



# New Tripoli Bancorp, Inc.

## 2020 Financial Report

New Tripoli Bancorp, Inc. - a Holding Company for New Tripoli Bank





## New Tripoli Bank's Vision And Mission

### **Our Vision**

New Tripoli Bank will build mutually valuable relationships by providing quality financial products, exceptional customer service and by meeting the needs of the local community.

### **Our Mission**

New Tripoli Bank is dedicated to remaining independent and fulfilling the financial needs of individuals, families, and small businesses in the Lehigh Valley, by providing high quality, competitively priced services, in a caring and friendly environment.

New Tripoli Bank's history reflects a long and successful period of service, delivering quality and innovative products to its customers since 1910.

Our success is directly linked to the growth and vitality of our community. We believe it is our responsibility to be a caring and involved partner by supporting our local civic, charitable, and community organizations with our time, talents and donations.

Our independence, profitability, and financial strength are recognized as the basis of opportunity to serve our local community.

# **New Tripoli Bancorp, Inc.**

Consolidated Financial Statements

December 31, 2020 and 2019

# New Tripoli Bancorp, Inc.

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## Independent Auditors' Report

To the Board of Directors and Stockholders of  
New Tripoli Bancorp, Inc.

We have audited the accompanying consolidated financial statements of New Tripoli Bancorp, Inc. and its subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New Tripoli Bancorp, Inc. and its subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Baker Tilly US, LLP*

Allentown, Pennsylvania  
February 16, 2021

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**New Tripoli Bancorp, Inc.**Consolidated Statements of Financial Condition  
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Cash and due from banks	\$ 4,056,425	\$ 2,965,626
Interest bearing deposits with banks	28,345,924	7,521,496
Cash and cash equivalents	<u>32,402,349</u>	<u>10,487,122</u>
Securities available-for-sale, at fair value	<u>91,970,535</u>	<u>81,533,310</u>
Loans	384,369,693	385,149,037
Paycheck Protection Program loans	10,258,084	-
Allowance for loan losses	<u>(5,424,784)</u>	<u>(4,725,486)</u>
Net loans	<u>389,202,993</u>	<u>380,423,551</u>
Premises and equipment, net	8,399,603	8,907,989
Restricted investments in bank stocks	1,581,545	2,625,545
Accrued interest receivable	1,554,345	1,320,802
Bank owned life insurance	14,281,823	14,176,153
Other assets	<u>1,027,195</u>	<u>1,032,457</u>
Total assets	<u>\$ 540,420,388</u>	<u>\$ 500,506,929</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Non-interest bearing demand	\$ 75,628,010	\$ 50,936,088
Interest bearing	<u>384,165,517</u>	<u>335,929,798</u>
Total deposits	459,793,527	386,865,886
Borrowings	15,000,000	53,300,000
Accrued interest payable	736,407	1,432,664
Other liabilities	<u>3,075,493</u>	<u>2,404,742</u>
Total liabilities	<u>478,605,427</u>	<u>444,003,292</u>
<b>Stockholders' Equity</b>		
Common stock, \$1 par value; authorized 1,000,000 shares; issued 75,000 shares; outstanding 2020 - 63,336 shares; 2019 - 63,327 shares	75,000	75,000
Paid-in capital	685,400	579,700
Retained earnings	67,146,244	63,614,532
Accumulated other comprehensive income	3,630,642	1,862,130
Treasury stock, at cost, 2020 - 11,664 shares; 2019 - 11,673 shares	<u>(9,722,325)</u>	<u>(9,627,725)</u>
Total stockholders' equity	<u>61,814,961</u>	<u>56,503,637</u>
Total liabilities and stockholders' equity	<u>\$ 540,420,388</u>	<u>\$ 500,506,929</u>

See notes to consolidated financial statements

**New Tripoli Bancorp, Inc.**Consolidated Statements of Income  
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Interest Income</b>		
Loans receivable, including fees	\$ 16,524,729	\$ 16,906,206
Paycheck Protection Program loans receivable, including fees	475,731	-
Securities:		
Taxable	1,083,725	688,215
Exempt from federal income taxes	1,807,113	2,348,427
Interest bearing deposits with banks	<u>7,571</u>	<u>45,753</u>
Total interest income	<u>19,898,869</u>	<u>19,988,601</u>
<b>Interest Expense</b>		
Deposits	3,113,206	4,923,121
Borrowings	<u>548,553</u>	<u>1,066,333</u>
Total interest expense	<u>3,661,759</u>	<u>5,989,454</u>
Net interest income	16,237,110	13,999,147
<b>Provision for Loan Losses</b>	<u>700,000</u>	<u>250,000</u>
Net interest income after provision for loan losses	<u>15,537,110</u>	<u>13,749,147</u>
<b>Other Income</b>		
Service charges on deposit accounts	189,514	253,259
Income from investment in life insurance	288,199	293,703
Other service charges and fees	181,443	164,515
Net security gains	177,606	394,450
Other income	<u>211,780</u>	<u>261,438</u>
Total other income	<u>1,048,542</u>	<u>1,367,365</u>
<b>Other Expenses</b>		
Salaries and employee benefits	4,966,437	5,629,747
Occupancy	626,839	533,718
Furniture and equipment	728,230	618,589
Pennsylvania bank shares tax	413,417	409,226
Other operating expenses	<u>2,789,053</u>	<u>2,628,550</u>
Total other expenses	<u>9,523,976</u>	<u>9,819,830</u>
Income before income taxes	<u>7,061,676</u>	<u>5,296,682</u>
<b>Income Tax Expense</b>		
Current expense (benefit)	1,243,018	(8,216)
Deferred (benefit) expense	<u>(248,261)</u>	<u>505,280</u>
Total income tax expense	<u>994,757</u>	<u>497,064</u>
Net income	<u>\$ 6,066,919</u>	<u>\$ 4,799,618</u>
<b>Basic Earnings per Share</b>	<u>\$ 95.72</u>	<u>\$ 75.75</u>
<b>Weighted Average Common Shares Outstanding</b>	<u>63,380</u>	<u>63,365</u>

See notes to consolidated financial statements

**New Tripoli Bancorp, Inc.**Consolidated Statements of Comprehensive Income  
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Net Income</b>	\$ 6,066,919	\$ 4,799,618
<b>Other Comprehensive Income</b>		
Net unrealized holding gains on securities available-for-sale, gross \$2,416,229 in 2020 and \$2,867,356 in 2019, net of tax of \$507,408 in 2020 and \$602,146 in 2019	1,908,821	2,265,210
Reclassification adjustment for net gains realized in net income, gross \$177,606 in 2020 and \$394,450 in 2019, net of tax of \$37,297 in 2020 and \$82,835 in 2019 <sup>(a), (b)</sup>	<u>(140,309)</u>	<u>(311,615)</u>
<b>Other Comprehensive Income</b>	<u>1,768,512</u>	<u>1,953,595</u>
Total comprehensive income	<u>\$ 7,835,431</u>	<u>\$ 6,753,213</u>

<sup>(a)</sup> Realized gains (losses) on sales of securities available-for-sale are included on the Consolidated Statements of Income as a separate item of Other Income.

<sup>(b)</sup> The tax effect on gains on sale of securities available-for-sale are included in Income Tax Expense on the Consolidated Statements of Income.

See notes to consolidated financial statements

**New Tripoli Bancorp, Inc.**

Consolidated Statements of Stockholders' Equity  
 Years Ended December 31, 2020 and 2019

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
<b>Balance, January 1, 2019</b>	\$ 75,000	\$ 579,700	\$ 61,631,743	\$ (91,465)	\$ (9,432,575)	\$ 52,762,403
Net income	-	-	4,799,618	-	-	4,799,618
Other comprehensive income	-	-	-	1,953,595	-	1,953,595
Purchase of treasury stock (184 shares)	-	-	-	-	(195,150)	(195,150)
Cash dividends declared on common stock of \$40 per share	-	-	(2,534,215)	-	-	(2,534,215)
Adjustment of amortization for callable debt securities held at premium <sup>(1)</sup>	-	-	(282,614)	-	-	(282,614)
<b>Balance, December 31, 2019</b>	75,000	579,700	63,614,532	1,862,130	(9,627,725)	56,503,637
Net income	-	-	6,066,919	-	-	6,066,919
Other comprehensive income	-	-	-	1,768,512	-	1,768,512
Purchase of treasury stock (109 shares)	-	-	-	-	(130,500)	(130,500)
Issuance of treasury stock (118 shares)	-	105,700	-	-	35,900	141,600
Cash dividends declared on common stock of \$40 per share	-	-	(2,535,207)	-	-	(2,535,207)
<b>Balance, December 31, 2020</b>	<u>\$ 75,000</u>	<u>\$ 685,400</u>	<u>\$ 67,146,244</u>	<u>\$ 3,630,642</u>	<u>\$ (9,722,325)</u>	<u>\$ 61,814,961</u>

<sup>(1)</sup> This adjustment is the result of adopting ASU 2017-08 Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities.

See notes to consolidated financial statements

**New Tripoli Bancorp, Inc.**Consolidated Statements of Cash Flows  
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 6,066,919	\$ 4,799,618
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	700,000	250,000
Accretion of deferred Paycheck Protection Program loan fees	(371,044)	-
Depreciation	563,927	388,682
Net accretion of securities	(16,015)	(27,953)
Net security gains	(177,606)	(394,450)
Loss on sales of foreclosed assets	-	87,372
Deferred income taxes	(248,261)	505,280
AMT credit refund	140,261	384,321
Income from investment in life insurance	(288,199)	(293,703)
(Increase) decrease in:		
Accrued interest receivable	(233,543)	213,284
Other assets	(356,849)	(133,743)
(Increase) decrease in:		
Accrued interest payable	(696,257)	251,454
Other liabilities	670,751	(814,214)
Net cash provided by operating activities	<u>5,754,084</u>	<u>5,215,948</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of securities available-for-sale	(24,097,087)	(38,485,203)
Proceeds from maturities and principal repayments of securities available-for-sale	8,438,375	8,233,106
Proceeds from sales of securities available-for-sale	7,653,731	34,578,383
Net decrease (increase) in loans	778,642	(22,926,971)
Net increase in Paycheck Protection Program loans	(9,887,040)	-
Net redemption (purchases) of restricted investments in bank stocks	1,044,000	(159,600)
Proceeds of life insurance	182,529	-
Purchases of premises and equipment	(55,541)	(515,027)
Proceeds from sales of foreclosed assets	-	262,628
Net cash used in investing activities	<u>(15,942,391)</u>	<u>(19,012,684)</u>
<b>Cash Flows From Financing Activities</b>		
Net increase in deposits	72,927,641	8,761,883
Dividends paid	(2,535,207)	(2,534,215)
Net change in short-term borrowings	(23,300,000)	23,300,000
Repayments of long-term borrowings	(25,000,000)	(20,000,000)
Proceeds from long-term borrowings	10,000,000	5,000,000
Acquisition of treasury stock	(130,500)	(195,150)
Issuance of treasury stock	141,600	-
Net cash provided by financing activities	<u>32,103,534</u>	<u>14,332,518</u>
Net increase in cash and cash equivalents	21,915,227	535,782
<b>Cash and Cash Equivalents, Beginning</b>	<u>10,487,122</u>	<u>9,951,340</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 32,402,349</u>	<u>\$ 10,487,122</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	<u>\$ 4,358,016</u>	<u>\$ 5,738,000</u>
Income taxes paid (refunded)	<u>\$ 759,739</u>	<u>\$ (284,321)</u>

See notes to consolidated financial statements

## **New Tripoli Bancorp, Inc.**

Notes to Consolidated Financial Statements  
December 31, 2020 and 2019

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### **1. Summary of Accounting Policies**

#### **Nature of Operations**

New Tripoli Bancorp, Inc. is a one bank holding company. The New Tripoli Bank (the Bank) is a wholly-owned subsidiary of New Tripoli Bancorp, Inc. (collectively, the Corporation). The Bank operates from three locations in Lehigh County, Pennsylvania. The primary source of revenue is providing residential mortgages, consumer loans and commercial loans to customers located within the Lehigh Valley. The Bank is subject to the regulation of the Pennsylvania Department of Banking and its deposits are insured by the Federal Deposit Insurance Corporation. New Tripoli Bancorp, Inc. is subject to regulation by their primary regulator, the Federal Reserve Bank.

#### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of New Tripoli Bancorp, Inc. and the Bank. All material intercompany transactions have been eliminated in consolidation.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and 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, the determination of other-than-temporary impairment on investment securities, and the valuation of deferred tax assets.

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

Most of the Corporation's activities are with customers located within the Lehigh Valley of Pennsylvania. Note 4 discusses the types of securities that the Corporation invests in. Note 5 discusses the types of lending that the Corporation engages in. The Corporation does not have any significant concentrations to any one industry or customer. Although the Corporation has a diversified loan portfolio, exposure to credit loss can be adversely impacted by down turns in local economic and employment conditions.

#### **Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks and interest bearing deposits with banks, all of which mature within ninety days.

#### **Securities**

Securities classified as available-for-sale are those securities that the Corporation intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Corporation's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available-for-sale are carried at fair value. Unrealized gains and losses are reported in other comprehensive income (loss), net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of securities.

## New Tripoli Bancorp, Inc.

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Declines in the fair value of securities below their cost that are deemed to be other than temporary impairments (OTTI) are reflected in earnings as realized losses. In estimating OTTI for debt and equity securities, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Corporation has the intent to sell the debt security or more-likely-than-not will be required to sell the debt security before its anticipated recovery. In instances when a determination is made that an other-than-temporary impairment exists but the Corporation does not intend to sell the debt security and it is not more-likely-than-not that it will be required to sell the debt security prior to anticipated recovery, 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.

The Corporation has not recognized any other-than-temporary impairment losses for the years ended December 31, 2020 and 2019.

### Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses. Interest income is accrued on the unpaid principal balance. The Corporation is generally amortizing principal balances over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loans receivable portfolio is segmented into commercial, consumer and other loans. Commercial loans consist of the following classes: commercial and commercial real estate. Consumer loans consist of the following classes: residential real estate, residential construction, installment.

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 collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally twelve 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.

## New Tripoli Bancorp, Inc.

Notes to Consolidated Financial Statements

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### Allowance for Credit Losses

The allowance for credit losses consists of the allowance for loan losses (allowance) and the reserve for unfunded lending commitments. The allowance represents management's estimate of losses inherent in the loan portfolio as of the consolidated statements of financial condition date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated statements of financial condition. The 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 and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance 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 is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Corporation's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The reserve for unfunded lending commitments was not material to the consolidated financial statements at December 31, 2020 or 2019.

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, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, residential construction, installment and other loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices.
2. National, regional and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Volume and severity of past due, classified and nonaccrual loans as well as and other loan modifications.
5. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
6. Effect of external factors, such as competition and legal and regulatory requirements.
7. Historical performance in regard to charge-offs, separated into primary loan categories, and recoveries.

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

A majority of the Corporation's loan assets are residential mortgages to owners of many types. The Corporation also makes commercial loans for real estate development and other business purposes required by the customer base.

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

Commercial lending, including commercial real estate loans generally present a higher level of risk than residential mortgage loans. 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 real estate is typically dependent upon the successful operation of the related real estate project or business. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired. 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. 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.

Residential real estate and residential construction loans are secured by the borrower's residential real estate. Residential real estate loans have varying loan rates depending on the financial condition of the borrower and the loan to value ratio. Residential mortgages have amortizations up to 30 years.

Installment loans include car loans secured by the borrower's car and personal loans, which the majority of these loans are unsecured.

Other loans include general tax obligation loans, and overdraft lines of credit. The majority of these loans are secured by the taxing ability of the borrower or are unsecured. Repayment on these loans primarily depends on the taxing ability of the borrower.

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.

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A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Corporation'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 certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify home equity loans and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the Corporation grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve rate reductions, a below market interest rate given the associated credit risk, extensions of maturity, interest only payments, or other payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Nonaccrual troubled debt restructurings are generally restored to accrual status if principal and interest payments, under the modified terms, are current for twelve consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

## **New Tripoli Bancorp, Inc.**

Notes to Consolidated Financial Statements  
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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 regulatory classifications of watch, special mention, substandard, doubtful and loss. Loans classified watch are performing according to terms, but present some type of concern that requires management's attention. Loans criticized special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

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

### **Transfers of Financial Assets**

Transfers of financial assets, including loan sales, 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 Corporation, (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 Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

### **Foreclosed Assets**

Foreclosed assets are comprised of property acquired through formal or in substance foreclosure. Such properties are included in other assets. A loan is classified as in substance foreclosure when the Corporation has taken possession of the collateral regardless of whether formal foreclosure proceedings take place. Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or fair value minus estimated costs to sell. Revenues and expenses from operations, changes in the valuation allowance, and gains and losses on sales are included in other operating expenses in the consolidated statements of income. Foreclosed assets were \$0 at December 31, 2020 and 2019, respectively.

### **Premises and Equipment**

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation expense is calculated principally on the straight-line method over the respective assets estimated useful lives. Charges for maintenance and repairs are expensed as incurred.

## **New Tripoli Bancorp, Inc.**

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### **Restricted Investments in Bank Stocks**

Restricted stocks, which represent required investments in the stock of correspondent banks, are carried at cost and as of December 31, 2020 and 2019 consist primarily of the stock of Federal Home Loan Bank of Pittsburgh, and also stock of the Federal Reserve Bank and Atlantic Community Bancshares, Inc.

Management's 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 their cost is influenced by criteria such as (1) the significance of the decline in net assets as compared to the capital stock amount and the length of time this situation has persisted, (2) commitments by the correspondent banks to make payments required by law or regulation and the level of such payments in relation to the operating performance of the correspondent banks, and (3) the impact of legislative and regulatory changes and, accordingly, on the customer base of the correspondent banks.

Management believes no impairment charge was necessary related to these investments during 2020 or 2019.

### **Income Taxes**

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense (benefit) reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Corporation determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

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

The Corporation follows current accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. Uncertain tax positions are recognized if it is more-likely-than-not, based on the technical merits that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50 percent; the term sustained upon examination also includes resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. The Corporation recognizes interest and penalties on income taxes as a component of income tax expense.

The Corporation believes no significant uncertain tax positions exist, either individually or in the aggregate, that would give rise to the non-recognition of an existing tax benefit. As of December 31, 2020 and 2019, the Corporation had no material unrecognized tax benefits or accrued interest and penalties.

## **New Tripoli Bancorp, Inc.**

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### **Advertising Costs**

The Corporation follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2020 and 2019 was \$118,268 and \$194,708, respectively.

### **Earnings per Share**

The Corporation has a simple capital structure. Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during each period.

Treasury shares are not deemed outstanding for earnings per share calculations.

### **Employee Benefit Plan**

The Corporation has an employee profit sharing retirement plan covering all employees having at least one year of service. Employer contribution amounts are determined annually by the Corporation and are included in salaries and employee benefits on the consolidated statements of income. The expense amounted to \$373,465 and \$338,917 for the years ended December 31, 2020 and 2019, respectively.

### **Deferred Compensation Plans**

The Corporation has entered into deferred compensation agreements with certain directors and executives to provide each director and executive an additional retirement benefit, or to provide their beneficiary a benefit in the event of pre-retirement death. At December 31, 2020 and 2019, the liability under these Plans included in other liabilities on the consolidated statements of financial condition was \$1,918,539 and \$1,817,055, respectively. For the years ended December 31, 2020 and 2019, \$184,969 and \$135,928, respectively, was charged to other operating expenses in the consolidated statements of income in connection with these Plans.

### **Bank Owned Life Insurance**

The Corporation invests in bank owned life insurance (BOLI) as a source of funding for employee benefit expenses including deferred compensation agreements with certain directors and executives. BOLI involves the purchasing of life insurance by the Bank on a chosen group of employees. The Corporation is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies and is included in other assets in the amount of \$14,281,823 and \$14,176,153 at December 31, 2020 and 2019, respectively. Income from the increase in cash surrender value of the policies is included in income from investment in life insurance on the consolidated statements of income.

### **Treasury Stock**

The acquisition of treasury stock is recorded under the cost method. At the date of subsequent reissuance, the treasury stock is reduced by the cost of such stock on the first-in first-out basis with any excess proceeds being credited to paid-in capital. When treasury stock is retired the par value of shares is charged to common stock, the original paid-in capital is charged to that account and the excess of the cost of the treasury stock is charged to retained earnings.

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### **Off-Balance Sheet Financial Instruments**

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

### **Comprehensive Income (Loss)**

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains (losses) on securities available-for-sale which are recognized as a separate component of equity, net of income taxes.

### **Accounting Standard Updates Not Yet Adopted**

During June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for loan losses that is deducted from the amortized cost basis. The measurement of expected loan losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. During November 2018, April 2019, May 2019, November 2019 and March 2020, the FASB also issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*, ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*; ASU No. 2019-05 *Targeted Transition Relief*; and ASU No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*; and ASU No. 2020-03 *Codification Improvements to Financial Instruments*. ASU No. 2018-19 clarifies the effective date for nonpublic entities and that receivables arising from operating leases are not within the scope of Subtopic 326-20, ASUs Nos. 2019-04 and 2019-05 amend the transition guidance provided in ASU No. 2016-13, and ASU Nos. 2019-11 and 2020-03 amend ASU No. 2016-13 to clarify, correct errors in, or improve the guidance. ASU No 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Corporation is currently assessing the effect that ASU No. 2016-13 (as amended) will have on its results of operations, financial position and cash flows.

### **COVID-19**

The Coronavirus Disease (COVID-19) pandemic was declared a national emergency by the President of the United States on March 22, 2020. State and local authorities have made emergency declarations and issued executive orders to limit the spread of the disease. The impact of COVID-19 has created an unprecedented environment for businesses and consumers alike.

The Corporation has and continues taking steps to protect the health and safety of its employees and to work with its customers experiencing economic consequences from the pandemic. The Corporation has serviced its clients through its drive through facilities, online banking, mobile services, ATM's or by appointment.

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The Corporation implemented a loan payment deferral program on a case-by-case basis to assist borrowers that may be experiencing financial hardship due to COVID-19. The federal banking regulatory agencies issued, on March 22, 2020 and revised on April 7, 2020, a joint interagency statement titled the "Interagency Statement on Loan Modifications and Report for Financial Institutions Working with Customers Affected by the Coronavirus" that encourages financial institutions to work with borrowers who request loan modifications or deferrals as a result of COVID-19. FASB has confirmed that short-term modifications made on a good-faith basis in response to COVID-19 to loan customers who were current prior to any relief are not TDRs. At December 31, 2020, the Corporation had 6 residential loans and 3 commercial loans with balances totaling \$1,119,432 and \$4,507,176, respectively, in the loan payment deferral program.

The impact of the COVID-19 pandemic on the performance of the Corporation's loan portfolio is unknown at this time due to the uncertainties as to the ultimate duration of the COVID-19 pandemic and its potential effects on the local and national economies.

### **Subsequent Events**

The Corporation has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2020 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through February 16, 2021, the date these consolidated financial statements were available to be issued.

## **2. Revenue Recognition**

The Corporation generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers. The main types of revenue contracts included in noninterest income within the consolidated statements of income are as follows:

### **Deposits Related Fees and Service Charges**

Service charges and fees on deposits which are included as liabilities in the consolidated statements of financial condition consist of transaction-based fees, account maintenance fees, and overdraft services fees for various retail and business checking customers. Transaction-based fees, which includes services such as automated teller machines (ATM) fees, Automated Clearing House (ACH) fees, stop payment charges and statement rendering fees which are recognized at the time transaction is executed as that is the point in time the Corporation fulfills the customer's request. All deposit liabilities are considered to have one-day terms and therefore related fees are recognized as noninterest income at the time when the services are provided to the customer. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn directly from the customer's account balance.

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### Interchange Income

The Corporation earns interchange fees from credit/debit cardholder transactions conducted through MasterCard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized monthly, concurrently with the transaction processing services provided to the cardholder.

### Gain/Loss on Sale of Foreclosed Assets

The Corporation records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Corporation finances the sale of foreclosed assets to the buyer, the Corporation assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed assets are derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Corporation adjusts the transaction prices and related gain (loss) on sale if a significant financing component is present.

### 3. Cash and Due from Banks

Regulations of the Board of Governors of the Federal Reserve System impose uniform reserve requirements on all depository institutions with transaction accounts (checking accounts, NOW accounts, etc.). Reserves are maintained in the form of vault cash or a noninterest bearing balance held with the Federal Reserve Bank. The Bank also, from time to time, maintains deposits with the Federal Reserve Bank and other banks for various services such as check clearing. The amount reserved at December 31, 2020 and 2019 was \$0 and \$2,358,000, respectively.

### 4. Securities Available-for-Sale

The amortized cost and fair value of securities available-for-sale are as follows at December 31, 2020 and 2019:

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
Obligations of states and political subdivisions	\$ 87,144,341	\$ 4,644,213	\$ (91,211)	\$ 91,697,343
Mortgage-backed securities, government sponsored entities, residential	187,409	16,197	(15,570)	188,036
Other securities	43,036	42,120	-	85,156
	<u>\$ 87,374,786</u>	<u>\$ 4,702,530</u>	<u>\$ (106,781)</u>	<u>\$ 91,970,535</u>

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	2019			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities available-for-sale:				
Obligations of states and political subdivisions	\$ 73,186,458	\$ 2,692,335	\$ (320,241)	\$ 75,558,552
Mortgage-backed securities, government sponsored entities, residential	5,946,689	16,046	(85,623)	5,877,112
Other securities	43,036	54,610	-	97,646
	<u>\$ 79,176,183</u>	<u>\$ 2,762,991</u>	<u>\$ (405,864)</u>	<u>\$ 81,533,310</u>

The amortized cost and fair values of securities available-for-sale at December 31, 2020, by contractual maturity, are shown below. Mortgage-backed security maturities are included based upon their final contractual maturities. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	\$ 9,416,212	\$ 9,532,647
Due after one year through five years	27,764,984	29,575,173
Due after five years through ten years	45,397,348	47,640,343
Due after ten years	4,753,206	5,137,216
Other securities	43,036	85,156
	<u>\$ 87,374,786</u>	<u>\$ 91,970,535</u>

Securities with amortized cost and fair values of \$27,010,677 and \$26,510,668, respectively, at December 31, 2020 and \$69,742,812 and \$70,004,370, respectively, at December 31, 2019 were pledged to secure public deposits and for other purposes required or permitted by law.

Gross gains of \$202,106 and \$425,505 and gross losses of \$24,500 and \$31,055 were realized on sales and calls of available-for-sale securities in 2020 and 2019, respectively.

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The following tables show the Corporation's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2020 and 2019:

		2020					
		Less than 12 Months		12 Months or More		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities							
available-for-sale:							
Obligations of states and political subdivisions		\$ 4,152,053	\$ (91,211)	\$ -	\$ -	\$ 4,152,053	\$ (91,211)
Mortgage-backed securities, government sponsored entities, residential		-	-	86,514	(15,570)	86,514	(15,570)
		<u>\$ 4,152,053</u>	<u>\$ (91,211)</u>	<u>\$ 86,514</u>	<u>\$ (15,570)</u>	<u>\$ 4,238,567</u>	<u>\$ (106,781)</u>
		2019					
		Less than 12 Months		12 Months or More		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities							
available-for-sale:							
Obligations of states and political subdivisions		\$ 15,414,403	\$ (313,477)	\$ 241,075	\$ (6,764)	\$ 15,655,478	\$ (320,241)
Mortgage-backed securities, government sponsored entities, residential		5,641,794	(65,169)	98,676	(20,454)	5,740,470	(85,623)
		<u>\$ 21,056,197</u>	<u>\$ (378,646)</u>	<u>\$ 339,751</u>	<u>\$ (27,218)</u>	<u>\$ 21,395,948</u>	<u>\$ (405,864)</u>

The Corporation had 7 and 6 securities in an unrealized loss position for less than 12 months at December 31, 2020 and 2019, respectively. The Corporation had 5 and 6 securities in an unrealized loss position for 12 months or more at December 31, 2020 and 2019, respectively. The declines in fair value are due to interest rate fluctuations. The contractual terms of the U.S. government agency and mortgage-backed securities do not permit the issuer to settle the securities at a price less than amortized cost basis of the investments. For state obligation and political subdivision securities, the Corporation will not be required to sell and does not intend to sell these until maturity or market price recovery, therefore, no securities are deemed to be other-than-temporarily impaired. None of the individual unrealized losses are significant. The Corporation evaluates the financial strength of the issuer and its ability to continue to pay principal and interest as well as understanding the strength of the insurance company backing the issuer to determine if securities are deemed to be other-than-temporarily impaired. The Corporation evaluates the ratings of the underlying issuers as provided by an independent evaluator.

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### 5. Loans

The composition of the Corporation's loan portfolio at December 31 is as follows:

	<u>2020</u>	<u>2019</u>
Commercial:		
Commercial	\$ 36,581,748	\$ 26,010,925
Commercial real estate	86,053,224	74,103,451
Consumer:		
Residential construction	8,926,136	8,124,194
Residential real estate	250,990,281	264,419,851
Installment	1,661,822	1,943,882
Other	10,414,566	10,546,734
	<u>\$ 394,627,777</u>	<u>\$ 385,149,037</u>

As part of the CARES Act, the Corporation began accepting loan applications for the Paycheck Protection Program (PPP) from qualified borrowers on April 6, 2020. The Corporation had previously been an approved Small Business Administration (SBA) 7(a) lender which carried automatic approval to offer PPP loans. As of December 31, 2020, the Corporation had a total of 196 PPP loans with a receivable balance of \$10,258,084, net of \$362,776 of unearned origination fees and costs. As of December 31, 2020, the Corporation has received forgiveness payments on PPP loans of \$5,151,559 and has an additional \$1,634,051 of PPP loan forgiveness applications submitted to the SBA awaiting decision on forgiveness.

These PPP loans are 100 percent guaranteed by the SBA, have a two year or up to five year maturity and an interest rate of 1 percent throughout the term of the loan, with payments deferred until a forgiveness payment has been remitted by the SBA or 10 months after the borrower's covered period (8-24 weeks from funding date) expires. The SBA may forgive the PPP loans if certain conditions are met by the borrower, including using at least 60 percent of the proceeds for payroll costs. The SBA also provides the Corporation with a processing fee for each loan with the amount of such fee pre-determined by the SBA dependent upon the size of each loan. As of December 31, 2020, the Corporation has recorded gross deferred PPP loan fees of \$733,820, which will be recognized through interest income over the life of the related PPP loans. Because of the 100 percent SBA guarantee, the Corporation has determined no allowance for loan losses is required on the PPP loans. All PPP loans have a pass rating, and none are past due their contractual terms.

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### 6. Allowance for Loan Losses

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2020 and 2019, and information in regard to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2020 and 2019:

	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	\$ 337,846	\$ -	\$ -	\$ 79,541	\$ 417,387	\$ -	\$ 417,387
Commercial real estate	946,740	(3,628)	-	127,510	1,070,622	100,000	970,622
Residential construction	90,537	-	-	9,828	100,365	-	100,365
Residential real estate	2,919,927	-	6,530	120,422	3,046,879	422,182	2,624,697
Installment	47,405	-	-	(1,572)	45,833	-	45,833
Other	257,601	(6,561)	2,957	33,236	287,233	-	287,233
Unallocated	125,430	-	-	331,035	456,465	-	456,465
	<u>\$ 4,725,486</u>	<u>\$ (10,189)</u>	<u>\$ 9,487</u>	<u>\$ 700,000</u>	<u>\$ 5,424,784</u>	<u>\$ 522,182</u>	<u>\$ 4,902,602</u>

	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	\$ 36,581,748	\$ 28,536	\$ 36,553,212
Commercial real estate	86,053,224	1,049,689	85,003,535
Residential construction	8,926,136	51,774	8,874,362
Residential real estate	250,990,281	4,574,285	246,415,996
Installment	1,661,822	-	1,661,822
Other	10,414,566	-	10,414,566
	<u>\$ 394,627,777</u>	<u>\$ 5,704,284</u>	<u>\$ 388,923,493</u>

	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	\$ 281,088	\$ -	\$ 79	\$ 56,679	\$ 337,846	\$ -	\$ 337,846
Commercial real estate	866,080	-	108,979	(28,319)	946,740	-	946,740
Residential construction	85,210	-	-	5,327	90,537	-	90,537
Residential real estate	2,415,591	(6,121)	4,943	505,514	2,919,927	3,647	2,916,280
Installment	43,460	(2,880)	8,473	(1,648)	47,405	-	47,405
Other	302,035	-	-	(44,434)	257,601	-	257,601
Unallocated	368,549	-	-	(243,119)	125,430	-	125,430
	<u>\$ 4,362,013</u>	<u>\$ (9,001)</u>	<u>\$ 122,474</u>	<u>\$ 250,000</u>	<u>\$ 4,725,486</u>	<u>\$ 3,647</u>	<u>\$ 4,721,839</u>

## New Tripoli Bancorp, Inc.

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	Loans Receivables at December 31, 2019		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	\$ 26,010,925	\$ -	\$ 26,010,925
Commercial real estate	74,103,451	1,213,390	72,890,061
Residential construction	8,124,194	5,495	8,118,699
Residential real estate	264,419,851	2,095,139	262,324,712
Installment	1,943,882	3,015	1,940,867
Other	10,546,734	-	10,546,734
	<u>\$ 385,149,037</u>	<u>\$ 3,317,039</u>	<u>\$ 381,831,998</u>

The following tables summarize information in regards to impaired loans by loan portfolio class as of December 31, 2020 and 2019, and for the year then ended:

	2020				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	\$ 28,536	\$ 28,536	\$ -	\$ 31,739	\$ 1,461
Commercial real estate	736,874	736,874	-	756,959	36,346
Residential construction	51,774	51,774	-	53,452	2,722
Residential real estate	2,923,496	3,120,638	-	3,038,544	146,973
With an allowance recorded:					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	312,815	316,443	100,000	314,628	-
Residential construction	-	-	-	-	-
Residential real estate	1,650,789	1,650,789	422,182	1,666,174	73,565
Total:					
Commercial	\$ 28,536	28,536	\$ -	\$ 31,739	\$ 1,461
Commercial real estate	1,049,689	1,053,317	100,000	1,071,587	36,346
Residential construction	51,774	51,774	-	53,452	2,722
Residential real estate	4,574,285	4,771,427	422,182	4,704,718	220,538
	<u>\$ 5,704,284</u>	<u>\$ 5,905,054</u>	<u>\$ 522,182</u>	<u>\$ 5,861,496</u>	<u>\$ 261,067</u>

## New Tripoli Bancorp, Inc.

Notes to Consolidated Financial Statements  
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	2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	\$ 1,213,390	\$ 1,213,390	\$ -	\$ 1,238,767	\$ 55,117
Residential construction	5,495	5,495	-	5,861	106
Residential real estate	1,906,256	2,103,398	-	1,975,938	112,851
Installment	3,015	3,015	-	4,008	278
With an allowance recorded:					
Commercial real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Residential construction	-	-	-	-	-
Residential real estate	188,883	188,883	3,647	199,984	12,366
Installment	-	-	-	-	-
Total:					
Commercial real estate	\$ 1,213,390	1,213,390	\$ -	\$ 1,238,767	\$ 55,117
Residential construction	5,495	5,495	-	5,861	106
Residential real estate	2,095,139	2,292,281	3,647	2,175,922	125,217
Installment	3,015	3,015	-	4,008	278
	<u>\$ 3,317,039</u>	<u>\$ 3,514,181</u>	<u>\$ 3,647</u>	<u>\$ 3,424,558</u>	<u>\$ 180,718</u>

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

	2020	2019
Commercial	\$ -	\$ -
Commercial real estate	312,815	401,406
Residential construction	-	5,495
Residential real estate	2,466,916	1,353,380
Installment	-	3,015
Other	-	-
Total	<u>\$ 2,779,731</u>	<u>\$ 1,763,296</u>

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of watch, special mention, substandard and doubtful within the Corporation's internal risk rating system as of December 31, 2020 and 2019:

	2020						
	Commercial	Commercial Real Estate	Residential Construction	Residential Real Estate	Installment	Other	Total
Grade:							
Pass	\$ 24,575,641	\$ 59,418,348	\$ 6,921,487	\$ 236,116,444	\$ 1,655,637	\$ 10,414,566	\$ 339,102,123
Watch	8,958,385	16,621,921	350,914	4,747,095	-	-	30,678,315
Special Mention	880,972	6,713,496	-	912,019	-	-	8,508,487
Substandard	2,166,750	3,299,459	1,653,735	9,214,723	6,185	-	16,340,852
Doubtful	-	-	-	-	-	-	-
	<u>\$ 36,581,748</u>	<u>\$ 86,053,224</u>	<u>\$ 8,926,136</u>	<u>\$ 250,990,281</u>	<u>\$ 1,661,822</u>	<u>\$ 10,414,566</u>	<u>\$ 394,627,777</u>

## New Tripoli Bancorp, Inc.

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	2019						Total
	Commercial	Commercial Real Estate	Residential Construction	Residential Real Estate	Installment	Other	
Grade:							
Pass	\$ 16,958,190	\$ 54,478,724	\$ 6,086,054	\$ 248,400,242	\$ 1,919,151	\$ 10,546,734	\$ 338,389,095
Watch	6,410,303	16,895,718	361,330	5,808,791	-	-	29,476,142
Special Mention	202,620	908,123	1,570,962	381,765	-	-	3,063,470
Substandard	2,439,812	1,820,886	105,848	9,829,053	24,731	-	14,220,330
Doubtful	-	-	-	-	-	-	-
	<u>\$ 26,010,925</u>	<u>\$ 74,103,451</u>	<u>\$ 8,124,194</u>	<u>\$ 264,419,851</u>	<u>\$ 1,943,882</u>	<u>\$ 10,546,734</u>	<u>\$ 385,149,037</u>

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of December 31, 2020 and 2019:

	2020						Loans Receivable >90 Days and Accruing
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	
Commercial	\$ 30,142	\$ 212,531	\$ 10,393	\$ 253,066	\$ 36,328,682	\$ 36,581,748	\$ 10,393
Commercial real estate	-	304,620	312,814	617,434	85,435,790	86,053,224	-
Residential construction	1,381,962	38,856	-	1,400,818	7,525,318	8,926,136	-
Residential real estate	671,482	325,917	1,471,350	2,468,749	248,521,532	250,990,281	349,172
Installment	27,906	-	-	27,906	1,633,916	1,661,822	-
Other	-	-	-	-	10,414,566	10,414,566	-
	<u>\$ 2,091,492</u>	<u>\$ 881,924</u>	<u>\$ 1,794,557</u>	<u>\$ 4,767,973</u>	<u>\$ 389,859,804</u>	<u>\$ 394,627,777</u>	<u>\$ 359,565</u>

	2019						Loans Receivable >90 Days and Accruing
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	
Commercial	\$ 35,308	\$ 18,112	\$ -	\$ 53,420	\$ 25,957,505	\$ 26,010,925	\$ -
Commercial real estate	10,955	-	316,442	327,397	73,776,054	74,103,451	194,210
Residential construction	37,544	-	5,495	43,039	8,081,155	8,124,194	-
Residential real estate	1,911,380	799,286	1,303,316	4,013,982	260,405,869	264,419,851	586,210
Installment	30,734	1,069	3,459	35,262	1,908,620	1,943,882	3,459
Other	-	-	-	-	10,546,734	10,546,734	-
	<u>\$ 2,025,921</u>	<u>\$ 818,467</u>	<u>\$ 1,628,712</u>	<u>\$ 4,473,100</u>	<u>\$ 380,675,937</u>	<u>\$ 385,149,037</u>	<u>\$ 783,879</u>

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

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

As of December 31, 2020 and 2019, the Corporation has a recorded investment in TDRs of \$1,820,474 and \$2,516,171, respectively. The Corporation has allocated \$477,798 and \$0 of specific allowance for these loans at December 31, 2020 and 2019, respectively, and has committed to lend no additional amounts on such loans.

The Corporation had two troubled debt restructurings in 2020 and none in 2019. There were no troubled debt restructuring loans which defaulted during the years ended December 31, 2020 and 2019.

### 7. Foreclosed Assets

Foreclosed asset activity was as follows for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ -	\$ 350,000
Loan transferred to foreclosed real estate owned	-	-
Sales of foreclosed real estate owned	-	(350,000)
	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2020 and 2019, the balance of foreclosed assets includes \$0, respectively, of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property or deed in lieu of foreclosure. At December 31, 2020 and 2019, the recorded investment of residential mortgage and consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceeds are in process is \$16,000 and \$23,000, respectively.

Consolidated statements of income activity related to foreclosed assets for the years ended December 31, 2020 and 2019 include:

	<u>2020</u>	<u>2019</u>
Loss on sale of foreclosed real estate	\$ -	\$ (87,372)
Operating expenses (included in other operating expenses)	\$ 41,835	\$ 32,744

### 8. Financial Instruments with Off-Balance Sheet Risk

The Corporation 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 and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contract or notional amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The following table identifies the contract or notional amount of those instruments.

## New Tripoli Bancorp, Inc.

Notes to Consolidated Financial Statements  
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	<u>2020</u>	<u>2019</u>
Financial instruments whose contract amounts represent credit risk:		
Commitments to grant loans	\$ 8,301,798	\$ 5,238,200
Unfunded commitments under lines of credit	\$ 55,222,827	\$ 44,171,633
Standby letters of credit	\$ 2,131,828	\$ 1,552,186

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Outstanding letters of credit written are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Corporation requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2020 and 2019 for guarantees under standby letters of credit issued was not material.

### 9. Premises and Equipment

The following summarizes premises and equipment at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Buildings and improvements	\$ 8,164,102	\$ 8,164,054
Furniture, fixtures and equipment	2,564,304	2,647,337
Software	189,081	187,532
	10,917,487	10,998,923
Accumulated depreciation	(3,730,114)	(3,324,584)
	7,187,373	7,674,339
Land	1,212,230	1,212,230
Construction in progress	-	21,420
	\$ 8,399,603	\$ 8,907,989

### 10. Interest Bearing Deposits

Interest bearing deposits include certificates of deposit issued in denominations of \$100,000 or greater which amounted to \$74,907,903 and \$84,035,888 at December 31, 2020 and 2019, respectively.

## New Tripoli Bancorp, Inc.

Notes to Consolidated Financial Statements  
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Certificates of deposit that meet or exceed the FDIC Insurance limit of \$250,000 at December 31, 2020 and 2019 were \$40,790,821 and \$44,757,831, respectively.

Interest bearing deposits at December 31, 2020 and 2019 are further detailed as follows:

	<u>2020</u>	<u>2019</u>
Savings accounts	\$ 48,458,990	\$ 36,259,323
Demand deposits	65,087,259	44,964,161
Money market accounts	135,900,371	103,214,243
Certificates of deposit	<u>134,718,897</u>	<u>151,492,071</u>
	<u>\$ 384,165,517</u>	<u>\$ 335,929,798</u>

Included in interest bearing deposits at December 31, 2020 are certificates of deposit with the following scheduled maturities:

2021	\$ 117,560,900
2022	6,868,853
2023	2,058,754
2024	7,048,889
2025	<u>1,181,501</u>
	<u>\$ 134,718,897</u>

### 11. Borrowings

The Bank has a line of credit commitment available from the Federal Home Loan Bank (FHLB) of Pittsburgh for borrowings up to \$124,058,558, which renews annually. There were \$0 and \$23,300,000 borrowings under this line of credit as of December 31, 2020 and 2019, respectively. The interest rate at December 31, 2020 and 2019 was 0.41 percent and 1.81 percent, respectively.

Borrowings at December 31, 2020 and 2019 consist of FHLB borrowings with the following maturity dates and interest rates:

	<u>2020</u>	<u>2019</u>
Long-term:		
Fixed note at 2.45%, maturing February 27, 2020	\$ -	\$ 5,000,000
Fixed note at 2.45%, maturing February 27, 2020	-	5,000,000
Fixed note at 1.81%, maturing May 18, 2020	-	5,000,000
Fixed note at 2.84%, maturing May 21, 2020	-	5,000,000
Fixed note at 1.74%, maturing July 20, 2020	-	5,000,000
Fixed note at 2.70%, maturing March 11, 2021	5,000,000	5,000,000
Fixed note at 1.51%, maturing February 25, 2022	5,000,000	-
Fixed note at 1.51%, maturing February 25, 2022	<u>5,000,000</u>	<u>-</u>
	15,000,000	30,000,000
Short-term line of credit	<u>-</u>	<u>23,300,000</u>
	<u>\$ 15,000,000</u>	<u>\$ 53,300,000</u>

## New Tripoli Bancorp, Inc.

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Contractual maturities of long-term debt at December 31, 2020 were as follows:

2021	\$ 5,000,000
2022	<u>10,000,000</u>
	<u>\$ 15,000,000</u>

The Bank's maximum borrowing capacity with the FHLB was \$244,167,008 of which \$77,300,000 was outstanding at December 31, 2020. Advances from the FHLB are secured by qualifying mortgages of the Bank and FHLB stock.

As of December 31, 2020 and 2019, the Corporation had \$62,300,000 and \$0, respectively, in letters of credit with the FHLB to secure municipal deposits held with the Bank.

### 12. Income Taxes

The components of the net deferred tax asset at December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Allowance for loan losses	\$ 1,015,200	\$ 854,600
Benefit plans	402,900	381,600
AMT tax credit carryforwards	-	125,600
Securities amortization	75,000	86,800
Nonaccrual loan interest	82,700	65,900
Charitable contribution	-	15,800
	<u>1,575,800</u>	<u>1,530,300</u>
Net unrealized gain on securities available-for-sale	965,100	495,000
Depreciation	348,200	410,700
	<u>1,313,300</u>	<u>905,700</u>
Net deferred tax asset	<u>\$ 262,500</u>	<u>\$ 624,600</u>

The total tax provision for financial reporting purposes differs from the amount computed by applying the statutory income tax rate of 21 percent as of December 31, 2020 and 2019, respectively, to income before income taxes. The differences are as follows:

	<u>2020</u>	<u>2019</u>
Tax at statutory rate	\$ 1,482,952	\$ 1,112,303
Increase (decrease) resulting from:		
Tax exempt interest income	(452,306)	(593,600)
Unallowable interest expense	17,447	39,363
Income from investment in life insurance	(60,522)	(61,678)
Other	7,186	676
	<u>\$ 994,757</u>	<u>\$ 497,064</u>

## New Tripoli Bancorp, Inc.

Notes to Consolidated Financial Statements

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### 13. Commitments and Contingencies

There are no material legal proceedings to which the Corporation or the Bank are a party, except proceedings which arise in the normal course of business and, in the opinion of management, will not have any material effect on the consolidated financial position or results of operations of the Corporation and the Bank.

### 14. Dividend Restrictions

Dividends can be paid by the Corporation from its assets, which are mainly provided by dividends received from the Bank. The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings as defined. Cash dividends must be approved by the Federal Reserve Bank if the total of all cash dividends declared by the Bank in any calendar year, including the proposed cash dividend, exceeds the total of the Bank's net profit for that year plus its retained net profits from the preceding two years. Under this formula, the Bank can declare dividends to the Corporation at December 31, 2020 equal to \$8,053,673. In addition, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

### 15. Related-Party Transactions

Some of the Corporation's or Bank's directors, principal officers, principal stockholders and their related interests had transactions with the Bank in the ordinary course of business during 2020 and 2019. All loans and loan commitments in such transactions were made on substantially the same terms, including collateral and interest rates, as those prevailing at the time for comparable transactions. In the opinion of management, these transactions do not involve more than normal risk of collectability or present other unfavorable features. Deposits of related parties totaled \$2,370,840 and \$1,861,873 at December 31, 2020 and 2019, respectively.

The following is an analysis of loans to these parties during the years ended December 31:

	<u>2020</u>	<u>2019</u>
Balances, beginning	\$ 3,098,760	\$ 3,172,687
Advances	3,485,584	440,000
Repayments	<u>(1,212,351)</u>	<u>(513,927)</u>
Balances, ending	<u>\$ 5,371,993</u>	<u>\$ 3,098,760</u>

### 16. Fair Value Measurements and Fair Values of Financial Instruments

Fair value measurement accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

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Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Management uses its best judgment in estimating the fair value of the Corporation's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Corporation could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective reporting dates and have not been re-evaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported as of the reporting dates.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2020 and 2019 are as follows:

	<b>2020</b>			
<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	
Securities available-for-sale:				
Obligations of states and political subdivisions	\$ 91,697,343	\$ -	\$ 91,697,343	\$ -
Mortgage-backed securities, government sponsored entities, residential	188,036	-	188,036	-
Other securities	85,156	85,156	-	-
	<u>\$ 91,970,535</u>	<u>\$ 85,156</u>	<u>\$ 91,885,379</u>	<u>\$ -</u>

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	2019			
Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Securities available-for-sale:				
Obligations of states and political subdivisions	\$ 75,558,552	\$ -	\$ 75,558,552	\$ -
Mortgage-backed securities, government sponsored entities, residential	5,877,112	-	5,877,112	-
Other securities	97,646	97,646	-	-
	<u>\$ 81,533,310</u>	<u>\$ 97,646</u>	<u>\$ 81,435,664</u>	<u>\$ -</u>

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2020 and 2019 are as follows:

	2020			
Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	<u>\$ 1,441,422</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,441,422</u>

	2019			
Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	<u>\$ 185,236</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,236</u>

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Quantitative information about Level 3 fair value measurements at December 31, 2020 and 2019 is included in the table below:

2020				
Quantitative Information About Level 3 Fair Value Measurements				
	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Estimated Range
Impaired loans	\$ 1,441,422	Appraisal of collateral	Appraisal adjustments	5%-15%
			Liquidation expenses	5%-15%

  

2019				
Quantitative Information About Level 3 Fair Value Measurements				
	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Estimated Range
Impaired loans	\$ 185,236	Appraisal of collateral	Appraisal adjustments	5%-15%
			Liquidation expenses	5%-15%

The following information should not be interpreted as an estimate of the fair value of the entire Corporation since a fair value calculation is only provided for a limited portion of the Corporation's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Corporation's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Corporation's financial instruments at December 31, 2020 and 2019:

### Cash and Due from Banks and Interest Bearing Deposits with Bank (Carried at Cost)

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets' fair values.

### Securities (Carried at Fair Value)

The fair value of securities available-for-sale (carried at fair value) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or nontransferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) are used to support fair values of certain Level 3 investments, when necessary.

## **New Tripoli Bancorp, Inc.**

Notes to Consolidated Financial Statements

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### **Loans (Carried at Cost)**

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the statements of financial condition date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

### **Impaired Loans (Generally Carried at Fair Value)**

Impaired loans are those in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. At December 31, 2020 and 2019, the fair value consisted of loan balances of \$1,963,604 and \$188,883, net of a valuation allowance of \$522,182 and \$3,647, respectively.

### **Restricted Investments in Bank Stocks (Carried at Cost)**

The carrying amount of restricted investments in bank stocks approximates fair value, and considers the limited marketability of such securities.

### **Accrued Interest Receivable and Payable (Carried at Cost)**

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

### **Deposits (Carried at Cost)**

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

### **Borrowings (Carried at Cost)**

Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

### **Line of Credit Borrowings (Carried at Cost)**

The carrying amounts of federal funds purchased, borrowings under repurchase agreements and other short-term borrowings maturing within ninety days approximate their fair values.

### **Off-Balance Sheet Financial Instruments (Disclosed at Cost)**

Fair values for the Bank's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

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The estimated fair value of the Corporation's financial instruments at December 31, 2020 and 2019 was as follows:

	2020				
	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
Financial assets:					
Cash and interest bearing deposits	\$ 32,402,349	\$ 32,402,349	\$ 32,402,349	\$ -	\$ -
Securities					
available-for-sale	91,970,535	91,970,535	85,156	91,885,379	-
Loans, net	389,202,993	397,085,200	-	-	397,085,200
Restricted investments in bank stocks	1,581,545	1,581,545	-	1,581,545	-
Accrued interest receivable	1,554,345	1,554,345	-	1,554,345	-
Financial liabilities:					
Noninterest bearing deposits	\$ 75,628,010	\$ 75,628,010	\$ 75,628,010	\$ -	\$ -
Interest bearing deposits	384,165,617	384,610,890	-	384,610,890	-
Accrued interest payable	736,407	736,407	-	736,407	-
Long-term borrowings	15,000,000	15,149,820	-	15,149,820	-
2019					
	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
Financial assets:					
Cash and interest bearing deposits	\$ 10,487,122	\$ 10,487,122	\$ 10,487,122	\$ -	\$ -
Securities					
available-for-sale	81,533,310	81,533,310	97,646	81,435,664	-
Loans, net	380,423,551	378,046,230	-	-	378,046,230
Restricted investments in bank stocks	2,625,545	2,625,545	-	2,625,545	-
Accrued interest receivable	1,320,802	1,320,802	-	1,320,802	-
Financial liabilities:					
Noninterest bearing deposits	\$ 50,936,088	\$ 50,936,088	\$ 50,936,088	\$ -	\$ -
Interest bearing deposits	335,929,798	329,630,590	-	329,630,590	-
Accrued interest payable	1,432,664	1,432,664	-	1,432,664	-
Short-term borrowings	23,300,000	23,300,000	-	23,300,000	-
Long-term borrowings	30,000,000	30,068,280	-	30,068,280	-

## **New Tripoli Bancorp, Inc.**

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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### **17. Capital Requirements**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. 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 assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. 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 consolidated financial statements. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting and other factors. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. Management believes as of December 31, 2020 that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2020, the most recent notification from the regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since those notifications that management believes have changed those categories.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework) for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of January 1, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital; but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules. Under the interim final rules, the community bank leverage ratio minimum requirement is 8 percent as of December 31, 2020, 8.5 percent for calendar year 2021, and 9 percent for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2020 the Bank was defined as a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

## New Tripoli Bancorp, Inc.

Notes to Consolidated Financial Statements  
December 31, 2020 and 2019

The Bank's actual capital amounts and ratios at December 31, 2020 and 2019 are as follows:

	2020					
	Actual		To be Well Capitalized under Prompt Corrective Action Provisions (CBLR Framework)			
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollar Amounts In Thousands)					
Tier 1 capital (to average assets)	\$ 58,025	11.05 %	\$ 26,246	≥5.00 %		

  

	2019					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollar Amounts in Thousands)					
Total capital (to risk-weighted assets)	\$ 58,678	17.02 %	\$ ≥27,574	≥8.00 %	\$ ≥34,468	≥10.00 %
Common equity Tier 1 capital (to risk-weighted assets)	54,364	15.77	≥15,511	≥4.50	≥22,404	≥ 6.50
Tier 1 capital (to risk-weighted assets)	54,364	15.77	≥20,681	≥6.00	≥27,574	≥ 8.00
Tier 1 capital (to average assets)	54,364	11.06	≥19,657	≥4.00	≥24,571	≥ 5.00

## Current Directors and Officers



### **New Tripoli Bancorp, Inc.**

#### **OFFICERS**

**DAVID R. HUNSICKER**  
*Chair/President/Chief Executive Officer*

**SYLVIA BETZ GARDNER**  
*Vice Chair*

**SALLY K. SNYDER SMITH**  
*Secretary/Treasurer*

**DEBRA A. HUNSICKER**  
*Audit Chair*

#### **DIRECTORS**

**SYLVIA BETZ GARDNER**

**DAVID R. HUNSICKER**

**SALLY K. SNYDER SMITH**

**LARRY D. OSWALD**

**DEBRA A. HUNSICKER**

**GREGORY W. SNYDER**

#### **EMERITUS**

**WILLARD A. SNYDER**  
*Chairman Emeritus*



### **New Tripoli Bank**

#### **OFFICERS**

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*Chair/President/Chief Executive Officer*

**SYLVIA BETZ GARDNER**  
*Vice Chair*

**SALLY K. SNYDER SMITH**  
*Secretary/Treasurer*

**DEBRA A. HUNSICKER**  
*Audit Chair*

**MICHELE M. HUNSICKER**  
*Executive Vice President/Chief Financial Officer*

**JOHN M. HAYES**  
*Executive Vice President/Chief Lending Officer*

**STEPHANIE J. BARTON**  
*Senior Vice President/Chief Information Officer*

**ANN F. BAVARIA**  
*Senior Vice President/ Compliance,  
Human Resources and Marketing*

**DAVID J. SHERWIN**  
*Vice President/Commercial Lender*

**LINDA S. ROSENCRANCE**  
*Vice President/Lending Operations  
and Mortgage Lending*

**JASON T. HIGHDUCH**  
*Vice President/Loan Portfolio Manager*

**ROBERT B. KERN**  
*Vice President/Commercial Lender*

**GAIL K. POST**  
*Vice President/Mortgage Loan Officer*

**SUNDRA M. SHERWIN**  
*Vice President/Senior Branch Manager*

**DONNA L. SIGLEY**  
*Vice President/Mortgage Loan Officer*

**JOHN E. HEMAK**  
*Vice President/Commercial Lender*

**JENNIFER L. MOYER**  
*Assistant Vice President/IT Specialist*

**NADINE R. HOHE**  
*Assistant Vice President/Security and Bank Secrecy Act*



# New Tripoli Bank

Because people are more valuable than money.



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