal repayments in the amount of \$15.8 million and sales in the amount of \$8.9 million during fiscal 2020. At September 30, 2020, the principal components of the investment portfolio were government agency obligations, federal agency obligations, including

mortgage-backed securities, obligations of U.S. states and political subdivision, corporate bonds and notes, a trust preferred security and equity securities.

During the year ended September 30, 2020, volume related factors decreased investment revenue by \$125,000, while rate related factors increased investment revenue by \$108,000. The yield on investments increased by twenty-five basis points to 2.71 percent from a yield of 2.46 percent during the year ended September 30, 2019. The investment revenue decreased in fiscal 2020 compared to fiscal 2019 due primarily to decreased average volume.

As of September 30, 2020, the estimated fair value of the available-for-sale securities disclosed below was primarily dependent upon the movement in market interest rates, particularly given the negligible inherent credit risk associated with these securities. These investment securities are comprised of securities that are rated investment grade by at least one bond credit rating service. As of September 30, 2020, the Company held five corporate securities and one single issuer trust preferred security which were in an unrealized loss position. Although the fair value will fluctuate as the market interest rates move, management believes that these fair values will recover as the underlying portfolios mature and are reinvested in market rate yielding investments. The Company does not intend to sell and expects that it is not more likely than not that it will be required to sell these securities until such time as the value recovers or the securities mature. Management does not believe any individual unrealized loss as of September 30, 2020 represents other-than-temporary impairment.

Securities available-for-sale are a part of the Company's interest rate risk management strategy and may be sold in response to changes in interest rates, changes in prepayment risk, liquidity management and other factors. The Company continues to reposition the investment portfolio as part of an overall corporate-wide strategy to produce reasonable and consistent margins where feasible, while attempting to limit risks inherent in the Company's balance sheet.

For fiscal 2020, proceeds of available-for-sale investment securities sold amounted to approximately \$8.9 million. There were gains of approximately \$352,000 associated with these sales. For fiscal 2019, proceeds of available-for-sale investment securities sold amounted to approximately \$2.1 million. Gross realized gains on investment securities sold amounted to approximately \$28,000.

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

The table below illustrates the maturity distribution and weighted average yield for investment securities at September 30, 2020, based on a contractual maturity.

	One year or less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total		
	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
<i>(In thousands)</i>											
<b>Available for Sale Securities:</b>											
U.S. government agencies and obligations	\$ —	—%	\$ —	—%	\$ —	—%	\$ 5,025	1.50%	\$ 5,025	\$ 5,040	1.50%
State and municipal obligations	426	1.33	2,675	2.00	—	—	—	—	3,101	3,105	1.91
Single issuer trust preferred security	—	—	—	—	1,000	0.88	—	—	1,000	925	0.88
Corporate debt securities	—	—	3,500	0.62	16,009	5.05	1,500	3.75	21,009	20,948	4.22
Mutual fund	—	—	500	2.00	—	—	1,023	—	1,523	1,523	0.66
<b>Total</b>	<b>\$ 426</b>	<b>1.33%</b>	<b>\$ 6,675</b>	<b>1.28%</b>	<b>\$ 17,009</b>	<b>4.81%</b>	<b>\$ 7,548</b>	<b>1.74%</b>	<b>\$ 31,658</b>	<b>\$31,541</b>	<b>3.29%</b>
<b>Held to Maturity Securities:</b>											
State and municipal obligations	\$ —	—%	\$ —	—%	\$ 1,794	2.24%	\$ —	—%	\$ 1,794	\$ 1,923	2.24%
Corporate debt securities	—	—	3,498	3.82	—	—	—	—	3,498	3,758	3.82
Mortgage-backed securities	—	—	—	—	468	1.90	9,210	1.77	9,678	9,927	1.78
<b>Total</b>	<b>\$ —</b>	<b>—%</b>	<b>\$ 3,498</b>	<b>3.82%</b>	<b>\$ 2,262</b>	<b>2.17%</b>	<b>\$ 9,210</b>	<b>1.77%</b>	<b>\$ 14,970</b>	<b>\$15,608</b>	<b>2.31%</b>
<b>Total Investment Securities</b>	<b>\$ 426</b>	<b>1.33%</b>	<b>\$ 10,173</b>	<b>2.15%</b>	<b>\$ 19,271</b>	<b>4.50%</b>	<b>\$ 16,758</b>	<b>1.76%</b>	<b>\$ 46,628</b>	<b>\$47,149</b>	<b>2.98%</b>

For information regarding the carrying value of the investment portfolio, see Note 7 and Note 13 of the Notes to the Consolidated Financial Statements.

The following table sets forth the carrying value of the Company's investment securities, as of September 30, for each of the last two years.

	2020	2019
	(In thousands)	
<b>Investment Securities Available-for-Sale:</b>		
U.S. government agencies and obligations	\$ 5,040	\$ 3,000
State and municipal obligations	3,105	4,732
Single issuer trust preferred security	925	923
Corporate debt securities	20,948	9,506
Mutual fund	1,523	250
Total available-for-sale	<u>\$ 31,541</u>	<u>\$ 18,411</u>
<b>Investment Securities Held-to-Maturity:</b>		
U.S. government agencies	\$ —	\$ 1,000
State and municipal obligations	1,794	4,515
Corporate debt securities	3,498	3,608
Mortgage-backed securities:		
Collateralized mortgage obligations, fixed-rate	9,678	13,362
Total held-to-maturity	<u>\$ 14,970</u>	<u>\$ 22,485</u>
Total investment securities	<u>\$ 46,511</u>	<u>\$ 40,896</u>

For additional information regarding the Company's investment portfolio, see Note 7 and Note 13 of the Notes to the Consolidated Financial Statements.



## Loan Portfolio

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

The Company seeks to create growth in commercial lending, which primarily includes commercial real estate, multi-family, farmland, and commercial and industrial lending, by offering customer-focused products and competitive pricing and by capitalizing on the positive trends in its market area. Products offered are designed to meet the financial requirements of the Company's customers. It is the objective of the Company's credit policies to diversify the commercial loan portfolio to limit concentrations in any single industry.

At September 30, 2020, total gross loans amounted to \$1.0 billion, an increase of \$20.7 million or 2.0 percent as compared to September 30, 2019. At September 30, 2020, total net loans amounted to \$1.0 billion, an increase of \$18.9 million or 1.9 percent as compared to September 30, 2019. For the year ended September 30, 2020, growth of \$25.0 million in construction and development loans and \$22.1 million in residential mortgage loans were partially offset by decreases of \$21.8 million in commercial loans and \$4.6 million in consumer loans. Even though the Company continues to be challenged by the competition for lending relationships that exists within its market, growth in volume has been achieved through successful lending sales efforts to build on continued customer relationships. Total loan growth for the fiscal year ended September 30, 2020 included \$20.8 million of PPP commercial and industrial loans.

The average balance of our total loans increased \$48.3 million or 4.9 percent for the year ended September 30, 2020 as compared to September 30, 2019, while the average yield on loans decreased forty-three basis points to 4.04 percent in fiscal 2020 from 4.47 percent in fiscal 2019. During fiscal 2020 compared to fiscal 2019, the volume-related factors during the period contributed to an increase of interest income on loans of \$2.2 million, while the rate-related changes decreased interest income by \$4.5 million.

The following table presents information regarding the components of the Company's loan portfolio (which does not include loans held for sale, except as noted below) on the dates indicated.

	September 30,				
	2020	2019 (As Restated)	2018 (As Restated)	2017 (As Restated)	2016
	(In thousands)				
<b>Residential mortgage</b>	\$ 242,090	\$ 220,011	\$ 197,219	\$ 192,500	\$ 209,186
<b>Construction and Development:</b>					
Residential and commercial	65,703	40,346	37,433	35,622	18,579
Land	3,110	3,420	9,221	18,377	10,013
Total construction and development	68,813	43,766	46,654	53,999	28,592
<b>Commercial:</b>					
Commercial real estate	498,538	547,727	498,229	442,060	231,439
Farmland	7,517	7,563	12,066	1,723	—
Multi-family	67,767	62,884	45,102	39,768	19,515
Commercial and industrial	116,584	99,747	73,895	70,677	33,832
Other	10,142	4,450	6,164	4,160	4,947
Total commercial	700,548	722,371	635,456	558,388	289,733
<b>Consumer:</b>					
Home equity lines of credit	17,128	19,506	14,884	16,509	19,757
Second mortgages	10,711	13,737	18,363	22,480	29,204
Other	2,851	2,030	2,315	2,570	1,914
Total consumer	30,690	35,273	35,562	41,559	50,875
Total loans	1,042,141	1,021,421	914,891	846,446	578,386
Deferred loan fees and costs, net	326	663	566	590	1,208
Allowance for loan losses	(11,623)	(10,095)	(9,021)	(8,405)	(5,434)
Loans receivable, net	<u>\$1,030,844</u>	<u>\$1,011,989</u>	<u>\$ 906,436</u>	<u>\$ 838,631</u>	<u>\$ 574,160</u>

At September 30, 2020, our net loan portfolio totaled \$1.0 billion or 85.1 percent of total assets. Our principal lending activity has been the origination of residential, commercial and commercial real estate loans. Through our loan policy, we utilize strict underwriting guidelines maintain low average loan-to-value (“LTV”) ratios, and require maximum gross debt ratios and minimum debt coverage ratios. We have invested in software which facilitates our ability to internally review and grade loans in our portfolio and to monitor loan performance.

Loans are subject to federal and state law and regulations. Interest rates charged by us on loans are affected principally by the demand for such loans and the supply of money available for lending purposes and the rates offered by our competitors. These factors are, in turn, affected by general and economic conditions, the monetary policy of the federal government, including the FRB, legislative tax policies and governmental budgetary matters.

The loans receivable portfolio is segmented into residential mortgage loans, construction and development loans, commercial loans and consumer loans. The residential mortgage loan segment has one class, one- to four-family first lien residential mortgage loans. The construction and development loan segment consists of the following classes: residential and commercial construction loans and land loans. Residential construction loans are made for the acquisition of and/or construction on a lot or lots on which a residential dwelling is to be built and occupied by the home-owner. Commercial construction loans are made for the purpose of acquiring, developing and constructing a commercial use structure and for acquisition, development and construction of residential properties by residential developers. The commercial loan segment consists of the following classes: commercial real estate loans, multi-family real estate loans, and other commercial loans, which are also generally known as commercial and industrial loans or commercial business loans. The consumer loan segment consists of the following classes: home equity lines of credit, second mortgage loans and other consumer loans, primarily unsecured consumer lines of credit.

**Residential Lending.** Residential mortgage originations are secured primarily by properties located in the Company’s primary market area and surrounding areas. At September 30, 2020, \$242.1 million, or 23.3 percent, of our total loans in portfolio consisted of single-family residential mortgage loans. During fiscal 2020, we had no charge-offs of residential loans, as compared to \$17,000 of charge-offs of residential loans at fiscal 2019.

Our single-family residential mortgage loans generally are underwritten on terms and documentation conforming to guidelines issued by Federal Home Loan Mortgage Corporation (“Freddie Mac”) and The Federal National Mortgage Association (“Fannie Mae”). Applications for one- to four-family residential mortgage loans are taken by our loan origination officers and are accepted at any of our banking offices and are then referred to the lending department at our Morristown office in order to process the loan, which consists primarily of obtaining all documents required by Freddie Mac and Fannie Mae underwriting standards, and completing the underwriting, which includes making a determination whether the loan meets our underwriting standards such that the Bank can extend a loan commitment to the customer. We generally have retained for portfolio a substantial portion of the single-family residential mortgage loans that we originate. We currently originate fixed-rate, fully amortizing mortgage loans with maturities of 10 to 30 years. We also offer adjustable rate mortgage (“ARM”) loans where the interest rate either adjusts on an annual basis or is fixed for the initial one, three, five or seven years and then adjusts annually. However, due to the low interest rate environment and demand for fixed rate products, we have not originated a significant amount of ARM loans in recent years. At September 30, 2020, \$78.3 million, or 32.4 percent, of our one- to four-family residential mortgage loans consisted of ARM loans.

In prior years, the Company purchased single-family residential mortgage loans and consumer loans from a network of mortgage brokers. The Company now has correspondent lending relationships, but the Bank independently underwrites these loans.

We underwrite one- to four-family residential mortgage loans with loan-to-value ratios of up to 95 percent, provided that the borrower obtains private mortgage insurance on loans that exceed 80 percent of the appraised value or sales price, whichever is less, of the secured property. We also require that title insurance, hazard insurance and, if appropriate, flood insurance be maintained on all properties securing real estate loans. We require that a licensed appraiser from our list of approved appraisers perform and submit to us an appraisal on all properties secured by a first mortgage on one- to four-family first mortgage loans. Our mortgage loans generally include due-on-sale clauses, which provide us with the contractual right to deem the loan immediately due and payable in the event the borrower transfers ownership of the property. Due-on-sale clauses are an important means of adjusting the yields of fixed-rate mortgage loans in portfolio and we generally exercise our rights under these clauses.

**Construction and Development Loans.** The amount of our outstanding construction and development loans in portfolio increased to \$68.8 million or 6.6 percent of gross loans at September 30, 2020 from \$43.8 million or 4.2 percent of total loans as of September 30, 2019. We generally limit construction loans to builders and developers with whom we have an established relationship, or who are otherwise known to officers of the Bank. Our construction loans also include single-family residential construction loans which may if approved convert to permanent, long-term mortgage loans upon completion of construction (“construction/perm” loans). During the initial or construction phase, these construction/perm loans require payment of interest only, which generally is tied to prime rate, as the home is being constructed. On residential construction to perm loans the interest rate is as approved. Upon the earlier of the completion of construction or one year, these loans if approved by the appropriate approving authority convert to long-term (generally 30 years), amortizing, fixed-rate single-family mortgage loans. During fiscal 2020, \$33.8 million of construction and development loans were originated.

Our portfolio of construction loans generally have a maximum term as approved based upon the underwriting (for individual, owner-occupied dwellings), and loan-to-value ratios less than 80 percent. Residential construction loans to developers are made on either a pre-sold or speculative (unsold) basis. Limits are placed on the number of units that can be built on a speculative basis based upon the reputation and financial position of the builder, his/her present obligations, the location of the property and prior sales in the development and the surrounding area. Generally, a limit of two unsold homes (one model home and one speculative home) is placed per project.

Prior to committing to a construction loan, we require that an independent appraiser prepare an appraisal of the property. Each project also is reviewed and inspected at its inception and prior to every disbursement of loan proceeds. Disbursements are made after inspections based upon a percentage of project completion and monthly payment of interest is required on all construction loans.

Our construction loans also include loans for the acquisition and development of land for sale (i.e. roads, sewer and water lines). We typically make these loans only in conjunction with a commitment for a construction loan for the units to be built on the site. These loans are secured by a lien on the property and are limited to a loan-to-value ratio not exceeding 75 percent of the appraised value at the time of origination. The loans have a variable rate of interest and require monthly payments of interest. The principal of the loan is repaid as units are sold and released. We limit loans of this type to our market area and to developers with whom we have established relationships. In most cases, we also obtain personal guarantees from the borrowers.

Our loan portfolio included six loans secured by unimproved real estate and lots (“land loan”), with an outstanding balance of \$3.1 million, constituting 0.3 percent of total loans, at September 30, 2020.

In order to mitigate some of the risks inherent to construction lending, we inspect properties under construction, review construction progress prior to advancing funds, work with builders with whom we have established relationships, require annual updating of tax returns and other financial data of developers and obtain personal guarantees from the principals. At September 30, 2020, approximately \$488,000, or 4.2 percent, of our allowance for loan losses was attributed to construction and development loans. We had no construction and development loans that were non-performing at September 30, 2020 and at September 30, 2019. We had no construction and development loans that were performing TDRs at September 30, 2020 and at September 30, 2019.

**Commercial Lending.** At September 30, 2020, our loans secured by commercial real estate amounted to \$498.5 million and constituted 47.8 percent of our gross loans at such date. During the year ended September 30, 2020, the commercial real estate loan portfolio decreased by \$49.2 million, or 9.0 percent. During fiscal 2020, we had \$5.2 million partial charge-offs of commercial real estate loans, as compared to \$1.4 million of charge-offs of commercial real estate loans for fiscal 2019.

Our commercial real estate loan portfolio consists primarily of loans secured by office buildings, retail and industrial use buildings, strip shopping centers, mixed-use and other properties used for commercial purposes located in our market area.

Although terms for commercial real estate and multi-family loans vary, our underwriting standards generally allow for terms up to 10 years with the interest rate being reset in the fifth year and with amortization typically not greater than 25 years and loan-to-value ratios of not more than 80 percent. Interest rates are either fixed or adjustable, based upon the index rate plus a margin, and fees ranging from 0.5 percent to 1.50 percent are charged to the borrower at the origination of the loan. Prepayment fees are charged on most loans in the event of early repayment. Generally, we obtain personal guarantees of the principals as additional collateral for commercial real estate and multi-family real estate loans.

Commercial and multi-family real estate loans generally present a higher level of risk than loans secured by one- to four-family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial and multi-family real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed, a bankruptcy court modifies a lease term, or a major tenant is unable to fulfill its lease obligations), the borrower's ability to repay the loan may be impaired. As of September 30, 2020, there was \$17.6 million of non-accruing commercial real estate mortgage loans and an aggregate of \$29.5 million of our commercial real estate loans at such date were classified for regulatory reporting purposes as substandard. As of September 30, 2020, \$7.9 million, or 67.8 percent of our allowance for loan losses was allocated to commercial real estate mortgage loans. In addition, at each of September 30, 2020 and 2019 we had \$5.8 million of OREO which was acquired from a foreclosure, or our acceptance of a deed-in-lieu of foreclosure, on a commercial real estate loan. As of September 30, 2020, our commercial real estate loans held in portfolio that were deemed performing troubled debt restructurings increased to \$11.4 million from \$9.7 million at September 30, 2019 primarily due to the additions of two commercial real estate loans with an aggregate outstanding balance of approximately \$10.9 million partially offset by a charge-off of one commercial real estate loan with an outstanding balance of \$9.2 million during the fiscal year 2020.

At September 30, 2020, our loan portfolio included 23 loans with an aggregate book value of \$67.8 million secured by multi-family (more than four units) properties, constituting 6.5 percent of our gross loans at such date. As of September 30, 2020, we had no non-accruing multi-family loans.

At September 30, 2020, we had \$126.7 million in commercial business loans (12.2 percent of gross loans outstanding) in portfolio, which includes \$20.8 million of PPP loans that are 100% guaranteed by the U.S. government. Our commercial business loans generally have been made to small to mid-sized businesses located in our market area. The commercial business loans in our portfolio assist us in our asset/liability management since they generally provide shorter maturities and/or adjustable rates of interest in addition to generally having higher rates of return which are designed to compensate for the additional credit risk associated with these loans. The commercial business loans which we have originated may be either a revolving line of credit or for a fixed term of generally 10 years or less. Interest rates are adjustable, indexed to a published prime rate of interest, or fixed. Generally, equipment, machinery, real property or other corporate assets secure such loans. Personal guarantees from the business principals are generally obtained as additional collateral.

Generally, commercial business loans are characterized as having higher risks associated with them than single-family residential mortgage loans. As of September 30, 2020, we had no non-accruing other commercial loans in our loan portfolio. At such date, approximately \$629,000 or 5.4 percent of the allowance for loan losses was allocated to commercial business loans. At September 30, 2020 and 2019, we held no other commercial loans in portfolio that were deemed performing troubled debt restructurings.

In our underwriting procedures, consideration is given to the stability of the property's cash flow history, future operating projections, current and projected occupancy levels, location and physical condition. Generally, our practice in recent periods is to impose a debt service ratio (the ratio of net cash flows from operations before the payment of debt service/debt service) of not less than 120 percent. We also evaluate the credit and financial condition of the borrower, and if applicable, the guarantor. Appraisal reports prepared by independent appraisers are obtained on each loan to substantiate the property's market value, and are reviewed by us prior to the closing of the loan.

**Consumer Lending.** In our efforts to provide a full range of financial services to our customers, we offer various types of consumer loans. Our consumer loans amounted to \$30.7 million or 2.9 percent of our total loan portfolio at September 30, 2020. The largest components of our consumer loans are home equity lines of credit, which amounted to \$17.1 million at September 30, 2020 and loans secured by second mortgages, consisting primarily of home equity loans, which amounted to \$10.7 million at September 30, 2020. Our consumer loans also include automobile loans, unsecured personal loans and loans secured by deposits. Consumer loans are originated primarily through existing and walk-in customers and direct advertising.

Our home equity lines of credit are variable rate loans tied to LIBOR, treasury, and prime rates. Our second mortgages may have fixed or variable rates, although they generally have had fixed rates in recent periods. Our second mortgages have a maximum term to maturity of 15 years. Both our second mortgages and our home equity lines of credit generally are secured by the borrower's primary residence. However, our security generally consists of a second lien on the property. Our lending policy provides that the maximum loan-to-value ratio on our home equity lines of credit is 80 percent, when the Bank has the first mortgage. However, the maximum loan-to-value ratio on our home equity lines of credit is reduced to 75 percent, when the Bank does not have the first mortgage. At September 30, 2020, the unused portion of our home equity lines of credit was \$24.8 million.

Consumer loans generally have higher interest rates and shorter terms than residential loans; however, they have additional credit risk due to the type of collateral securing the loan or in some cases the absence of collateral. In the year ended September 30, 2020, we charged-off \$66,000 of consumer loans mostly consisting of home equity lines of credit, as compared to \$82,000 of charge-offs, mostly consisting of second mortgage loans, during fiscal 2019. As of September 30, 2020, we had \$254,000 of non-accruing second mortgage loans and \$26,000 of non-accruing home equity lines of credit, representing a decrease of \$9,000 over the amount of non-accruing second mortgage loans and home equity lines of credit at September 30, 2019. At September 30, 2020, \$1.2 million of our consumer loans were classified as substandard consumer loans. At September 30, 2020, an aggregate of \$326,000 of our allowance for loan losses was allocated to second mortgages and home equity lines of credit.

The following table presents the contractual maturity of our loans held in portfolio at September 30, 2020. The table does not include the effect of prepayments or scheduled principal amortization. Loans having no stated repayment schedule or maturity and overdraft loans are reported as being due in one year or less.

	At September 30, 2020, Maturing			
	In One Year or Less	After One Years Through Five Years	After Five Years	Total
	(In thousands)			
<b>Residential mortgage</b>	\$ 708	\$ 4,031	\$ 237,351	\$ 242,090
<b>Construction and Development:</b>				
Residential and commercial	39,793	18,291	7,619	65,703
Land	—	1,809	1,301	3,110
Total construction and development	39,793	20,100	8,920	68,813
<b>Commercial:</b>				
Commercial real estate	32,258	172,212	294,068	498,538
Farmland	3,650	992	2,875	7,517
Multi-family	15,651	12,839	39,277	67,767
Commercial and industrial	16,715	85,075	14,794	116,584
Other	4,395	5,600	146	10,141
Total commercial	72,669	276,718	351,160	700,547
<b>Consumer:</b>				
Home equity lines of credit	—	1,300	15,828	17,128
Second mortgages	641	2,266	7,804	10,711
Other	1,268	1,307	277	2,852
Total consumer	1,909	4,873	23,909	30,691
<b>Total</b>	<u>\$ 115,079</u>	<u>\$ 305,722</u>	<u>\$ 621,340</u>	<u>\$ 1,042,141</u>
<b>Loans with:</b>				
Fixed rates	\$ 41,639	\$ 200,508	\$ 280,889	\$ 523,036
Variable rates	73,440	105,214	340,451	519,105
<b>Total</b>	<u>\$ 115,079</u>	<u>\$ 305,722</u>	<u>\$ 621,340</u>	<u>\$ 1,042,141</u>

For additional information regarding loans, see Note 8 of the Notes to the Consolidated Financial Statements.

## Allowance for Loan Losses and Related Provision

The purpose of the allowance for loan losses (“ALLL” or “allowance”) is to absorb the impact of probable losses inherent in the loan portfolio. Additions to the allowance are made through provisions charged against current operations and through recoveries made on loans previously charged-off. The allowance is maintained at an amount considered adequate by management to provide for potential credit losses based upon a periodic evaluation of the risk characteristics of the loan portfolio. In establishing an appropriate allowance, an assessment of the individual borrowers, a determination of the value of the underlying collateral, a review of historical loss experience and an analysis of the levels and trends of loan categories, delinquencies and problem loans are considered. Such qualitative factors as changes in lending policies and procedures, economic and business conditions, nature and volume of the portfolio, changes in delinquency, concentration of credit trends, value of underlying collateral, the level and trend of interest rates, and peer group statistics are also reviewed. At fiscal 2020 year-end, the level of the allowance, was \$11.6 million as compared to a level of \$10.1 million at September 30, 2019. The Company made loan loss provisions of \$6.7 million in fiscal 2020 compared with \$2.4 million in fiscal 2019. Provision expense was higher during the fiscal year ended September 30, 2020 due primarily to impacts of partial charge-offs recorded and due to economic uncertainties caused by COVID-19. For the quarter ended December 31, 2018, the Company added a new qualitative factor, defined as Regulatory Oversight, to its allowance methodology to address the difference in the required allowance based on asset quality and the directionally consistent level of the allowance. Unique to the other factors, this is a single calculation figure which is subsequently applied to the loan portfolio by loan type (Commercial, Residential and Consumer) based upon the percent of each to total loans. It is derived from a review of a peer group consisting of 10 banks with similar asset size within the same general geographic area of Malvern Bank. This new factor, added during the quarter ended December 31, 2018, amounted to an additional \$390,000 added to the provision for the period. The level of the allowance during the respective annual fiscal periods of 2020 and 2019 reflects the change in average volume, credit quality within the loan portfolio, the level of charge-offs, loan volume recorded during the periods and the Company’s focus on the changing composition of the commercial and residential real estate loan portfolios.

At September 30, 2020, the allowance amounted to 1.12 percent of total loans, and 1.14 percent of total loans less PPP loans, which do not require a reserve. In management’s view, the level of the allowance at September 30, 2020 is adequate to cover losses inherent in the loan portfolio. Management’s judgment regarding the adequacy of the allowance constitutes a “Forward Looking Statement” under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from management’s analysis, based principally upon the factors considered by management in establishing the allowance.

Although management uses the best information available, the level of the allowance remains an estimate, which is subject to significant judgment and short-term change. The OCC, as an integral part of its examination process, periodically reviews the Company’s allowance. The OCC may require the Company to increase the allowance based on its analysis of information available to it at the time of their examination. Furthermore, the majority of the Company’s loans are secured by real estate in the State of New Jersey and the State of Pennsylvania. Future adjustments to the allowance may be necessary due to economic factors impacting real estate in the Bank’s market areas and a deterioration of the economic climate, as well as, operating, regulatory and other conditions beyond the Company’s control. The allowance as a percentage of total loans amounted to 1.12 percent and 0.99 percent at September 30, 2020 and 2019, respectively. At September 30, 2020 the allowance amounted to 1.14 percent of total loans less PPP loans, which do not require a reserve. The increase in the allowance as a percent of gross loans reflects an increase in qualitative factors as a result of COVID-19 and the economic impact it could have on the Company’s loan portfolio.

Net charge-offs were \$5.1 million in fiscal 2020, compared to net charge-offs of \$1.3 million in fiscal 2019. Charge-offs were higher primarily in the commercial real estate portfolio segment in fiscal 2020 than in fiscal 2019 due to two commercial real estate loans partially charged-off by \$5.2 million compared to one commercial real estate loan charged down by \$1.2 million.

## Five-Year Statistical Allowance for Loan Losses

The following table reflects the relationship of loan volume, the provision and allowance for loan losses and net charge-offs for the past five years.

	2020	2019 (As Restated)	September 30, 2018 (As Restated)	2017 (As Restated)	2016
			(In thousands)		
Average loans outstanding	\$ 1,026,221	\$ 977,876	\$ 860,366	\$ 740,646	\$ 507,973
Total loans at end of period	\$ 1,042,141	\$ 1,021,421	\$ 914,891	\$ 846,446	\$ 578,386
<b>Analysis of the Allowance of Loan Losses</b>					
Balance at beginning of year	\$ 10,095	\$ 9,021	\$ 8,405	\$ 5,434	\$ 4,667
<b>Charge-offs:</b>					
<b>Residential mortgage</b>	—	17	60	—	9
<b>Construction and Development:</b>					
Residential and commercial	—	—	—	—	91
<b>Commercial:</b>					
Commercial real estate	5,190	1,418	276	—	99
Commercial and industrial	—	—	45	—	—
<b>Consumer:</b>					
Home equity lines of credit	62	—	—	—	—
Second mortgages	3	45	88	218	291
Other	1	37	2	5	70
Total charge-offs	5,256	1,517	471	223	560
<b>Recoveries:</b>					
<b>Residential mortgage</b>	25	79	58	2	17
<b>Construction and Development:</b>					
Residential and commercial	—	—	—	90	243
<b>Commercial:</b>					
Commercial real estate	6	23	11	40	3
Commercial and industrial	2	4	4	9	3
<b>Consumer:</b>					
Home equity lines of credit	1	1	1	18	1
Second mortgages	88	94	52	232	100
Other	2	11	7	12	13
Total recoveries	124	212	133	403	380
Net charge-offs (recoveries)	5,132	1,305	338	(180)	180
Provision for loan losses	6,660	2,379	954	2,791	947
Balance at end of year	<u>\$ 11,623</u>	<u>\$ 10,095</u>	<u>\$ 9,021</u>	<u>\$ 8,405</u>	<u>\$ 5,434</u>
Ratio of net charge-offs (recoveries) during the year to average loans outstanding during the year	0.50%	0.13%	0.04%	(0.02)%	0.04%
Allowance for loan losses as a percentage of total loans at end of year	1.12%	0.99%	0.99%	0.99%	0.94%

For additional information regarding loans, see Note 8 of the Notes to the Consolidated Financial Statements.

Implicit in the lending function is the fact that loan losses will be experienced and that the risk of loss will vary with the type of loan being made, the creditworthiness of the borrower and prevailing economic conditions. The allowance for loan losses has been allocated in the table below according to the estimated amount deemed to be reasonably necessary to provide for the possibility of losses being incurred within the following categories of loans at September 30, for each of the past five years.

The table below shows, for three types of loans, the amounts of the allowance allocable to such loans and the percentage of such loans to total loans.

	2020		2019 (As Restated)		September 30, 2018 (As Restated)		2017 (As Restated)		2016	
	Loans to Total		Loans to Total		Loans to Total		Loans to Total		Loans to Total	
	Amount		Amount		Amount		Amount		Amount	
	<i>(In thousands)</i>									
<b>Residential mortgage</b>	\$ 1,667	23.3%	\$ 1,364	21.6%	\$ 1,062	21.6%	\$ 1,004	22.7%	\$ 1,201	36.2%
<b>Construction and Development:</b>										
Residential and commercial	465	6.3	523	3.9	393	4.1	523	4.2	199	3.2
Land loans	23	0.3	20	0.3	49	1.0	132	2.2	97	1.7
<b>Commercial:</b>										
Commercial real estate	7,886	47.8	5,903	53.7	5,031	54.4	3,581	52.2	1,874	40.0
Farmland	47	0.7	49	0.7	66	1.3	9	0.2	—	—
Multi-family	511	6.5	369	6.2	232	4.9	224	4.7	109	3.4
Commercial and industrial	578	11.2	615	9.8	443	8.1	520	8.3	155	5.8
Other	51	1.0	21	0.4	24	0.7	21	0.5	3	0.9
<b>Consumer:</b>										
Home equity lines of credit	130	1.6	122	1.9	82	1.6	90	2.0	116	3.4
Second mortgages	196	1.0	267	1.3	326	2.0	402	2.7	467	5.0
Other	29	0.3	23	0.2	51	0.3	27	0.3	34	0.4
Total allocated	11,583	100.0	9,276	100.0	7,759	100.0	6,533	100.0	4,255	100.0
<b>Unallocated</b>	40	—	819	—	1,262	—	1,872	—	1,179	—
<b>Balance at end of period</b>	<u>\$ 11,623</u>	<u>100.0%</u>	<u>\$ 10,095</u>	<u>100.0%</u>	<u>\$ 9,021</u>	<u>100.0%</u>	<u>\$ 8,405</u>	<u>100.0%</u>	<u>\$ 5,434</u>	<u>100.0%</u>

In assessing the adequacy of the allowance, it is recognized that the process, methodology and underlying assumptions require a significant degree of judgment. The estimation of credit losses is not precise; the range of factors considered is wide and is significantly dependent upon management's judgment, including the outlook and potential changes in the economic environment. At present, components of the commercial loan segments of the portfolio are new originations and the associated volumes continue to see increased growth. At the same time, historical loss levels have decreased as factors in assessing the portfolio. Any unallocated portion of the allowance reflects management's estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors.

### Asset Quality

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

It is generally the Company's policy to discontinue interest accruals once a loan is past due as to interest or principal payments for a period of ninety days. When a loan is placed on non-accrual status, interest accruals cease and uncollected accrued interest is reversed and charged against current income. Payments received on non-accrual loans are applied against principal. A loan may only be restored to an accruing basis when it again becomes well secured and in the process of collection or all past due amounts have been collected and a satisfactory period of ongoing repayment exists. Accruing loans past due 90 days or more are generally well secured and in the process of collection. For additional information regarding loans, see Note 8 of the Notes to the Consolidated Financial Statements.



## Non-Performing and Past Due Loans and OREO

Non-performing loans include non-accrual loans and accruing loans which are contractually past due 90 days or more. Non-accrual loans represent loans on which interest accruals have been suspended. It is the Company's general policy to consider the charge-off of loans at the point they become past due in excess of 90 days, with the exception of loans that are both well-secured and in the process of collection. Troubled debt restructurings represent loans on which a concession was granted to a borrower, such as a reduction in interest rate to a rate lower than the current market rate for new debt with similar risks, and which are currently performing in accordance with the modified terms. For additional information regarding loans, see Note 8 of the Notes to the Consolidated Financial Statements.

The following table sets forth, as of the dates indicated, the amount of the Company's non-accrual loans, accruing loans past due 90 days or more, OREO and troubled debt restructurings.

	At September 30,				
	2020	2019	2018	2017	2016
	(In thousands)				
Non-accrual loans	\$ 19,870	\$ 1,821	\$ 2,687	\$ 1,038	\$ 1,617
Accruing loans past due 90 days or more	58	502	374	173	696
Total non-performing loans	19,928	2,323	3,061	1,211	2,313
Other real estate owned	5,796	5,796	—	—	—
Total non-performing assets	<u>\$ 25,724</u>	<u>\$ 8,119</u>	<u>\$ 3,061</u>	<u>\$ 1,211</u>	<u>\$ 2,313</u>
Troubled debt restructured loans — performing	<u>\$ 13,418</u>	<u>\$ 12,170</u>	<u>\$ 18,640</u>	<u>\$ 2,238</u>	<u>\$ 2,039</u>

At September 30, 2020, non-performing assets totaled \$25.7 million, or 2.12 percent of total assets, as compared with \$8.1 million, or 0.64 percent, at September 30, 2019. The increase in non-accrual loans was primarily due to additions of three commercial real estate loans totaling \$17.6 million, four residential mortgage loans totaling \$617,000, and two second mortgage consumer loans totaling \$64,000. Subsequent to the fiscal year ended September 30, 2020, a \$6.7 million non-accrual TDR commercial loan was returned to accruing status on January 4, 2021. The loan is performing in accordance with its modified terms and has a positive payment history. Had this occurred prior to September 30, 2020, it would have reduced non-accrual loans from \$19.9 million to \$13.2 million and total non-performing assets from \$25.7 million to \$19.1 million.

TDR loans totaled \$21.7 million and \$13.3 million at September 30, 2020 and at September 30, 2019, respectively. A total of \$13.4 million and \$12.2 million of TDR loans were performing pursuant to the terms of their respective modifications at September 30, 2020 and September 30, 2019, respectively. At September 30, 2020, eight TDR loans with an outstanding balance of approximately \$8.3 million, were deemed non-performing, while four TDR loans with an outstanding balance of approximately \$1.1 million, were deemed non-performing at September 30, 2019. The performing TDR loans increased by \$1.2 million at September 30, 2020 compared to September 30, 2019 primarily due to two commercial real estate loan and one residential loan with an aggregate outstanding balance of approximately \$10.9 million and \$203,000, respectively, moving to TDR status partially offset by a full charge-off of one commercial real estate loan and a payoff of one residential loan with an aggregate outstanding balance of approximately \$9.2 million and \$23,000, respectively, during fiscal 2020.

## Provision for Income Taxes

The Company recorded \$957,000 in income tax expense in fiscal 2020 compared to \$2.5 million in income tax expense in fiscal 2019. The effective tax rates for the Company for the years ended September 30, 2020 and 2019 were 21.0 percent and 20.9 percent, respectively. For a more detailed description of income taxes see Note 14 of the Notes to Consolidated Financial Statements.

## Recent Accounting Pronouncements

Please refer to the note on Recent Accounting Pronouncements in Note 2 to the consolidated financial statements in Item 8 for a detailed discussion of new accounting pronouncements.

## Asset and Liability Management

Asset and Liability management encompasses an analysis of market risk, the control of interest rate risk (interest sensitivity management) and the ongoing maintenance and planning of liquidity and capital. The composition of the

Company's statement of condition is planned and monitored by the Asset and Liability Committee ("ALCO"). In general, management's objective is to optimize net interest income and minimize market risk and interest rate risk by monitoring the components of the statement of condition and the interaction of interest rates.

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

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

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

At September 30, 2020, the Company reflected a positive interest sensitivity gap with an interest sensitivity ratio of 1.40:1.00 at the cumulative one-year position. Based on management's perception of interest rates remaining low throughout 2020, emphasis has been, and is expected to continue to be, placed on controlling liability costs while extending the maturities of liabilities in our efforts to insulate the net interest spread from rising interest rates in the future. However, no assurance can be given that this objective will be met.

The following table sets forth the amounts of our interest-earning assets and interest-bearing liabilities outstanding at September 30, 2020, which we expect, based upon certain assumptions, to reprice or mature in each of the future time periods shown (the "GAP Table"). Except as stated below, the amount of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth approximation of the projected repricing of assets and liabilities at September 30, 2020, on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated

prepayments of adjustable-rate loans and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans.

	6 Months or Less	More than 6 Months to 1 Year	More than 1 Year to 3 Years	More than 3 Year to 5 Years	More than 5 Years	Total Amount
<i>(In thousands)</i>						
<b>Interest-earning assets<sup>(1)</sup>:</b>						
Loans receivable <sup>(2)</sup>	\$347,782	\$ 86,120	\$258,082	\$243,886	\$ 86,401	\$1,022,271
Investment securities and restricted securities	15,934	1,183	4,828	19,570	14,618	56,133
Other interest-earning assets	45,053	—	—	—	—	45,053
<b>Total interest-earning assets</b>	<b>408,769</b>	<b>87,303</b>	<b>262,910</b>	<b>263,456</b>	<b>101,019</b>	<b>1,123,457</b>
<b>Interest-bearing liabilities:</b>						
Demand and NOW accounts	13,214	13,214	52,857	52,857	171,540	303,682
Money market accounts	28,031	28,031	112,125	108,877	647	277,711
Savings accounts	1,957	1,957	7,829	7,829	25,500	45,072
Certificate accounts	102,525	56,483	35,892	17,241	1,878	214,019
Borrowings	94,225	20,000	44,776	—	—	159,001
<b>Total interest-bearing liabilities</b>	<b>239,952</b>	<b>119,685</b>	<b>253,479</b>	<b>186,804</b>	<b>199,565</b>	<b>999,485</b>
<b>Interest-earning assets less interest-bearing liabilities</b>	<b>\$168,817</b>	<b>\$ (32,382)</b>	<b>\$ 9,431</b>	<b>\$ 76,652</b>	<b>\$ (98,546)</b>	<b>\$ 123,972</b>
<b>Cumulative interest-rate sensitivity gap<sup>(3)</sup></b>	<b>\$168,817</b>	<b>\$136,435</b>	<b>\$145,866</b>	<b>\$222,518</b>	<b>\$123,972</b>	
<b>Cumulative interest-rate gap as a percentage of total assets at September 30, 2020</b>	<b>13.93%</b>	<b>11.26%</b>	<b>12.03%</b>	<b>18.36%</b>	<b>10.23%</b>	
<b>Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities at September 30, 2020</b>	<b>170.35%</b>	<b>137.94%</b>	<b>123.79%</b>	<b>127.82%</b>	<b>112.40%</b>	

- (1) Interest-earning assets are included in the period in which the balances are expected to be redeployed and /or repriced as a result of anticipated prepayments, scheduled rate adjustments and contractual maturities.
- (2) For purposes of the gap analysis, loans receivable excludes non-accrual loans gross of the allowance for loan losses, undisbursed loan funds, unamortized discounts and deferred loans fees.
- (3) Interest-rate sensitivity gap represents the net cumulative difference between interest-earning assets and interest-bearing liabilities.

**Net Portfolio Value and Net Interest Income Analysis.** Our interest rate sensitivity also is monitored by management through the use of models which generate estimates of the change in its net portfolio value (“NPV”) and net interest income (“NII”) over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario.

The table below sets forth as of September 30, 2020 and 2019 the estimated changes in our net portfolio value that would result from designated instantaneous changes in the United States Treasury yield curve. Computations of prospective effects of hypothetical interest rates changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results.

Changes in Interest Rates (basis points) <sup>(1)</sup>	As of September 30, 2020			As of September 30, 2019		
	Amount	Dollar Change from Base	Percentage Change from Base	Amount	Dollar Change from Base	Percentage Change from Base
		(In thousands)				
+300	\$ 157,804	\$ 3,988	3%	\$ 166,280	\$ (4,588)	(3)%
+200	161,245	7,429	5	170,385	(483)	—
+100	160,495	6,679	4	172,926	2,058	1
0	153,816	—	—	170,868	—	—
-100	160,762	6,946	5	164,043	(6,825)	(4)

- (1) Assumes an instantaneous uniform change in interest rates. A basis point equals 0.01%.

In addition to modeling changes in NPV, we also analyze potential changes to NII for a twelve-month period under rising and falling interest rate scenarios. The following table shows our NII model as of September 30, 2020.

Changes in Interest Rates in Basis Points (Rate Shock)	Net Interest Income	\$ Change	% Change
	<i>(In thousands)</i>		
200	\$ 31,621	\$ 2,938	10.24%
100	30,283	1,600	5.58
Static	28,683	—	—
(100)	27,738	(945)	(3.29)

As is the case with the GAP Table, certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV and NII require the making of certain assumptions which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the models presented assume that the composition of our interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the NPV measurements and net interest income models provide an indication of interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on net interest income and will differ from actual results.

### Estimates of Fair Value

The estimation of fair value is significant to a number of the Company's assets, including investment securities available-for-sale. These are all recorded at either fair value or the lower of cost or fair value. Fair values are volatile and may be influenced by a number of factors. Circumstances that could cause estimates of the fair value of certain assets and liabilities to change include a change in prepayment speeds, discount rates, or market interest rates. Fair values for most available-for-sale investment securities are based on quoted market prices. If quoted market prices are not available, fair values are based on judgments regarding future expected loss experience, current economic condition risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

### Impact of Inflation and Changing Prices

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

### Liquidity

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

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

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

At September 30, 2020, the Company had \$61.4 million in cash and cash equivalents compared to \$153.5 million at September 30, 2019. The decrease in cash and cash equivalents year over year was strategic to better match funding expectations and improve the margin. In addition, our investment securities available-for-sale amounted to \$31.5 million at September 30, 2020 and \$18.4 million at September 30, 2019.

## Deposits

Total deposits decreased to \$890.9 million at September 30, 2020 from \$953.8 million at September 30, 2019. Total interest-bearing deposits decreased from \$898.1 million at September 30, 2019 to \$840.5 million at September 30, 2020, a decrease of \$57.6 million or 6.4 percent. Time deposits \$100,000 and over decreased \$57.7 million at September 30, 2020 as compared to September 30, 2019, and represented 16.2 percent of total deposits at September 30, 2020 compared to 21.1 percent at September 30, 2019. We had brokered deposits totaling \$31.1 million at September 30, 2020 compared to \$73.1 million at September 30, 2019.

The Company continues to place the main focus of its deposit gathering efforts in the maintenance, development, and expansion of its core deposit base. The reductions in deposits are in line with the Bank's overall funding strategy to reduce excess on balance sheet cash and better match funding needs along with improvement in the deposit mix with the reduction of wholesale certificates of \$14.8 million and reduction of money market public fund deposits of \$58.5 million. Management believes that the emphasis on serving the needs of our communities will provide a long-term relationship base which in turn will allow the Company to efficiently compete for and retain deposits in its market.

The following table depicts the Company's deposits classified by interest rates with percentages to total deposits at September 30, 2020 and 2019:

	September 30, 2020		September 30, 2019		Dollar Change
	Amount	Percentage	Amount	Percentage	
<i>(In thousands)</i>					
Balances by types of deposit:					
Savings	\$ 45,072	5.0%	\$ 41,875	4.4%	\$ 3,197
Money market accounts	277,711	31.2	276,644	29.0	1,067
Interest bearing demand	303,682	34.1	302,039	31.7	1,643
Non-interest bearing demand	50,422	5.7	55,684	5.8	(5,262)
	\$ 676,887	76.0	\$ 676,242	70.9	\$ 645
Certificates of deposit	214,019	24.0	277,569	29.1	(63,550)
Total	\$ 890,906	100.0%	\$ 953,811	100.0%	\$ (62,905)

At September 30, 2020, our certificates of deposit and other time deposits with a balance of \$100,000 or more amounted to \$145.7 million, of which \$118.8 million are scheduled to mature within twelve months. At September 30, 2020, the weighted average remaining maturity of our certificate of deposit accounts was 11.8 months. The following table presents the maturity of our certificates of deposit and other time deposits with balances of \$100,000 or more at September 30, 2020.

	Amount <i>(In thousands)</i>
<b>Maturity Period:</b>	
Three months or less	\$ 47,214
Over three months through six months	35,688
Over six months through twelve months	35,905
Over twelve months	26,853
Total	<u>\$ 145,660</u>

## Borrowings

Borrowings from the FHLB of Pittsburgh are available to supplement the Company's liquidity position and, to the extent that maturing deposits do not remain with the Company, management may replace such funds with

advances. As of September 30, 2020 and 2019, the Company's outstanding balance of FHLB advances, totaled \$130.0 million and \$133.0 million, respectively. Of the \$130.0 million in advances as of September 30, 2020, \$40.0 million represents long-term, fixed-rate advances maturing in 2021 and 2022 that have terms enabling the FHLB to call the borrowing at its option prior to maturity. At September 30, 2020, there were three short-term FHLB advances totaling \$90.0 million of fixed-rate borrowing with rollover of 90 days.

During both fiscal 2020 and 2019, the Company did not purchase any securities sold under agreements to repurchase as a short-term funding source. The Company has a secured borrowing agreement with a third party based on two loans totaling \$4.2 million and \$4.3 million at September 30, 2020 and 2019, respectively. The Company originated \$1.3 million of the secured borrowing agreement on April 20, 2017 with a 4 month maturity and interest rate of 3.875%, and \$3.0 million of the secured borrowing agreement on August 15, 2017 with an 18 month maturity and an interest rate of 4.25%. Subsequent to September 30, 2020, the two loan participation agreements were extinguished and are no longer secured borrowings.

## Cash Flows

The Consolidated Statements of Cash Flows present the changes in cash and cash equivalents resulting from the Company's operating, investing and financing activities. During the year ended September 30, 2020, cash and cash equivalents decreased by \$92.1 million from the balance at September 30, 2019. Net cash of \$11.7 million was provided by operating activities in fiscal 2020 compared to net cash of \$10.2 million provided by operating activities in fiscal 2019. Net cash used in investing activities amounted to approximately \$35.3 million in fiscal 2020 compared to net cash used in investing activities of approximately \$103.1 million in fiscal 2019. Net cash of \$68.5 million was used in financing activities in fiscal 2020 compared to net cash of \$215.6 million provided by financing activities in fiscal 2019.

## Off-Balance Sheet Arrangements

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with GAAP, are not recorded in its financial statements. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, lines of credit and letters of credit.

The contractual amounts of commitments to extend credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer defaults and the value of any existing collateral becomes worthless. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments. Financial instruments whose contract amounts represent credit risk at September 30, 2020 and 2019 were as follows:

	September 30,	
	2020	2019
	(In thousands)	
Commitments to extend credit: <sup>(1)</sup>		
Future loan commitments	\$ 7,687	\$ 40,976
Undisbursed construction loans	24,551	27,645
Undisbursed home equity lines of credit	24,751	21,447
Undisbursed commercial lines of credit	81,363	88,164
Overdraft protection lines	1,362	1,363
Standby letters of credit	9,074	11,589
Total commitments	<u>\$ 148,788</u>	<u>\$ 191,184</u>

(1) Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments may require payment of a fee and generally have fixed expiration dates or other termination clauses.

We anticipate that we will continue to have sufficient funds and alternative funding sources to meet our current commitments.

## Shareholders' Equity

Total shareholders' equity amounted to \$143.6 million, or 11.8 percent of total assets, at September 30, 2020, compared to \$142.5 million, or 11.2 percent of total assets at September 30, 2019. Book value per common share was \$18.86 at September 30, 2020, compared to \$18.35 at September 30, 2019.

## Capital

Malvern Bank's capital ratios as of September 30, 2020 and September 30, 2019 are as follows:

	<u>Actual</u>		<u>Required for Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>		<u>Excess Over Well-Capitalized Provision</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>As of September 30, 2020:</b>								
<i>(Dollars in thousands)</i>								
Tier 1 leverage (core) capital (to adjusted tangible assets)	\$158,532	13.03%	\$48,685	4.00%	\$60,856	5.00%	\$97,676	8.03%
Common equity Tier 1 (to risk-weighted assets)	\$158,532	15.65	45,591	4.50	65,854	6.50	92,678	9.15
Tier 1 risk-based capital (to risk-weighted assets)	\$158,532	15.65	60,788	6.00	81,051	8.00	77,481	7.65
Total risk-based capital (to risk-weighted assets)	\$170,237	16.80	81,051	8.00	101,314	10.00	68,923	6.80
<b>As of September 30, 2019 (As Restated):</b>								
Tier 1 leverage (core) capital (to adjusted tangible assets)	\$153,086	12.19%	\$50,226	4.00%	\$62,783	5.00%	\$90,303	7.19%
Common equity Tier 1 (to risk-weighted assets)	\$153,086	15.32	44,980	4.50	64,972	6.50	88,114	8.82
Tier 1 risk-based capital (to risk-weighted assets)	\$153,086	15.32	59,974	6.00	79,965	8.00	73,121	7.32
Total risk-based capital (to risk-weighted assets)	\$163,253	16.33	79,965	8.00	99,957	10.00	63,296	6.33

Malvern Bancorp's capital ratios as of September 30, 2020 and September 30, 2019 are as follows:

	<u>Actual</u>		<u>Required for Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>		<u>Excess Over Well-Capitalized Provision</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>As of September 30, 2020:</b>								
<i>(Dollars in thousands)</i>								
Tier 1 leverage (core) capital (to adjusted tangible assets)	\$ 144,638	11.87%	\$ 48,743	4.00%	\$ 60,929	5.00%	\$ 83,709	6.87%
Common equity Tier 1 (to risk-weighted assets)	\$ 144,638	14.25	\$ 45,660	4.50	\$ 65,954	6.50	\$ 78,684	7.75
Tier 1 risk-based capital (to risk-weighted assets)	\$ 144,638	14.25	\$ 60,880	6.00	\$ 81,174	8.00	\$ 63,464	6.25
Total risk-based capital (to risk-weighted assets)	\$ 181,119	17.85	\$ 81,174	8.00	\$ 101,467	10.00	\$ 79,652	7.85
<b>As of September 30, 2019 (As Restated):</b>								
Tier 1 leverage (core) capital (to adjusted tangible assets)	\$ 142,508	11.34%	\$ 50,263	4.00%	\$ 62,828	5.00%	\$ 79,680	6.34%
Common equity Tier 1 (to risk-weighted assets)	\$ 142,508	14.24	\$ 45,031	4.50	\$ 65,044	6.50	\$ 77,464	7.74
Tier 1 risk-based capital (to risk-weighted assets)	\$ 142,508	14.24	\$ 60,041	6.00	\$ 80,054	8.00	\$ 62,454	6.24
Total risk-based capital (to risk-weighted assets)	\$ 177,293	17.72	\$ 80,054	8.00	\$ 100,068	10.00	\$ 77,225	7.72

## Looking Forward

One of the Company's primary objectives is to achieve balanced asset and revenue growth, and at the same time expand market presence and diversify its financial products. However, it is recognized that objectives, no matter how focused, are subject to factors beyond the control of the Company, which can impede its ability to achieve these goals. The following factors should be considered when evaluating the Company's ability to achieve its objectives:

The financial market place is rapidly changing. Banks are no longer the only place to obtain loans, nor the only place to keep financial assets. The banking industry has lost market share to other financial service providers. The future is predicated on the Company's ability to adapt its products, provide superior customer service and compete in an ever-changing marketplace. Net interest income, the primary source of earnings, is impacted favorably or unfavorably by changes in interest rates. Although the impact of interest rate fluctuations is mitigated by ALCO strategies, significant changes in interest rates can have a material adverse impact on profitability.

The ability of customers to repay their obligations is often impacted by changes in the regional and local economy. Although the Company sets aside loan loss provisions toward the allowance for loan losses when management determines such action to be appropriate, significant unfavorable changes in the economy could impact the assumptions used in the determination of the adequacy of the allowance.

Technological changes will have a material impact on how financial service companies compete for and deliver services. It is recognized that these changes will have a direct impact on how the marketplace is approached and ultimately on profitability. The Company has taken steps to improve its traditional delivery channels. However, continued success will likely be measured by the Company's ability to anticipate and react to future technological changes.



This “Looking Forward” discussion constitutes a forward-looking statement under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected in the Company’s forward-looking statements due to numerous known and unknown risks and uncertainties, including the factors referred to above, on the first page of this Annual Report on Form 10-K and in other sections of this Annual Report on Form 10-K.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

This Item has been omitted based on the Company’s status as a smaller reporting company.

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

## Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders  
Malvern Bancorp, Inc. and Subsidiaries

### Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial condition of Malvern Bancorp, Inc. and Subsidiaries (the Company) as of September 30, 2020 and 2019, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows, for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2020 and 2019, 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. We have also audited the Company's internal control over financial as of September 30, 2020, based on criteria established in *Internal Control – Integrated Framework: (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2020 and 2019, 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. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of September 30, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the COSO because material weaknesses in internal control over financial reporting existed as of that date related to the following:

- 1) the Company's ineffective design and operation of policies and procedures with respect to the review of certain loan participation contracts, and changes to recourse provisions therein;
- 2) the Company's annual and quarterly financial reporting process of analyzing certain necessary information in order to adequately evaluate and assess risk of impairment on a timely basis for COVID-19 modified loans.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses referred to above are described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. We considered these material weaknesses in determining the nature, timing, and extent of audit tests applied in our audit of the 2020 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements

### *Restatement of Previously Issued Financial Statements*

As discussed in Note 3 to the consolidated financial statements, the Company has restated its 2019 consolidated financial statements to correct misstatements.

### Basis for Opinion

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting 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 the 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 consolidated financial statements are free of material misstatement, whether due to error or fraud and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provides a reasonable basis for our opinions.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

/s/ Baker Tilly US, LLP

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

Allentown, Pennsylvania  
January 29, 2021

# Malvern Bancorp, Inc. and Subsidiaries

## Consolidated Statements of Financial Condition

	September 30,	
	2020	2019 (As Restated)
	(Dollars in thousands, except share data)	
<b>Assets</b>		
Cash and due from depository institutions	\$ 16,386	\$ 1,400
Interest bearing deposits in depository institutions	45,053	152,143
Cash and Cash Equivalents	61,439	153,543
Investment securities available for sale, at fair value (amortized cost of \$31,658 and \$18,522 at September 30, 2020 and 2019, respectively)	31,541	18,411
Investment securities held to maturity, at cost (fair value of \$15,608 and \$22,609 at September 30, 2020 and 2019, respectively)	14,970	22,485
Restricted stock, at cost	9,622	11,129
Loans receivable, net of allowance for loan losses of \$11,623 and \$10,095 at September 30, 2020 and 2019, respectively	1,030,844	1,011,989
Other real estate owned	5,796	5,796
Accrued interest receivable	3,677	4,253
Operating lease right-of-use-assets	2,638	—
Property and equipment, net	6,274	6,678
Deferred income taxes, net	3,476	2,840
Bank-owned life insurance	25,400	19,891
Other assets	16,344	12,482
<b>Total Assets</b>	<b>\$ 1,212,021</b>	<b>\$ 1,269,497</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Deposits-noninterest-bearing	\$ 50,422	\$ 55,684
Deposits-interest-bearing	840,484	898,127
Total Deposits	890,906	953,811
FHLB advances	130,000	133,000
Secured borrowing	4,225	4,275
Subordinated debt	24,776	24,619
Advances from borrowers for taxes and insurance	1,741	1,761
Accrued interest payable	728	978
Operating lease liabilities	2,671	—
Other liabilities	13,424	8,545
<b>Total Liabilities</b>	<b>1,068,471</b>	<b>1,126,989</b>
Commitments and Contingencies	—	—
<b>Shareholders' Equity</b>		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued	—	—
Common stock, \$0.01 par value, 50,000,000 shares authorized, 7,804,469 and 7,609,953 shares issued and outstanding, respectively, at September 30, 2020 and 7,782,258 and 7,765,395 shares issued and outstanding, respectively, at September 30, 2019	76	78
Additional paid-in-capital	85,127	84,783
Retained earnings	63,345	59,744
Unearned Employee Stock Ownership Plan (ESOP) shares	(1,047)	(1,192)
Accumulated other comprehensive loss	(1,088)	(569)
Treasury stock, at cost: 194,516 shares and 16,863 shares at September 30, 2020 and September 30, 2019, respectively	(2,863)	(336)
<b>Total Shareholders' Equity</b>	<b>143,550</b>	<b>142,508</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,212,021</b>	<b>\$ 1,269,497</b>

See notes to consolidated financial statements.

# Malvern Bancorp, Inc. and Subsidiaries

## Consolidated Statements of Operations

	Year Ended September 30,	
	2020	2019 (As Restated)
	(Dollars in thousands, except share data)	
<b>Interest and Dividend Income</b>		
Loans, including fees	\$ 41,441	\$ 43,754
Investment securities, taxable	1,048	982
Investment securities, tax-exempt	124	207
Dividends, restricted stock	631	627
Interest-bearing cash accounts	1,063	2,265
<b>Total Interest and Dividend Income</b>	<b>44,307</b>	<b>47,835</b>
<b>Interest Expense</b>		
Deposits	12,846	14,348
Short-term borrowings	—	7
Long-term borrowings	2,898	2,873
Subordinated debt	1,531	1,532
<b>Total Interest Expense</b>	<b>17,275</b>	<b>18,760</b>
<b>Net Interest Income</b>	<b>27,032</b>	<b>29,075</b>
<b>Provision for Loan Losses</b>	<b>6,660</b>	<b>2,379</b>
<b>Net Interest Income after Provision for Loan Losses</b>	<b>20,372</b>	<b>26,696</b>
<b>Other Income</b>		
Service charges and other fees	1,316	1,796
Rental income	217	243
Net gains on sale and call of investments	330	28
Net gains on sale of loans	116	37
Earnings on bank-owned life insurance	509	488
<b>Total Other Income</b>	<b>2,488</b>	<b>2,592</b>
<b>Other Expense</b>		
Salaries and employee benefits	8,889	8,541
Occupancy expense	2,309	2,256
Federal deposit insurance premium	155	221
Advertising	119	107
Data processing	1,105	1,024
Professional fees	1,995	1,799
Other real estate owned expense, net	88	192
Pennsylvania shares tax	678	431
Other operating expenses	2,964	2,916
<b>Total Other Expenses</b>	<b>18,302</b>	<b>17,487</b>
<b>Income before income tax expense</b>	<b>4,558</b>	<b>11,801</b>
<b>Income tax expense</b>	<b>957</b>	<b>2,469</b>
<b>Net Income</b>	<b>\$ 3,601</b>	<b>\$ 9,332</b>
<b>Earnings Per Common Share:</b>		
Basic	\$ 0.47	\$ 1.22
Diluted	\$ 0.47	\$ 1.22
<b>Weighted Average Common Shares Outstanding</b>		
Basic	7,597,528	7,638,866
Diluted	7,597,726	7,639,166

See notes to consolidated financial statements.

# Malvern Bancorp, Inc. and Subsidiaries

## Consolidated Statements of Comprehensive Income

(In thousands)	Year Ended September 30,	
	2020	2019
<b>Net Income</b>	\$ 3,601	\$ 9,332
<b>Other Comprehensive (Loss) Income, Net of Tax:</b>		
Unrealized holding gains on available-for-sale securities	320	419
Tax effect	(67)	(88)
Net of tax amount	253	331
Reclassification adjustment for net gains arising during the period <sup>(1)</sup>	(330)	(28)
Tax effect	69	6
Net of tax amount	(261)	(22)
Adjustment for loss recorded on replacement of derivative	31	—
Amortization of unrealized holding losses on securities transferred from available-for-sale to held-to-maturity <sup>(2)</sup>	3	4
Tax effect	(1)	(1)
Net of tax amount	2	3
Fair value adjustment on derivatives	(681)	(1,855)
Tax effect	137	390
Net of tax amount	(544)	(1,465)
Total other comprehensive loss	(519)	(1,153)
<b>Total comprehensive income</b>	<b>\$ 3,082</b>	<b>\$ 8,179</b>

(1) Amounts are included in net gains on sale and call of investments on the Consolidated Statements of Operations in total other income.

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

See notes to consolidated financial statements.

# ***Malvern Bancorp, Inc. and Subsidiaries***

## **Consolidated Statements of Changes in Shareholders' Equity**

**Years Ended September 30, 2020 and 2019**

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
<i>(In thousands, except share data)</i>							
<b>Balance, October 1, 2018</b>	\$ 66	\$ 61,099	\$ 50,412	\$ (1,338)	\$ 584	—	\$ 110,823
Net Income	—	—	9,332	—	—	—	9,332
Other comprehensive loss	—	—	—	—	(1,153)	—	(1,153)
Treasury stock activity	—	—	—	—	—	(336)	(336)
Stock issuance (net issuance of proceeds of \$25,000)	12	23,332	—	—	—	—	23,344
Committed to be released ESOP shares (14,400 shares)	—	143	—	146	—	—	289
Stock based compensation	—	209	—	—	—	—	209
<b>Balance, September 30, 2019</b>	\$ 78	\$ 84,783	\$ 59,744	\$ (1,192)	\$ (569)	\$ (336)	\$ 142,508
Net Income	—	—	3,601	—	—	—	3,601
Other comprehensive loss	—	—	—	—	(519)	—	(519)
Treasury stock activity	(2)	—	—	—	—	(2,527)	(2,529)
Committed to be released ESOP shares (14,400 shares)	—	91	—	145	—	—	236
Stock based compensation	—	253	—	—	—	—	253
<b>Balance, September 30, 2020</b>	<u>\$ 76</u>	<u>\$ 85,127</u>	<u>\$ 63,345</u>	<u>\$ (1,047)</u>	<u>\$ (1,088)</u>	<u>\$ (2,863)</u>	<u>\$ 143,550</u>

*See notes to consolidated financial statements.*

# Malvern Bancorp, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

	Year Ended September 30,	
	2020	2019 (As Restated)
	(In thousands)	
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 3,601	\$ 9,332
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	745	761
Provision for loan losses	6,660	2,379
Deferred income taxes (benefit) expense	(636)	231
ESOP expense	236	289
Stock based compensation	253	209
Amortization of premiums and discounts on investment securities, net	215	275
Amortization of loan origination fees and costs	513	183
Amortization of mortgage service rights	67	45
Amortization of subordinated debt issuance costs	157	158
Net gain on sale and call of investment securities available for sale	(330)	(28)
Net loss on sale of fixed assets	4	—
Net gain on disposal of fixed assets	(45)	—
Net gain on sale of secondary market loans	(116)	(37)
Proceeds on sale of secondary market loans	5,231	2,867
Originations of secondary market loans	(5,115)	(2,830)
Earnings on bank-owned life insurance	(509)	(488)
Decrease (increase) in accrued interest receivable	576	(453)
(Decrease) increase in accrued interest payable	(250)	194
Operating lease liability payments	(667)	—
Increase in other liabilities	7,550	6,630
Increase in other assets	(6,414)	(9,476)
<b>Net Cash Provided by Operating Activities</b>	<b>11,726</b>	<b>10,241</b>
<b>Cash Flows from Investing Activities</b>		
Investment securities available-for-sale:		
Purchases	(30,146)	(17,890)
Sales	8,901	2,055
Maturities, calls and principal repayments	8,378	22,092
Investment securities held-to-maturity:		
Maturities, calls and principal repayments	7,362	7,385
Proceeds from sale of loans	—	384
Net increase in loans	(26,028)	(114,295)
Purchase of bank-owned life insurance	(5,000)	—
Net decrease (increase) in restricted stock	1,507	(2,592)
Purchases of property and equipment	(300)	(258)
<b>Net Cash Used in Investing Activities</b>	<b>(35,326)</b>	<b>(103,119)</b>
<b>Cash Flows from Financing Activities</b>		
Net (decrease) increase in deposits	(62,905)	179,648
Proceeds for long-term borrowings	25,000	70,000
Repayment of long-term borrowings	(28,000)	(55,000)
Repayment of other borrowed money	(50)	(2,525)
(Decrease) increase in advances from borrowers for taxes and insurance	(20)	456
Net proceeds from issuance of common stock	—	23,344
Acquisition of treasury stock	(2,529)	(336)
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>(68,504)</b>	<b>215,587</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(92,104)</b>	<b>122,709</b>
<b>Cash and Cash Equivalent - Beginning</b>	<b>153,543</b>	<b>30,834</b>
<b>Cash and Cash Equivalent - Ending</b>	<b>\$ 61,439</b>	<b>\$ 153,543</b>
<b>Supplementary Cash Flows Information</b>		
Interest paid	\$ 17,347	\$ 18,386
Non-cash transfer to other real estate owned	\$ —	\$ 5,796
Non-cash transfer of loans to loans held for sale	\$ —	\$ 367
Income taxes paid	\$ 1,477	\$ 1,367
Impact of ASC 842 adoption:		
Right-of-use asset	\$ 3,279	\$ —
Operating lease liability	\$ 3,279	\$ —

See notes to consolidated financial statements.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 – Organizational Structure and Nature of Operations

Malvern Bancorp, Inc. (the “Company” or “Malvern Bancorp”), a Pennsylvania corporation, is a registered bank holding company registered under the Bank Holding Company Act of 1956, as amended (the “Holding Company Act”). Malvern Bancorp is the holding company for Malvern Bank, National Association (“Malvern Bank” or the “Bank”), a national bank that was originally organized in 1887 as a federally-chartered savings bank.

The Company’s primary business is the ownership and operation of the Bank. The Bank’s principal business consists of attracting deposits from businesses and the general public and investing those deposits, together with borrowings and funds generated from operations, in commercial and multi-family real estate loans, one- to four-family residential real estate loans, construction and development loans, commercial business loans, home equity loans and lines of credit and other consumer loans, as well as investing in investment securities. We also maintain a portfolio of investment securities, primarily comprised of corporate bonds, mortgage-backed securities, U.S. agency and bank qualified municipal obligations. Malvern Bank now serves as one of the oldest banks headquartered on the Philadelphia Main Line. For more than a century, the Bank has been committed to helping people build prosperous communities as a trusted financial partner, forging lasting relationships through teamwork, respect and integrity.

We derive substantially all of our income from our net interest income (i.e., the difference between the interest we receive on our loans and securities and the interest we pay on deposits and other borrowings). The Bank’s revenues are derived principally from interest on loans and investment securities, loan commitment and customer service fees and our mortgage banking operation. Deposits serve as the primary source of funding for our interest-earning assets, but we also generate non-interest revenue through insufficient funds fees, stop payment fees, safe deposit rental fees, card income, including credit and debit card interchange fees, gift card fees, and other miscellaneous fees. In addition, the Bank generates additional non-interest revenue associated with residential loan origination and sale, back to back customer swaps, loan servicing, late fees and merchant services. The Bank’s primary expenses are interest expense on deposits and borrowings, provisions for loan losses and general operating expenses.

The Bank conducts business from its headquarters in Paoli, Pennsylvania, a suburb of Philadelphia, and through its nine other banking locations in Chester and Delaware counties, Pennsylvania, Morristown, New Jersey, its New Jersey regional headquarters and Palm Beach, Florida. The Bank also maintains representative offices in Wellington, Florida and Allentown, Pennsylvania. The Bank’s primary market niche is providing personalized service to its client base.

The Bank has the following subsidiary interests:

- The Bank owns 100 percent of Malvern Insurance Associates, LLC (“Malvern Associates”), a Pennsylvania limited liability company. Malvern Associates is a licensed insurance broker under Pennsylvania and New Jersey law.
- Certain mortgage-backed securities of the Bank are held through Delaware statutory trusts, 5 percent of which are owned by the Bank and 95 percent of which are owned by Coastal Asset Management Co., a Delaware corporation which is wholly owned by the Bank.
- The Bank owns 100 percent of Joliet 55 LLC., an Illinois limited liability company which holds an other real estate owned (“OREO”) asset.
- The Bank owns a 10 percent non-controlling interest in Bell Rock Capital, LLC (“Bell Rock”), an investment advisor registered with the SEC.
- The Bank owns a 3.39 percent interest in Bankers Settlement Services Capital Region, LLC, a Pennsylvania limited liability company which acts as a title insurance agent or agency.

The banking industry is highly regulated. The Bank is supervised by the Office of the Comptroller of the Currency (the “OCC”), and the Company is supervised by the Board of Governors of the Federal Reserve Board (the “FRB”).

In accordance with the subsequent events topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (the “Codification” or the “ASC”), the Company evaluates events and transactions that occur after the statement of financial condition date and through the date these consolidated financial statements are being issued for potential recognition and disclosure in the consolidated financial statements. The effect of all subsequent events that provide additional evidence of conditions that existed at the statement of financial condition date are recognized in the audited consolidated financial statements as of September 30, 2020.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 2 – Summary of Significant Accounting Policies

#### *Basis of Presentation and Consolidation*

The consolidated financial statements at and for the years ended September 30, 2020 and 2019 include the accounts of Malvern Bancorp, Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

#### *Use of Estimates*

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income 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 and the valuation of DTAs.

#### *Significant Group Concentrations of Credit Risk*

Most of the Company’s activities are with customers located within Chester County, Pennsylvania and Morris County, New Jersey. Our lending efforts are also focused in Bucks County, Montgomery County and Delaware County, which are also in southeastern Pennsylvania, New Jersey and the New York metropolitan marketplace. Note 7 discusses the types of investment securities that the Company invests in. Note 8 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer. Although the Company has a diversified portfolio, its debtor’s ability to honor their contracts is influenced by, among other factors, the region’s economy.

#### *Operating, Accounting and Reporting Considerations related to COVID-19*

The COVID-19 pandemic has negatively impacted the global economy. In response to the crisis, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was passed by Congress and signed into law on March 27, 2020. The CARES Act provides an estimated \$2.2 trillion to fight the COVID-19 pandemic and stimulate the economy by supporting individuals and businesses through loans, grants, tax changes, and other types of relief. Under Section 4013 of the CARES Act, and based upon regulatory guidance promulgated by federal banking regulators, qualifying short-term loan modifications resulting in payment deferrals that are attributable to the adverse impact of COVID-19, are not considered to be troubled debt restructurings (“TDRs”). Some of the provisions applicable to the Company include, but are not limited to:

- **Accounting for Loan Modifications** – The CARES Act provides that a financial institution may elect to suspend (1) the requirements under GAAP for certain loan modifications that would otherwise be categorized as a troubled debt restructure (“TDR”) and (2) any determination that such loan modifications would be considered a TDR, including the related impairment for accounting purposes. The suspension is applicable for the term of the loan modification that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019. The suspension is not applicable to any adverse impact on the credit of a borrower that is not related to the pandemic.
- **Paycheck Protection Program** – The CARES Act established the Paycheck Protection Program (“PPP”), an expansion of the Small Business Administration’s 7(a) loan program and the Economic Injury Disaster Loan Program (“EIDL”), administered directly by the Small Business Administration (“SBA”).
- **Mortgage Forbearance** – Under the CARES Act, through the earlier of December 31, 2020, mortgage customers experiencing financial hardship due to COVID-19 may request forbearance on the loan for up to 30 days, with up to two additional 30-day periods at the borrower’s request.

Also in response to the COVID-19 pandemic, the Board of Governors of the Federal Reserve System (“FRB”), the Federal Deposit Insurance Corporation (“FDIC”), the National Credit Union Administration (“NCUA”), the Office of the Comptroller of the Currency (“OCC”), and the Consumer Financial Protection Bureau (“CFPB”), in consultation with the state financial regulators (collectively, the “agencies”) issued a joint interagency statement (issued March 22, 2020; revised statement issued April 7, 2020). Some of the provisions applicable to the Company include, but are not limited to:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 2 - Summary of Significant Accounting Policies (Continued)

- Accounting for Loan Modifications – Loan modifications that do not meet the conditions of the CARES Act may still qualify as a modification that does not need to be accounted for as a TDR. The agencies confirmed with FASB staff that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who are current prior to any relief are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or insignificant delays in payments. Loan modifications were made in accordance with Section 4013 of the CARES Act and the Interagency Statement on Loan Modifications and Reporting for Financial Institutions working with customers affected by COVID-19 and therefore were not classified as TDRs.
- Past Due Reporting – With regard to loans not otherwise reportable as past due, financial institutions are not expected to designate loans with deferrals granted due to COVID-19 as past due because of the deferral. A loan's payment date is governed by the due date stipulated in the legal agreements. If a financial institution agrees to a payment deferral, these loans would not be considered past due during the period of the deferral.
- Nonaccrual Status and Charge-offs – During short-term COVID-19 modifications, these loans generally should not be reported as nonaccrual or as classified.

### *Risks and Uncertainties*

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. The COVID-19 pandemic has adversely affected, and may continue to adversely affect local, national and global economic activity. Actions taken to help mitigate the spread of COVID-19 include restrictions on travel, localized quarantines, and government-mandated closures of certain businesses. The spread of the outbreak has caused significant disruptions to the U.S. economy and has disrupted banking and other financial activity in the areas in which the Company operates.

On March 3, 2020, the Federal Open Market Committee reduced the targeted federal funds interest rate range by 50 basis points to 1.00 percent to 1.25 percent. This range was further reduced to 0 percent to 0.25 percent on March 16, 2020. On March 27, 2020, the CARES Act was enacted to, among other provisions, provide emergency assistance for individuals, families and businesses affected by the COVID-19 pandemic. These reductions in interest rates and other effects of the COVID-19 pandemic may materially and adversely affect the Company's financial condition and results of operations in future periods. It is unknown how long the adverse conditions associated with the COVID-19 pandemic will last and what the complete financial effect will be to the Company. It is possible that estimates made in the financial statements could be materially and adversely impacted as a result of these conditions, including estimates regarding expected credit losses on loans receivable, and other-than-temporary impairment of investment securities.

### *Cash and Cash Equivalents*

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from depository institutions and interest-bearing deposits.

The Company maintains cash deposits in other depository institutions that occasionally exceed the amount of deposit insurance available. Management periodically assesses the financial condition of these institutions and believes that the risk of any possible credit loss is minimal.

The Company is required to maintain average reserve balances in vault cash with the Federal Reserve Bank based upon outstanding balances of deposit transaction accounts. Based upon the Company's outstanding transaction deposit balances, the Bank maintained a deposit account with the Federal Reserve Bank of Philadelphia in the amount of zero at September 30, 2020 and 2019.

### *Investment Securities*

Held-to-maturity ("HTM") are securities that includes debt securities that the Company has the positive intent and the ability to hold to maturity. These securities are reported at amortized cost and adjusted for unamortized

**Note 2 - Summary of Significant Accounting Policies (Continued)**

premiums and discounts. Securities held for trading are securities that are bought and held principally for the purpose of selling in the near term; these securities are reported at fair value, with unrealized gains and losses reported in current earnings. At September 30, 2020 and 2019, the Company had no investment securities classified as trading. Debt securities that will be held for indefinite periods of time and equity securities, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments, are classified as available for sale. Realized gains and losses are recorded on the trade date and are determined using the specific identification method. Securities held as available for sale are reported at fair value, with unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income ("AOCI"). Management determines the appropriate classification of investment securities at the time of purchase.

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

***Loans Receivable***

The Company, through the Bank, grants mortgage, construction, commercial and consumer loans to customers. Substantially all of our loans are to individuals, businesses and real estate developers in Chester County, Pennsylvania and neighboring areas in southern Pennsylvania, New Jersey and the New York metropolitan marketplace, Delaware and Florida markets. The ability of the Company's debtors to honor their contracts is dependent upon, among other factors, the real estate and general economic conditions in this area.

Loans receivable that management has the intent and ability to hold until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees and costs are deferred and recognized as an adjustment of the yield (interest income) of the related loans using the interest method. The Company is amortizing these amounts over the contractual lives of the loans.

The loans receivable portfolio is segmented into residential loans, construction and development loans, commercial loans and consumer loans. The residential loan segment has one class, one- to four-family first lien residential mortgage loans. The construction and development loan segment consists of the following classes: residential and commercial and land loans. Residential construction loans are made for the acquisition of and/or construction on a lot or lots on which a residential dwelling is to be built. Commercial construction loans are made for the purpose of acquiring, developing and constructing a commercial structure. The commercial loan segment consists of the following classes: commercial real estate loans, multi-family real estate loans, and other commercial loans, which are also generally known as commercial and industrial loans or commercial business loans. The consumer loan segment consists of the following classes: home equity lines of credit, second mortgage loans and other consumer loans, primarily unsecured consumer lines of credit.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collection 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

**Note 2 - Summary of Significant Accounting Policies (Continued)**

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.

In addition to originating loans, the Company purchases consumer and mortgage loans from brokers in our market area. Such purchases are reviewed for compliance with our underwriting criteria before they are purchased, and are generally purchased without recourse to the seller. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

Reserves for unfunded lending commitments represent management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated statements of financial condition.

***Allowance for Loan Losses***

The allowance for credit losses consists of the 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 ("ALLL", "allowance") 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 or collateral recovery of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than when they become 120 days past due on a contractual basis or earlier in the event of the borrower's bankruptcy or if there is an amount deemed uncollectible. Because all identified losses are generally charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, a specific reserve is recognized when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class that are not considered impaired.

These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these classes of loans, as 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. The nature and volume of the loan portfolio and terms of loans.
4. The experience, ability, and depth of lending management and staff.
5. The volume and severity of past due, classified and nonaccrual loans as well as any other loan modifications.
6. The quality of the Company's loan review system, and the degree of oversight by the Company's Board of Directors.

**Note 2 - Summary of Significant Accounting Policies (Continued)**

7. The existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. Value of underlying collateral.
9. A single calculation figure which is subsequently applied to the loan portfolio by loan type (Commercial, Residential and Consumer) based upon the percent of each to total loans. It is derived from a review of a peer group consisting of ten banks with similar asset size within the same general geographic area of the Bank.

The qualitative factors are applied to the historical loss rates for each class of loan. In addition, while not reported as a separate factor, changes in the value of underlying collateral (for regional property values) for collateral dependent loans is considered and addressed within the economic trends factor. A quarterly calculation is made adjusting the reserve allocation for each factor within a risk weighted range as it relates to each particular loan type, collateral type and risk rating within each segment. Data is gathered and evaluated through internal, regulatory, and government sources quarterly for each factor.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

In addition, 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 loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include categories of "pass," "special mention," "substandard" and "doubtful." Assets classified as "Pass" are those protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. Assets which do not currently expose the insured institution to sufficient risk to warrant classification as substandard or doubtful but possess certain identified weaknesses are required to be designated "special mention." If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable."

*Residential Lending.* Residential mortgage originations are secured primarily by properties located in the Company's primary market area and surrounding areas. We currently originate fixed-rate, fully amortizing mortgage loans with maturities of 10 to 30 years. We also offer adjustable rate mortgage ("ARM") loans where the interest rate either adjusts on an annual basis or is fixed for the initial one, three or seven years and then adjusts annually.

We underwrite one- to four-family residential mortgage loans with loan-to-value ratios of up to 95 percent, provided that the borrower obtains private mortgage insurance on loans that exceed 80 percent of the appraised value or sales price, whichever is less, of the secured property. We also require that title insurance, hazard insurance and, if appropriate, flood insurance be maintained on all properties securing real estate loans. We require that a licensed appraiser from our list of approved appraisers perform and submit to us an appraisal on all properties secured by a first mortgage on one- to four-family first mortgage loans.

In underwriting one- to four-family residential mortgage loans, the Company evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan. Most properties securing real estate loans made by the Company are appraised by independent fee appraisers reviewed and approved by the Bank's third-party appraisal management companies. The Company generally requires borrowers to obtain an attorney's title opinion or title insurance, and fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. Real estate loans originated by the Company generally contain a "due on sale" clause allowing the Company to declare the unpaid principal balance due and payable upon the sale of the security property. The Company has not engaged in sub-prime residential mortgage loan originations. Our single-family residential mortgage loans generally are underwritten on terms and documentation conforming to guidelines issued by The Federal Home Loan Mortgage Company, or Freddie Mac, and The Federal National Mortgage Association, or Fannie Mae.

## **Note 2 - Summary of Significant Accounting Policies (Continued)**

*Construction and Development Lending.* We originate construction loans for residential and, to a lesser extent, commercial uses within our market area. We generally limit construction loans to builders and developers with whom we have an established relationship, or who are otherwise known to officers of the Bank. Our construction and development loans currently in the portfolio typically have variable rates of interest tied to the prime rate which improves the interest rate sensitivity of our loan portfolio.

Construction and development loans generally are considered to involve a higher level of risk than one-to four-family residential lending, due to the concentration of principal in a limited number of loans and borrowers and the effect of economic conditions on developers, builders and projects. Additional risk is also associated with construction lending because of the inherent difficulty in estimating both a property's value at completion and the estimated cost (including interest) to complete a project. The nature of these loans is such that they are more difficult to evaluate and monitor. In addition, speculative construction loans to a builder are not pre-sold and thus pose a greater potential risk than construction loans to individuals on their personal residences. In order to mitigate some of the risks inherent in construction lending, we inspect properties under construction, review construction progress prior to advancing funds, work with builders with whom we have established relationships, require annual updating of tax returns and other financial data of developers and obtain personal guarantees from the principals.

*Commercial Lending.* Commercial and multi-family real estate loans generally present a higher level of risk than loans secured by one- to four-family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial and multi-family real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed, or a bankruptcy court modifies a lease term, or a major tenant is unable to fulfill its lease obligations), the borrower's ability to repay the loan may be impaired.

Most of the Company's commercial business loans have been extended to finance local and regional businesses and include short-term loans to finance machinery and equipment purchases, inventory and accounts receivable. The commercial business loans which we originate may be either a revolving line of credit or for a fixed term of generally 10 years or less. Interest rates are adjustable, indexed to a published prime rate of interest, or fixed. Generally, equipment, machinery, real property or other corporate assets secure such loans. Personal guarantees from the business principals are generally obtained as additional collateral.

*Consumer Lending.* The Company currently originates most of its consumer loans in its primary market area and surrounding areas. The Company originates consumer loans on both a direct and indirect basis. Consumer loans generally have higher interest rates and shorter terms than residential mortgage loans; however, they have additional credit risk due to the type of collateral securing the loan or in some case the absence of collateral. We are continuing to evaluate and monitor the credit conditions of our consumer loan borrowers and the real estate values of the properties securing our second mortgage loans as part of our on-going efforts to assess the overall credit quality of the portfolio in connection with our review of the allowance for loan losses.

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

Once all factor adjustments are applied, general reserve allocations for each segment are calculated, summarized and reported on the ALLL summary. ALLL final schedules, calculations and the resulting evaluation process are reviewed quarterly.

In addition, Federal bank regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

**Note 2 - Summary of Significant Accounting Policies (Continued)**

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, cash flow, 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.

A specific reserve is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

For commercial 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 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 and industrial 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.

***Troubled Debt Restructurings***

Loans whose terms are modified are classified as TDRs 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 may be modified by means of extending the maturity date of the loan, reducing the interest rate on the loan to a rate which is below market, a combination of rate adjustments and maturity extensions, or by other means including covenant modifications, forbearances or other concessions. However, the Company generally only restructures loans by modifying the payment structure to interest only or by reducing the actual interest rate.

We do not accrue interest on loans that were non-accrual prior to the TDR until they have performed in accordance with their restructured terms for a period of at least six months. We continue to accrue interest on troubled debt restructurings which were performing in accordance with their terms prior to the restructure and continue to perform in accordance with their restructured terms. Management evaluates the ALLL with respect to TDRs under the same policy and guidelines as all other performing loans are evaluated with respect to the ALLL.

In March 2020, various regulatory agencies, including the FRB and the FDIC issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by COVID-19. The interagency statement was effective immediately and impacted accounting for loan modifications. The agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. Provisions of the CARES Act largely mirrored the provisions of the interagency statement, providing that modified loans were not to be considered TDRs if they were performing at December 31, 2019 and other consideration set forth in the interagency statements were met. Borrowers considered current were those that are less than 30 days past due on their contractual payments at the time a modification program is implemented or at December 31, 2019.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 2 - Summary of Significant Accounting Policies (Continued)

#### *Loan Servicing*

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into other expense in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income. The Company also sells loans in the secondary market with servicing released.

#### *Other Real Estate Owned*

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value 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 previously established carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses from OREO.

#### *Restricted Stock*

Restricted stock represents required investments in the common stock of a correspondent bank and is carried at cost. As of September 30, 2020 and 2019, restricted stock consists of the common stock of the Federal Reserve Bank, FHLB and Atlantic Community Bankers Bank ("ACBB").

Management's evaluation and determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of an investment's cost is influenced by criteria such as (1) the significance of the decline in net assets of the Federal Reserve Bank, FHLB and ACBB as compared to the capital stock amount for the Federal Reserve Bank, FHLB and ACBB and the length of time this situation has persisted, (2) commitments by the Federal Reserve Bank, FHLB and ACBB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the Federal Reserve Bank, FHLB and ACBB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the Federal Reserve Bank, FHLB and ACBB.

During the years ended September 30, 2020 and 2019, there were net repurchases of restricted stock of \$1.5 million and \$2.6 million, respectively. Also, as of September 30, 2020 and 2019, the number of outstanding restricted shares was 122,177 and 137,148, respectively. There were approximately \$631,000 and \$627,000 of dividends on restricted stock received or recognized in income for fiscal years 2020 and 2019, respectively.

#### *Property and Equipment*

Property and equipment is carried at cost. Depreciation is computed using the straight-line and accelerated methods over estimated useful lives ranging from 3 to 39 years beginning when assets are placed in service. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred.

**Note 2 - Summary of Significant Accounting Policies (Continued)**

***Transfers of Financial Assets***

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. The Company accounts for certain participation interests in commercial loans receivable (loan participation agreements) sold as a sale of financial assets pursuant to ASC 860, Transfers and Servicing. Loan participation agreements that meet the sale criteria under ASC 860 are derecognized from the Consolidated Statement of Financial Condition at the time of transfer. If the transfer of loans subject to loan participation does not meet the sale criteria or participating interest criteria under ASC 860, the transfer is accounted for as a secured borrowing and the loan is not de-recognized and a participating liability is recorded in the Consolidated Statements of Financial Condition.

***Bank-Owned Life Insurance***

The Company invests in bank owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a chosen group of employees. The Bank is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Earnings from the increase in cash surrender value of the policies are included in other income on the statements of operations.

***Employee Benefit Plans***

The Bank's 401(k) plan allows eligible participants to set aside a certain percentage of their salaries before taxes. The Company may elect to match employee contributions up to a specified percentage of their respective salaries in an amount determined annually by the Board of Directors. The Company's matching contribution related to the plan resulted in expenses of \$131,000 and \$135,000 for fiscal 2020 and 2019, respectively.

The Company also maintains an unfunded Supplemental Executive and a Director Retirement Plan (the "Plans"). The accrued amount for the Plans included in other liabilities was \$784,000 and \$875,000 at September 30, 2020 and 2019, respectively. Distributions from the Plan for each of the fiscal years 2020 and 2019 were approximately \$94,000 and \$100,000, respectively. The expense associated with the Plans was \$4,000 for each of the years ended September 30, 2020 and 2019.

***Derivatives and Hedging***

The Company records cash flow hedges at the inception of the derivative contract based on the Company's intentions and belief as to likely effectiveness as a hedge. The Company documents the strategy for entering into the transactions and the method of assessing ongoing effectiveness. Cash flow hedges represent a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. For a cash flow hedge that is effective, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. The changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged. To determine fair value, the Company uses third party pricing models that incorporate assumptions about market conditions and risks that are current at the reporting date. The Company does not use derivative instruments for speculative purposes.

The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

The Company recognized \$371,000 and \$795,000 of net swap fees through the Bank's commercial loan hedging program during fiscal 2020 and fiscal 2019, respectively.

#### ***Advertising Costs***

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was \$119,000 and \$107,000 in fiscal 2020 and 2019, respectively.

#### ***Income Taxes***

DTAs and deferred tax liabilities ("DTLs") are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. DTAs and DTLs 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 DTAs and DTLs of a change in tax rates is recognized in income in the period that includes the enactment date. These calculations are based on many complex factors including estimates of the timing of reversals of temporary differences, the interpretation of federal income tax laws and a determination of the differences between the tax and the financial reporting basis of assets and liabilities. Actual results could differ significantly from the estimates and interpretations used in determining the current and deferred income tax assets and liabilities.

A valuation allowance is required to be recognized if it is "more likely than not" that a portion of the DTAs will not be realized. The Company's policy is to evaluate the DTA on a quarterly basis and record a valuation allowance for our DTA if we do not have sufficient positive evidence indicating that it is more likely than not that some or all of the DTA will be realized. The Company's policy is to account for interest and penalties as components of income tax expense.

#### ***Commitments and Contingencies***

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the statement of financial condition when they are funded.

#### ***Segment Information***

The Company has one reportable segment, "Community Banking." All of the Company's activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, lending is dependent upon the ability of the Company to fund itself with deposits and other borrowings and manage interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment or unit.

#### ***Comprehensive Income***

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale debt securities, are reported as a separate component of the shareholders' equity section of the statement of financial condition, such items, along with net income, are components of comprehensive income.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 2 - Summary of Significant Accounting Policies (Continued)

For securities transferred from available for sale to held to maturity, the Company records the amortization and/or accretion of unrealized holding losses on such investment securities, in accumulated other comprehensive (loss) income.

The Company also records changes in the fair value of interest rate derivatives used in its cash flow hedging activities, net of deferred income tax, in accumulated other comprehensive (loss) income.

#### ***Reclassifications***

Certain reclassifications have been made to the previous year's consolidated financial statements to conform to the current year's presentation. These reclassifications had no effect on the Company's results of operations.

#### ***Revenue Recognition***

ASC 606, *Revenue from Contracts with Customers* ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans, investment securities, derivatives as well as revenue related to BOLI, sales of investment securities, rental income, and gain on sale of loans. Revenue-generating activities that are within the scope of ASC 606, which are presented in our consolidated statements of operations as components of other income include certain fees such as credit card fee income, DDA service and fee income, and debit card fees.

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

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value on the consolidated statements of financial condition. Gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in other income upon sale of the loan. Servicing is retained at the Bank for loans sold in the secondary market and are placed as a mortgage servicing asset on the consolidated statement of financial condition. No loans were classified as held for sale as of September 30, 2020 and 2019.

#### ***Treasury stock***

The Company records common stock purchased for treasury at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock on the first-in, first-out basis.

#### ***Leases***

The Company accounts for its leases in accordance with FASB ASC 842 - *Leases*. Most of our leases are recognized on the consolidated statement of financial condition by recording a right-of-use asset and lease liability for each lease. The right-of-use asset represents the right to use the asset under lease for the lease term, and the lease liability represents the contractual obligation to make lease payments. The right-of-use asset is tested for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

As a lessee, the Company enters into operating leases for certain bank branches, office space, and office equipment. The right-of-use assets and lease liabilities are initially recognized based on the net present value of the remaining lease payments, which include renewal options where management is reasonably certain they will be exercised. The net present value is determined using the incremental borrowing rate based on the FHLB liquidity and funding rates at commencement date. The right-of-use asset is measured at the amount of the lease liability adjusted for any prepaid rent, lease incentives and initial direct costs incurred. The right-of-use asset and lease liability is amortized over the individual lease terms. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 2 - Summary of Significant Accounting Policies (Continued)

#### *Recently Adopted Accounting Pronouncements*

**Leases.** In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)* to increase transparency and comparability among organizations recognizing lease assets and lease liabilities on the balance sheet. This ASU requires lessees to recognize a right-of-use (“ROU”) asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation for leases with terms of more than twelve months. Accounting by lessors remains largely unchanged from current GAAP. This ASU also requires expanded quantitative and qualitative disclosures for both lessees and lessors. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides entities with an additional (and optional) transition method in which the entity applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company has applied the new transition method upon adoption. In December 2018, the FASB issued ASU No. 2018-20, *Leases (Topic 842): Narrow Scope Improvements for Lessors*, which clarifies the treatment of sales taxes and other taxes collected from lessees, lessor costs paid directly by lessees, and recognition of variable payments for contracts with lease and non-lease components. In March 2019, the FASB issued ASU No. 2019-01, *Leases (Topic 842): Codification Improvements*, which aligned the new lease guidance with the existing guidance for fair value of the underlying asset by lessors that are not manufacturers or dealers. It also clarified an exemption for lessors and lessees from a certain interim disclosure requirement associated with adopting the board’s new lease accounting standard. The Company adopted the guidance in these ASUs on October 1, 2019 and will not restate comparative periods. As a result, the Company recorded ROU assets and related lease liabilities of \$3.3 million at October 1, 2019. At September 30, 2020 the Company had ROU assets and related lease liabilities of \$2.7 million.

#### *Recent Accounting Pronouncements Yet to Be Adopted*

**Reference Rate Reform.** In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)*. The guidance allows for companies to: (1) account for certain contract modifications as a continuation of the existing contract without additional analysis; (2) continue hedge accounting when certain critical terms of a hedging relationship change and assess effectiveness in ways that disregard certain potential sources of ineffectiveness; and (3) make a one-time sale and/or transfer of certain debt securities from held-to-maturity to available-for-sale or trading. This ASU is available for adoption effective immediately, or as of January 1, 2020 or any date thereafter for the Company, and applies prospectively to contract modifications and hedging relationships. The one-time election to sell and/or transfer debt securities classified as held-to-maturity may be made at any time after March 12, 2020. The Company anticipates adopting this ASU and will continue to analyze the provisions of the ASU in connection with ongoing procedures to monitor the work of the Alternative Rates Committee of the FRB and Federal Reserve Bank of New York in identifying an alternative U.S. dollar reference interest rate. It is too early to predict a new rate index replacement, but we anticipate will be the Secured Overnight Financing Rate (“SOFR”). The adoption of this new requirement is not expected to have a material impact on the consolidated earnings, financial position or cash flows of the Company.

**Income Taxes.** In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740)*. This ASU identifies, evaluates, and improves areas of GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The ASU is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. The adoption of this new requirement is not expected to have a material impact on the consolidated earnings, financial position or cash flows of the Company.

**Credit Losses.** In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied currently will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, this ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. In April 2019, the FASB issued ASU 2019-04, *Codification Improvements*, which provides guidance on accounting for credit losses on accrued interest receivable balances and guidance on including recoveries when estimating the allowance. In May 2019, the FASB issued ASU 2019-05, *Targeted Transition Relief*, which allows entities with an option to elect fair value for certain instruments upon adoption of Topic 326. This ASU will be effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Bank has a software system in place to assist with the calculation of Current

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Expected Credit Losses (“CECL”). In November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)* making this ASU effective for interim and annual periods beginning after December 15, 2022. As such the Company would be required to implement the ASU on October 1, 2023. In November 2019, the FASB issued ASU No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses*, which provides guidance on stakeholders’ specific issues about certain aspects of the amendments in ASU 2016-13. The Company formed a cross functional implementation team to review the requirements of ASU 2016-13 and contracted with a third-party provider to assist in the development and implementation of the revised credit loss methodology. The impacts on the consolidated earnings, financial position and cash flows of the Company upon adoption of this ASU are currently unknown.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 3 - Restatement of Previously Issued Consolidated Financial Statements

The consolidated financial statements for the year ended September 30, 2019 have been restated to reflect the correction of misstatements. We have also restated all amounts impacted within the Notes to the consolidated financial statements.

The prior period restatement is related to two commercial loan participation agreements that were partial participation sales, originated by Malvern Bank and sold to other financial institutions. Upon further review of the two agreements for compliance with FASB ASC 860-10-40, which relates to sale accounting treatment of participation interests, it was determined that the two agreements should have been recorded as secured borrowing arrangements. The related balance sheet adjustment for treating such participation interests as secured borrowing arrangements as of September 30, 2019 is to gross up "Loans Receivable" by approximately \$4.3 million and to record a "Secured Borrowing" of approximately \$4.3 million.

The related income statement adjustment for treating such participation interests as secured borrowing arrangements for the year ended September 30, 2019 is to increase interest income on loans and interest expense on long-term borrowings by approximately \$180,000. Net income for the year ended September 30, 2019 does not change due to the adjustments.

The related statement of cash flows adjustment for treating such participation interests as secured borrowing arrangements for the year ended September 30, 2019 is to decrease the "Net increase on loans" and to increase the "Repayment of other borrowed money" by approximately \$25,000, which is the change in balance of the secured borrowings from the year ended September 30, 2018 to the year ended September 30, 2019.

**Malvern Bancorp, Inc. and Subsidiaries****Consolidated Statements of Financial Condition**

	September 30,		
	2019 (As Previously Reported on Form 10-K)	Adjustments	2019 (As Restated)
	(Dollars in thousands, except share data)		
<b>Assets</b>			
Cash and due from depository institutions	\$ 1,400	\$ —	\$ 1,400
Interest bearing deposits in depository institutions	152,143	—	152,143
Cash and Cash Equivalents	153,543	—	153,543
Investment securities available for sale, at fair value (amortized cost of \$18,522)	18,411	—	18,411
Investment securities held to maturity, at cost (fair value of \$22,609)	22,485	—	22,485
Restricted stock, at cost	11,129	—	11,129
Loans receivable, net of allowance for loan losses of \$10,095	1,007,714	4,275	1,011,989
Other real estate owned	5,796	—	5,796
Accrued interest receivable	4,253	—	4,253
Property and equipment, net	6,678	—	6,678
Deferred income taxes, net	2,840	—	2,840
Bank-owned life insurance	19,891	—	19,891
Other assets	12,482	—	12,482
<b>Total Assets</b>	<b>\$ 1,265,222</b>	<b>\$ 4,275</b>	<b>\$ 1,269,497</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Liabilities</b>			
Deposits:			
Deposits-noninterest-bearing	\$ 55,684	\$ —	\$ 55,684
Deposits-interest-bearing	898,127	—	898,127
Total Deposits	953,811	—	953,811
FHLB advances	133,000	—	133,000
Secured borrowing	—	4,275	4,275
Subordinated debt	24,619	—	24,619
Advances from borrowers for taxes and insurance	1,761	—	1,761
Accrued interest payable	978	—	978
Other liabilities	8,545	—	8,545
<b>Total Liabilities</b>	<b>1,122,714</b>	<b>4,275</b>	<b>1,126,989</b>
Commitments and Contingencies	—	—	—
<b>Shareholders' Equity</b>			
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued	—	—	—
Common stock, \$0.01 par value, 50,000,000 shares authorized, 7,782,258 and 7,765,395 shares issued and outstanding, respectively	78	—	78
Additional paid-in-capital	84,783	—	84,783
Retained earnings	59,744	—	59,744
Unearned Employee Stock Ownership Plan (ESOP) shares	(1,192)	—	(1,192)
Accumulated other comprehensive loss	(569)	—	(569)
Treasury stock, at cost: 16,863 shares	(336)	—	(336)
<b>Total Shareholders' Equity</b>	<b>142,508</b>	<b>—</b>	<b>142,508</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,265,222</b>	<b>\$ 4,275</b>	<b>\$ 1,269,497</b>



**Malvern Bancorp, Inc. and Subsidiaries****Consolidated Statements of Operations**

	Year Ended September 30,		
	2019 (As Previously Reported on Form 10-K)	Adjustments <i>(Dollars in thousands, except share data)</i>	2019 (As Restated)
<b>Interest and Dividend Income</b>			
Loans, including fees	\$ 43,574	\$ 180	\$ 43,754
Investment securities, taxable	982	—	982
Investment securities, tax-exempt	207	—	207
Dividends, restricted stock	627	—	627
Interest-bearing cash accounts	2,265	—	2,265
<b>Total Interest and Dividend Income</b>	<b>47,655</b>	<b>180</b>	<b>47,835</b>
<b>Interest Expense</b>			
Deposits	14,348	—	14,348
Short-term borrowings	7	—	7
Long-term borrowings	2,693	180	2,873
Subordinated debt	1,532	—	1,532
<b>Total Interest Expense</b>	<b>18,580</b>	<b>180</b>	<b>18,760</b>
<b>Net Interest Income</b>	<b>29,075</b>	<b>—</b>	<b>29,075</b>
<b>Provision for Loan Losses</b>	<b>2,379</b>	<b>—</b>	<b>2,379</b>
<b>Net Interest Income after Provision for Loan Losses</b>	<b>26,696</b>	<b>—</b>	<b>26,696</b>
<b>Other Income</b>			
Service charges and other fees	1,796	—	1,796
Rental income	243	—	243
Net gains on sale and call of investments	28	—	28
Net gains on sale of loans	37	—	37
Earnings on bank-owned life insurance	488	—	488
<b>Total Other Income</b>	<b>2,592</b>	<b>—</b>	<b>2,592</b>
<b>Other Expense</b>			
Salaries and employee benefits	8,541	—	8,541
Occupancy expense	2,256	—	2,256
Federal deposit insurance premium	221	—	221
Advertising	107	—	107
Data processing	1,024	—	1,024
Professional fees	1,799	—	1,799
Other real estate owned expense, net	192	—	192
Pennsylvania shares tax	431	—	431
Other operating expenses	2,916	—	2,916
<b>Total Other Expenses</b>	<b>17,487</b>	<b>—</b>	<b>17,487</b>
<b>Income before income tax expense</b>	<b>11,801</b>	<b>—</b>	<b>11,801</b>
<b>Income tax expense</b>	<b>2,469</b>	<b>—</b>	<b>2,469</b>
<b>Net Income</b>	<b>\$ 9,332</b>	<b>\$ —</b>	<b>\$ 9,332</b>
<b>Earnings Per Common Share:</b>			
<b>Basic</b>	<b>\$ 1.22</b>	<b>\$ —</b>	<b>\$ 1.22</b>
<b>Diluted</b>	<b>\$ 1.22</b>	<b>\$ —</b>	<b>\$ 1.22</b>
<b>Weighted Average Common Shares Outstanding</b>			
<b>Basic</b>	<b>7,638,866</b>	<b>—</b>	<b>7,638,866</b>
<b>Diluted</b>	<b>7,639,166</b>	<b>—</b>	<b>7,639,166</b>

# Malvern Bancorp, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

	Year Ended September 30,		
	2019 (As Previously Reported on Form 10-K)	Adjustments (In thousands)	2019 (As Restated)
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 9,332	\$ —	\$ 9,332
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	761	—	761
Provision for loan losses	2,379	—	2,379
Deferred income taxes (benefit) expense	231	—	231
ESOP expense	289	—	289
Stock based compensation	209	—	209
Amortization of premiums and discounts on investment securities, net	275	—	275
Amortization of loan origination fees and costs	183	—	183
Amortization of mortgage service rights	45	—	45
Amortization of subordinated debt issuance costs	158	—	158
Net gain on sale and call of investment securities available for sale	(28)	—	(28)
Net gain on sale of secondary market loans	(37)	—	(37)
Proceeds on sale of secondary market loans	2,867	—	2,867
Originations of secondary market loans	(2,830)	—	(2,830)
Earnings on bank-owned life insurance	(488)	—	(488)
Decrease (increase) in accrued interest receivable	(453)	—	(453)
(Decrease) increase in accrued interest payable	194	—	194
Increase in other liabilities	6,630	—	6,630
Increase in other assets	(9,476)	—	(9,476)
<b>Net Cash Provided by Operating Activities</b>	<b>10,241</b>	<b>—</b>	<b>10,241</b>
<b>Cash Flows from Investing Activities</b>			
Investment securities available-for-sale:			
Purchases	(17,890)	—	(17,890)
Sales	2,055	—	2,055
Maturities, calls and principal repayments	22,092	—	22,092
Investment securities held-to-maturity:			
Maturities, calls and principal repayments	7,385	—	7,385
Proceeds from sale of loans	384	—	384
Net increase in loans	(114,320)	25	(114,295)
Net decrease (increase) in restricted stock	(2,592)	—	(2,592)
Purchases of property and equipment	(258)	—	(258)
<b>Net Cash Used in Investing Activities</b>	<b>(103,144)</b>	<b>25</b>	<b>(103,119)</b>
<b>Cash Flows from Financing Activities</b>			
Net (decrease) increase in deposits	179,648	—	179,648
Proceeds for long-term borrowings	70,000	—	70,000
Repayment of long-term borrowings	(55,000)	—	(55,000)
Repayment of other borrowed money	(2,500)	(25)	(2,525)
(Decrease) increase in advances from borrowers for taxes and insurance	456	—	456
Net proceeds from issuance of common stock	23,344	—	23,344
Acquisition of treasury stock	(336)	—	(336)
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>215,612</b>	<b>(25)</b>	<b>215,587</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>122,709</b>	<b>—</b>	<b>122,709</b>
<b>Cash and Cash Equivalent - Beginning</b>	<b>30,834</b>	<b>—</b>	<b>30,834</b>
<b>Cash and Cash Equivalent - Ending</b>	<b>\$ 153,543</b>	<b>\$ —</b>	<b>\$ 153,543</b>
<b>Supplementary Cash Flows Information</b>			
Interest paid	\$ 18,386	\$ —	\$ 18,386
Non-cash transfer to other real estate owned	\$ 5,796	\$ —	\$ 5,796
Non-cash transfer of loans to loans held for sale	\$ 367	\$ —	\$ 367
Income taxes paid	\$ 1,367	\$ —	\$ 1,367

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 4 – Non-Interest Income

On October 1, 2018, the Company adopted the amendments of ASU 2014-09 - *Revenue from Contracts with Customers (Topic 606)* and all subsequent ASUs that modified Topic 606. A significant amount of the Company's revenues is derived from net interest income on financial assets and liabilities, which are excluded from the scope of the amended guidance. Some sources of revenue included within non-interest income fall within the scope of Topic 606, while other sources do not. The Company recognizes revenue when the performance obligations related to the transfer of goods or services under the terms of the contract are satisfied. Some obligations are satisfied at a point in time while others are satisfied over a period of time. Revenue is recognized as the amount of consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. When consideration includes a variable component, the amount of consideration attributable to variability is included in the transaction price only to the extent it is probable that significant revenue recognized will not be reversed when uncertainty associated with the variable consideration is subsequently resolved. The Company's contracts generally do not contain terms that require significant judgement to determine the variability impacting the transaction price. The Company has included the following table regarding the Company's non-interest income for the periods presented.

(In thousands)	Year Ended September 30,	
	2020	2019
Rental income	\$ 217	\$ 243
Net gains on sale and call of investments	330	28
Net gains on sale of loans	116	37
Earnings on bank-owned life insurance	509	488
<b>Non-interest income within the scope of other GAAP topics</b>	<b>1,172</b>	<b>796</b>
ATM fees	10	6
Credit card fee income	21	24
DDA fee income	79	132
DDA service fees	76	75
Debit card fees	245	251
Other loan fee income	621	1,036
Other fee income	257	238
Other non-interest income	7	34
<b>Non-interest income from contracts with customers</b>	<b>\$ 1,316</b>	<b>\$ 1,796</b>
<b>Total Non-interest Income</b>	<b>\$ 2,488</b>	<b>\$ 2,592</b>

The decrease in other loan fee income during the fiscal year ended September 30, 2020 is primarily due to greater activity and recognition of net swap fees through the Bank's commercial loan hedging program during fiscal 2019.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 5 – Earnings Per Share

Basic earnings per common share is computed based on the weighted average number of shares outstanding reduced by unearned Employee Stock Ownership Plan (“ESOP”) shares. Diluted earnings per share is computed based on the weighted average number of shares outstanding and common stock equivalents (“CSEs”) that would arise from the exercise of dilutive securities reduced by unearned ESOP shares. For the fiscal year ended September 30, 2020, the Company issued stock options to purchase 7,000 shares of common stock, as well as 22,211 restricted shares, which are considered CSEs. For the fiscal year ended September 30, 2019, the Company issued stock options to purchase 7,000 shares of common stock, as well as 12,674 restricted shares, which are considered CSEs.

The following table sets forth the composition of the weighted average shares (denominator) used in the earnings per share computations.

<i>(In thousands, except share data)</i>	Year Ended September 30,	
	2020	2019
Net Income	\$ 3,601	\$ 9,332
Weighted average shares outstanding	7,690,675	7,746,409
Average unearned ESOP shares	(93,147)	(107,543)
Basic weighted average shares outstanding	7,597,528	7,638,866
Plus: effect of dilutive options and restricted stock	198	300
Diluted weighted average common shares outstanding	7,597,726	7,639,166
Earnings per share:		
Basic	\$ 0.47	\$ 1.22
Diluted	\$ 0.47	\$ 1.22

### Note 6 – Employee Stock Ownership Plan

The Company established an ESOP for substantially all of its full-time employees. As of September 30, 2020, the current ESOP trustee is Pentegra. Shares of the Company’s common stock purchased by the ESOP are held until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each such participant’s base compensation to the total base compensation of all eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to additional paid-in capital. During the period from May 20, 2008 to September 30, 2008, the ESOP purchased 241,178 shares of common stock for approximately \$2.6 million, at an average price of \$10.86 per share, which was funded by a loan from Malvern Federal Bancorp, Inc. (the Company’s predecessor). The ESOP loan is being repaid principally from the Bank’s contributions to the ESOP. The loan, which bears an interest rate of 5 percent, is being repaid in quarterly installments through 2026. Shares are released to participants proportionately as the loan is repaid. During each of the years ended September 30, 2020 and 2019, there were 14,400 shares committed to be released. At September 30, 2020, there were 85,965 unallocated shares and 173,253 allocated shares held by the ESOP. The unallocated shares had an aggregate fair value of approximately \$1.0 million at September 30, 2020.

### Note 7 - Investment Securities

The Company’s investment securities are classified as available-for-sale or held-to-maturity at September 30, 2020 and 2019. Investment securities available-for-sale are reported at fair value with unrealized gains or losses included in equity, net of tax. Accordingly, the carrying value of such securities reflects their fair value at the balance sheet date. Fair value is based upon either quoted market prices, or in certain cases where there is limited activity in the market for a particular instrument, assumptions are made to determine their fair value.

Transfers of debt securities from the available-for-sale category to the held-to-maturity category are made at fair value at the date of transfer. The unrealized holding gain or loss at the date of transfer remains in accumulated other comprehensive income and in the carrying value of the held-to-maturity investment security. Premiums or discounts

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

on investment securities are amortized or accreted using the effective interest method over the life of the security as an adjustment of yield. Unrealized holding gains or losses that remain in accumulated other comprehensive income are amortized or accreted over the remaining life of the security as an adjustment of yield, offsetting the related amortization of the premium or accretion of the discount.

The following tables present information related to the Company's investment securities at September 30, 2020 and 2019.

	September 30, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	<i>(In thousands)</i>			
<b>Investment Securities Available-for-Sale:</b>				
U.S. government agencies	\$ 5,025	\$ 15	\$ —	\$ 5,040
State and municipal obligations	3,101	4	—	3,105
Single issuer trust preferred security	1,000	—	(75)	925
Corporate debt securities	21,009	182	(243)	20,948
Mutual fund	1,523	—	—	1,523
Total	\$ 31,658	\$ 201	\$ (318)	\$ 31,541
<b>Investment Securities Held-to-Maturity:</b>				
U.S. government agencies	\$ —	\$ —	\$ —	\$ —
State and municipal obligations	1,794	129	—	1,923
Corporate debt securities	3,498	260	—	3,758
Mortgage-backed securities:				
Collateralized mortgage obligations, fixed-rate	9,678	249	—	9,927
Total	\$ 14,970	\$ 638	\$ —	\$ 15,608
Total investment securities	<u>\$ 46,628</u>	<u>\$ 839</u>	<u>\$ (318)</u>	<u>\$ 47,149</u>

	September 30, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	<i>(In thousands)</i>			
<b>Investment Securities Available-for-Sale:</b>				
U.S. government agencies	\$ 3,000	\$ —	\$ —	\$ 3,000
State and municipal obligations	4,715	17	—	4,732
Single issuer trust preferred security	1,000	—	(77)	923
Corporate debt securities	9,557	181	(232)	9,506
Mutual fund	250	—	—	250
Total	\$ 18,522	\$ 198	\$ (309)	\$ 18,411
<b>Investment Securities Held-to-Maturity:</b>				
U.S. government agencies	\$ 1,000	\$ —	\$ —	\$ 1,000
State and municipal obligations	4,515	75	—	4,590
Corporate debt securities	3,608	182	—	3,790
Mortgage-backed securities:				
Collateralized mortgage obligations, fixed-rate	13,362	3	(136)	13,229
Total	\$ 22,485	\$ 260	\$ (136)	\$ 22,609
Total investment securities	<u>\$ 41,007</u>	<u>\$ 458</u>	<u>\$ (445)</u>	<u>\$ 41,020</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 7 - Investment Securities (Continued)

For fiscal 2020, proceeds of available-for-sale investment securities sold amounted to approximately \$8.9 million. There were gains of approximately \$352,000 associated with these sales. For fiscal 2019, proceeds of available-for-sale investment securities sold amounted to approximately \$2.1 million and gross realized gains on investment securities sold amounted to approximately \$28,000.

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

The following tables indicate gross unrealized losses not recognized in income and fair value, aggregated by investment category and the length of time individual securities have been in a continuous unrealized loss position at September 30, 2020 and 2019.

	Less than 12 Months		September 30, 2020 More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair value	Unrealized Losses
<i>(In thousands)</i>						
<b>Investment Securities Available-for-Sale:</b>						
Single issuer trust preferred security	\$ —	\$ —	\$ 925	\$ (75)	\$ 925	\$ (75)
Corporate debt securities	4,426	(74)	3,330	(169)	7,756	(243)
Total	\$ 4,426	\$ (74)	\$ 4,255	\$ (244)	\$ 8,681	\$ (318)
<b>Investment Securities Held-to-Maturity:</b>						
Mortgage-backed securities:						
CMO, fixed-rate	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Total	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Total investment securities	\$ 4,426	\$ (74)	\$ 4,255	\$ (244)	\$ 8,681	\$ (318)

  

	Less than 12 Months		September 30, 2019 More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair value	Unrealized Losses
<i>(In thousands)</i>						
<b>Investment Securities Available-for-Sale:</b>						
Single issuer trust preferred security	\$ —	\$ —	\$ 923	\$ (77)	\$ 923	\$ (77)
Corporate debt securities	—	—	3,268	(232)	3,268	(232)
Total	\$ —	\$ —	\$ 4,191	\$ (309)	\$ 4,191	\$ (309)
<b>Investment Securities Held-to-Maturity:</b>						
Mortgage-backed securities:						
CMO, fixed-rate	\$ 1,315	\$ (4)	\$ 10,894	\$ (132)	\$ 12,209	\$ (136)
Total	\$ 1,315	\$ (4)	\$ 10,894	\$ (132)	\$ 12,209	\$ (136)
Total investment securities	\$ 1,315	\$ (4)	\$ 15,085	\$ (441)	\$ 16,400	\$ (445)

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 7 - Investment Securities (Continued)

As of September 30, 2020, the estimated fair value of the securities disclosed above was primarily dependent upon the movement in market interest rates, particularly given the inherent credit risk associated with these securities. These investment securities are comprised of securities that are rated investment grade by at least one bond credit rating service. Although the fair value will fluctuate as the market interest rates move, management believes that these fair values will recover as the underlying portfolios mature and are reinvested in market rate yielding investments. As of September 30, 2020, the Company held five corporate securities and one single issuer trust preferred security which were in an unrealized loss position. As of September 30, 2019, the Company held two corporate securities, thirty-four mortgage-backed securities, and one single issuer trust preferred security which were in an unrealized loss position. The Company does not intend to sell and expects that it is not more likely than not that it will not be required to sell these securities until such time as the value recovers or the securities mature. Management does not believe any individual unrealized loss as of September 30, 2020 represents other-than-temporary impairment.

Investment securities having a carrying value of approximately \$4.6 million and \$6.4 million at September 30, 2020 and September 30, 2019, respectively, were pledged to secure public deposits. At September 30, 2020, no investment securities were pledged to secure hedges. Pledged investment securities having a carrying value of \$4.0 million at September 30, 2019 were pledged to secure hedges. In addition, no investment securities were pledged to secure short-term borrowings of FHLB borrowings at September 30, 2020 and September 30, 2019.

The following table presents information for investment securities at September 30, 2020, based on scheduled maturities. Actual maturities can be expected to differ from scheduled maturities due to prepayment or early call options of the issuer.

	September 30, 2020	
	Amortized Cost	Fair Value
	(In thousands)	
<b>Investment Securities Available-for-Sale:</b>		
Due in one year or less	\$ 426	\$ 426
Due after one year through five years	6,675	6,509
Due after five years through ten years	17,009	17,072
Due after ten years	7,548	7,534
Total	<u>\$ 31,658</u>	<u>\$ 31,541</u>
<b>Investment Securities Held-to-Maturity:</b>		
Due in one year or less	\$ —	\$ —
Due after one year through five years	3,498	3,758
Due after five years through ten years	1,794	1,923
Due after ten years	—	—
Mortgage-backed securities:		
Collateralized mortgage obligations, fixed-rate	9,678	9,927
Total	<u>\$ 14,970</u>	<u>\$ 15,608</u>
Total investment securities	<u>\$ 46,628</u>	<u>\$ 47,149</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 8 - Loans Receivable and Related Allowance for Loan Losses

Loans receivable in the Company's portfolio consisted of the following at the dates indicated:

	September 30,	
	2020	2019 (As Restated)
	<i>(In thousands)</i>	
<b>Residential mortgage</b>	\$ 242,090	\$ 220,011
<b>Construction and Development:</b>		
Residential and commercial	65,703	40,346
Land	3,110	3,420
Total Construction and Development	68,813	43,766
<b>Commercial:</b>		
Commercial real estate	498,538	547,727
Farmland	7,517	7,563
Multi-family	67,767	62,884
Commercial and industrial	116,584	99,747
Other	10,142	4,450
Total Commercial	700,548	722,371
<b>Consumer:</b>		
Home equity lines of credit	17,128	19,506
Second mortgages	10,711	13,737
Other	2,851	2,030
Total Consumer	30,690	35,273
Total loans	1,042,141	1,021,421
Deferred loan fees and cost, net	326	663
Allowance for loan losses	(11,623)	(10,095)
<b>Total loans receivable, net</b>	<u>\$ 1,030,844</u>	<u>\$ 1,011,989</u>

Commercial and industrial loans include \$20.8 million of PPP loans and the net deferred loan fees related to the PPP loans totaled \$609,000 at September 30, 2020.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 8 - Loans Receivable and Related Allowance for Loan Losses (Continued)

The following table summarizes the primary classes of the allowance for loan losses, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of and for the years ended September 30, 2020 and 2019.

Year Ended September 30, 2020													
Construction and Development				Commercial				Consumer					
Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Farmland	Multi-family	Commercial and Industrial	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total	
(In thousands)													
Allowance for loan losses:													
Beginning balance	\$ 1,364	\$ 523	\$ 20	\$ 5,903	\$ 49	\$ 369	\$ 615	\$ 21	\$ 122	\$ 267	\$ 23	\$ 819	\$ 10,095
Charge-offs	—	—	—	(5,190)	—	—	—	—	(62)	(3)	(1)	—	(5,256)
Recoveries	25	—	—	6	—	—	2	—	1	88	2	—	124
Provisions	278	(58)	3	7,167	(2)	142	(39)	30	69	(156)	5	(779)	6,660
Ending Balance	\$ 1,667	\$ 465	\$ 23	\$ 7,886	\$ 47	\$ 511	\$ 578	\$ 51	\$ 130	\$ 196	\$ 29	\$ 40	\$ 11,623
Ending balance: individually evaluated for impairment	\$ —	\$ —	\$ —	\$ 808	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 81	\$ —	\$ —	\$ 889
Ending balance: collectively evaluated for impairment	\$ 1,667	\$ 465	\$ 23	\$ 7,078	\$ 47	\$ 511	\$ 578	\$ 51	\$ 130	\$ 115	\$ 29	\$ 40	\$ 10,734
Loans receivable:													
Ending balance	\$ 242,090	\$ 65,703	\$ 3,110	\$ 498,538	\$ 7,517	\$ 67,767	\$ 116,584	\$ 10,142	\$ 17,128	\$ 10,711	\$ 2,851		\$ 1,042,141
Ending balance: individually evaluated for impairment	\$ 3,388	\$ —	\$ —	\$ 29,066	\$ —	\$ —	\$ —	\$ —	\$ 26	\$ 882	\$ —		\$ 33,362
Ending balance: collectively evaluated for impairment	\$ 238,702	\$ 65,703	\$ 3,110	\$ 469,472	\$ 7,517	\$ 67,767	\$ 116,584	\$ 10,142	\$ 17,102	\$ 9,829	\$ 2,851		\$ 1,008,779

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 8 - Loans Receivable and Related Allowance for Loan Losses (Continued)

	Year Ended September 30, 2019 (As Restated)												
	Construction and Development			Commercial					Consumer				
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Farmland	Multi-family	Commercial and Industrial	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
	(In thousands)												
Allowance for loan losses:													
Beginning balance	\$ 1,062	\$ 393	\$ 49	\$ 5,031	\$ 66	\$ 232	\$ 443	\$ 24	\$ 82	\$ 326	\$ 51	\$ 1,262	\$ 9,021
Charge-offs	(17)	—	—	(1,418)	—	—	—	—	—	(45)	(37)	—	(1,517)
Recoveries	79	—	—	23	—	—	4	—	1	94	11	—	212
Provisions	240	130	(29)	2,267	(17)	137	168	(3)	39	(108)	(2)	(443)	2,379
Ending Balance	\$ 1,364	\$ 523	\$ 20	\$ 5,903	\$ 49	\$ 369	\$ 615	\$ 21	\$ 122	\$ 267	\$ 23	\$ 819	\$ 10,095
Ending balance: individually evaluated for impairment	\$ —	\$ —	\$ —	\$ 57	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 100	\$ —	\$ —	\$ 157
Ending balance: collectively evaluated for impairment	\$ 1,364	\$ 523	\$ 20	\$ 5,846	\$ 49	\$ 369	\$ 615	\$ 21	\$ 122	\$ 167	\$ 23	\$ 819	\$ 9,938
Loans receivable:													
Ending balance	\$ 220,011	\$ 40,346	\$ 3,420	\$ 547,727	\$ 7,563	\$ 62,884	\$ 99,747	\$ 4,450	\$ 19,506	\$ 13,737	\$ 2,030		\$ 1,021,421
Ending balance: individually evaluated for impairment	\$ 3,526	\$ —	\$ —	\$ 9,707	\$ —	\$ —	\$ —	\$ —	\$ 30	\$ 728	\$ —		\$ 13,991
Ending balance: collectively evaluated for impairment	\$ 216,485	\$ 40,346	\$ 3,420	\$ 538,020	\$ 7,563	\$ 62,884	\$ 99,747	\$ 4,450	\$ 19,476	\$ 13,009	\$ 2,030		\$ 1,007,430

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 8 - Loans Receivable and Related Allowance for Loan Losses (Continued)

In assessing the adequacy of the ALLL, it is recognized that the process, methodology and underlying assumptions require a significant degree of judgment. The estimation of credit losses is not precise; the range of factors considered is wide and is significantly dependent upon management's judgment, including the outlook and potential changes in the economic environment. At present, components of the commercial loan segments of the portfolio are new originations and the associated volumes continue to see increased growth. At the same time, historical loss levels have decreased as factors in assessing the portfolio. Any unallocated portion of the allowance reflects management's estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors.

The following table presents impaired loans in portfolio by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of September 30, 2020 and 2019.

	Impaired Loans With Specific Allowance		Impaired Loans With No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	<i>(In thousands)</i>				
<b>September 30, 2020:</b>					
Residential mortgage	\$ —	\$ —	\$ 3,388	\$ 3,388	\$ 3,598
<b>Commercial:</b>					
Commercial real estate	11,267	808	17,799	29,066	36,945
<b>Consumer:</b>					
Home equity lines of credit	—	—	26	26	30
Second mortgages	101	81	781	882	949
Total impaired loans	<u>\$ 11,368</u>	<u>\$ 889</u>	<u>\$ 21,994</u>	<u>\$ 33,362</u>	<u>\$ 41,522</u>
<b>September 30, 2019:</b>					
Residential mortgage	\$ —	\$ —	\$ 3,526	\$ 3,526	\$ 3,713
<b>Commercial:</b>					
Commercial real estate	9,176	57	531	9,707	9,707
<b>Consumer:</b>					
Home equity lines of credit	—	—	30	30	32
Second mortgages	123	100	605	728	790
Total impaired loans	<u>\$ 9,299</u>	<u>\$ 157</u>	<u>\$ 4,692</u>	<u>\$ 13,991</u>	<u>\$ 14,242</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 8 - Loans Receivable and Related Allowance for Loan Losses (Continued)

The following table presents the average recorded investment in impaired loans in portfolio and related interest income recognized year ended September 30, 2020 and 2019.

	Average Impaired Loans	Interest Income Recognized on Impaired Loans
	<i>(In thousands)</i>	
<b>Year Ended September 30, 2020:</b>		
Residential mortgages	\$ 3,506	\$ 86
<b>Construction and Development:</b>		
Land	—	—
<b>Commercial:</b>		
Commercial real estate	14,218	235
<b>Consumer:</b>		
Home equity lines of credit	28	—
Second mortgages	858	6
Other	—	—
<b>Total</b>	<u>\$ 18,610</u>	<u>\$ 327</u>
<b>Year Ended September 30, 2019:</b>		
Residential mortgages	\$ 3,575	\$ 89
<b>Construction and Development:</b>		
Land	46	2
<b>Commercial:</b>		
Commercial real estate	11,251	304
<b>Consumer:</b>		
Home equity lines of credit	35	—
Second mortgages	670	9
Other	7	—
<b>Total</b>	<u>\$ 15,584</u>	<u>\$ 404</u>

No additional funds are committed to be advanced in connection with impaired loans.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 8 - Loans Receivable and Related Allowance for Loan Losses (Continued)

The following table presents the classes of the loan portfolio summarized by loans considered to be rated as pass and the categories of special mention, substandard and doubtful within the Company's internal risk rating system as of September 30, 2020 and 2019. The majority of movement in the special mention and substandard risk ratings was due to the impact of COVID-19. These loans continue to be monitored and the risk rating reviewed on an on-going basis.

	September 30, 2020				
	Pass	Special Mention	Substandard (In thousands)	Doubtful	Total
<b>Residential mortgage</b>	\$ 238,610	\$ —	\$ 3,480	\$ —	\$ 242,090
<b>Construction and Development:</b>					
Residential and commercial	65,703	—	—	—	65,703
Land	3,110	—	—	—	3,110
<b>Commercial:</b>					
Commercial real estate	422,143	46,892	29,503	—	498,538
Farmland	7,517	—	—	—	7,517
Multi-family	58,285	9,482	—	—	67,767
Commercial and industrial	110,216	6,368	—	—	116,584
Other	10,142	—	—	—	10,142
<b>Consumer:</b>					
Home equity lines of credit	16,969	—	159	—	17,128
Second mortgages	9,573	76	1,062	—	10,711
Other	2,851	—	—	—	2,851
<b>Total</b>	<b>\$ 945,119</b>	<b>\$ 62,818</b>	<b>\$ 34,204</b>	<b>\$ —</b>	<b>\$ 1,042,141</b>

	September 30, 2019 (As Restated)				
	Pass	Special Mention	Substandard (In thousands)	Doubtful	Total
<b>Residential mortgage</b>	\$ 216,376	\$ —	\$ 3,635	\$ —	\$ 220,011
<b>Construction and Development:</b>					
Residential and commercial	40,346	—	—	—	40,346
Land	3,420	—	—	—	3,420
<b>Commercial:</b>					
Commercial real estate	523,123	14,601	10,003	—	547,727
Farmland	7,563	—	—	—	7,563
Multi-family	62,483	401	—	—	62,884
Commercial and industrial	99,613	—	134	—	99,747
Other	4,450	—	—	—	4,450
<b>Consumer:</b>					
Home equity lines of credit	19,385	—	121	—	19,506
Second mortgages	12,727	85	925	—	13,737
Other	2,030	—	—	—	2,030
<b>Total</b>	<b>\$ 991,516</b>	<b>\$ 15,087</b>	<b>\$ 14,818</b>	<b>\$ —</b>	<b>\$ 1,021,421</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 8 - Loans Receivable and Related Allowance for Loan Losses (Continued)

The following table presents loans on which we are no longer accruing interest by portfolio class at the dates indicated.

	September 30,	
	2020	2019
	(In thousands)	
<b>Residential mortgage</b>	\$ 2,036	\$ 1,532
<b>Commercial:</b>		
Commercial real estate	17,554	—
<b>Consumer:</b>		
Home equity lines of credit	26	30
Second mortgages	254	259
Other	—	—
<b>Total non-accrual loans</b>	<u>\$ 19,870</u>	<u>\$ 1,821</u>

Under the Bank's loan policy, once a loan has been placed on non-accrual status, we do not resume interest accruals until the loan has been brought current and has maintained a current payment status for not less than six consecutive months. The increase in non-accrual loans was primarily due to additions of three commercial real estate loans totaling \$17.6 million, four residential mortgage loans totaling \$617,000, and two second mortgage consumer loans totaling \$64,000. Interest income that would have been recognized on nonaccrual loans had they been current in accordance with their original terms was approximately \$425,000 and \$39,000 for fiscal 2020 and 2019, respectively. At September 30, 2020 and 2019 there were approximately \$58,000 and \$502,000, respectively, loans past due 90 days or more and still accruing interest. Subsequent to the fiscal year ended September 30, 2020, a \$6.7 million non-accrual TDR commercial loan was returned to accruing status on January 4, 2021. The loan is performing in accordance with its modified terms and has a positive payment history. Had this occurred prior to September 30, 2020, it would have reduced non-accrual loans from \$19.9 million to \$13.2 million and total non-performing assets from \$25.7 million to \$19.1 million.

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by whether a loan payment is "current," that is, it is received from a borrower by the scheduled due date, or the length of time a scheduled payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories as of September 30, 2020 and 2019.

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans Receivable	Accruing 90 Days or More Past Due
	(In thousands)						
<b>September 30, 2020:</b>							
<b>Residential mortgage</b>	\$ 239,623	\$ 68	\$ 694	\$ 1,705	\$ 2,467	\$ 242,090	\$ —
<b>Construction and Development:</b>							
Residential and commercial	65,703	—	—	—	—	65,703	—
Land	3,110	—	—	—	—	3,110	—
<b>Commercial:</b>							
Commercial real estate	498,227	—	—	311	311	498,538	—
Farmland	7,517	—	—	—	—	7,517	—
Multi-family	67,767	—	—	—	—	67,767	—
Commercial and industrial	116,584	—	—	—	—	116,584	—
Other	10,142	—	—	—	—	10,142	—
<b>Consumer:</b>							
Home equity lines of credit	17,080	—	—	48	48	17,128	48
Second mortgages	10,325	157	33	196	386	10,711	10
Other	2,850	—	1	—	1	2,851	—
<b>Total</b>	<u>\$ 1,038,928</u>	<u>\$ 225</u>	<u>\$ 728</u>	<u>\$ 2,260</u>	<u>\$ 3,213</u>	<u>\$ 1,042,141</u>	<u>\$ 58</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 8 - Loans Receivable and Related Allowance for Loan Losses (Continued)

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans Receivable	Accruing 90 Days or More Past Due
<i>(In thousands)</i>							
<b>September 30, 2019 (As Restated):</b>							
<b>Residential mortgage</b>	\$ 219,062	\$ 62	\$ 381	\$ 506	\$ 949	\$ 220,011	\$ 207
<b>Construction and Development:</b>							
Residential and commercial	40,346	—	—	—	—	40,346	—
Land	3,420	—	—	—	—	3,420	—
<b>Commercial:</b>							
Commercial real estate	547,432	—	—	295	295	547,727	295
Farmland	7,563	—	—	—	—	7,563	—
Multi-family	62,884	—	—	—	—	62,884	—
Commercial and industrial	99,247	500	—	—	500	99,747	—
Other	4,450	—	—	—	—	4,450	—
<b>Consumer:</b>							
Home equity lines of credit	19,506	—	—	—	—	19,506	—
Second mortgages	13,102	379	112	144	635	13,737	—
Other	2,030	—	—	—	—	2,030	—
Total	<u>\$ 1,019,042</u>	<u>\$ 941</u>	<u>\$ 493</u>	<u>\$ 945</u>	<u>\$ 2,379</u>	<u>\$ 1,021,421</u>	<u>\$ 502</u>

Restructured loans deemed to be TDRs are typically the result of extension of the loan maturity date or a reduction of the interest rate of the loan to a rate that is below market, a combination of rate and maturity extension, or by other means including covenant modifications, forbearance and other concessions. However, the Company generally only restructures loans by modifying the payment structure to require payments of interest only for a specified period or by reducing the actual interest rate. Once a loan becomes a TDR, it will continue to be reported as a TDR during the term of the restructure.

The Company had twenty-six and twenty-four loans classified as TDRs with an aggregate outstanding balance of \$21.7 million and \$13.3 million at September 30, 2020 and 2019, respectively. At September 30, 2020, these loans were also classified as impaired. Eighteen of the TDR loans continue to perform under the restructured terms through September 30, 2020 and we continued to accrue interest on such loan through such date.

The increase in TDRs at September 30, 2020 compared to September 30, 2019 was primarily due to one residential loan and two commercial real estate loans with an aggregate outstanding balance of approximately \$203,000, and \$10.9 million respectively, moving to TDR status during fiscal 2020, partially offset by one residential mortgage loan paying off its balance of approximately \$23,000.

Loans that have been classified as TDRs have modified payment terms and in some cases interest rate from the original agreements and allowed the borrowers, who were experiencing financial difficulty, including but not limited to making interest only payments for a period of time in order to relieve some of their overall cash flow burden. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and result in potential incremental losses. These potential incremental losses have been factored into our overall estimate of the allowance for loan losses. The level of any defaults will likely be affected by future economic conditions. A default on a troubled debt restructured loan for purposes of this disclosure occurs when the borrower is 90 days past due or a foreclosure or repossession of the applicable collateral has occurred.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 8 - Loans Receivable and Related Allowance for Loan Losses (Continued)

TDRs may arise in which, due to financial difficulties experienced by the borrower, the Company obtains through physical possession one or more collateral assets in satisfaction of all or part of an existing credit. Once possession is obtained, the Company reclassifies the appropriate portion of the remaining balance of the credit from loans to OREO, which is included in the Consolidated Statements of Financial Condition. For any residential real estate property collateralizing a consumer mortgage loan, the Company is considered to possess the related collateral only if legal title is obtained upon completion of foreclosure, or the borrower conveys all interest in the residential real estate property to the Company through completion of a deed in lieu of foreclosure or similar legal agreement. Excluding OREO, the Company had \$175,000 and \$111,000 of residential real estate properties in the process of foreclosure at September 30, 2020 and 2019, respectively.

	Total Troubled Debt Restructurings		Troubled Debt Restructured Loans That Have Defaulted on Modified Terms Within The Past 12 Months	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
<i>(In thousands)</i>				
<b>At September 30, 2020:</b>				
Residential mortgage	17	\$ 3,435	7	\$ 1,617
<b>Commercial:</b>				
Commercial real estate	5	18,091	1	6,652
<b>Consumer</b>				
Second mortgages	4	161	—	—
Total	<u>26</u>	<u>\$ 21,687</u>	<u>8</u>	<u>\$ 8,269</u>
<b>At September 30, 2019:</b>				
Residential mortgage	17	\$ 3,372	4	\$ 1,090
<b>Commercial:</b>				
Commercial real estate	3	9,707	—	—
<b>Consumer</b>				
Second mortgages	4	181	—	—
Total	<u>24</u>	<u>\$ 13,260</u>	<u>4</u>	<u>\$ 1,090</u>

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

	September 30,			
	2020	Non-Performing	2019	Non-Performing
	Performing	Performing	Performing	Performing
<i>(In thousands)</i>				
<b>Residential mortgage</b>	\$ 1,818	\$ 1,617	\$ 2,282	\$ 1,090
<b>Commercial:</b>				
Commercial real estate	11,439	6,652	9,707	—
<b>Consumer</b>				
Second mortgages	161	—	181	—
Total	<u>\$ 13,418</u>	<u>\$ 8,269</u>	<u>\$ 12,170</u>	<u>\$ 1,090</u>



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 8 - Loans Receivable and Related Allowance for Loan Losses (Continued)

The following table shows the new TDRs for the twelve months ended September 30, 2020 and 2019.

	September 30,										
	2020			2019							
	Restructured During Period										
	Pre- Modifications Outstanding Recorded Investments	Post- Modifications Outstanding Recorded Investments	Number of Loans	Pre- Modifications Outstanding Recorded Investments	Post- Modifications Outstanding Recorded Investments	Number of Loans					
	(In thousands)										
Troubled Debt Restructurings:											
Residential mortgage	1	\$	207	\$	203	7	\$	1,664	\$	1,586	
Commercial:											
Commercial real estate	2		10,930		10,926	—		—		—	
Consumer:											
Second mortgages	—		—		—	2		97		92	
Total	3	\$	11,137	\$	11,129	9	\$	1,761	\$	1,678	

The following table sets forth the aggregate dollar amount of loans to principal officers, directors and their affiliates in the normal course of business of the Company.

	Year Ended September 30,	
	2020	2019
	<i>(In thousands)</i>	
Balance at beginning of year	\$ 12,478	\$ 8,691
New loans	2,073	10,191
Repayments	(818)	(6,404)
Balance at end of year	<u>\$ 13,733</u>	<u>\$ 12,478</u>

At September 30, 2020 and 2019, the Company was servicing loans for the benefit of others in the amounts of \$20.1 million and \$24.3 million, respectively. A summary of mortgage servicing rights included within other assets in the consolidated statements of financial condition and the activity therein follows for the periods indicated:

	September 30,	
	2020	2019
	<i>(In thousands)</i>	
Balance at beginning of year	\$ 178	\$ 223
Amortization	(67)	(45)
Balance at end of year	<u>\$ 111</u>	<u>\$ 178</u>

For the fiscal year ended September 30, 2020 and 2019, the fair value of servicing rights was determined using a base discount rate between 11 percent and 12 percent. The fair market value is evaluated by a third-party vendor on a quarterly basis for impairment purposes only. For the fiscal year ended September 30, 2020, we sold \$5.2 million of long-term, fixed-rate residential mortgage loans with servicing released. This transaction resulted in a gain of \$116,000. For the year ended September 30, 2020, the Company only sold loans with servicing released. For the fiscal year ended September 30, 2019, we sold \$2.9 million of long-term, fixed-rate residential mortgage loans with servicing released. This transaction resulted in a gain of \$37,000. For the year ended September 30, 2019, the Company only sold loans with servicing released.

No valuation allowance on servicing rights has been recorded at September 30, 2020 or 2019.

Under Section 4013 of the CARES Act, and separately based upon regulatory guidance promulgated by federal banking regulators (collectively “Interagency Statement”), qualifying short-term loan modifications resulting in payment deferrals that are attributable to the adverse impact of COVID-19, are not considered to be troubled debt restructurings (“TDRs”). As such, the applicable loans are reported as current with regard to payment status and continue to accrue interest during the payment deferral period. At September 30, 2020, the Company had 43 COVID-19 modified loan deferrals totaling approximately \$147.9 million.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth the composition of these loans by loan segments as of September 30, 2020:

		September 30, 2020		
	Number of Loans	Loan Deferment Exposure	Gross Loans September 30, 2020	Percentage of Gross Loans on Deferral
		(Dollars in thousands)		
Residential mortgage	5	\$ 1,288	\$ 242,090	0.12%
Construction and Development:				
Residential and commercial	-	-	65,703	0.00%
Land loans	-	-	3,110	0.00%
Total Construction and Development	-	-	68,813	0.00%
Commercial:				
Commercial real estate	21	134,488	498,538	12.90%
Farmland	1	2,288	7,517	0.22%
Multi-family	2	3,718	67,767	0.36%
Commercial and industrial	10	5,547	116,584	0.53%
Other	-	-	10,142	0.00%
Total Commercial	34	146,041	700,548	14.01%
Consumer:				
Home equity lines of credit	3	579	17,128	0.06%
Second mortgages	1	17	10,711	0.00%
Other	-	-	2,851	0.00%
Total Consumer	4	596	30,690	0.06%
Total loans	43	\$ 147,925	\$ 1,042,141	14.19%

### Note 9 - Property and Equipment

Property and equipment, net consisted of the following at September 30, 2020 and 2019:

		September 30,	
	Estimated Useful Life (years)	2020	2019
		(In thousands)	
Land	—	\$ 707	\$ 711
Building and improvements	10-39	11,909	11,742
Construction in process	—	6	16
Furniture, fixtures and equipment	3-7	5,852	5,709
		18,474	18,178
Accumulated depreciation		(12,200)	(11,500)
		\$ 6,274	\$ 6,678

Depreciation expense was approximately \$745,000 and \$761,000 for the years ended September 30, 2020 and 2019, respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 10 - Deposits

Deposits classified by interest rates with percentages to total deposits at September 30, 2020 and 2019 consisted of the following:

	September 30,			
	2020		2019	
	Amount	Percent of Total Deposits	Amount	Percent of Total Deposits
	<i>(In thousands)</i>			
Balances by types of deposit:				
Savings	\$ 45,072	5.06%	\$ 41,875	4.39%
Money market accounts	277,711	31.17	276,644	29.00
Interest bearing demand	303,682	34.09	302,039	31.67
Non-interest bearing demand	50,422	5.66	55,684	5.84
	676,887	75.98	676,242	70.90
Certificates of deposit	214,019	24.02	277,569	29.10
Total	<u>\$ 890,906</u>	<u>100.00%</u>	<u>\$ 953,811</u>	<u>100.00%</u>

The total amount of certificates of deposit of \$250,000 and greater at September 30, 2020 and 2019 was \$48.4 million and \$63.5 million, respectively. We had brokered deposits totaling \$31.1 million and \$73.1 million at September 30, 2020 and 2019, respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 10 - Deposits (Continued)

Interest expense on deposits consisted of the following for the years:

	September 30,	
	2020	2019
	(In thousands)	
Savings accounts	\$ 51	\$ 49
Money market accounts	4,010	4,352
Interest bearing demand	3,523	4,221
Certificates of deposit	5,262	5,726
Total deposits	<u>\$ 12,846</u>	<u>\$ 14,348</u>

The following is a schedule of certificates of deposit maturities.

	September 30,
	2020
	(In thousands)
<u>Maturing in the Fiscal Year Ending September 30,</u>	
2021	\$ 158,983
2022	27,050
2023	8,866
2024	10,925
2025	6,316
Thereafter	1,879
	<u>\$ 214,019</u>

Deposits from related parties held by the Company at September 30, 2020 and 2019 amounted to \$35.9 million and \$10.4 million, respectively.

## Note 11 - Borrowings

Under terms of its collateral agreement with the FHLB, the Company maintains otherwise unencumbered qualifying assets in an amount at least equal to its borrowings.

Under an agreement with the FHLB, the Company has a line of credit available in the amount of \$150.0 million, of which none was outstanding at September 30, 2020 or 2019. The interest rate on the line of credit at September 30, 2020 and 2019 was 0.39 percent and 2.08 percent, respectively.

The summary of long-term borrowings as of September 30, 2020 and 2019 are as follows:

	September 30,	
	2020	2019
	Weighted Average Rate	Weighted Average Rate
	Amount	Amount
	(In thousands)	
Due by September 30:		
2020	\$ —	\$ 93,000
2021	110,000	20,000
2022	20,000	20,000
Total FHLB Advances	<u>\$ 130,000</u>	<u>\$ 133,000</u>
	<u>0.99%</u>	<u>1.78%</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 11 - Borrowings (Continued)

At September 30, 2020, the Company had \$130.0 million in outstanding long-term fixed rate FHLB advances and \$364.9 million in potential FHLB advances available to us, which is based on the amount of FHLB stock held or levels of other assets, including U.S. government securities, and certain mortgage loans which are available for collateral.

During both fiscal 2020 and 2019, the Company did not purchase any securities sold under agreements to repurchase as a short-term funding source. The Company has a secured borrowing agreement with a third party based on two loans totaling \$4.2 million and \$4.3 million at September 30, 2020 and 2019, respectively. The Company originated \$1.3 million of the secured borrowing agreement on April 20, 2017 with a 4 month maturity and interest rate of 3.875%, and \$3.0 million of the secured borrowing agreement on August 15, 2017 with an 18 month maturity with an interest rate of 4.25%. Subsequent to September 30, 2020, the two loan participation agreements were extinguished and are no longer secured borrowings.

### Note 12 - Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future uncertain cash amounts, the value of which are determined by interest rates.

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. At September 30, 2020, such derivatives were used to hedge the variable cash flows associated with FHLB advances.

Amounts reported in accumulated other comprehensive (loss) income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next twelve months, the Company estimates approximately \$974,000 to be reclassified to earnings in interest expense. The Company is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of twenty months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. These derivatives are not designated as hedges and are not speculative. Rather, these derivatives result from a service the Company provides to certain customers, which the Company implemented during the first quarter of fiscal 2019. As the interest rate swaps associated with this program do not meet the hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 12 - Derivatives (Continued)

The tables below present the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Statements of Financial Condition as of September 30, 2020 and 2019:

	September 30, 2020					
	Asset derivatives			Liability derivatives		
	Notional Amount	Fair Value	Statement of Financial Condition Location	Notional Amount	Fair Value	Statement of Financial Condition Location
	(In thousands)					
Derivatives designated as a hedging instrument:						
Interest rate swap agreement	\$ —	\$ —	Other assets	\$ 90,000	\$ 1,291	Other liabilities
Derivatives not designated as a hedging instrument:						
Interest rate swap agreement	\$ 45,162	\$ 8,752	Other assets	\$ 45,162	\$ 8,756	Other liabilities

	September 30, 2019					
	Asset derivatives			Liability derivatives		
	Notional Amount	Fair Value	Statement of Financial Condition Location	Notional Amount	Fair Value	Statement of Financial Condition Location
	(In thousands)					
Derivatives designated as a hedging instrument:						
Interest rate swap agreement	\$ 35,000	\$ 126	Other assets	\$ 30,000	\$ 736	Other liabilities
Derivatives not designated as a hedging instrument:						
Interest rate swap agreement	\$ 29,916	\$ 5,019	Other assets	\$ 29,916	\$ 5,018	Other liabilities

### Offsetting of Derivative Assets as of September 30, 2020

(In thousands)

	Gross Amounts Not Offset in the Statements of Financial Condition					
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	\$ 8,752	\$ —	\$ 8,752	\$ —	\$ —	\$ 8,752

### Offsetting of Derivative Liabilities as of September 30, 2020

(In thousands)

	Gross Amounts Not Offset in the Statements of Financial Condition					
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral Posted	Net Amount
Derivatives	\$ 10,047	\$ —	\$ 10,047	\$ 1,498	\$ 12,857	\$ (4,308)

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 12 - Derivatives (Continued)

Offsetting of Derivative Assets  
as of September 30, 2019

(In thousands)

	Gross Amounts Not Offset in the Statements of Financial Condition					
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	\$ 5,145	\$ —	\$ 5,145	\$ 173	\$ —	\$ 4,972

Offsetting of Derivative Liabilities  
as of September 30, 2019

(In thousands)

	Gross Amounts Not Offset in the Statements of Financial Condition					
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral Posted	Net Amount
Derivatives	\$ 5,754	\$ —	\$ 5,754	\$ 767	\$ 2,754	\$ 2,233

The tables below present the net gains (losses) recorded in accumulated other comprehensive (loss) income and the Consolidated Statements of Operations relating to the cash flow derivative instruments for the years ended September 30, 2020 and 2019.

	For the Year Ended September 30, 2020	
	Amount of Loss Recognized in OCI on Derivative	Amount of Loss Reclassified from OCI to Interest Expense
	(In thousands)	
Interest rate swap agreements	\$ (1,088)	\$ (437)
Total derivatives	<u>\$ (1,088)</u>	<u>\$ (437)</u>

	For the Year Ended September 30, 2019	
	Amount of Loss Recognized in OCI on Derivative	Amount of Gain Reclassified from OCI to Interest Expense
	(In thousands)	
Interest rate swap agreements	\$ (1,557)	\$ 298
Total derivatives	<u>\$ (1,557)</u>	<u>\$ 298</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tables below present the effect of the Company's derivative financial instruments on the Consolidated Statements of Operations for the years ended September 30, 2020 and 2019.

<u>For the Year Ended September 30, 2020</u>		
	<u>Consolidated Statements of Operations</u>	<u>Amount of Loss Recognized in Income on derivatives</u>
	<i>(In thousands)</i>	
Derivatives not designated as a hedging instrument:		
Interest rate swap agreement	Other income	\$ (6)
Total		<u>\$ (6)</u>



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

Consolidated Statements of Operations	Amount of Gain Recognized in Income on derivatives
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(In thousands)

Derivatives not designated as a hedging instrument:

Interest rate swap agreement

Other income	\$	1
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Total

\$	<u>1</u>
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 12 - Derivatives (Continued)

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

At September 30, 2020 and 2019, the fair value of derivatives was in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements. There were no adjustments for nonperformance risk at September 30, 2020 and 2019. At September 30, 2020 and 2019, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of \$12.9 million and \$6.4 million, respectively, against its obligations under these agreements. If the Company had breached any of these provisions at September 30, 2020, it could have been required to settle its obligations under the agreements at the termination value and would have been required to pay any additional amounts due in excess of amounts previously posted as collateral with the respective counterparty.

### Note 13 - Fair Value Measurements

The Company follows FASB ASC Topic 820 “Fair Value Measurement,” to record fair value adjustments to certain assets and to determine fair value disclosures for the Company’s financial instruments. Investment and mortgage-backed securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans, real estate owned and certain other assets. These nonrecurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or write-downs of individual assets.

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

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

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

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

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

Fair value measurements for assets where there exists limited or no observable market data and, therefore, are based primarily upon the Company’s or other third-party’s estimates, are often calculated based on the characteristics of the asset, the economic and competitive environment and other factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset.

Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future valuations.

The Company monitors and evaluates available data to perform fair value measurements on an ongoing basis and recognizes transfers among the levels of the fair value hierarchy as of the date event or a change in circumstances that affects the valuation method chosen. There were no changes in valuation technique or transfers between levels as of and for the years ended September 30, 2020 and 2019.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 13 - Fair Value Measurements (Continued)

The tables below present the balances of assets measured at fair value on a recurring basis at September 30, 2020 and 2019:

	September 30, 2020			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Assets:				
Investment securities available-for-sale:				
Debt securities:				
U.S. government agencies	\$ 5,040	\$ —	\$ 5,040	\$ —
State and municipal obligations	3,105	—	3,105	—
Single issuer trust preferred security	925	—	925	—
Corporate debt securities	20,948	—	20,948	—
Mutual funds	1,523	1,023	—	500
Total investment securities available-for-sale	<u>\$ 31,541</u>	<u>\$ 1,023</u>	<u>\$ 30,018</u>	<u>\$ 500</u>
Derivative instruments	\$ 8,752	\$ —	\$ 8,752	\$ —

### Liabilities:

Derivative instruments	<u>\$ 10,047</u>	<u>\$ —</u>	<u>\$ 10,047</u>	<u>\$ —</u>
------------------------	------------------	-------------	------------------	-------------

	September 30, 2019			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
<b>Assets:</b>				
<b>Investment securities available-for-sale:</b>				
Debt securities:				
U.S. treasury notes	\$ 3,000	\$ —	\$ 3,000	\$ —
State and municipal obligations	4,732	—	4,732	—
Single issuer trust preferred security	923	—	923	—
Corporate debt securities	9,506	—	9,506	—
Mutual funds	250	—	—	250
Total investment securities available-for-sale	\$ 18,411	\$ —	\$ 18,161	\$ 250
Derivative instruments	<u>\$ 5,145</u>	<u>\$ —</u>	<u>\$ 5,145</u>	<u>\$ —</u>
<b>Liabilities:</b>				
Derivative instruments	\$ 5,754	\$ —	\$ 5,754	\$ —

The following tables present additional information about the securities available-for-sale measured at fair value on a recurring basis and for which the Company utilized significant unobservable inputs (Level 3 inputs) to determine fair value for the nine months ended September 30, 2020 and September 30, 2019:

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 13 - Fair Value Measurements (Continued)

		Fair value measurements using significant unobservable inputs (Level 3) (In thousands)	
Balance, October 1, 2019	\$		250
Payments received			-
Total gains or losses (realized/unrealized)			-
Included in earnings			-
Included in other comprehensive income			-
Purchases			250
Transfers in and/or out of Level 3			-
Balance, September 30, 2020	\$		<u>500</u>
		Fair value measurements using significant unobservable inputs (Level 3) (In thousands)	
Balance, October 1, 2018	\$		250
Payments received			-
Total gains or losses (realized/unrealized)			-
Included in earnings			-
Included in other comprehensive income			-
Purchases			-
Transfers in and/or out of Level 3			-
Balance, September 30, 2019	\$		<u>250</u>

The majority of the Company's available for sale investment securities are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the securities' terms and conditions, among other things. From time to time, the Company validates prices supplied by the independent pricing service by comparison to prices obtained from third-party sources or derived using internal models.

For assets measured at fair value on a nonrecurring basis in fiscal 2020 and fiscal 2019 that were still held at the end of the period, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at September 30, 2020 and 2019:

	Total	September 30, 2020		
		Level 1	Level 2	Level 3
		(In thousands)		
Other real estate owned	\$ 5,796	\$ —	\$ —	\$ 5,796
Impaired loans <sup>(1)</sup>	10,479	—	—	10,479
Total	<u>\$ 16,275</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 16,275</u>

		September 30, 2020		
	Fair Value at September 30, 2020	Valuation Technique	Unobservable Input	Range/(Weighted Average)
(In thousands)				
Other real estate owned	\$ 5,796	Appraisal of Collateral(2)	Collateral discount(3)	0%/(0%)
Impaired loans <sup>(1)</sup>	10,479	Appraisal of Collateral(2)	Collateral discount(3)	0.0% - 15%/(14.4%)
Total	\$ 16,275			

(1) Consisted of seven loans with an aggregate balance of \$11.4 million and with \$889,000 in specific loan loss allowance.

## Note 13 - Fair Value Measurements (Continued)

(2) Fair value is generally determined through independent appraisals of the underlying collateral primarily using comparable sales.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

		September 30, 2019			
	Total	Level 1	Level 2	Level 3	
(In thousands)					
Other real estate owned	\$ 5,796	\$ —	\$ —	\$ 5,796	
Impaired loans <sup>(1)</sup>	9,142	—	—	9,142	
Total	\$ 14,938	\$ —	\$ —	\$ 14,938	

		September 30, 2019		
	Fair Value at September 30, 2019	Valuation Technique	Unobservable Input	Range/(Weighted Average)
		<i>(In thousands)</i>		
Other real estate owned	\$ 5,796	Appraisal of Collateral(2)	Collateral discount(3)	0%/(0%)
Impaired loans <sup>(1)</sup>	9,142	Appraisal of Collateral(2)	Collateral discount(3)	12%/(12%)
Total	\$ 14,938			

- (1) Consisted of four loans with an aggregate balance of \$9.3 million and with \$157,000 in specific loan loss allowance.  
(2) Fair value is generally determined through independent appraisals of the underlying collateral primarily using comparable sales.  
(3) Appraisals may be adjusted by management for qualitative factors such as time, changes in economic conditions and estimated liquidation expense

At September 30, 2020 and 2019, the Company did not have any additions to our mortgage servicing assets. At September 30, 2020 the Company sold loans with servicing retained. At September 30, 2019, the Company only sold loans with servicing released.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of FASB ASC 825. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methods. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company would realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. FASB ASC 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2020 and 2019. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since September 30, 2020 and 2019 and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

The following assumptions were used to estimate the fair value of the Company's financial instruments:

**Cash and Cash Equivalents**—These assets are carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

**Investment Securities**—Investment and mortgage-backed securities available for sale (carried at fair value) are measured at fair value on a recurring basis. Fair value measurements for these securities are typically obtained from independent pricing services that we have engaged for this purpose. When available, we, or our independent pricing service, use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, our independent pricing service's applications apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare evaluations. For

**Note 13 - Fair Value Measurements (Continued)**

each asset class, pricing applications and models are based on information from market sources and integrate relevant credit information. All of our securities available for sale are valued using either of the foregoing methodologies to determine fair value adjustments recorded to our financial statements.

**Loans Receivable**—We do not record loans at fair value on a recurring basis. As such, valuation techniques discussed herein for loans are primarily for estimating fair value for FASB ASC 825 disclosure purposes. However, from time to time, we record nonrecurring fair value adjustments to loans to reflect partial write-downs for impairment or the full charge-off of the loan carrying value. The valuation of impaired loans is discussed below. The fair value estimate for FASB ASC 825 purposes differentiates loans based on their financial characteristics, such as product classification, loan category, pricing features and remaining maturity. Prepayment and credit loss estimates are evaluated by loan type and rate. The fair value of loans is estimated by discounting contractual cash flows using discount rates based on current industry pricing, adjusted for prepayment and credit loss estimates.

**Impaired Loans**—Impaired loans are valued utilizing independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments to comparable assets based on the appraisers' market knowledge and experience. The appraisals are adjusted downward by management, as necessary, for changes in relevant valuation factors subsequent to the appraisal date and are considered level 3 inputs.

**Accrued Interest Receivable**—This asset is carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

**Restricted Stock**—Although restricted stock is an equity interest in the Federal Reserve Bank, FHLB and ACBB, it is carried at cost because it does not have a readily determinable fair value as its ownership is restricted and it lacks a market. The estimated fair value approximates the carrying amount.

**Other Real Estate Owned**—Assets acquired through foreclosure or deed in lieu of foreclosure are recorded at estimated fair value less estimated selling costs when acquired, thus establishing a new cost basis. Fair value is generally based on independent appraisals. These appraisals include adjustments to comparable assets based on the appraisers' market knowledge and experience, and are considered level 3 inputs. When an asset is acquired, the excess of the loan balance over fair value, less estimated selling costs, is charged to the allowance for loan losses. If the estimated fair value of the asset declines, a write-down is recorded through expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of, among other factors, changes in the economic conditions.

**Deposits**—Deposit liabilities are carried at cost. As such, valuation techniques discussed herein for deposits are primarily for estimating fair value for FASB ASC 825 disclosure purposes. The fair value of deposits is discounted based on rates available for time deposits of similar maturities. Fair value approximates book value for Savings accounts, Checking and NOW accounts, and Money Market accounts.

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

**Subordinated Debt**—The calculation of fair value in level 2 is based on observable market values where available.

**Note 13 - Fair Value Measurements (Continued)**

**Derivatives**—The fair value of derivatives are based on valuation models using observable market data as of the measurement date (level 2). Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rate, and volatility factors to value the position. The majority of market inputs is actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

**Accrued Interest Payable**—This liability is carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 13 - Fair Value Measurements (Continued)

The carrying amount and estimated fair value of the Company's financial instruments as of September 30, 2020 and 2019 were as follows:

	Carrying Amount	Fair Value	Level 1 (In thousands)	Level 2	Level 3
<b>September 30, 2020:</b>					
Financial assets:					
Cash and cash equivalents	\$ 61,439	\$ 61,439	\$ 61,439	\$ —	\$ —
Investment securities available-for-sale	31,541	31,541	1,023	30,018	500
Investment securities held-to-maturity	14,970	15,608	—	15,608	—
Loans receivable, net (including impaired loans)	1,031,392	1,039,891	—	—	1,039,891
Accrued interest receivable	3,677	3,677	—	3,677	—
Restricted stock	9,622	9,622	—	9,622	—
Mortgage servicing rights (included in Other Assets)	111	111	—	111	—
Derivatives (included in Other Assets)	8,752	8,752	—	8,752	—
Financial liabilities:					
Savings accounts	45,072	45,072	—	45,072	—
Checking and NOW accounts	354,104	354,104	—	354,104	—
Money market accounts	277,711	277,711	—	277,711	—
Certificates of deposit	214,019	217,212	—	217,212	—
Borrowings (excluding sub debt)	134,225	135,101	—	135,101	—
Subordinated debt	24,776	25,030	—	25,030	—
Derivatives (included in Other Liabilities)	10,047	10,047	—	10,047	—
Accrued interest payable	728	728	—	728	—
<b>September 30, 2019 (As Restated):</b>					
Financial assets:					
Cash and cash equivalents	\$ 153,543	\$ 153,543	\$ 153,543	\$ —	\$ —
Investment securities available-for-sale	18,411	18,411	—	18,161	250
Investment securities held-to-maturity	22,485	22,609	—	22,609	—
Loans receivable, net (including impaired loans)	1,011,989	1,014,717	—	—	1,014,717
Accrued interest receivable	4,253	4,253	—	4,253	—
Restricted stock	11,129	11,129	—	11,129	—
Mortgage servicing rights (included in Other) Assets)	178	178	—	178	—
Derivatives (included in Other Assets)	5,145	5,145	—	5,145	—
Financial liabilities:					
Savings accounts	41,875	41,875	—	41,875	—
Checking and NOW accounts	357,723	357,723	—	357,723	—
Money market accounts	276,644	276,644	—	276,644	—
Certificates of deposit	277,569	280,024	—	280,024	—
Borrowings (excluding sub debt)	137,275	137,820	—	137,820	—
Subordinated debt	24,619	24,471	—	24,471	—
Derivatives (included in Other Liabilities)	5,754	5,754	—	5,754	—
Accrued interest payable	978	978	—	978	—



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 14 - Income Taxes

In accordance with ASC Topic 740, the Company evaluates on a quarterly basis, all evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance for DTAs is needed. In conducting this evaluation, management explores all possible sources of taxable income available under existing tax laws to realize the net DTA beginning with the most objectively verifiable evidence first, including available carry back claims and viable tax planning strategies. If needed, management will look to future taxable income as a potential source. Management reviews the Company's current financial position and its results of operations for the current and preceding years. That historical information is supplemented by all currently available information about future years. The Company understands that projections about future performance are subjective.

Deferred income taxes at September 30, 2020 and 2019 were as follows:

	September 30,	
	2020	2019
	<i>(In thousands)</i>	
<b>DTAs:</b>		
Allowance for loan losses	\$ 2,855	\$ 2,431
Non-accrual interest	29	84
Supplement Employer Retirement Plan	193	216
Federal and State net operating loss	—	56
Unrealized loss on investments available-for-sale	296	158
Depreciation	36	—
Lease liability	656	—
Other	88	45
Total DTAs	4,153	2,990
Valuation allowance for DTAs	—	—
Total DTAs, Net of Valuation Allowance	\$ 4,153	\$ 2,990
<b>DTLs:</b>		
Unrealized gain on derivatives	—	—
Mortgage servicing rights	(27)	(46)
Right of use asset	(648)	0
Depreciation	—	(87)
Other	(2)	(17)
Total DTLs	(677)	(150)
<b>DTAs, Net</b>	<u>\$ 3,476</u>	<u>\$ 2,840</u>

Of these DTAs, the carryforward periods for certain tax attributes are as follows:

- The Company has recorded state net operating loss carryforwards of approximately \$12,000 and \$3.0 million as of September 30, 2020 and 2019, respectively. These net operating losses will begin to expire in 2033.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 14 – Income Taxes (Continued)

Income tax expense for the fiscal years ended September 30, 2020 and 2019 was comprised of the following:

	September 30,	
	2020	2019
	<i>(In thousands)</i>	
<b>Federal:</b>		
Current	\$ 1,019	\$ 1,579
Deferred	(335)	570
	684	2,149
<b>State:</b>		
Current	435	228
Deferred	(162)	92
	273	320
<b>Total income tax expense</b>	<b>\$ 957</b>	<b>\$ 2,469</b>

A reconciliation from the expected federal income tax expense computed at the statutory federal income tax rate to the actual income tax expense included in the consolidated statements of income for the fiscal years ended September 30, 2020 and 2019:

	September 30,	
	2020	2019
	<i>(In thousands)</i>	
Tax at statutory rate	\$ 957	21.0% \$ 2,478 21.0%
Adjustments resulting from:		
State tax, net of federal benefit	216	4.7 252 2.1
Tax-exempt interest	(59)	(1.3) (53) (0.4)
Earnings on bank-owned life insurance	(107)	(2.3) (103) (0.9)
Other	(50)	(1.1) (105) (0.9)
<b>Total</b>	<b>\$ 957</b>	<b>21.0% \$ 2,469 20.9%</b>

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more like than not to be sustained upon examination by tax authorities. As of September 30, 2020 and 2019, there were no material uncertain tax positions related to federal and state income tax matters. The Company is currently open to audit under the statute of limitation by the Internal Revenue Service and state taxing authorities for the years ended September 30, 2017 to September 30, 2020.

The Small Business Job Protection Act of 1996 provides for the repeal of the tax bad debt deduction computed under the percentage-of-taxable-income method. Upon repeal, the Company was required to recapture into income, over a six-year period, the portion of its tax bad debt reserves that exceeds its base year reserves (i.e., tax reserves for tax years beginning before 1988). The base year tax reserves, which may be subject to recapture if the Company ceases to qualify as a bank for federal income tax purposes, are restricted with respect to certain distributions and have been treated as a permanent tax difference.

## Note 15 – Leases

The Company determines if an arrangement is a lease at inception. The Company adopted the guidance of ASC 842 Leases and recorded ROU assets and related lease liabilities of \$3.3 million at October 1, 2019. Operating leases are included in operating lease ROU assets and operating lease liabilities on our consolidated statements of financial condition. ROU assets and operating lease liabilities are recognized based on the present value of the future lease payments over the lease term at commencement date. As our leases do not provide an implicit rate, in order to determine the present value of future payments for office leases we used our incremental borrowing rate based on the FHLB liquidity and funding rates. Our lease terms may include options to extend when it is reasonably certain

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

that we will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

As of September 30, 2020, the Company leases one financial center located in Glen Mills, Pennsylvania; one private banking office located in Villanova, Pennsylvania; one private banking office in Morris County located in Morristown, New Jersey; one private banking office located in Palm Beach, Florida; one representative office located in Wellington, Florida; and one representative office located in Allentown, Pennsylvania. The Company has elected not to recognize ROU assets and lease liabilities for two private banking office leases and two representative office leases whose terms are twelve months or less and are considered short-term leases. All of the financial center leases and two private banking office leases include options to extend for terms of five years. These options have not been recognized as part of our ROU assets and lease liabilities as the Company is not reasonably certain to exercise these options. The Company has also entered into three leases for office equipment for which ROU assets and lease liabilities have been recognized. All the aforementioned leases have been accounted for as operating leases.

The components of lease expense for the fiscal years ended September 30, 2020 and 2019 were as follows:

	<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>
	<i>In thousands</i>	
Operating lease cost	\$ 698	\$ 487
Finance lease cost	—	—
Short-term lease cost	104	65
Total	<u>\$ 802</u>	<u>\$ 552</u>

Supplemental information at and for September 30, 2020 and the fiscal year ended September 30, 2020 related to leases was as follows:

	<b>September 30, 2020</b>
	<i>(Dollars in thousands)</i>
<b>Supplemental balance sheet information</b>	
Operating lease right-of-use assets	\$ 2,638
Operating lease liabilities	\$ 2,671
Weighted average remaining lease term	5.40 years
Weighted average discount rate	1.99%
<b>Twelve Months Ended September 30, 2020</b>	
	<i>(In thousands)</i>
<b>Supplemental cash flow information</b>	
Operating cash flows from operating leases	\$ 667
ROU assets obtained in exchange for lease obligations	\$ 3,279

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 15 – Leases (Continued)

Maturities of lease liabilities were as follows:

		Operating Leases (In thousands)
<b>Years ended September 30:</b>		
2021	\$	601
2022		492
2023		474
2024		474
2025		477
Thereafter		269
Total lease payments	\$	2,787
Less: imputed interest		(116)
Total	\$	<u>2,671</u>

The Company receives rents from the lease of office and residential space owned by the Company. Rental income is included in Other Income. Future minimum rental commitments under these leases are (In thousands):

<b>Years ending September 30:</b>		
2021	\$	128
2022		95
2023		—
2024		—
2025		—
	\$	<u>223</u>

### Note 16 - Commitments and Contingencies

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit, and interest rate risk in excess of the amount recognized in the statements of financial condition.

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 is represented by the contractual 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.

Letters of credit are conditional commitments issued by the Company guaranteeing payments of drafts in accordance with the terms of the letter of credit agreements. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Collateral may be required to support letters of credit based upon management's evaluation of the creditworthiness of each customer. The credit risk involved in issuing letters of credit is substantially the same as that involved in extending loan facilities to customers. Most letters of credit expire within one year. At September 30, 2020 and 2019, the uncollateralized portion of the letters of credit extended by the Company was approximately \$9.1 million and \$11.6 million, respectively. The current amount of the liability for guarantees under letters of credit was not material as of September 30, 2020 or 2019.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 16 – Commitments and Contingencies (Continued)

At September 30, 2020 and 2019, the following financial instruments were outstanding whose contract amounts represent credit risk:

	September 30,	
	2020	2019
	<i>(In thousands)</i>	
Commitments to extend credit:		
Future loan commitments	\$ 7,687	\$ 40,976
Undisbursed construction loans	24,551	27,645
Undisbursed home equity lines of credit	24,751	21,447
Undisbursed commercial lines of credit	22,918	27,782
Undisbursed commercial unsecured lines of credit	58,445	60,382
Overdraft protection lines	1,362	1,363
Standby letters of credit	9,074	11,589
Total Commitments	<u>\$ 148,788</u>	<u>\$ 191,184</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but generally includes personal or commercial real estate.

Unfunded commitments under commercial lines of credit are collateralized except for the overdraft protection lines of credit and commercial unsecured lines of credit. The amount of collateral obtained is based on management's credit evaluation, and generally includes personal or commercial real estate.

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

### Note 17 - Regulatory Matters

#### *Shareholders' Equity*

On March 14, 2019, the Company's Board of Directors approved a stock repurchase plan, under which the Company is authorized to repurchase up to 194,516 shares, or approximately 2.5 percent of the Company's current outstanding common stock. On February 28, 2020, the Company's Board of Directors extended the timeframe for its current stock repurchase program from March 31, 2020 to December 31, 2020. This repurchase authority may be exercised from time to time and in such amounts as market conditions warrant. The repurchases may be made on the open market, in block trades or otherwise. The program may be suspended or discontinued at any time. During the fiscal year ended September 30, 2020, the Company purchased 177,653 shares of its common stock in the open market under the repurchase plan at an average cost of \$14.23 per share. As of September 30, 2020, no shares remain available for issuance under the repurchase plan.

#### *Regulatory Capital Requirements*

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

In July of 2013, the respective U.S. federal banking agencies issued final rules implementing Basel III and the Dodd-Frank Act capital requirements to be fully phased in on a global basis on January 1, 2019. The regulations establish a new tangible common equity capital requirement, increase the minimum requirement for the current Tier 1 risk-weighted asset ("RWA") ratio, phase out certain kinds of intangibles treated as capital

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 17 - Regulatory Matters (Continued)

and certain types of instruments and change the risk weightings of certain assets used to determine required capital ratios. The new common equity Tier 1 capital component requires capital of the highest quality predominantly composed of retained earnings and common stock instruments. For community banks such as Malvern Bank, a common equity Tier 1 capital ratio of 4.5 percent became effective on January 1, 2015. The new capital rules also increased the minimum Tier 1 capital ratio from 4.0 percent to 6.0 percent beginning on January 1, 2015. The rules also establish a capital conservation buffer of 2.5 percent above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and would result in the following minimum ratios: (1) a common equity Tier 1 capital ratio of 7.0 percent, (2) a Tier 1 capital ratio of 8.5 percent, and (3) a total capital ratio of 10.5 percent. The new capital conservation buffer requirement was phased in beginning in January 2016 at 0.625 percent of risk-weighted assets and will increase by that amount each year until fully implemented in January 2019. An institution is also subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible and core capital (as defined in the regulations) to total adjusted tangible assets (as defined) and of risk-based capital (as defined) to risk-weighted assets (as defined).

As of September 30, 2020, the Company's and the Bank's current capital levels exceed the required capital amounts to be considered "well capitalized" and we believe they also meet the fully-phased in minimum capital requirements, including the related capital conservation buffers, as required by the Basel III capital rules.

The following table summarizes the Company's compliance with applicable regulatory capital requirements as of September 30, 2020 and 2019:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
<i>(In thousands)</i>						
<b>As of September 30, 2020:</b>						
Tier 1 Leverage (Core) Capital (to average assets)	\$ 144,638	11.87%	\$ 48,743	4.00%	\$ 60,929	5.00%
Common Equity Tier 1 Capital (to risk-weighted assets)	144,638	14.25%	45,660	4.50%	65,954	6.50%
Tier 1 Capital (to risk-weighted assets)	144,638	14.25%	60,880	6.00%	81,174	8.00%
Total Risk-Based Capital (to risk-weighted assets)	181,119	17.85%	81,174	8.00%	101,467	10.00%
<b>As of September 30, 2019 (As Restated):</b>						
Tier 1 Leverage (Core) Capital (to average assets)	\$ 142,508	11.34%	\$ 50,263	4.00%	\$ 62,828	5.00%
Common Equity Tier 1 Capital (to risk-weighted assets)	142,508	14.24%	45,031	4.50%	65,044	6.50%
Tier 1 Capital (to risk-weighted assets)	142,508	14.24%	60,041	6.00%	80,054	8.00%
Total Risk-Based Capital (to risk-weighted assets)	177,293	17.72%	80,054	8.00%	100,068	10.00%

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 17 - Regulatory Matters (Continued)

The following table summarizes the Bank's compliance with applicable regulatory capital requirements as of September 30, 2020 and 2019:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
<i>(In thousands)</i>						
<b>As of September 30, 2020:</b>						
Tier 1 Leverage (Core) Capital (to average assets)	\$ 158,532	13.03%	\$ 48,685	4.00%	\$ 60,856	5.00%
Common Equity Tier 1 Capital (to risk-weighted assets)	158,532	15.65%	45,591	4.50%	65,854	6.50%
Tier 1 Capital (to risk-weighted assets)	158,532	15.65%	60,788	6.00%	81,051	8.00%
Total Risk-Based Capital (to risk-weighted assets)	170,237	16.80%	81,051	8.00%	101,314	10.00%
<b>As of September 30, 2019 (As Restated):</b>						
Tier 1 Leverage (Core) Capital (to average assets)	\$ 153,086	12.19%	\$ 50,226	4.00%	\$ 62,783	5.00%
Common Equity Tier 1 Capital (to risk-weighted assets)	153,086	15.32%	44,980	4.50%	64,972	6.50%
Tier 1 Capital (to risk-weighted assets)	153,086	15.32%	59,974	6.00%	79,965	8.00%
Total Risk-Based Capital (to risk-weighted assets)	163,253	16.33%	79,965	8.00%	99,957	10.00%

The following table presents a reconciliation of the Bank's equity determined using GAAP and its regulatory capital amounts as of September 30, 2020 and 2019:

	September 30,	
	2020	2019
	<i>(In thousands)</i>	
Bank GAAP equity	\$ 157,444	\$ 152,517
Net unrealized loss on securities available for sale, net of income taxes	93	87
Net unrealized loss on derivatives, net of income taxes	995	482
<b>Tangible Capital, Core Capital and Tier 1 Capital</b>	<b>158,532</b>	<b>153,086</b>
Allowance for loan losses	11,705	10,167
<b>Total Risk-Based Capital</b>	<b>\$ 170,237</b>	<b>\$ 163,253</b>

## Note 18 – Comprehensive Income

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

	September 30,	
	2020	2019
	<i>(In thousands)</i>	
Net unrealized holding losses on available-for-sale securities	\$ (118)	\$ (111)
Tax effect	25	24
Net of tax amount	(93)	(87)
Fair value adjustment on derivatives	(1,260)	(610)
Tax effect	265	128
Net of tax amount	(995)	(482)
<b>Total accumulated other comprehensive loss</b>	<b>\$ (1,088)</b>	<b>\$ (569)</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Year Ended September 30,	
	2020	2019
	<i>(In thousands)</i>	
Net unrealized holding gains on available-for-sale securities	\$ 320	\$ 419
Net realized gain on securities available-for-sale	(330)	(28)
Adjustment for loss recorded on replacement of derivative	31	—
Amortization of unrealized holding losses on securities available-for-sale transferred to held-to-maturity	3	4
Fair value adjustment on derivatives	(681)	(1,855)
Other comprehensive loss before taxes	(657)	(1,460)
Tax effect	138	307
Total other comprehensive loss	<u>\$ (519)</u>	<u>\$ (1,153)</u>

### Note 19 – Equity Based Incentive Compensation Plan

The Company maintains the Malvern Bancorp, Inc. 2014 Long-Term Incentive Compensation Plan (the “2014 Plan”), which permits the grant of long-term incentive and other stock and cash awards. The purpose of the 2014 Plan is to promote the success of the Company and the Bank by providing incentives to officers, employees and directors of the Company and the Bank that will link their personal interests to the financial success of the Company and to growth in shareholder value. The maximum total number of shares of the Company’s common stock available for grants under the 2014 Plan is 400,000. As of September 30, 2020, there were 318,651 remaining shares available for future grants.

Restricted stock and option awards granted during fiscal 2020 vest in 20 percent increments beginning on the one- year anniversary of the grant date, and accelerate upon a change in control of the Company. The options generally expire ten years from the date of grant. All issuances are subject to forfeiture if the recipient leaves or is terminated prior to the awards vesting. Shares of restricted stock have the same dividend and voting rights as common stock while options do not.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 19 - Equity Based Incentive Compensation Plan (Continued)

All awards are issued at fair value of the underlying shares at the grant date. The Company expenses the cost of the awards, which is determined to be the fair market value of the awards at the date of grant.

During fiscal 2020 and 2019, stock options covering a total 7,000 and 7,000 shares of common stock, respectively, were granted. During fiscal 2020 and 2019, stock options covering a total of zero and 4,166 shares of common stock, respectively, were forfeited. Total compensation expense related to options granted under the 2014 Plan was approximately \$29,000 for fiscal 2020 and \$35,000 for fiscal 2019.

During fiscal 2020, 23,821 shares of restricted stock were awarded and 1,610 of those shares were forfeited. During fiscal 2019, 12,674 shares of restricted stock were awarded and 1,772 of those shares were forfeited. The compensation expense related to restricted stock awards was approximately \$225,000 for fiscal 2020 and \$174,000 for fiscal 2019.

Stock-based compensation expense for the cost of the awards granted is based on the grant-date fair value. For stock option awards, the fair value is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Accordingly, while management believes that the Black-Scholes option-pricing model provides a reasonable estimate of fair value, the model does not necessarily provide the best single measure of fair value for the Company's employee stock options.

#### Stock Options

The assumptions used in determining the fair value of stock option grants for the year ended September 30, 2020 are as follows:

Weighted average fair value of awards	\$ 4.72
Risk-free rate	1.22%
Dividend yield	—%
Volatility	19.86%
Expected life	6.5 years

The assumptions used in determining the fair value of stock option grants for the year ended September 30, 2019 are as follows:

Weighted average fair value of awards	\$ 5.72
Risk-free rate	2.50%
Dividend yield	—%
Volatility	20.39%
Expected life	6.5 years

The following is a summary of currently outstanding options at September 30, 2020:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Outstanding, beginning of year	18,830	\$ 22.05		\$ 21,350
Granted	7,000	\$ 20.28		\$ —
Exercised	—	\$ —		\$ —
Forfeited/cancelled/expired	—	\$ —		\$ —
Outstanding, end of year	25,830	\$ 21.57	7.819	\$ —
Exercisable at end of year	8,140	\$ 21.50	6.794	\$ —
Nonvested at end of year	<u>17,690</u>	\$ 21.60		

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 19 - Equity Based Incentive Compensation Plan (Continued)

The following is a summary of currently outstanding options at September 30, 2019:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Outstanding, beginning of year	15,996	\$ 22.34		\$ 41,490
Granted	7,000	\$ 20.90		—
Exercised	—	—		—
Forfeited/cancelled/expired	(4,166)	\$ 21.24		\$ 4,120
Outstanding, end of year	18,830	\$ 22.05	8.231	\$ 21,350
Exercisable at end of year	4,370	\$ 21.02	7.421	\$ 8,632
Nonvested at end of year	<u>14,460</u>	\$ 22.36		

As of September 30, 2020, there was \$84,000 of total unrecognized compensation cost related to non-vested options under the Plan. The cost is expected to be recognized over a weighted average period of 3.20 years.

### Restricted Stock Awards

The table below summarizes the activity for the Company's restricted stock outstanding at September 30, 2020:

	Shares	Weighted Average Fair Value
Outstanding, beginning of year	18,493	\$ 21.78
Granted	23,821	19.62
Vested	(10,051)	16.62
Forfeited/cancelled/expired	(1,610)	21.43
Outstanding, end of year	<u>30,653</u>	<u>\$ 21.98</u>

The table below summarizes the activity for the Company's restricted stock outstanding at September 30, 2019:

	Shares	Weighted Average Fair Value
Outstanding, beginning of year	14,340	\$ 22.95
Granted	12,674	20.40
Vested	(6,749)	21.41
Forfeited/cancelled/expired	(1,772)	22.87
Outstanding, end of year	<u>18,493</u>	<u>\$ 21.78</u>

As of September 30, 2020, there was \$543,000 of total unrecognized compensation cost related to non-vested shares of restricted stock granted under the Plan. The cost is expected to be recognized over a weighted average period of 3.60 years.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 20 – Subordinated Debt

On February 7, 2017, the Company issued \$25.0 million in aggregate principal amount of its 6.125 percent fixed-to-floating rate subordinated notes due 2027 (the “Notes”). The Notes have a stated maturity of February 15, 2027, are redeemable, in whole or in part, on or after February 15, 2022, and at any time upon the occurrences of certain events. The Notes bear interest at a fixed rate of 6.125 percent per year, from and including February 7, 2017 to, but excluding February 15, 2022. From and including February 15, 2022 to the maturity date or earlier redemption date, the interest rate will reset quarterly at a variable rate equal to the then current 3-month LIBOR plus 414.5 basis points. The Notes were structured to qualify as Tier 2 capital for regulatory purposes. The Company’s net subordinated debt totaled \$24.8 million (\$737,000 represent original debt issuance costs) at September 30, 2020.

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

### Note 21 – Condensed Financial Information - Parent Company Only

#### Condensed Statements of Financial Condition

	September 30,	
	2020	2019
	<i>(In thousands)</i>	
<b>Assets</b>		
Cash and Cash Equivalents	\$ 8,411	\$ 12,438
Investment in subsidiaries	157,444	152,517
Loans receivable, net	1,104	1,266
Other assets	1,536	1,116
<b>Total Assets</b>	<u>\$ 168,495</u>	<u>\$ 167,337</u>
<b>Liabilities</b>		
Subordinated debt	\$ 24,776	\$ 24,619
Other borrowings	—	—
Accrued interest payable	196	196
Accounts payable	(27)	14
<b>Total Liabilities</b>	24,945	24,829
Shareholders’ Equity	143,550	142,508
<b>Total Liabilities and Shareholders’ Equity</b>	<u>\$ 168,495</u>	<u>\$ 167,337</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 21 – Condensed Financial Information - Parent Company Only (Continued)

### Condensed Statements of Operations

	Year Ended September 30,	
	2020	2019
	(In thousands)	
<b>Income</b>		
Interest income	\$ 59	\$ 67
<b>Total Interest Income</b>	<b>59</b>	<b>67</b>
<b>Expense</b>		
Long-term borrowings	1,531	1,537
<b>Total Interest Expense</b>	<b>1,531</b>	<b>1,537</b>
Other operating expenses	375	582
<b>Total Other Expenses</b>	<b>375</b>	<b>582</b>
<b>Total Expense</b>	<b>1,906</b>	<b>2,119</b>
<b>Loss before Equity in Undistributed Net Income of Subsidiaries and Income Tax Expense</b>	<b>(1,847)</b>	<b>(2,052)</b>
<b>Equity in Undistributed Net Income of Subsidiaries</b>	<b>5,028</b>	<b>10,911</b>
<b>Income tax benefit</b>	<b>(420)</b>	<b>(473)</b>
<b>Net Income</b>	<b>\$ 3,601</b>	<b>\$ 9,332</b>

### Condensed Statements of Comprehensive Income

	Year Ended September 30,	
	2020	2019
(In thousands)		
<b>Net Income</b>	<b>\$ 3,601</b>	<b>\$ 9,332</b>
<b>Other Comprehensive (Loss) Income , Net of Tax:</b>		
Unrealized holding gains on available-for-sale securities	320	419
Tax effect	(67)	(88)
Net of tax amount	253	331
Reclassification adjustment for net gains arising during the period <sup>(1)</sup>	(330)	(28)
Tax effect	69	6
Net of tax amount	(261)	(22)
Adjustment for loss recorded on replacement of derivative	31	—
Accretion of unrealized holding losses on securities transferred from available-for-sale to held-to-maturity <sup>(2)</sup>	3	4
Tax effect	(1)	(1)
Net of tax amount	2	3
Fair value adjustment on derivatives	(681)	(1,855)
Tax effect	137	390
Net of tax amount	(544)	(1,465)
Total other comprehensive loss	(519)	(1,153)
<b>Total comprehensive income</b>	<b>\$ 3,082</b>	<b>\$ 8,179</b>

<sup>(1)</sup> Amounts are included in net gains on sales and calls of investments on the Consolidated Statements of Operations in total other income.

<sup>(2)</sup> Amounts are included in interest and dividends on investment securities on the Consolidated Statements of Operations.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 21 – Condensed Financial Information - Parent Company Only (Continued)

### Condensed Statements of Cash Flows

	Year Ended September 30,	
	2020	2019
	<i>(In thousands)</i>	
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 3,601	\$ 9,332
Undistributed net income of subsidiaries	(5,028)	(10,911)
ESOP expense	236	289
Stock based compensation	253	209
Amortization of subordinated debt issuance costs	157	158
Increase in other assets	(838)	(888)
Decrease in other liabilities	(41)	(20)
<b>Net Cash Used in Operating Activities</b>	<b>(1,660)</b>	<b>(1,831)</b>
<b>Cash Flows from Investing Activities</b>		
Net decrease in loans	162	155
<b>Net Cash Provided by Investing Activities</b>	<b>162</b>	<b>155</b>
<b>Cash Flows from Financing Activities</b>		
Net proceeds from issuance of common stock	—	23,344
Cash contributed to the Bank	—	(10,000)
Acquisition of treasury stock	(2,529)	(336)
Repayment of other borrowed money	—	(2,500)
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>(2,529)</b>	<b>10,508</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(4,027)</b>	<b>8,832</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>12,438</b>	<b>3,606</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 8,411</b>	<b>\$ 12,438</b>
<b>Supplementary Cash Flows Information</b>		
Non-cash transfer of investment securities from Parent Company to Bank	\$ —	\$ —

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 22 – Quarterly Financial Information (Unaudited)

The following tables are a summary of certain quarterly financial data for the fiscal years ended September 30, 2020 and 2019.

	2020			
	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter (As Restated)	2 <sup>nd</sup> Quarter (As Restated)	1 <sup>st</sup> Quarter (As Restated)
	<i>(In thousands, except share data)</i>			
Total Interest and Dividend Income <sup>(1)</sup>	\$ 10,340	\$ 10,498	\$ 11,629	\$ 11,840
Total Interest Expense <sup>(1)</sup>	3,620	3,867	4,836	4,952
Net Interest Income	6,720	6,631	6,793	6,888
Provision for Loan Losses	3,450	435	625	2,150
Total Other Income	692	389	964	443
Total Other Expenses	4,558	4,684	4,638	4,422
Income (Loss) before income tax expense	(596)	1,901	2,494	759
Income tax (benefit) expense	(50)	447	586	(26)
Net (Loss) Income	<u>\$ (546)</u>	<u>\$ 1,454</u>	<u>\$ 1,908</u>	<u>\$ 785</u>
Earnings Per Common Share:				
Basic	\$ (0.07)	\$ 0.19	\$ 0.25	\$ 0.10
Diluted	\$ (0.07)	\$ 0.19	\$ 0.25	\$ 0.10
Weighted Average Common Shares Outstanding				
Basic	7,522,199	7,538,375	7,663,771	7,665,842
Diluted	7,522,360	7,538,375	7,663,771	7,665,842

<sup>(1)</sup> As restated amount includes additional \$44,000 for the 3<sup>rd</sup> Quarter and \$45,000 for the 2<sup>nd</sup> Quarter and the 1<sup>st</sup> Quarter.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2020				
	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter (As Restated)	2 <sup>nd</sup> Quarter (As Restated)	1 <sup>st</sup> Quarter (As Restated)
	<i>(In thousands, except share data)</i>			
Cash and due from depository institutions	\$ 16,386	\$ 30,653	\$ 1,829	\$ 1,337
Interest-bearing deposits in depository institutions	45,053	28,291	124,239	158,465
Investment securities, available for sale, at fair value	31,541	33,245	21,839	23,723
Investment securities held to maturity	14,970	15,921	18,046	20,578
Restricted stock, at cost	9,622	9,766	10,913	11,115
Loans receivable, net of allowance for loan losses <sup>(1)</sup>	1,030,844	1,032,318	1,007,132	996,879
OREO	5,796	5,796	5,796	5,796
Accrued interest receivable	3,677	5,680	4,121	4,061
Operating lease right-of-use-assets	2,638	2,799	2,959	3,119
Property and equipment, net	6,274	6,355	6,476	6,594
Deferred income taxes, net	3,476	3,103	2,974	2,806
Bank-owned life insurance	25,400	20,270	20,144	20,018
Other assets	16,344	13,873	13,869	8,341
Total assets	<u>\$ 1,212,021</u>	<u>\$ 1,208,070</u>	<u>\$ 1,240,337</u>	<u>\$ 1,262,832</u>
Deposits	<u>\$ 890,906</u>	<u>\$ 884,444</u>	<u>\$ 915,900</u>	<u>\$ 943,819</u>
FHLB advances	130,000	130,000	133,000	133,000
Secured borrowing <sup>(1)</sup>	4,225	4,225	4,225	4,250
Subordinated debt	24,776	24,737	24,697	24,658
Operating lease liabilities	2,671	2,824	2,976	3,128
Other liabilities	15,893	18,309	16,389	10,442
Shareholders' equity	143,550	143,531	143,150	143,535
Total liabilities and shareholders' equity	<u>\$ 1,212,021</u>	<u>\$ 1,208,070</u>	<u>\$ 1,240,337</u>	<u>\$ 1,262,832</u>

<sup>(1)</sup> As restated amount includes additional \$4,225,000 for the 3<sup>rd</sup> Quarter and the 2<sup>nd</sup> Quarter, and \$4,250,000 for the 1<sup>st</sup> Quarter.

2019				
	4 <sup>th</sup> Quarter (As Restated)	3 <sup>rd</sup> Quarter (As Restated)	2 <sup>nd</sup> Quarter (As Restated)	1 <sup>st</sup> Quarter (As Restated)
	<i>(In thousands, except share data)</i>			
Total Interest and Dividend Income <sup>(1)</sup>	\$ 12,731	\$ 12,501	\$ 11,646	\$ 10,957
Total Interest Expense <sup>(1)</sup>	5,313	5,040	4,397	4,010
Net Interest Income	7,418	7,461	7,249	6,947
Provision for Loan Losses	—	56	870	1,453
Total Other Income	551	454	441	1,146
Total Other Expenses	4,453	4,497	4,443	4,094
Income before income tax expense	3,516	3,362	2,377	2,546
Income tax expense	817	706	411	535
Net Income	<u>\$ 2,699</u>	<u>\$ 2,656</u>	<u>\$ 1,966</u>	<u>\$ 2,011</u>

## Earnings Per Common Share:

Basic	\$ 0.35	\$ 0.35	\$ 0.26	\$ 0.27
Diluted	\$ 0.35	\$ 0.35	\$ 0.26	\$ 0.27

## Weighted Average Common Shares Outstanding

Basic	7,663,242	7,669,851	7,667,518	7,555,810
Diluted	7,663,593	7,670,106	7,667,518	7,555,969

<sup>(1)</sup> As restated amount includes additional \$45,000 for each Quarter of 2019.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2019			
	4 <sup>th</sup> . Quarter (As Restated)	3 <sup>rd</sup> . Quarter (As Restated)	2 <sup>nd</sup> . Quarter (As Restated)	1 <sup>st</sup> . Quarter (As Restated)
	<i>(In thousands, except share data)</i>			
Cash and due from depository institutions	\$ 1,400	\$ 1,535	\$ 1,370	\$ 1,377
Interest-bearing deposits in depository institutions	152,143	148,501	109,450	98,499
Investment securities, available for sale, at fair value	18,411	23,552	19,371	19,231
Investment securities held to maturity	22,485	23,323	26,789	29,323
Restricted stock, at cost	11,129	10,404	8,952	9,493
Loans receivable, net of allowance for loan losses <sup>(1)</sup>	1,011,989	1,014,259	1,001,414	928,939
OREO	5,796	5,796	5,796	5,796
Accrued interest receivable	4,253	4,237	4,344	3,724
Property and equipment, net	6,678	6,795	6,948	7,067
Deferred income taxes, net	2,840	3,542	3,434	3,367
Bank-owned life insurance	19,891	19,766	19,643	19,524
Other assets	12,482	8,468	7,029	6,452
Total assets	<u>\$ 1,269,497</u>	<u>\$ 1,270,178</u>	<u>\$ 1,214,540</u>	<u>\$ 1,132,792</u>
Deposits	\$ 953,811	\$ 957,199	\$ 942,374	\$ 843,200
FHLB advances	133,000	133,000	98,000	118,000
Secured borrowing <sup>(1)</sup>	4,275	4,300	4,300	4,300
Subordinated debt	24,619	24,579	24,540	24,500
Other liabilities	11,284	11,432	7,758	7,113
Shareholders' equity	142,508	139,668	137,568	135,679
Total liabilities and shareholders' equity	<u>\$ 1,269,497</u>	<u>\$ 1,270,178</u>	<u>\$ 1,214,540</u>	<u>\$ 1,132,792</u>

<sup>(1)</sup> As restated amount includes additional \$4,275,000 for the 4<sup>th</sup> Quarter and \$4,300,000 for the 3<sup>rd</sup> Quarter, the 2<sup>nd</sup> Quarter, and the 1<sup>st</sup> Quarter.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **Note 23 – Subsequent Event**

The Company started accepting and processing applications for loans under the PPP in early April 2020, when the program was officially launched by the SBA and Treasury Department under the CARES Act. As of September 30, 2020, the Company obtained approval from the SBA for 255 PPP loans totaling \$20.8 million for both existing and new customers, with an average loan size of approximately \$81,000. Recognizing the significance of operational risk that this portfolio poses, and the continued complexity and uncertainty surrounding evolving regulatory pronouncements regarding various aspects of the PPP, management reviewed several options for continued servicing of the PPP loan portfolio through forgiveness and beyond. After thoughtful consideration, management decided that it is in the best interests of both the Bank and our PPP borrowers that the loans be serviced by an organization that has the servicing infrastructure in place to support the significant volume and short timeframe involved in the complex and evolving PPP forgiveness process. In that regard, in mid December the Bank sold substantially all of its PPP loans to a seasoned and experienced non-bank lender and servicer of SBA loans. In connection with the sale, the Company recognized a \$202,000 gross gain on the sale of approximately \$19.7 million of PPP loans which was recorded as non-interest income.

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

None

**Item 9A. Controls and Procedures.**

**Restatement of Previously Issued Financial Statements**

As described in the “Explanatory Note” at the beginning of this Annual Report on Form 10-K, on January 20, 2021, the Audit Committee of the Company, after considering the recommendations of management, concluded that the Company’s audited annual consolidated financial statements and the unaudited interim consolidated financial statements for the Restated Periods contain balance sheet errors that require restatement of the Restated Periods relating to two commercial real estate loans totaling approximately \$4.2 million that should be treated as secured borrowings rather than sold loans as of the Restated Periods.

In addition, the Company’s earnings release, dated November 9, 2020, for the fourth fiscal quarter and fiscal year ended September 30, 2020 contains errors relating to the impairment of a single \$13.5 million commercial credit as collateral dependent. While the impairment is based on information that was received from the borrower in December 2020, the Company has determined that an adjustment to the allowance for loan losses is required as of September 30, 2020.

**Disclosure Controls and Procedures**

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of September 30, 2020. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, due to the identification of material weaknesses in our internal control over financial reporting, as further described below, our disclosure controls and procedures were not effective as of September 30, 2020.

**Management’s Annual Report on Internal Control over Financial Reporting**

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 Rules 13(a)-15(f). The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. An adequate system of internal control encompasses the processes and procedures that have been established by management to, among other things:

- Maintain records that accurately reflect the Company’s transactions;
- Prepare consolidated financial statements and footnote disclosures in accordance with U.S. GAAP that can be relied upon by external users; and
- Prevent and detect unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect of the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect and correct misstatements on a timely basis. Also, the application of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that compliance with the policies or procedures may deteriorate.

The Company’s management assessed the effectiveness of the Company’s internal control over financial reporting as of September 30, 2020. In making this assessment, the Company’s management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control-Integrated Framework (2013).

As of September 30, 2020, based on management’s assessment, the Company’s internal control over financial reporting was not effective due to the fact that there are material weaknesses. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected and corrected on a timely basis.

As of September 30, 2020, management identified a material weakness related to the ineffective design and operation of policies and procedures with respect to the Company's review of certain loan participation contracts, and changes to recourse provisions therein. More specifically; certain provisions drafted into the two loan participation agreements, including certain amendments and modifications, resulted in these loans being accounted for as secured borrowings. As a result of this control deficiency, the Company failed to detect and correct, on a timely basis, errors in its accounting for loan participation interests. This material weakness resulted in the restatement of the Company's annual and quarterly consolidated financial statements for the Restated Periods.

With respect to loan impairment, management also identified a material weakness related to the annual and quarterly financial reporting process associated with the assessment of certain information relating to COVID-19 modified loans necessary to adequately evaluate risk of impairment of such loans on a timely basis. As a result of this material weakness, for one COVID modified commercial real estate loan, there was a failure to properly consider loan credit quality information in a timely manner relating to the pandemic's impact on various factors affecting the fair value of the collateral, which ultimately caused the loan to become collateral dependent and impaired. This material weakness resulted in the issuance of a preliminary earnings press release with materially incorrect information.

The effectiveness of our internal control over financial reporting as of September 30, 2020, has been audited by Baker Tilly US, LLP, our independent registered public accounting firm as stated in their report which appears herein.

#### **Remediation Plan and Status**

In response to the identified material weaknesses, our management, with the oversight of the Audit Committee of our Board of Directors, has begun to dedicate significant resources, including additional employee training, toward efforts to improve our internal control over financial reporting. We implemented additional control procedures, including redesigning and enhancing control activities related to preparation and review of existing and new loan participation agreements, and any amendments thereto. In addition, we have developed enhanced financial reporting procedures for assessing the market value impact and other relevant and potentially material information with respect to credits affected by the COVID-19 pandemic.

We believe the measures described above will remediate these material weaknesses we have identified and strengthen our internal control over financial reporting. We are committed to continuing to improve our internal control processes and will continue to review, optimize and enhance our financial reporting controls and procedures, and we may take additional measures to address control deficiencies, or we may modify, or in appropriate circumstances not complete, certain of the remediation measures described above. These material weaknesses will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

#### **Changes in Internal Control Over Financial Reporting**

There were no changes in the Company's internal control over financial reporting identified in connection with management's evaluation that occurred during the three months ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **Item 9B. Other Information.**

None.

### PART III.

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

The following table presents information regarding the members of the Company’s Board.

Ages of the directors are reflected as of September 30, 2020.

<b><u>Name</u></b>	<b><u>Age</u></b>	<b><u>Position with Malvern Bancorp and Principal Occupation During the Past Five Years</u></b>	<b><u>Director Since</u></b>
Julia D. Corelli	60	Director. Mrs. Corelli is a partner at Troutman Pepper Hamilton Sanders LLP, a large U.S. law firm that resulted from the 2020 merger of Troutman Sanders, LLP and Pepper Hamilton LLP. Prior to the merger, Mrs. Corelli had been a partner at Pepper Hamilton for more than 25 years. Mrs. Corelli’s law practice focuses on counseling all kinds of investment vehicles on formation, regulation and operations, as well as business and transactions counseling to family offices and life science companies. Mrs. Corelli served for 12 years on Pepper Hamilton’s governing body, including as its Vice Chair from 2013 to 2017. She also served for 7 years as co-chair or chair of its Commercial Department. Mrs. Corelli has also served since 2014 on the Board of Directors of BioIncept, LLC., a privately held biotech company, and since 2016 on the Northeast Regional Board of Trustees of Boys & Girls Clubs of America.	2018
Norman Feinstein	73	Director. Mr. Feinstein is a Senior Managing and Board Member of Hampshire Stateside LLC, a private real estate company investing in institutional quality commercial real estate. Mr. Feinstein was formerly the Vice Chairman of The Hampshire Companies, a full-service, privately held, fully integrated real estate firm, with assets valued at over \$2.5 billion. Mr. Feinstein served as the Manager of The Hampshire Generational Fund and was a member of Hampshire’s Investment Committee. Prior to joining Hampshire in 1998, Mr. Feinstein was a practicing attorney for over 25 years, specializing in real estate law.	2016
Andrew Fish	37	Director. Mr. Fish is a director of The Real Estate Equity Company (“TREECO”) in Englewood, New Jersey, where he is responsible for leasing of the entire firm’s real estate portfolio, acquisitions and development projects. TREECO owns and manages over 1.5 million square feet of shopping centers. Prior to joining TREECO in 2009, Mr. Fish was the director of leasing for Vornado Realty Trust. Mr. Fish is also currently a director of American Spraytech in Branchburg, New Jersey. During his career, he has served on various boards including Union Center National Bank’s Advisory Board and the Board of the Englewood Chamber of Commerce.	2016
Howard Kent	73	Director and, since February 2016, Chairman of the Board of the Directors. Mr. Kent is a principal and co-founder of Real Estate Equities Group, LLC and its affiliated entities in Englewood, New Jersey. Mr. Kent served as director of ConnectOne Bancorp Inc., and ConnectOne Bank, from July 2014 to March 2015. Mr. Kent also served as chairman of the board of Union Center National Bank from 2013 to 2014 and as a director of Center Bancorp, Inc. from 2008 to 2014.	2015
Cynthia Felzer Leitzell	71	Director. Mrs. Leitzell is a partner and president of Leitzell & Economidis PC, a full-service firm of Certified Public Accountants located in Media, Pennsylvania. Mrs. Leitzell has served as chairman of the board of the Chester Water Authority since 2012. She also served two four-year elected terms as Delaware County controller.	2016
Stephen P. Scartozzi	68	Director. President of The Hardware Center, Inc. in Paoli, Pennsylvania, since 2008.	2010

<u>Name</u>	<u>Age</u>	<u>Position with Malvern Bancorp and Principal Occupation During the Past Five Years</u>	<u>Director Since</u>
Anthony C. Weagley	59	Director. Mr. Weagley has also served as Chief Executive Officer and President of Malvern Bancorp and Malvern Bank since September 2014. Mr. Weagley previously served as president and chief executive officer of Center Bancorp, Inc. and Union Center National Bank from 2007 to 2014.	2014
James Barrett	42	Director. Mr. Barrett is Managing Director of LBCW, LP and Acrewood Holdings LLC, investment firms headquartered in Bryn Mawr, Pennsylvania. He has been affiliated with these firms since 2010.	2019

#### **Executive Officers Who Are Not Also Directors**

Joseph D. Gangemi, age 40, has served as Executive Vice President of the Company and the Bank since December 18, 2019, and Chief Financial Officer and Secretary of the Company and the Bank since May 25, 2015. Prior to being promoted to Executive Vice President, Mr. Gangemi served as Senior Vice President since May 26, 2015. Mr. Gangemi previously served as Treasurer/Investment Officer of the Company and the Bank from September 30, 2014 to May 26, 2015. Prior thereto, Mr. Gangemi served as Senior Vice President, Corporate Secretary, Chief of Staff and head of Treasury at Union Center National Bank from 2004 to 2014.

William J. Boylan, age 56, has served as Executive Vice President and Chief Lending Officer of the Company and the Bank since April 5, 2017. He served as Senior Vice President and Chief Lending Officer of the Company and the Bank from April 25, 2016 to April 5, 2017. He also served as Senior Vice President and Chief Lending Officer of the Bank's New Jersey Division from August 19, 2015 to April 25, 2016. He previously served as Senior Vice President of Commercial Lending for ConnectOne Bank and its predecessor, Union Center National Bank, from 2008 to 2015.

William H. Woolworth III, age 54, has served as Executive Vice President of the Company and the Bank since December 18, 2019, and Chief Risk Officer of the Company and the Bank since August 13, 2015. Prior to being promoted to Executive Vice President, Mr. Woolworth served as Senior Vice President since August 13, 2015. Previously, Mr. Woolworth was Senior Vice President and Director of Enterprise Risk Management, Chief Auditor and Chief Compliance Officer for Customers Bank, located in Phoenixville and Wyomissing, Pennsylvania from March 2010 to July 2015. Additionally, he was the Chief Risk Officer at First National Bank of Chester County, located in West Chester, Pennsylvania from 2007 to 2010 and the Director of Internal Audit for the Brokerage firm of Ferris, Baker Watts, Inc., located in Baltimore, Maryland, from 2005 to 2007.

#### **Director Nominations**

Nominations for director of Malvern Bancorp are made by (i) a majority of the Board of Directors or (ii) any shareholder entitled to vote at an annual meeting of shareholders. The Board of Directors considers the recommendations of the Nominating and Corporate Governance Committee in selecting nominees for director. All of our directors participate in the consideration of director nominees and will consider candidates for director suggested by other directors, as well as our management and shareholders. A shareholder who desires to recommend a prospective nominee for director should notify our Secretary in writing with whatever supporting material the shareholder considers appropriate. Any shareholder wishing to make a nomination must follow our procedures for shareholder nominations, which are described under "Shareholder Proposals, Nominations and Communications with the Board of Directors" in our Proxy statement.

The charter of the Nominating and Corporate Governance Committee sets forth certain criteria the committee may consider when recommending individuals for nomination as a director, including: (a) ensuring that the Board of Directors, as a whole, is diverse and consists of individuals with various and relevant career experience, relevant technical skills, industry knowledge and experience, financial expertise (including expertise that could qualify a director as a "financial expert," as that term is defined by the rules of the SEC), local or community ties and (b) minimum individual qualifications, including strength of character, mature judgment, familiarity with our business and industry, independence of thought and an ability to work collegially. The committee also may consider the extent to which the candidate would fill a present need on the Board of Directors.

#### **Committees and Meetings of the Board of Directors**

During the fiscal year ended September 30, 2020, the Board of Directors of Malvern Bancorp met fifteen times.

No director of Malvern Bancorp attended fewer than 75% of the aggregate of the total number of Board of Director meetings held during the period for which he or she has been a director and the total number of meetings held by all committees of the Board of Directors on which he or she served during the periods that he or she served.

**Membership on Certain Board Committees.** The Board of Directors of Malvern Bancorp has established an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The membership of the committees set forth in the following paragraphs is as of the date of this Form 10-k.

**Audit Committee.** The Board of Directors has established an Audit Committee consisting of Mrs. Leitzell (Chair), Mr. Scartozzi and Mr. Barrett. The Audit Committee reviews with management and the independent registered public accounting firm the systems of internal control and the annual financial statements, including the Annual Report on Form 10-K, and monitors Malvern Bancorp's adherence in accounting and financial reporting to generally accepted accounting principles. The Board of Directors has evaluated the independence of each of the members of our Audit Committee and has affirmatively determined that (1) each of the members of our Audit Committee is an "independent director" under the Nasdaq listing standards, (2) each of the members satisfies the enhanced independence standards under applicable SEC rules for audit committee service, and (3) each of the members has the ability to read and understand fundamental financial statements. The Board of Directors has determined that Mrs. Leitzell meets the qualifications established for an audit committee financial expert under the rules and regulations of the SEC. The Audit Committee met five times in the fiscal year ended September 30, 2020. The Audit Committee charter as presently in effect is available on the Company's website at <http://ir.malvernbankcorp.com>.

**Compensation Committee.** It is the responsibility of the Compensation Committee to set the compensation of our Chief Executive Officer as well as our other executive officers. The Compensation Committee consists of Mr. Kent (Chair), Mr. Feinstein, Mrs. Corelli and Mrs. Leitzell. The Compensation Committee met four times in the fiscal year ended September 30, 2020. The Board of Directors has evaluated the independence of each of the members of the Compensation Committee and has affirmatively determined that each of the members of our

Compensation Committee meets the definition of an "independent director" under the Nasdaq listing standards. The Board of Directors has also determined that each of the members of the Compensation Committee qualifies as a "non-employee director" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and an "outside director" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The Compensation Committee charter as presently in effect is available on our website at <http://ir.malvernbankcorp.com>.

**Nominating and Corporate Governance Committee.** It is the responsibility of the Nominating and Corporate Governance Committee to, among other functions, recommend nominees for the consideration of the Board of Directors in selecting nominees for election at the annual meeting of shareholders. The Nominating and Corporate Governance Committee consists of Messrs. Barrett, Feinstein, Fish, Kent, Scartozzi, Mrs. Corelli and Mrs. Leitzell. The Nominating and Corporate Governance Committee met one time in the fiscal year ended September 30, 2020. The Board of Directors has evaluated the independence of each of the members of the Nominating and Corporate Governance Committee and has affirmatively determined that each of the members of our Nominating and Corporate Governance Committee meets the definition of an "independent director" under the Nasdaq listing standards. The Nominating and Corporate Governance Committee charter as presently in effect is available on our website at <http://ir.malvernbankcorp.com>.

### **Board Leadership Structure and the Board's Role in Risk Oversight**

Anthony C. Weagley serves as our President and Chief Executive Officer and Howard Kent serves as Chairman of the Board of Directors. The Board of Directors has determined that separation of the offices of Chairman of the Board and President and Chief Executive Officer enhances Board of Directors independence and oversight. Further, the separation of the Chairman of the Board of Directors permits the President and Chief Executive Officer to better focus on his responsibilities of managing the daily operations of Malvern Bancorp, enhancing shareholder value and expanding and strengthening our franchise, while allowing the Chairman to lead the Board of Directors in its fundamental role of providing independent oversight and advice to management. Mr. Kent is an "independent director" under the Nasdaq listing standards.

Risk is inherent with every business, particularly financial institutions. We face a number of risks, including credit risk, interest rate risk, liquidity risk, operational risk, strategic risk and reputational risk. Management is responsible for the day-to-day management of the risks Malvern Bancorp encounters, while the Board of Directors, as a whole

and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the Board of Directors has the responsibility to ensure that the risk management processes designed and implemented by management are adequate and functioning as designed. The Board of Directors receives reports on this topic from executive management, other officers of the Bank and the Chairpersons of the Company/Bank's Audit, ERM/ALCO and Compliance Committees. The Chairman of the Board of Directors and independent directors work together to provide strong, independent oversight of Malvern Bancorp's management and affairs through its committees and meetings of independent directors. The Company believes that its Board of Directors leadership structure supports this approach to risk management.

### Directors' Attendance at Annual Meetings

Directors are expected to attend every annual meeting of shareholders absent a valid reason for not doing so. All of our directors, with the exception of Director Fish, attended our 2020 Annual Meeting of Shareholders.

### Delinquent Section 16(a) Reports

Section 16(a) of the Exchange Act requires the officers and directors, and persons who own more than 10% of Malvern Bancorp's common stock to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than 10% shareholders are required by regulation to furnish Malvern Bancorp with copies of all Section 16(a) forms they file. We know of no person who owns 10% or more of our common stock.

Based solely on our review of the copies of such forms furnished to us, or written representations from our officers and directors, we believe that all such Section 16(a) reports were timely filed with respect to the fiscal year ended September 30, 2020, except that Director Leitzell inadvertently reported one stock purchase one day late.

## Item 11. Executive Compensation.

### Directors' Compensation

We do not pay separate compensation to directors for their service on the Board of Directors of Malvern Bancorp. Fees are paid to directors by the Bank only, and all of our directors serve on both the Boards of Directors of the Company and the Bank. Each of our directors, other than Mr. Weagley, receives an annual retainer of \$26,500. The Bank's Chairman of the Board of Directors currently receives an additional annual retainer of \$10,600. Each of our directors, other than Mr. Weagley, currently receives a fee of \$1,018 for attending regularly scheduled monthly Board of Directors meetings of the Bank and for special meetings of the Board beginning with the fourth special Board of Directors meeting. The Chairs of the Audit Committee and Loan Committee receives an additional retainer of \$7,950 per year. Board members receive a fee of \$318 for attending committee meetings on which they serve, except for members of the Nominating and Corporate Governance Committee who do not receive any such fee. At least seventy-five percent (75%) of the fees payable to each director of the Company and the Bank are paid in the form of fully vested, unrestricted shares of common stock of the Company.

The table below summarizes the total compensation paid by the Bank to those persons who served as our non-employee directors for the fiscal year ended September 30, 2020.

Name	Fees Earned or Paid in Cash	Stock Awards	Stock Option Awards	All Other Compensation	Total
James Barrett	\$ 38,202	\$ 14,196	\$ 4,720	\$ —	\$ 57,118
Julia Corelli	39,792	14,196	4,720	—	58,708
Norman Feinstein	41,064	14,196	4,720	—	59,980
Andrew Fish	40,365	14,196	4,720	—	59,281
Howard Kent	58,342	14,196	4,720	—	77,258
Cynthia Felzer Leitzell	46,152	14,196	4,720	—	65,068
Stephen Scartozzi	41,382	14,196	4,720	—	60,298

In the table above,

- when we refer to "Fees Earned or Paid in Cash", we are referring to all cash fees that we paid or were accrued in the fiscal year ended September 30, 2020, including annual retainer fees, committee and/or chairmanship fees and meeting fees; and

- when we refer to “stock awards” or “stock options”, we are referring to the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. On February 26, 2020, each of Messrs. Feinstein, Fish, Kent, Barrett and Scartozzi and Mrs. Leitzell and Mrs. Corelli was granted 700 shares of restricted stock and stock options to purchase 1,000 shares of common stock at an exercise price of \$20.28 per share. The 700 shares of restricted stock vest in five 20% increments, beginning on the one year anniversary of the grant date and vesting 20% on each of the four anniversaries of the grant date thereafter. The stock options become exercisable in five 20% increments, beginning on the one year anniversary of the grant date and vesting 20% on each of the four anniversaries of the grant date thereafter, and expire on February 26, 2030.

None of the directors received any nonqualified deferred compensation earnings during the fiscal year ended September 30, 2020.

### Executive Summary Compensation Table

The following table sets forth a summary of certain information concerning the compensation paid by the Bank for services rendered in all capacities during the fiscal years ended September 30, 2020 and 2019 to our principal executive officer and our two other most highly compensated executive officers who were serving as executive officers as of September 30, 2020. Malvern Bancorp, the holding company of the Bank, has not paid separate cash compensation to our executive officers. We refer to these three executives as our Named Executive Officers.

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$)	Total (\$)
Anthony C. Weagley <i>Chief Executive Officer and President of Malvern Bancorp and the Bank</i>	2020	526,703	108,650	295,623	—	65,417	996,393
	2019	512,142	106,000	68,905	—	50,608	737,655
Joseph D. Gangemi <i>Executive Vice President, Chief Financial Officer and Secretary of Malvern Bancorp and the Bank</i>	2020	250,466	—	12,112	24,994	30,843	318,415
	2019	225,216	—	18,041	22,527	29,683	295,466
William J. Boylan <i>Executive Vice President and Chief Lending Officer of Malvern Bancorp and the Bank</i>	2020	240,875	—	—	60,750	48,043	349,669
	2019	239,293	—	23,896	143,797	45,822	452,807

The amounts shown in the “Bonus” column for Mr. Weagley for the fiscal years ended September 30, 2020 and 2019 were paid to him as a result of the achievement of specific performance goals under a performance bonus plan outlined in his December 11, 2018 Employment Agreement. See below for a description of such Employment Agreement.

The Compensation Committee reviewed Mr. Weagley’s equity compensation in connection with the Company’s performance goals for the fiscal year ended September 30, 2019, and the level of equity compensation granted to executive officers of peer institutions. In light of this analysis, the Compensation Committee approved granting Mr. Weagley restricted stock in the amount of \$225,004, based on the five day trading average for the previous five trading days prior to the date of grant. Although the grant of restricted stock was determined based on an analysis from the fiscal year ended September 30, 2019, such grant was made in the fiscal year ended September 30, 2020 and is included under the “Stock Awards” column above.

In connection with the Company’s performance for the fiscal year ended September 30, 2020, Mr. Boylan is entitled to receive under the Bank’s Executive Achievement Incentive Compensation Plan (“EAICP”) \$12,646 worth of restricted stock at the five day average for the previous five trading days prior to the date of grant. Such grant of restricted stock will be made in the fiscal year ending September 30, 2021.



The amounts shown in the “Non-Equity Incentive Plan Compensation” column for Mr. Boylan represent amounts paid to him under the Bank’s Loan Incentive Plan (the “Lender Plan”). The Lender Plan provides a semi-annual incentive payout based on quarterly loan originations that meet certain underwriting standards. Quarterly originations must meet a hurdle of \$2.0 million for a payout to occur. Incentive amounts are based on the achievement of individual goals (weighted at 30%) and Bank-wide goals (weighted at 70%). The Compensation Committee can make discretionary adjustments to the quarterly incentive payout amounts.

The amounts shown in the “Non-Equity Incentive Plan Compensation” column for Mr. Gangemi represent amounts paid under the EAICP. The EAICP is a performance-based incentive program designed to reward key executives and reinforce the goals of the Bank for profitable growth and achievement of Company financial objectives. The EAICP provides the executive with the opportunity to earn both equity and non-equity (cash) awards, expressed as a percentage of salary. Individuals are assigned specific objectives throughout the year, which comprise each individual’s “personal” goals. These personal goals typically represent 50% of the total available payout and can range up to 100% of the total available payout under the EAICP. The other component may be a “Bank” goal, which accounts for up to 50% of the total payout, but is usually no more than 25% of the total available payout. Performance metrics include a number of key performance factors, including profitability, growth, and financial operating condition. The last fiscal year’s performance metrics included return on assets, return on equity, net income before tax, loan growth, non-performing assets and a composite score for achievement of other annual objectives.

In connection with the last fiscal year’s performance, under the EAICP, Mr. Gangemi is also entitled to \$13,454 worth of restricted stock at the five day average for the previous five trading days prior to the date of grant. Such grant of restricted stock will be made in the fiscal year ending September 30, 2021. In connection with the fiscal year ended September 30, 2019 performance, under the EAICP, Mr. Gangemi was also entitled to \$12,112 worth of restricted stock at the market price on the date of grant. Such grant of restricted stock was made to him in the fiscal year ended September 30, 2020 and is shown under the “Stock Awards” column.

In the table above, when we refer to amounts under “Stock Awards”, we are referring to the aggregate grant date fair value in accordance with FASB ASC Topic 718. The shares were granted under the Company’s 2014 Long-Term Incentive Compensation Plan. These shares granted to Messrs. Gangemi and Boylan are restricted shares that vest in 20% increments, beginning on the one year anniversary of the grant date and vesting 20% on each of the four anniversaries of the grant date thereafter. These shares granted to Mr. Weagley are non-restricted shares that were granted to him in accordance with his Employment Agreement.

“All Other Compensation” for the fiscal year ended September 30, 2020 consists of the following:

For Mr. Weagley, \$4,575 for premiums for insurance for Mr. Weagley’s benefit, \$37,642 for the use of an automobile and cell phone, a contribution of \$6,509 to the Company’s 401(k) plan on Mr. Weagley’s behalf to match a pre-tax deferral contribution (included under “Salary”) made by Mr. Weagley to that plan and \$16,692, representing the fair market value, on December 31, 2019, of 723 shares allocated to Mr. Weagley’s ESOP account on such date;

For Mr. Gangemi, \$3,160 for premiums for insurance for Mr. Gangemi’s benefit, \$7,600 for the use of an automobile and cell phone, a contribution of \$4,095 to the Company’s 401(k) plan on Mr. Gangemi’s behalf to match a pre-tax deferral contribution (included under “Salary”) made by Mr. Gangemi to that plan and \$15,988, representing the fair market value, on December 31, 2019, of 692 shares allocated to Mr. Gangemi’s ESOP account on such date; and

For Mr. Boylan, \$1,890 for premiums for insurance for Mr. Boylan’s benefit, \$22,235.94 for the use of an automobile and cell phone and a contribution of \$7,226 to the Company’s 401(k) plan on Mr. Boylan’s behalf to match a pre-tax deferral contribution (included under “Salary”) made by Mr. Boylan to that plan; and \$16,692, representing the fair market value, on December 31, 2019, of 723 shares allocated to Mr. Boylan’s ESOP account on such date.

## **Agreements with Named Executive Officers**

### **Mr. Weagley**

On June 23, 2016, Malvern Bancorp and the Bank entered into an employment agreement with Anthony C. Weagley, Chief Executive Officer and President of the Company and the Bank, which was amended and restated on May 25, 2017, and further amended on December 11, 2018 (as amended, the “Employment Agreement”).

The Employment Agreement provides that Mr. Weagley will continue to serve as President and Chief Executive

Officer of the Company and the Bank for successive one year periods, unless either party has provided written notice at least 60 days prior to the end of the then current annual period that such party does not agree to renew the Employment Agreement. The Employment Agreement also provides that Mr. Weagley will serve as a director of the Company and the Bank.

Pursuant to the Employment Agreement, Mr. Weagley will receive an annual base salary at the rate of \$492,836.50 per year, plus an additional annual base compensation of \$108,650, of which 35% shall be paid during the year in accordance with the Bank's regular payroll processes and the remaining 65% shall be paid in shares of the Company's common stock. Such amounts, which are collectively referred to as "Annual Base Salary" in the Employment Agreement, may be reviewed and increased by the Boards of Directors of the Company and the Bank.

The stock component is paid on April 1 of each year, or the next business day thereafter, and the number of shares will equal the quotient determined by dividing the stock component amount by the average of the daily closing sales prices of the Company's common stock for the five consecutive trading days immediately preceding the stock payment date.

Mr. Weagley will also be entitled to participate in a performance bonus plan, with a target bonus of \$108,650, upon the achievement of specified performance goals approved by the Compensation Committee and the Company's Board of Directors. He is also entitled to participate in other employee benefit plans maintained for executive officers of the Bank.

If Mr. Weagley's employment is terminated by the Company or the Bank without "Cause" (as defined in the Employment Agreement) (other than for death or disability) or if the Company or the Bank terminate the Employment Agreement by delivering a non-renewal notice, in either case occurring after a "Change in Control" (as defined in the Employment Agreement), or if Mr. Weagley terminates his employment for "Good Reason" (as defined in the Employment Agreement) after a Change in Control, he will be entitled to receive, after signing a release, a lump sum cash payment equal to three (3) years of his Annual Base Salary, in addition to any amounts he has already earned as of the date of termination, and any vesting restrictions on any grants of equity that have been made to him will be waived.

Upon termination by the Company or the Bank without Cause (other than for death or disability) or if the Company or the Bank terminate the Employment Agreement by delivering a non-renewal notice, in either case occurring absent a Change in Control, or if Mr. Weagley terminates his employment for Good Reason absent a Change in Control, he will be entitled to receive, after signing a release, a lump sum cash payment equal to two (2) years of his Annual Base Salary, in addition to any amounts he has already earned as of the date of termination.

In the event that Mr. Weagley is terminated for Cause, his rights under the Employment Agreement shall cease as of the effective date of the termination. The Bank shall pay the unpaid portion of Mr. Weagley's Annual Base Salary through the date of termination, any expense reimbursement due to him on or prior to the date of termination, and any post-employment benefits as may be available to him under the terms of the employee benefit plans.

Mr. Weagley's Employment Agreement also provides that he will be entitled to reimbursement of the premium otherwise payable for COBRA continuation coverage for the 18 months immediately following the date of termination of employment.

The Employment Agreement shall terminate automatically upon Mr. Weagley's death and his rights under the Employment Agreement shall cease as of the date of such termination, except that (i) the Bank shall pay to his spouse, personal representative, or estate the unpaid portion, if any, of his accrued unpaid Annual Base Salary as of the date of death and any expense reimbursement due to him as of his date of death, and (ii) the Bank shall provide to his dependents any benefits due under the Bank's employee benefit plans. If Mr. Weagley becomes Disabled (within the meaning of Section 409A of the Code), and becomes eligible for employer-provided short-term and/or long-term disability benefits, or worker's compensation benefits, then the Bank's obligation to pay him his Annual Base Salary shall be reduced by the amount of the disability or worker's compensation benefits received by him. If, in the judgment of the Board of Directors, he is unable, as a result of illness or injury, to perform the essential functions of his position on a full-time basis with or without a reasonable accommodation and without posing a direct threat to himself or others for a period of six months, his employment hereunder shall terminate at the end of the six-month period, and all of his rights under the Employment Agreement shall cease, with the exception of the Accrued Obligations (as defined in the Employment Agreement).

In addition, the Employment Agreement provides that the amounts and benefits payable to Mr. Weagley in the

circumstances described above will be reduced to the extent necessary to avoid causing any of the payments or benefits to be nondeductible under Section 280G of the Code, or subject to an excise tax under Section 4999 of the Code, unless his after-tax amounts and benefits would be greater without such a reduction.

The Employment Agreement contains 12 month post-termination non-compete, non-solicitation of customers and non-solicitation of employees provisions.

#### **Mr. Gangemi**

On May 23, 2016, the Bank entered into a Change of Control Agreement with Joseph Gangemi, Executive Vice President and Chief Financial Officer of the Company and the Bank, which was amended on May 25, 2017 (as amended, the “Change of Control Agreement”).

The Change of Control Agreement provides that if Mr. Gangemi’s employment with the Bank ceases within 12 months following the date of a Change of Control (as defined in the Change of Control Agreement), or during the 90 days immediately preceding a Change of Control, as a result of termination by the Bank without Cause (as defined in the Change of Control Agreement) or for Good Reason (as defined in the Change of Control Agreement), then Mr. Gangemi will be entitled to receive any base salary that remains unpaid through the date of termination, any bonus that remains unpaid and which is payable with respect to a fiscal year which ended prior to the effective date of termination, and any expense reimbursement which is due and remains unpaid, plus a lump sum cash payment equal to 150% of his base salary as in effect on the date of termination.

In addition, if Mr. Gangemi elects to receive continuation coverage under the Bank’s group health plan under COBRA, the Change of Control Agreement provides that he will be entitled to reimbursement of the premium otherwise payable for COBRA continuation coverage for the 12 months immediately following the date of termination of employment, to the extent such premium exceeds the monthly amount charged to active similarly-situated employees of the Bank for the same coverage.

The Change of Control Agreement provides that it is in lieu of, and not in addition to, any other severance plan, fund, agreement or other arrangement maintained by the Bank. Payment of the lump sum cash amounts and reimbursement for COBRA premiums described above are conditioned on Mr. Gangemi’s execution and delivery of a release.

If Mr. Gangemi’s employment with the Company ceases for any reason other than as described above (including but not limited to (a) termination by the Company for Cause, (b) resignation by him without Good Reason, (c) termination as a result of the his Disability (as defined in the Change of Control Agreement), or (d) his death), then the Company’s obligation to him will be limited solely to the payment of accrued and unpaid base salary through the date of such cessation of employment. All compensation and benefits will cease at the time of such cessation of employment and, except as otherwise provided by COBRA, the Company will have no further liability or obligation by reason of such termination.

In addition, the Change of Control Agreement provides that the amounts and benefits payable to Mr. Gangemi in the circumstances described above will be reduced to the extent necessary to avoid causing any of the payments or benefits to be nondeductible under Section 280G of the Code, or subject to an excise tax under Section 4999 of the Code, unless his after-tax amounts and benefits would be greater without such a reduction.

In exchange for an increase in the severance amount, Mr. Gangemi entered into a Non-Competition, Non-Solicitation, Confidentiality and Cooperation Agreement (the “Restrictive Covenants Agreement”) with the Bank, also dated May 25, 2017. Mr. Gangemi’s Restrictive Covenants Agreement provides that during the course of his employment with the Bank and for a period of 12 months after his termination of employment with the Bank for any reason (the “Restricted Period”), Mr. Gangemi will not, directly or indirectly, engage, participate or invest in any Competing Business (as defined in the Amendment) in the Competitive Territory (as defined in the Amendment). The Restrictive Covenants Agreement also contains provisions prohibiting the solicitation of employees and customers of the Company or the Bank or any of their respective affiliates.

#### **Mr. Boylan**

On May 25, 2017, the Company, the Bank and William J. Boylan entered into an employment agreement (the “Boylan Employment Agreement”), which provides that Mr. Boylan will serve as Executive Vice President and Chief Lending Officer of the Company and the Bank. The initial term of the Boylan Employment Agreement expired on April 2, 2019, and the employment period is deemed to be automatically extended for successive one year periods,

unless at least 60 calendar days prior to the expiration of any extended term, the Company or the Bank shall give written notice to Mr. Boylan, or Mr. Boylan shall give written notice to the Company or the Bank, of its or his intention not to renew the employment period.

The Boylan Employment Agreement provides that Mr. Boylan's compensation will include a base salary of \$235,000 per year, subject to review and increase by the Boards of Directors of the Company or the Bank. Mr. Boylan will also be eligible for such annual bonus as the Boards of Directors of the Company or the Bank, or an applicable committee thereof, determines in its sole discretion to be appropriate based upon achievement of such performance goals or other factors as such Board of Directors or committee deems appropriate.

If Mr. Boylan's employment is terminated by the Company or the Bank without Cause (as defined in the Boylan Employment Agreement) (other than due to death or disability) or if the Company or the Bank terminate the Boylan

Employment Agreement pursuant to a non-renewal notice, in each case on or after a Change in Control (as defined in the Boylan Employment Agreement), or if Mr. Boylan's employment is terminated by him for Good Reason (as defined in the Boylan Employment Agreement) on or after a Change in Control, Mr. Boylan will be entitled to receive all unpaid salary and accrued benefits to the termination date, plus, subject to his execution of a mutually satisfactory release, a lump sum cash payment equal to any unpaid annual bonus earned and owed to him for a previous calendar year and any amounts earned by him but unpaid under the Bank's Lender Incentive Plan, plus 24 months' of his base salary. In addition, Mr. Boylan would become fully vested in all equity-based options and other equity awards, and he would be entitled to reimbursement for COBRA premiums paid by him for up to 18 months immediately following termination.

If Mr. Boylan's employment is terminated by the Company or the Bank without Cause (other than due to death or disability) or if the Company or the Bank terminate the Boylan Employment Agreement pursuant to a non-renewal notice, in each case before a Change in Control, or if Mr. Boylan's employment is terminated by him for Good Reason before a Change in Control, he will be entitled to receive all unpaid salary and accrued benefits to the termination date, plus, subject to his execution of a mutually satisfactory release, his then annual rate of base salary for twelve months, as severance. He would also be entitled to reimbursement for COBRA premiums for up to six months.

If Mr. Boylan's employment is terminated at any time for Cause or if he resigns without Good Reason, he will be entitled to receive only unpaid salary and accrued benefits up to the termination date.

The Boylan Employment Agreement shall terminate automatically upon Mr. Boylan's death and his rights thereunder shall cease as of the date of such termination, except that (i) the Bank shall pay to his spouse, personal representative, or estate the unpaid portion, if any, of his accrued unpaid base salary as of the date of death and any expense reimbursement due to him as of his date of death, and (ii) the Bank shall provide to his dependents any benefits due under the Bank's employee benefit plans. The Boylan Employment Agreement and Mr. Boylan's employment thereunder may also be terminated by the Company or the Bank at any time if he is unable, as a result of Disability (as defined in the Boylan Employment Agreement), to perform the essential functions of his position on a full-time basis. In such event, all of his rights under the Boylan Employment Agreement shall cease, except that the Bank shall pay or provide to him the Accrued Obligations (as defined in the Boylan Employment Agreement).

In addition, the Boylan Employment Agreement provides that the amounts and benefits payable to Mr. Boylan in the circumstances described above will be reduced to the extent necessary to avoid causing any of the payments or benefits to be nondeductible under Section 280G of the Code, or subject to an excise tax under Section 4999 of the Code, unless his after-tax amounts and benefits would be greater without such a reduction.

In connection with executing the Boylan Employment Agreement, Mr. Boylan executed a Non-Competition, Non-Solicitation, Confidentiality and Cooperation Agreement, which is comparable to Mr. Gangemi's Restrictive Covenants Agreement.

## Outstanding Equity Awards at Fiscal Year End

The following table sets forth, for each of the Named Executive Officers, information regarding restricted stock awards outstanding at September 30, 2020. As of September 30, 2020, no Named Executive Officer held any stock options.

Named Executive Officer (a)	Stock Awards	
	Number of Shares or Units of Stock That Have Not Vested (#) (b)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (c)
Anthony C. Weagley	9,847	\$ 116,195
Joseph D. Gangemi	1,998	\$ 23,576
William Boylan	1,415	\$ 16,697

In the table above, we are disclosing:

- in column (b), the number of shares of our common stock covered by restricted stock awards that were not vested as of September 30, 2020; and
- in column (c), the aggregate market value as of September 30, 2020 of the stock awards referenced in column (b).

In calculating the market values of restricted stock in the table above, we have multiplied the closing market price of a share of our common stock on September 30, 2020, the last trading day in the fiscal year ended September 30, 2020, which was \$11.80, by the applicable number of shares of our common stock underlying each Named Executive Officer's restricted stock awards.

At September 30, 2020:

- Mr. Weagley held a total of 9,847 shares of restricted stock, which vest as follows: 1,969 shares vest on each of January 9, 2021, 2022, 2023, 2024 and 1,971 on January 9, 2025.
- Mr. Gangemi held a total of 1,998 shares of restricted stock, which vest as follows: 143 shares vest on December 30, 2020, 185 shares vest on January 31, 2021, and 183 shares vest on January 31, 2022, 75 shares vest on each of December 29, 2020, 2021 and 2022, and 184 shares vest on each of December 6, 2020, 2021, 2022 and 185 shares vest on December 6, 2023; 105 shares vest on each of December 20, 2020, 2021, 2022, 2023 and 2024.
- Mr. Boylan held a total of 1,415 shares of restricted stock, which vest as follows: 62 shares vest on each of December 30, 2020, 219 shares vest on each of January 31, 2021 and 218 shares vest on January 31, 2022, 229 shares vest on each February 26, 2021, 2022, 2023 and 2024.

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

Information relating to securities authorized for issuance under the Company's equity compensation plans is included in Part II of this Annual Report on Form 10-K under "Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities."

The following table sets forth as of January 14, 2021, which is the record date for the 2021 annual meeting of shareholders, certain information as to the common stock beneficially owned by (i) each person or entity, including any "group" as that term is used in Section 13(d)(3) of the Exchange Act, who or which was known to us to be the beneficial owner of more than 5% of the issued and outstanding common stock, (ii) the directors and director nominees of Malvern Bancorp, (iii) the Named Executive Officers of Malvern Bancorp, and (iv) all current directors, director

nominees and executive officers of Malvern Bancorp as a group.

Name of Beneficial Owner or Number of Persons in Group	Amount and Nature of Beneficial Ownership as of January 14, 2021 <sup>(1)</sup>	Percent of Common Stock
PL Capital Advisors, LLC. 750 Eleventh Street South Suite 202 Naples, FL 34102	746,461 <sup>(2)</sup>	9.8%
Seidman & Associates, LLC 100 Misty Lane, 1 <sup>st</sup> Floor. Parsippany, NJ 07054	705,782 <sup>(3)</sup>	9.1%
FJ Capital Management LLC 1313 Dolley Madison Blvd Suite 306 McLean, VA 22101	684,000 <sup>(4)</sup>	9.0%
EJF Capital LLC 2107 Wilson Blvd., Suite 410 Arlington, VA 22201	640,587 <sup>(5)</sup>	8.4%
The Banc Funds Company, LLC 20 North Wacker, Suite 3300 Chicago, IL 60606	516,142 <sup>(6)</sup>	6.6%
<i>Directors and Nominees:</i>		
Norman Feinstein	17,374 <sup>(7)</sup>	*
Andrew Fish	11,771 <sup>(8)</sup>	*
Cynthia Felzer Leitzell	18,328 <sup>(9)</sup>	*
Stephen P. Scartozzi	18,462 <sup>(10)</sup>	*
Anthony C. Weagley	75,683 <sup>(11)</sup>	*
Howard Kent	197,280 <sup>(12)</sup>	2.6%
Julia Corelli	14,404 <sup>(13)</sup>	*
James Barrett	17,157 <sup>(14)</sup>	*
<i>Other Named Executive Officers:</i>		
	*	
Joseph Gangemi	13,056 <sup>(15)</sup>	*
William Boylan	6,643 <sup>(16)</sup>	*
All Current Directors, Director Nominees and Executive Officers as a Group (10 persons)	390,156 <sup>(17)</sup>	5.1%

\* Represents less than 1.0% of our outstanding common stock.

- (1) Based upon filings made with the SEC pursuant to the Exchange Act and information furnished by the respective individuals. Under regulations promulgated pursuant to the Exchange Act, shares of common stock are deemed to be beneficially owned by a person if he, she or it directly or indirectly has or shares (i) voting power, which includes the power to vote or to direct the voting of the shares, or (ii) investment power, which includes the power to dispose or to direct the disposition of the shares. Unless otherwise indicated, the named beneficial owner has sole voting and dispositive power with respect to the shares.
- (2) According to a filing under the Exchange Act made on August 7, 2020 by PL Capital Advisors, LLC and certain affiliates, PL Capital Advisors as of such filing has shared voting and dispositive power over 746,461 shares of common stock.

- (3) According to a filing under the Exchange Act made on April 1, 2019 by Lawrence B. Seidman and certain affiliated entities, Mr. Seidman as of such filing has sole voting and dispositive power over 705,782 shares of common stock. Mr. Seidman, (i) as the manager of Seidman and Associates, L.L.C. (“SAL”), may be deemed the beneficial owner of the 144,699 shares owned by SAL, (ii) as the sole officer of Veteri Place Corporation (“Veteri”), the general partner of each of Seidman Investment Partnership, L.P. (“SIP”) and Seidman Investment Partnership II, L.P. (“SIP II”), may be deemed the beneficial owner of the 104,034 shares owned by SIP and the 136,047 shares owned by SIP II, (iii) as the managing member of JBRC I, LLC, a co-general partner of Seidman Investment Partnership III, L.P. (“SIP III”), may be deemed the beneficial owner of the 33,473 shares owned by SIP III, (iv) as the sole officer of Veteri, the trading advisor of LSBK06-08, L.L.C. (“LSBK”) and CBPS, LLC (“CBPS”), may be deemed the beneficial owner of the 81,025 shares owned by LSBK and the 90,572 shares owned by CBPS, and (v) as the investment manager for each of Broad Park Investors, L.L.C. (“Broad Park”) and Chewy Goody Cookies, L.P. (“Chewy”), may be deemed the beneficial owner of the 92,292 shares owned by Broad Park and the 23,640 shares owned by Chewy. Accordingly, Mr. Seidman may be deemed the beneficial owner of an aggregate of 705,782 shares. In the foregoing capacities, Mr. Seidman has sole and exclusive investment discretion and voting authority with respect to all such shares.
- (4) According to a filing under the Exchange Act made on February 13, 2020 by Financial Opportunity Fund LLC, FJ Capital Management, LLC, Martin S. Friedman and other entities, FJ Capital Management LLC as of such filing has shared voting and dispositive power over 698,522 shares of common stock. Mr. Friedman is the managing member of FJ Capital Management LLC.
- (5) According to a filing under the Exchange Act made on February 14, 2018 by EJF Capital LLC, Emanuel J. Friedman and EJF Sidecar Fund, Series LLC—Series E, the reporting persons as of such filing have shared voting and dispositive power over 640,587 shares of common stock.
- (6) According to a filing under the Exchange Act made on February 13, 2020 by The Banc Funds Company, L.L.C., Banc Fund X L.P., Banc Fund VIII L.P. and Banc Fund IX L.P., the reporting persons as of such filing have voting and dispositive power over an aggregate of 516,142 shares of common stock (with Banc Fund X L.P. having sole voting and dispositive power over 42,133 of such shares, Banc Fund VIII L.P. having sole voting and dispositive power over 242,904 of such shares, and Banc Fund IX L.P. having sole voting and dispositive power over 242,004 of such shares).
- (7) Includes 2,028 shares subject to restricted stock awards which have not yet vested as of February 1, 2021 and 1,268 shares subject to options which are exercisable as of February 1, 2021, for Mr. Feinstein.
- (8) Includes 2,028 shares subject to restricted stock awards which have not yet vested as of February 1, 2021 and 1,268 shares subject to options which are exercisable as of February 1, 2021, for Mr. Fish.
- (9) Includes 2,028 shares subject to restricted stock awards which have not yet vested as of February 1, 2021 and 1,268 shares subject to options which are exercisable as of February 1, 2021, for Mrs. Leitzell.
- (10) Includes 2,028 shares subject to restricted stock awards which have not yet vested as of February 1, 2021 and 2,068 shares subject to options which were exercisable as of February 1, 2021, for Mr. Scartozzi.
- (11) Includes 9,847 shares subject to a restricted stock award which has not yet vested as of February 1, 2021, 1,731 shares held in the 401(k) Plan and 4,985 shares allocated to Mr. Weagley in the ESOP.
- (12) Includes 2,028 shares subject to restricted stock awards which have not yet vested as of February 1, 2021 and 2,068 shares subject to options which were exercisable as of February 1, 2021 for Mr. Kent.
- (13) Includes 1,260 shares subject to restricted stock awards which have not yet vested as of February 1, 2021 and 200 shares subject to options which were exercisable as of February 1, 2021 for Mrs. Corelli.
- (14) Includes 700 shares subject to a restricted stock award which has not yet vested as of February 1, 2021 for Mr. Barrett.
- (15) Includes 360 shares held in the 401(k) Plan, 900 shares held in trust for Mr. Gangemi’s children, 1,306 shares subject to a restricted stock award which have not yet vested as of February 1, 2021 and 3,869 shares allocated to Mr. Gangemi in the ESOP.
- (16) Includes 13 shares held in the 401(k) Plan; 3,406 shares allocated to Mr. Boylan in the ESOP and 1,134 shares subject to a restricted stock award which have not yet vested as of February 1, 2021.
- (17) Includes an aggregate of 2,103 shares allocated to the 401(k) Plan accounts of executive officers.

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

#### **Director Independence**

No director or nominee for director is related to any other director or executive officer of the Company by blood, marriage or adoption. Shareholders are not permitted to use cumulative voting for the election of directors. Our Board of Directors has determined each of Messrs. Barrett, Feinstein, Fish, Kent, Scartozzi, Mrs. Corelli and Mrs. Leitzell is an “independent director,” as defined in the Nasdaq listing standards. In determining the independence of the directors, the Board of Directors considered certain amounts paid for property and legal services provided by certain directors or entities in which they have interests. This includes the following relationship that Mrs. Corelli has with the Company outside of her director position: Troutman Pepper Hamilton Sanders LLP, a law firm of which Mrs. Corelli is a partner, has been engaged by the Bank for legal services. During the fiscal year ended September 30, 2020, the law firm was paid approximately \$119,000 for its services. This also includes the following relationship that

Mr. Scartozzi has with the Company outside of his director position: The Hardware Store, a company of which Mr. Scartozzi is president, sells consumer goods to the Bank. During the fiscal year ended September 30, 2020, The Hardware Store was paid approximately \$2,250 for consumer goods. After considering these relationships, the Board of Directors determined that such transactions and relationships would not interfere with the directors' exercise of independent judgment in carrying out the responsibilities of a director.

### **Related Party Transactions**

Malvern Bank has made, and expects to make in the future, in the ordinary course of business, loans to directors, officers, principal shareholders and their associates. All loans to such persons were made, and will be 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 the Company or the Bank.

### **Item 14. Principal Accounting Fees and Services.**

#### **Audit Fees**

The following table sets forth the aggregate fees paid by us to Baker Tilly for professional services rendered by the firm in connection with the audit of Malvern Bancorp's consolidated financial statements for the fiscal years ended September 30, 2020 and 2019, respectively, as well as the fees paid by us to Baker Tilly for audit-related services, tax services and all other services rendered by the firm to us during the fiscal years ended September 30, 2020 and 2019, respectively.

	<b>Year Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
Audit fees <sup>(1)</sup>	\$ 474,450	\$ 277,135
Audit-related fees <sup>(2)</sup>	23,500	23,500
Tax fees	46,850	58,085
All other fees	—	—
<b>Total</b>	<b>\$ 544,800</b>	<b>\$ 358,720</b>

(1) Audit fees consist of fees incurred in connection with the audit of the Company's annual financial statements and review of financial statements included in Form 10-Qs, or services normally provided in connection with statutory and regulatory filings (i.e., attest services required by FDICIA or Section 404 of the Sarbanes-Oxley Act), including out-of-pocket expenses.

(2) Audit related fees consist of fees incurred in connection with the audit of our employee benefit plan.

(3) Tax fees include fees billed for the preparation of state and federal tax returns and assistance with calculating estimated tax payments.

The Audit Committee selects our independent registered public accounting firm and pre-approves all audit services to be provided by it to Malvern Bancorp. The Audit Committee also reviews and pre-approves all audit-related and non-audit related services rendered by our independent registered public accounting firm in accordance with the Audit Committee's charter. In its review of these services and related fees and terms, the Audit Committee considers, among other things, the possible effect of the performance of such services on the independence of our independent registered public accounting firm. The Audit Committee pre-approves certain audit-related services and certain non-audit related tax services which are specifically described by the Audit Committee on an annual basis, and separately approves other individual engagements as necessary.

Each new engagement of the Company's independent registered public accounting firm was approved in advance by the Audit Committee or its Chair, and none of those engagements made use of the *de minimis* exception to pre-approval contained in the SEC's rules.



**PART IV.**

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

- (a)(1) The following financial statements are incorporated by reference from Item 8 hereof:

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Financial Condition

Consolidated Statements of Operations

Consolidated Statements of Comprehensive Income (Loss)

Consolidated Statements of Changes in Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

- (2) All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.
- (3) Exhibits

The following exhibits are filed as part of this Form 10-K and this list includes the Exhibit Index.

<b>No.</b>	<b>Description</b>	<b>Location</b>
3.1	Amended and Restated Articles of Incorporation of Malvern Bancorp, Inc.	(1)
3.2	Amended and Restated Bylaws of Malvern Bancorp, Inc.	(2)
4.0	Form of Stock Certificate of Malvern Bancorp, Inc.	(3)
4.1	Indenture, dated February 7, 2017, by and between Malvern Bancorp, Inc. and U.S. Bank National Association, as trustee	(4)
4.2	Forms of 6.125% Subordinated Note due 2027 (included as Exhibit A-1 and Exhibit A-2 to the Indenture referenced above)	(5)
4.3	Description of Registrant's Securities	Filed herewith
10.1	Malvern Bancorp 2014 Long Term Incentive Plan*	(6)
10.2	Change of Control Agreement, dated May 23, 2016, with Joseph D. Gangemi*	(7)
10.3	Change of Control Agreement, dated May 23, 2016, with William Woolworth*	(8)
10.4	Amended and Restated Employment Agreement, dated May 25, 2017, among Malvern Bancorp, Inc., Malvern Bank and Anthony C. Weagley*	(9)
10.5	Amendment to Change in Control Agreement, dated May 25, 2017, between Joseph Gangemi and Malvern Bank, including his Non-Competition, Non-Solicitation, Confidentiality and Cooperation Agreement*	(10)
10.6	Employment Agreement, dated May 25, 2017, among Malvern Bancorp, Inc., Malvern Bank and William J. Boylan, including his Non-Competition, Non-Solicitation, Confidentiality and Cooperation Agreement*	(11)
10.7	Amendment to Employment Agreement, dated December 11, 2018, among Malvern Bancorp, Inc., Malvern Bank and Anthony C. Weagley	(12)
21.1	Subsidiaries of the Registrant	Filed herewith
23.0	Consent of Baker Tilly US, LLP.	Filed herewith
31.1	Rule 13(a)-14(a) Certification of the Chief Executive Officer	Filed herewith
31.2	Rule 13(a)-14(a) Certification of the Chief Financial Officer	Filed herewith
32.0	Section 1350 Certification	Filed herewith
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.**	Filed herewith
101.SCH	Inline XBRL Taxonomy Extension Schema Document.**	Filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.**	Filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.**	Filed herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.**	Filed herewith
101.DEF	Inline XBRL Taxonomy Extension Definitions Linkbase Document.**	Filed herewith
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	Filed herewith

\* Denotes a management contract or compensatory plan or arrangement.

\*\* Attached as Exhibit 101 to this report are the following documents formatted in Inline XBRL (Extensible Business Reporting Language): (i) the Consolidated Statement of Financial Condition at September 30, 2020 and 2019, (ii) the Consolidated Statement of Operations for the years ended September 30, 2020 and 2019, (iii) the Consolidated Statement of Comprehensive Income (Loss) for the years ended September 30, 2020 and 2019, (iv) the Consolidated Statement of Changes in Shareholders' Equity for the years ended September 30, 2020 and 2019, (v) the Consolidated Statement of Cash Flows for the years ended September 30, 2020 and 2019 (vi) the Notes to Condensed Consolidated Financial Statements, tagged as detailed footnote tagging.

- (1) Incorporated by reference from Exhibit 3.1 to the Current Report on Form 8-K of Malvern Bancorp, Inc. filed with the SEC on February 17, 2017.
- (2) Incorporated by reference from Exhibit 3.2 to the Current Report on Form 8-K of Malvern Bancorp, Inc. filed with the SEC on February 17, 2017.
- (3) Incorporated by reference from Exhibit 4.0 to Malvern Bancorp, Inc.'s Registration Statement Form S-1, filed May 31, 2012 (SEC File No. 333-181798).

- (4) Incorporated by reference from Exhibit 4.1 to Malvern Bancorp, Inc.'s Current Report on Form 8-K, filed on February 8, 2017.
- (5) Incorporated by reference from Exhibit 10.1 to Malvern Bancorp, Inc.'s Current Report on Form 8-K, filed on February 8, 2017
- (6) Incorporated by reference from Appendix A of the definitive proxy statement filed by Malvern Bancorp, Inc. with the SEC on January 2, 2015.
- (7) Incorporated by reference from Exhibit 10.1 to Malvern Bancorp, Inc.'s Current Report on Form 8-K, filed on May 27, 2016.
- (8) Incorporated by reference from Exhibit 10.2 to Malvern Bancorp, Inc.'s Current Report on Form 8-K, filed on May 27, 2016.
- (9) Incorporated by reference from Exhibit 10.1 to Malvern Bancorp, Inc.'s Current Report on Form 8-K, filed on June 1, 2017.
- (10) Incorporated by reference from Exhibit 10.2 to Malvern Bancorp, Inc.'s Current Report on Form 8-K, filed on June 1, 2017.
- (11) Incorporated by reference from Exhibit 10.3 to Malvern Bancorp, Inc.'s Current Report on Form 8-K, filed on June 1, 2017.
- (12) Incorporated by reference from Exhibit 10.8 to Malvern Bancorp, Inc.'s Annual Report on Form 10-K, filed on December 14, 2018.

**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.

### MALVERN BANCORP, INC.

January 29, 2021

By: /s/ Anthony C. Weagley  
Anthony C. Weagley  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities described below on January 29, 2021.

/s/ Anthony C. Weagley Anthony C. Weagley	Director, President and Chief Executive Officer (principal executive officer)
/s/ Howard Kent Howard Kent	Chairman of the Board
/s/ James Barrett James Barrett	Director
/s/ Cynthia Felzer Leitzell Cynthia Felzer Leitzell	Director
/s/ Norman Feinstein Norman Feinstein	Director
/s/ Andrew Fish Andrew Fish	Director
/s/ Stephen P. Scartozzi Stephen P. Scartozzi	Director
/s/ Julia Corelli Julia Corelli	Director
/s/ Joseph D. Gangemi Joseph D. Gangemi	Executive Vice President and Chief Financial Officer (principal financial and accounting officer)

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## LOCATIONS AND CONTACTS

### OFFICERS OF MALVERN BANCORP, INC.

- Anthony C. Weagley, Chief Executive Officer & President
- Joseph D. Gangemi, EVP, Corporate Secretary & Chief Financial Officer
- William “Bill” Boylan, EVP & Chief Lending Officer
- William “Bill” Woolworth, EVP & Chief Risk Officer

### BOARD OF DIRECTORS

- |                          |                           |                      |
|--------------------------|---------------------------|----------------------|
| • Howard Kent — Chairman | • Norman Feinstein        | • Stephen Scartozzi  |
| • James Barrett          | • Andrew Fish             | • Anthony C. Weagley |
| • Julia D. Corelli       | • Cynthia Felzer Leitzell |                      |

### LOCATIONS

#### **Berwyn/Devon Financial Center**

Lobby  
650 Lancaster Ave  
Berwyn, PA 19312  
610.251.9585

#### **Coventry Financial Center**

Lobby  
1000 Ridge Road  
Pottstown, PA 19465  
610.469.6201

#### **Glen Mills Financial Center**

Lobby & Drive-Up  
940 Baltimore Pike  
Glen Mills, PA 19342  
610.558.1555

#### **Downingtown/Lionville Financial Center**

Lobby & Drive-Up  
537 West Uwchlan Ave  
Downingtown, PA 19335  
610.594.6400

#### **Palm Beach Private Client Office**

205 Worth Avenue, Suite 308  
Palm Beach, FL 33480  
561.720.6818

#### **Malvern Financial Center**

Lobby  
100 West King Street  
Malvern, PA 19355  
610.647.7944

#### **Morristown Private Client Office New Jersey Regional Headquarters**

163 Madison Ave, 3rd Floor  
Morristown, NJ 07960  
973.265.9690

#### **Paoli Financial Center**

Lobby & Drive-Up  
34 East Lancaster Ave  
Paoli, PA 19301  
610.993.6200

#### **Paoli Administrative Offices**

42 East Lancaster Ave  
Paoli, PA 19301  
610.644.9400

#### **Radnor/Villanova Private Client Office**

801 E. Lancaster Ave  
Villanova, PA 19085  
610.695.6900

#### **Quakertown Credit Administration Office**

2100 Quaker Point Dr.  
Quakertown, PA 18951

#### **Wellington Representative Office**

12773 W. Forest Hill Blvd, Suite 120  
Wellington FL 33414  
561.720.6818

#### **Allentown Representative Office**

1275 Glenlivet Drive, Suite 100  
Allentown, PA 18106  
610.695.3671



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