

Penn Bancshares, Inc. and Subsidiary

Consolidated Financial Statements

December 31, 2021 and 2020

Penn Bancshares, Inc. and Subsidiary

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Independent Auditors' Report

To the Stockholders and Board of Directors of
Penn Bancshares Inc. and Subsidiary

Opinion

We have audited the consolidated financial statements of Penn Bancshares Inc. and Subsidiary (the Company), which comprise the consolidated statements of financial condition as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive (loss) income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Baker Tilly US, LLP

Iselin, New Jersey
March 8, 2022

Penn Bancshares, Inc. and Subsidiary

Consolidated Statements of Financial Condition

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and due from banks	\$ 15,713,971	\$ 14,750,388
Interest-bearing deposits with banks	-	10,134,490
	<u>15,713,971</u>	<u>24,884,878</u>
Cash and cash equivalents	15,713,971	24,884,878
Securities available-for-sale, at fair value	169,585,116	145,611,045
Equity securities, at fair value	1,127,920	901,819
Restricted stock, at cost	92,350	92,350
Loans receivable, net of allowance for loan losses of \$1,217,084 at December 31, 2021 and \$1,212,214 at December 31, 2020	71,398,125	59,954,733
Bank premises and equipment, net	2,867,381	2,858,952
Accrued interest receivable	1,168,305	1,145,883
Real estate owned	119,541	910,337
Other assets	493,573	566,041
	<u>493,573</u>	<u>566,041</u>
Total assets	<u>\$ 262,566,282</u>	<u>\$ 236,926,038</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing demand	\$ 42,909,355	\$ 35,401,626
Interest-bearing	197,790,257	177,543,797
	<u>197,790,257</u>	<u>177,543,797</u>
Total deposits	240,699,612	212,945,423
Accrued interest payable	3,183	8,080
Other liabilities	644,997	1,141,300
	<u>644,997</u>	<u>1,141,300</u>
Total liabilities	<u>241,347,792</u>	<u>214,094,803</u>
Stockholders' Equity		
Common stock, no par value; 1,000,000 shares authorized; 450,000 shares issued; 334,499 shares outstanding in 2021 and 347,649 shares outstanding in 2020	675,000	675,000
Paid-in capital	771,107	771,107
Retained earnings	24,206,899	22,607,969
Accumulated other comprehensive income	322,445	3,198,585
Treasury stock, at cost 115,501 shares in 2021 and 102,351 shares in 2020	(4,756,961)	(4,421,426)
	<u>(4,756,961)</u>	<u>(4,421,426)</u>
Total stockholders' equity	<u>21,218,490</u>	<u>22,831,235</u>
Total liabilities and stockholders' equity	<u>\$ 262,566,282</u>	<u>\$ 236,926,038</u>

See notes to consolidated financial statements

Penn Bancshares, Inc. and Subsidiary

Consolidated Statements of Income

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Interest Income		
Loans, including fees	\$ 2,919,294	\$ 2,787,473
Securities:		
Taxable	2,463,022	2,888,862
Interest bearing deposits with banks	1,167	26,201
Other	59,106	23,555
	<u>5,442,589</u>	<u>5,726,091</u>
Total interest income	5,442,589	5,726,091
Interest Expense	<u>110,215</u>	<u>221,099</u>
Net interest income	5,332,374	5,504,992
Provision for Loan Losses	<u>40,000</u>	<u>340,000</u>
Net interest income after provision for loan losses	<u>5,292,374</u>	<u>5,164,992</u>
Other Income		
Service charges and fees	798,432	915,601
Trust department income	60,463	70,016
Net realized gains on sale of securities	-	265,817
Unrealized gains (losses) recognized on equity securities	226,101	(241,029)
Other	283,414	319,694
	<u>1,368,410</u>	<u>1,330,099</u>
Total other income	1,368,410	1,330,099
Other Expenses		
Salaries and employee benefits	2,199,373	2,178,344
Occupancy	462,128	431,135
Furniture and equipment	160,986	198,746
Data processing related operations	717,986	872,303
ATM	23,361	28,767
Advertising	73,037	40,067
Professional fees	203,006	176,862
Stationery and supplies	58,509	80,044
FDIC insurance	55,200	55,200
Writedown on real estate owned	23,500	413,600
Real estate owned	33,011	99,727
Other	573,166	792,024
	<u>4,583,263</u>	<u>5,366,819</u>
Total other expenses	4,583,263	5,366,819
Income before income tax expense	2,077,521	1,128,272
Income Tax Expense	<u>478,591</u>	<u>281,664</u>
Net income	<u>\$ 1,598,930</u>	<u>\$ 846,608</u>
Basic Earnings Per Share	<u>\$ 4.66</u>	<u>\$ 2.40</u>
Weighted Average Common Shares Outstanding	<u>342,990</u>	<u>352,783</u>

See notes to consolidated financial statements

Penn Bancshares, Inc. and Subsidiary

Consolidated Statements of Comprehensive (Loss) Income
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net Income	<u>\$ 1,598,930</u>	<u>\$ 846,608</u>
Other Comprehensive (Loss) Income, Net of Tax		
Unrealized holding (losses) gains arising during period, net of tax of (\$764,544) in 2021 and \$637,725 in 2020	(2,876,140)	2,399,061
Reclassification adjustment for gains included in net income, net of tax of \$0 in 2021 and \$55,822 in 2020 (a), (b)	<u>-</u>	<u>209,995</u>
Total other comprehensive (loss) income	<u>(2,876,140)</u>	<u>2,609,056</u>
Total comprehensive (loss) income	<u><u>\$ (1,277,210)</u></u>	<u><u>\$ 3,455,664</u></u>

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

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

Penn Bancshares, Inc. and SubsidiaryConsolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2021 and 2020

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity</u>
Balance, January 1, 2020	\$ 675,000	\$ 771,107	\$ 21,892,630	\$ 589,529	\$ (4,093,686)	\$ 19,834,580
Net income	-	-	846,608	-	-	846,608
Other comprehensive income	-	-	-	2,609,056	-	2,609,056
Cash dividends declared on common stock of \$0.37 per share	-	-	(131,269)	-	-	(131,269)
Purchase of treasury stock	-	-	-	-	(327,740)	(327,740)
Balance, December 31, 2020	\$ 675,000	\$ 771,107	\$ 22,607,969	\$ 3,198,585	\$ (4,421,426)	\$ 22,831,235
Net income	-	-	1,598,930	-	-	1,598,930
Other comprehensive loss	-	-	-	(2,876,140)	-	(2,876,140)
Purchase of treasury stock	-	-	-	-	(335,535)	(335,535)
Balance, December 31, 2021	<u>\$ 675,000</u>	<u>\$ 771,107</u>	<u>\$ 24,206,899</u>	<u>\$ 322,445</u>	<u>\$ (4,756,961)</u>	<u>\$ 21,218,490</u>

See notes to consolidated financial statements

Penn Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Net income	\$ 1,598,930	\$ 846,608
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	40,000	340,000
Provision for depreciation and amortization	176,359	202,648
Gain on sale of real estate owned	(61,163)	-
Writedown of real estate owned	23,500	413,600
Net amortization of premiums and discounts on securities available-for-sale	833,636	562,922
Net realized gain on sale of securities	-	(265,817)
Net (gain) loss on equity securities	(226,101)	241,029
Benefit (expense) for deferred income tax	317,610	(135,119)
Increase in accrued interest receivable	(22,422)	(27,326)
Decrease (increase) in other assets	173,245	(485,331)
(Decrease) increase in accrued interest payable and other liabilities	(155,043)	186,999
Net cash provided by operating activities	<u>2,698,551</u>	<u>1,880,213</u>
Cash Flows From Investing Activities		
Maturities of certificates of deposit	-	1,200,000
Activity in available-for-sale securities:		
Purchases	(63,386,618)	(53,800,421)
Maturities, calls and principal repayments	34,938,227	29,449,693
Proceeds from sales	-	9,466,698
Net decrease in loans	(11,602,933)	(3,861,077)
Purchases of premises and equipment	(184,788)	(106,381)
Proceeds from sale of real estate owned	948,000	-
Net cash used in investing activities	<u>(39,288,112)</u>	<u>(17,651,488)</u>
Cash Flows From Financing Activities		
Net decrease in deposits	27,754,189	33,409,792
Dividends paid	-	(131,269)
Purchase of treasury stock	(335,535)	(327,740)
Net cash provided by financing activities	<u>27,418,654</u>	<u>32,950,783</u>
Net (decrease) increase in cash and cash equivalents	(9,170,907)	17,179,508
Cash and Cash Equivalents, Beginning of Year	<u>24,884,878</u>	<u>7,705,370</u>
Cash and Cash Equivalents, Ending of Year	<u>\$ 15,713,971</u>	<u>\$ 24,884,878</u>
Supplementary Cash Flows Information		
Interest paid	<u>\$ 115,112</u>	<u>\$ 226,208</u>
Income taxes paid	<u>\$ 516,172</u>	<u>\$ 350,066</u>
Noncash Transactions		
Loans transferred to foreclosed real estate	<u>\$ 119,541</u>	<u>\$ -</u>

See notes to consolidated financial statements

Penn Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

1. Nature of Operations and Significant Accounting Policies

Nature of Operations

Penn Bancshares, Inc. (Penn) is a one bank holding company. Pennsville National Bank (the Bank) is a wholly owned subsidiary of Penn. The Bank operates under a national bank charter and is subject to regulation by the Office of the Comptroller of the Currency. The executive offices and main branch are located in Pennsville, New Jersey with branches in Carneys Point, Elmer, Woodstown, and Pedricktown, New Jersey. The Bank's principal business consists of attracting customer deposits, investing these deposits in investment securities and the origination of single-family residential, commercial and consumer loans. The Bank also provides trust services. Denn & Company (Denn), a Delaware Investment Company, is a wholly owned subsidiary of the Bank. Denn's principal business consists of investing in investment securities.

Principles of Consolidation

Penn's consolidated financial statements include the accounts of Penn, the Bank and Denn, (collectively, the Company). All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of investment securities and determination of other-than-temporary impairment thereon, and valuation of deferred tax assets.

Cash and Cash Equivalents

Cash and cash equivalents, for purposes of the consolidated statements of cash flows, consist of cash on hand, amounts due from banks and interest-bearing deposits with banks, all of which mature within ninety days.

Significant Concentrations of Credit Risk

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

Securities

Securities classified as available-for-sale are those securities that the Company 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 the maturity mix of the Company'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 (loss) income, 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.

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Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

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 Company has the intent to sell the security or more-likely-than-not will be required to sell the security before its anticipated recovery. In instances when a determination is made that an other-than-temporary impairment exists but the Company 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 (loss).

Investment in Restricted Stock, at Cost

Federal law requires the Bank, as a member institution of the Federal Reserve Bank (FRB), to hold stock of the FRB according to a predetermined formula. Such securities are carried at cost and are considered to be restricted based on the nature of the securities. Both cash and stock dividends are reported as income.

Management's determination of whether these investments are impaired is based on the Company's assessment of the ultimate recoverability of the Company's cost rather than by recognizing temporary declines in value. Management believes no impairment charge is necessary related to this restricted stock as of December 31, 2021.

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

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The total amount of loans serviced for the benefit of others was \$1,842,084 and \$3,272,994 at December 31, 2021 and 2020, respectively.

Penn Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the statements of financial condition date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, which includes an assessment of delinquencies and nonaccrual loans, changes to the value of collateral for collateral dependent loans, changes in the quality of loan review, changes in lending policies and procedures, trends in the volume and terms of loans, economic conditions, and concentrations of credit. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available. The allowance is subject to change based on the outcome of regulatory examinations.

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 loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity, and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include 1) lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices; 2) national, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans; 3) the nature and volume of the portfolio and terms of loans; 4) the volume and severity of past due, classified and nonaccrual loans as well as other loan modifications; 5) the existence and effect of any concentrations of credit and changes in the level of such concentrations; and 6) the effect of external factors, such as competition and legal and regulatory requirements. Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

An unallocated component of the allowance for loan losses 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.

Penn Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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A loan is considered impaired when, based on current information and events, it is probable that the Bank 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 industrial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Bank's impaired loans are measured based on the estimated fair value of the loan's collateral. For 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual real estate, installment loans, or credit cards 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 Bank grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate, a below market interest rate based on credit risk, or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if a pattern of consistent principal and interest payments under the modified terms is demonstrated after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors, and value of collateral, if appropriate, are evaluated when credit deficiencies, such as delinquent loan payments, arise for all loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified as 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 as doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, 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.

Penn Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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 Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets. There were no transfers of financial assets for the periods ended December 31, 2021 and 2020.

Bank Premises and Equipment

Bank premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the useful life of the asset or the lease term, whichever is shorter. Charges for maintenance and repairs are expensed as incurred.

Foreclosed Assets

Foreclosed assets are comprised of property acquired through a foreclosure proceeding and loans classified as in-substance foreclosures. Such properties are included in other assets. A loan is classified as an in-substance foreclosure when the Company 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 cost or fair value minus estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other expenses. Foreclosed real estate for the Company totaled \$119,541 and \$910,337 as of December 31, 2021 and 2020, respectively.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred and were \$73,037 in 2021 and \$40,067 in 2020.

Income Taxes

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense 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 Company 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 basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax 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.

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

The Company recognizes interest and penalties on uncertain tax positions as a component of income tax expense. There were no such interest or penalties in 2021 or 2020. Under the threshold guidelines, the Company believes no significant uncertain tax positions exist, either individually or in the aggregate, that would result in recognition of a liability for unrecognized tax benefits as of December 31, 2021 and 2020. The Company is subject to Internal Revenue Service and state audits of its tax returns.

Treasury Stock

Common stock shares repurchased are recorded as treasury stock at cost.

Earnings per Share

The Company has a simple capital structure. Basic earnings per share represents net income divided by the weighted-average number of common shares outstanding during each period.

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

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company 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 consolidated financial statements when they are funded.

Trust Assets

Assets held in a fiduciary capacity for customers are not included in the consolidated financial statements since such items are not assets of the Company.

Comprehensive (Loss) Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated statements of financial condition, such items, along with net income, are components of comprehensive (loss) income and are reflected in the consolidated statements of comprehensive (loss) income.

Fair Value of Financial Instruments

The fair value of financial instruments are estimated using relevant market information and other assumptions are more fully disclosed in Note 14. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

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Newly Issued not yet Effective Accounting Standard

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses*, which will require entities to report "expected" credit losses on financial instruments and other commitments to extend credit rather than the current "incurred loss" model. These expected credit losses for financial assets held at the reporting date are to be based on historical experience, current conditions and reasonable and supportable forecasts. ASU No. 2016-13 will also require enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. For nonpublic business entities, ASU No. 2016-13 was originally effective for fiscal years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021. In November 2019, the FASB issued ASU No. 2019-10 which deferred the effective date of ASU No. 2016-13 for nonpublic business entities until fiscal years and interim periods within those years beginning after December 15, 2022. Early adoption will continue to be permitted. Management is currently evaluating the impact the adoption of ASU No. 2016-13 will have on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The core principle of this ASU is that a lessee should recognize the assets and liabilities that arise from leases. Specifically, a lessee should recognize on the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee would be permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities. The ASU does not significantly change the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee from current GAAP; however, the principal change from current GAAP is that lease assets and liabilities arising from operating leases would be recognized on the balance sheet. The ASU provides several other changes or clarifications to existing GAAP, and will require qualitative disclosures, along with quantitative disclosures, so that financial statement users can understand more about the nature of an entity's leasing activities. The ASU will become effective for the Company in 2022. The Company will be recording a right of use asset and related lease liability of approximately \$1.1 million on the balance sheet effective January 1, 2022.

Reclassifications

Certain amounts in the 2020 consolidated financial statements have been reclassified to conform with the 2021 classification. These reclassifications had no effect on previously reported net income for the year ended December 31, 2020.

Subsequent Events

The Company has evaluated events and transactions occurring subsequent to the consolidated statements of financial condition date for items that should potentially be recognized or disclosed in the consolidated financial statements. The evaluation was conducted through March 8, 2022, the date these consolidated financial statements were available to be issued.

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2. Revenue Recognition

The Company 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 as follows:

Deposits Related Fees and Service Charges

Service charges and fees on deposit accounts 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 are recognized at the time transaction is executed as that is the point in time the Company 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 Company 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.

Interchange Income

The Company earns interchange fees from credit/debit cardholder transactions conducted through Visa 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. Interchange fees earned are included within service charges and fees income in the consolidated statements of income.

Gain/Losses on Sale of OREO

The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company 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 OREO 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 Company adjusts the transaction prices and related gain (loss) on sale if a significant financing component is present.

Wealth/Asset/Trust Management Fees

The Company provides wealth management and trust services to individuals, corporations and retirement funds, as well as existing loan/deposit customers of the bank, located primarily within our geographic markets. The wealth management operations are conducted through the Bank and provides a broad range of personal and corporate fiduciary services, including the administration of decedent and trust estates. Assets held in a fiduciary capacity by the Company, are not assets of the Company and are therefore not included in the Company's consolidated financial statements. Wealth management and trust fees earned are included within trust department income in the consolidated statements of income.

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Wealth management fees are contractually agreed with each customer and earned over time as the Company provides the contracted monthly or quarterly services. Fees are generally based on a tiered scale based on average market value of the trust assets under management (AUM) at month-end. The services provided under such a contract is considered a single performance obligation because it embodies series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed (i.e. trade date).

3. Restrictions on Cash and Due From Bank Balances

The Company may be required to maintain minimum reserve balances in vault cash and with the Federal Reserve Bank. There was no reserve requirement at December 31, 2021 and 2020.

At times, the Company may maintain more than insured limits in cash at a financial institution.

4. Securities

The amortized cost and fair value of available-for-sale and equity securities are as follows at December 31, 2021 and 2020:

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. Treasury securities	\$ 31,717,047	\$ 164,604	\$ (134,509)	\$ 31,747,142
Obligations of U.S. government corporations and agencies	85,820,774	602,956	(667,287)	85,756,443
Corporate debt securities	49,987,034	565,242	(157,008)	50,395,268
Mortgage-backed securities, government sponsored entities, residential	1,652,728	33,535	-	1,686,263
	<u>\$ 169,177,583</u>	<u>\$ 1,366,337</u>	<u>\$ (958,804)</u>	<u>\$ 169,585,116</u>
	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. Treasury securities	\$ 12,408,316	\$ 476,393	\$ -	\$ 12,884,709
Obligations of U.S. government corporations and agencies	60,234,231	1,805,879	(2,686)	62,037,424
Corporate debt securities	66,352,322	1,762,338	(3,182)	68,111,478
Mortgage-backed securities, government sponsored entities, residential	2,567,959	9,475	-	2,577,434
	<u>\$ 141,562,828</u>	<u>\$ 4,054,085</u>	<u>\$ (5,868)</u>	<u>\$ 145,611,045</u>

Mortgage-backed securities include securities issued by U.S. government corporations and agencies. These securities are backed by residential mortgages.

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The amortized cost and fair value of securities at December 31, 2021, by contractual maturity as applicable, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

	2021	
	Amortized Cost	Fair Value
Due in one year or less	\$ 22,473,913	\$ 22,640,439
Due after one year through five years	130,846,852	131,341,736
Due after five years through ten years	14,204,090	13,916,678
Mortgage-backed securities, government sponsored entities, residential	1,652,728	1,686,263
	<u>\$ 169,177,583</u>	<u>\$ 169,585,116</u>

Securities with fair values of \$31,279,788 and \$20,580,683 at December 31, 2021 and 2020, respectively, were pledged as collateral for public deposits and for other purposes as required or permitted by law.

During the year ended December 31, 2021, there were no sales of investment securities resulting in a no realized gain or loss. During the year ended December 31, 2020, investment securities with a carrying amount of \$9,200,881 were sold for cash proceeds of \$9,466,698, resulting in a realized gain of \$265,817.

The following tables show the Company'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, 2021 and 2020:

	2021					
	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:						
U.S. Treasury securities	\$ 21,242,383	\$ (134,509)	\$ -	\$ -	\$ 21,242,383	\$ (134,509)
Obligations of U.S. government corporations and agencies	54,184,420	(635,534)	2,972,097	(31,753)	57,156,517	(667,287)
Corporate debt securities	12,154,882	(95,982)	1,378,573	(61,026)	13,533,455	(157,008)
	<u>\$ 87,581,685</u>	<u>\$ (866,025)</u>	<u>\$ 4,350,670</u>	<u>\$ (92,779)</u>	<u>\$ 91,932,355</u>	<u>\$ (958,804)</u>
	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 U.S. government corporations and agencies	\$ 3,003,159	\$ (2,686)	\$ -	\$ -	\$ 3,003,159	\$ (2,686)
Corporate debt securities	1,463,278	(3,182)	-	-	1,463,278	(3,182)
	<u>\$ 4,466,437</u>	<u>\$ (5,868)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,466,437</u>	<u>\$ (5,868)</u>

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At December 31, 2021 and 2020, the Company had 4 and 0 U.S. Treasury securities in an unrealized loss position for less than 12 months, respectively. At December 31, 2021 and 2020, the Company had 0 U.S. Treasury securities in an unrealized loss position for more than 12 months. The decline in fair value for these securities is due to interest rate fluctuations. Given that the Company's intention is not to sell any impaired securities and it is more-likely-than-not it will not be required to sell these securities before the recovery of its amortized cost basis, the Company does not consider these securities to be other-than-temporarily impaired.

At December 31, 2021 and 2020, the Company had 12 and 1 obligations of U.S. government corporations and agencies, in an unrealized loss position less than 12 months, respectively. At December 31, 2021 and 2020, the Company had 1 and 0 obligations of U.S. government corporations and agencies, in an unrealized loss position for more than 12 months, respectively. The decline in fair value for these securities is due to interest rate fluctuations. Given that the Company's intention is not to sell any impaired securities and it is more-likely-than-not it will not be required to sell these securities before the recovery of its amortized cost basis, the Company does not consider these securities to be other-than-temporarily impaired.

At December 31, 2021 and 2020, the Company had 23 and 3 corporate debt securities in an unrealized loss position less than 12 months, respectively. At December 31, 2021 and 2020, the Company had 3 and 0 corporate debt securities in an unrealized loss position more than 12 months, respectively. The decline in fair value on these performing corporate debt securities is due in large part to the lack of an active trading market for these securities, changes in market credit spreads and rating agency downgrades. None of the corporate issuers have defaulted on interest payments. Given that the Company's intention is not to sell any impaired securities and it is more-likely-than-not it will not be required to sell these securities before the recovery of its amortized cost basis, the Company does not consider these corporate debt securities to be other-than-temporarily impaired. Future deterioration in the credit quality of the issuer of the corporate debt securities could result in impairment charges in the future.

5. Loans Receivable and Allowance for Loan Losses

The segments of loans receivable at December 31, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Real estate loans	\$ 38,194,838	\$ 38,209,909
Commercial and industrial	16,034,642	19,233,710
Installment	1,363,444	1,278,732
Municipal	16,701,376	2,158,355
Credit card	320,909	286,241
	<u>72,615,209</u>	<u>61,166,947</u>
Allowance for loan losses	<u>(1,217,084)</u>	<u>(1,212,214)</u>
	<u>\$ 71,398,125</u>	<u>\$ 59,954,733</u>

The loans receivable portfolio consists of real estate loans, commercial and industrial loans, installment loans, municipal loans, and credit cards. Included within real estate loans are 1 to 4 family first lien residential mortgage loans, and home equity loans. Included within commercial and industrial loans are construction loans and commercial mortgage loans.

For commercial loans secured by real estate, estimated collateral 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.

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For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging's 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.

Residential 1 to 4 family loans include first mortgage loans originated by the Bank within Salem County, New Jersey, and surrounding areas which comprises its primary market area. The Bank currently originates fixed-rate, fully amortizing mortgage loans with maturities of 15 to 30 years. The Bank also offers adjustable rate mortgage (ARM) loans with varying adjustment periods of one, three, or five years. The Bank underwrites 1 to 4 family residential mortgage loans with loan-to-value ratios of up to 95 percent, provided that the borrower obtains private mortgage insurance on loans that exceed 80 percent of the appraised value or sales price, whichever is less, of the secured property. The Bank also requires that title insurance, hazard insurance and, if appropriate, flood insurance be maintained on all properties securing real estate loans. The Bank requires that a licensed appraiser from our list of approved appraisers perform and submit to us an appraisal on all properties secured by a first mortgage on 1 to 4 family first mortgage loans. In underwriting 1 to 4 family residential mortgage loans, the Bank evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan. The Bank has not engaged in sub-prime residential mortgage loan originations.

Commercial mortgage loans include commercial real estate, multi-family and other loans that are secured by nonfarm nonresidential properties. Commercial and multi-family real estate loans generally present a higher level of risk than loans secured by 1 to 4 family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial and multi-family real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed, or a bankruptcy court modifies a lease term, or a major tenant is unable to fulfill its lease obligations), the borrower's ability to repay the loan may be impaired.

Commercial and industrial loans secured by non-real estate collateral are dependent on the successful operation of the borrower's business and are susceptible to higher risk during an economic downturn.

Installment loans include primarily auto loans and home improvement loans. The Bank currently originates most of its consumer loans in its primary market area and surrounding areas. 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.

Municipal loans represent loans to school districts, towns and other political subdivisions. These loans are often at lower interest rates and are of relatively low risk to the Bank. The loans are typically collateralized by the revenue stream of municipalities. These loans are usually used to fund capital improvements and are short term. They also provide tax exempt income to the Bank.

Credit card loans present greater credit risk than do residential mortgage loans because they are essentially unsecured and are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances.

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The following tables summarize the activity in the allowance for loan losses by loan class for the year ended December 31, 2021, and information in regard to the allowance for loan losses and the recorded investment in loans receivable by loan segment as of December 31, 2021:

Allowances for Loan Losses							
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Real estate	\$ 509,366	\$ 26,372	\$ -	\$ (64,482)	\$ 418,512	\$ 16,685	\$ 401,827
Commercial and industrial	659,474	-	-	(52,527)	606,947	351,350	255,597
Installment	20,119	2,612	1,804	18,113	37,424	-	37,424
Municipal	2,158	-	-	14,543	16,701	-	16,701
Credit card	10,745	13,734	5,784	9,603	12,398	-	12,398
Unallocated	10,352	-	-	114,750	125,102	-	125,102
	<u>\$ 1,212,214</u>	<u>\$ 42,718</u>	<u>\$ 7,588</u>	<u>\$ 40,000</u>	<u>\$ 1,217,084</u>	<u>\$ 368,035</u>	<u>\$ 849,049</u>

				Loans Receivables		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment			
Real estate	\$ 38,194,838	\$ 326,734	\$ 37,868,104			
Commercial and industrial	16,034,642	564,778	15,469,864			
Installment	1,363,444	-	1,363,444			
Municipal	16,701,376	-	16,701,376			
Credit card	320,909	-	320,909			
	<u>\$ 72,615,209</u>	<u>\$ 891,512</u>	<u>\$ 71,723,697</u>			

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

Allowances for Loan Losses							
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Real estate	\$ 530,368	\$ 115,441	\$ 7,661	\$ 86,778	\$ 509,366	\$ 127,360	\$ 382,006
Commercial and industrial	281,281	170,000	-	548,193	659,474	241,767	417,707
Installment	33,458	1,944	1,412	(12,807)	20,119	-	20,119
Municipal	4,350	-	-	(2,192)	2,158	-	2,158
Credit card	16,158	14,058	3,070	5,575	10,745	-	10,745
Unallocated	295,899	-	-	(285,547)	10,352	-	10,352
	<u>\$ 1,161,514</u>	<u>\$ 301,443</u>	<u>\$ 12,143</u>	<u>\$ 340,000</u>	<u>\$ 1,212,214</u>	<u>\$ 369,127</u>	<u>\$ 843,087</u>

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	Loans Receivables		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Real estate	\$ 38,209,909	\$ 984,530	\$ 37,225,379
Commercial and industrial	19,233,710	457,080	18,776,630
Installment	1,278,732	-	1,278,732
Municipal	2,158,355	-	2,158,355
Credit card	286,241	-	286,241
	<u>\$ 61,166,947</u>	<u>\$ 1,441,610</u>	<u>\$ 59,725,337</u>

The following tables summarize information in regard to loans individually evaluated for impairment by loan portfolio class as of December 31, 2021 and 2020 and for the years then ended:

	2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate	\$ 207,734	\$ 234,106	\$ -	\$ 705,776	\$ -
Commercial and industrial	-	-	-	-	-
With an allowance recorded:					
Real estate	119,000	119,000	16,685	119,000	-
Commercial and industrial	564,778	734,778	351,350	510,929	-
Total:					
Real estate	326,734	353,106	16,685	824,776	-
Commercial and industrial	564,778	734,778	351,350	510,929	-
	<u>\$ 891,512</u>	<u>\$ 1,087,884</u>	<u>\$ 368,035</u>	<u>\$ 1,335,705</u>	<u>\$ -</u>
	2020				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate	\$ 331,990	\$ 334,737	\$ -	\$ 314,781	\$ 4,080
Commercial and industrial	-	-	-	-	-
With an allowance recorded:					
Real estate	652,540	652,540	127,360	658,328	15,689
Commercial and industrial	457,080	880,848	241,767	537,601	-
Total:					
Real estate	984,530	987,277	127,360	973,109	19,769
Commercial and industrial	457,080	880,848	241,767	537,601	-
	<u>\$ 1,441,610</u>	<u>\$ 1,868,125</u>	<u>\$ 369,127</u>	<u>\$ 1,510,710</u>	<u>\$ 19,769</u>

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

	<u>2021</u>	<u>2020</u>
Real estate	\$ 326,734	\$ 984,530
Commercial and industrial	<u>564,778</u>	<u>457,080</u>
	<u>\$ 891,512</u>	<u>\$ 1,441,610</u>

The following table summarizes the aggregate Pass and criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system as of December 31, 2021 and 2020:

	<u>2021</u>				
	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
Real estate	\$ 37,868,104	\$ -	\$ 326,734	\$ -	\$ 38,194,838
Commercial and industrial	12,783,891	1,171,169	2,079,582	-	16,034,642
Installment	1,362,922	-	522	-	1,363,444
Municipal	16,701,376	-	-	-	16,701,376
Credit card	<u>320,909</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>320,909</u>
	<u>\$ 69,037,202</u>	<u>\$ 1,171,169</u>	<u>\$ 2,406,838</u>	<u>\$ -</u>	<u>\$ 72,615,209</u>
	<u>2020</u>				
	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
Real estate	\$ 37,225,379	\$ -	\$ 984,530	\$ -	\$ 38,209,909
Commercial and industrial	15,137,512	313,294	3,782,904	-	19,233,710
Installment	1,278,732	-	-	-	1,278,732
Municipal	2,158,355	-	-	-	2,158,355
Credit card	<u>281,570</u>	<u>-</u>	<u>4,671</u>	<u>-</u>	<u>286,241</u>
	<u>\$ 56,081,548</u>	<u>\$ 313,294</u>	<u>\$ 4,772,105</u>	<u>\$ -</u>	<u>\$ 61,166,947</u>

Management uses a five point internal risk rating system to monitor the credit quality of the overall loan portfolio. The criticized rating categories utilized by management generally follow bank regulatory definitions.

The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a substandard classification.

Loans in the substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected.

Loans in the doubtful category have all of the weaknesses inherent in loans classified as substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable.

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To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process with several layers of oversight. Generally, consumer, municipal and residential mortgage loans are included in the Pass categories unless a specific action, such as significant delinquency, bankruptcy, repossession, troubled debt restructuring or death occurs to raise awareness of a possible credit event. The Bank's loan officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination. Annually, all commercial relationships totaling \$100,000 or greater are reviewed internally for credit deterioration or improvement in order to confirm that the relationship is appropriately risk rated.

Detailed reviews, including plans for resolution, are performed on loans classified as substandard or doubtful on a quarterly basis. Classified loans that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

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

	2021						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable >90 Days and Accruing
Real estate	\$ 628,581	\$ 522	\$ 326,734	\$ 955,837	\$ 37,239,001	\$ 38,194,838	\$ -
Commercial and industrial	-	-	564,778	564,778	15,469,864	16,034,642	-
Installment	-	-	-	-	1,363,444	1,363,444	-
Municipal	-	-	-	-	16,701,376	16,701,376	-
Credit card	-	-	-	-	320,909	320,909	-
	<u>\$ 628,581</u>	<u>\$ 522</u>	<u>\$ 891,512</u>	<u>\$ 1,520,615</u>	<u>\$ 71,094,594</u>	<u>\$ 72,615,209</u>	<u>\$ -</u>
	2020						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable >90 Days and Accruing
Real estate	\$ 516,450	\$ 332,622	\$ 984,530	\$ 1,833,602	\$ 36,376,307	\$ 38,209,909	\$ -
Commercial and industrial	138,353	-	457,080	595,433	18,638,277	19,233,710	-
Installment	-	-	-	-	1,278,732	1,278,732	-
Municipal	-	-	-	-	2,158,355	2,158,355	-
Credit card	-	-	-	-	286,241	286,241	-
	<u>\$ 654,803</u>	<u>\$ 332,622</u>	<u>\$ 1,441,610</u>	<u>\$ 2,429,035</u>	<u>\$ 58,737,912</u>	<u>\$ 61,166,947</u>	<u>\$ -</u>

The Company 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 Company may modify loans through rate reductions, extensions of maturity, interest only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. Troubled debt restructurings are considered impaired loans for purposes of calculating the Company's allowance for loan losses.

The Company 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.

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The Company had no troubled debt restructurings for the years ended December 31, 2021 and 2020. The Company had no troubled debt restructurings which have subsequently defaulted during 2021 or 2020.

The post-modification recorded investment balance was the same as the pre-modification recorded investment balance, as there were no charge-offs as a result of the restructuring. No troubled debt restructurings have subsequently defaulted in the last twelve months.

If a loan was considered to be impaired prior to modification as a troubled debt restructuring, then there is no impact on the allowance for loan losses as a result of the modification, because the loan was already being evaluated individually for impairment. If a loan was not impaired prior to modification as a troubled debt restructuring, then there could be an impact on the allowance for loan losses as a result of the modification because of the transition of the loan from the pools of loans being evaluated collectively for impairment to being evaluated individually for impairment. There was no change to the allowance for loan losses as a result of loans modified as TDR for the year ended December 31, 2021 and 2020.

In 2020, the Company instituted a payment deferral program to assist borrowers experiencing financial hardship due to COVID-19 related challenges. This program was established in response to federal banking agencies guidance encouraging banks to work with borrowers that may be unable to meet their contractual obligations due to the effects of COVID-19. This guidance stated that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current at the time of modification are not considered TDRs. In addition, Section 4013 of the Coronavirus Aid, Relief and Economic Security Act (CARES Act) provided that loan modifications related to COVID-19 on a loan that was current at December 31, 2019 are not considered TDRs. The Company granted a deferral of payments as a result of COVID-19 for 25 loans totaling \$3,621,563. These deferrals included principal, and principal and interest deferrals, generally for 30 to 90 days. As of December 31, 2021 and 2020, no loans remain in payment deferral status.

6. Bank Premises and Equipment

Components of bank premises and equipment at December 31, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 258,319	\$ 258,319
Buildings	3,701,695	3,536,963
Leasehold improvements	2,189,714	2,184,215
Furniture and fixtures	<u>3,715,868</u>	<u>3,701,311</u>
Total cost	9,865,596	9,680,808
Depreciation and amortization	<u>(6,998,215)</u>	<u>(6,821,856)</u>
Net	<u>\$ 2,867,381</u>	<u>\$ 2,858,952</u>

Depreciation and amortization expense amounted to \$176,359 and \$202,648 for the years ended December 31, 2021 and 2020, respectively.

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Future minimum lease payments on the Company's noncancellable lease are as follows:

Years ended December 31:		
2022	\$	80,893
2023		83,421
2024		86,960
2025		86,960
2026		86,960
Thereafter		137,687
Total minimum lease payments	\$	<u>562,881</u>

Total rent expense for the years ended December 31, 2021 and 2020, amounted to \$80,893.

7. Deposits

The components of deposits at December 31, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Demand, noninterest bearing	\$ 42,909,355	\$ 35,401,626
Demand, interest bearing	83,130,809	75,087,472
Savings	54,895,887	49,860,815
Money market	42,563,536	35,620,488
Time, \$100,000 and over	2,116,468	2,063,618
Time, other	15,083,557	14,911,404
	<u>\$ 240,699,612</u>	<u>\$ 212,945,423</u>

At December 31, 2021, the scheduled maturities of time deposits are as follows:

2022	\$ 14,566,627
2023	2,105,436
2024	202,251
2025	325,711
	<u>\$ 17,200,025</u>

Time deposits that meet or exceed the FDIC Insurance limit of \$250,000 were \$744,410 and \$0 at December 31, 2021 and 2020, respectively.

8. Borrowing Capacity

The Company has the capability to borrow funds through a credit arrangement with the FRB. This borrowing is subject to annual renewal, incurs no service charges, and is secured by eligible collateral. The Company's maximum borrowing capacity with the FRB was \$2 million, as of December 31, 2021 and 2020. There were no borrowings at December 31, 2021 and 2020.

9. Employee Benefit Plan

The Company has an employee profit sharing plan which covers employees who meet the eligibility requirements of having completed at least one year of service, over 1,000 hours worked and having attained the age of 21. The Company contributes to the plan at the discretion of the Board of Directors. Total plan expense, including contributions, for the years ended December 31, 2021 and 2020 were \$81,808 and \$89,061, respectively.

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10. Income Taxes

The provision for income taxes at December 31, 2021 and 2020 consists of:

	<u>2021</u>	<u>2020</u>
Current expense:		
Federal	\$ 99,466	\$ 295,385
State	61,515	70,890
	160,981	366,275
Deferred expense (benefit)	317,610	(84,611)
	<u>\$ 478,591</u>	<u>\$ 281,664</u>

A reconciliation of the statutory income tax expense computed at 21 percent for 2021 and 2020, the income tax expense included in the consolidated statements of income for the years ended December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Federal income tax at statutory rate	\$ 436,279	\$ 236,924
Tax-exempt interest	(5,784)	(7,038)
Disallowance of interest expense	180	140
Dividends received deduction	(3,721)	(727)
Other	51,637	52,365
	<u>\$ 478,591</u>	<u>\$ 281,664</u>

Components of deferred tax assets and liabilities that comprise the net asset included in other assets in the consolidated statements of financial condition at December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Deferred tax assets:		
Allowance for loan losses	\$ 255,587	\$ 254,565
Net unrealized losses recognized on equity securities	39,528	87,010
Reserve for contingencies	2,826	2,826
Other real estate owned	5,163	316,000
Total deferred tax assets	<u>303,104</u>	<u>660,401</u>
Deferred tax liabilities:		
Securities accretion	31,258	93,073
Depreciation	63,883	40,656
Prepaid expenses	21,605	22,704
Net unrealized gains on securities available-for-sale	85,581	850,125
Total deferred tax liabilities	<u>202,327</u>	<u>1,006,558</u>
Net deferred tax asset (liability)	<u>\$ 100,777</u>	<u>\$ (346,157)</u>

No valuation allowance was established against deferred tax assets at December 31, 2021 and 2020 since it is more-likely-than-not that the deferred tax assets will be realized through the generation of future taxable income during periods in which the related temporary differences become deductible.

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11. Transactions With Executive Officers, Directors and Principal Stockholders

The Company, in the ordinary course of business, has loan, deposit and other routine transactions with its executive officers, directors, principal stockholders and entities in which they had principal ownership. Loans are made to such related parties at substantially the same credit terms as other borrowers and do not represent more than the usual risk of collection. Activity for these related party loans for the years ended December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Balance, beginning	\$ 2,975,303	\$ 2,654,156
Advances	125,000	1,845,023
Repayments	<u>(2,142,572)</u>	<u>(1,523,876)</u>
Balance, ending	<u>\$ 957,731</u>	<u>\$ 2,975,303</u>

The Company held deposits of \$1,916,375 and \$1,817,933 for related parties at December 31, 2021 and 2020, respectively.

A director of the Company provides professional legal services to the Company. Fees for these services were approximately \$18,700 in 2021 and \$16,400 in 2020.

12. Financial Instruments With Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist primarily of commitments to extend credit, typically residential mortgage loans and commercial loans and, to a lesser extent, standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company does not anticipate any material losses from these commitments.

A summary of the contractual amount of the Company's exposure for loan commitments and standby letters of credit at December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Commitments to grant loans	\$ 211,203	\$ 716,336
Unfunded commitments under lines of credit	7,136,322	6,821,923
Standby letters of credit	<u>516,988</u>	<u>517,345</u>
	<u>\$ 7,864,513</u>	<u>\$ 8,055,604</u>

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

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Outstanding letters of credit written are conditional commitments issued by the Company 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 Company 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, 2021 and 2020 for guarantees under standby letters of credit issued is not material.

13. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the Office of the Comptroller of the Currency. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Management believes, as of December 31, 2021, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2021 and December 31, 2020, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To remain categorized as well capitalized. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category.

In 2020, the Bank adopted the new community bank leverage ratio framework. This framework simplifies the regulatory capital requirements by requiring the Bank meet only the Tier 1 capital to average assets (leverage) ratio. The Bank must only maintain a leverage ratio greater than the 9 percent required minimum to be considered well capitalized under this framework. The Bank can opt out of the new framework and return to the risk-weighting framework at any time. In April 2020, the federal banking agencies temporarily reduced the minimum requirement to 8 percent for 2020, increasing to 8.50 percent for 2021, and returning to 9 percent for 2022 and thereafter.

As of December 31, 2020, the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework. As of December 21, 2021, the Bank did not elect to measure capital adequacy under the CBLR framework.

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The Bank's actual capital amounts and ratios as of December 31, 2021 and 2020 are also presented in the table below:

	2021					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollar in Thousands)					
Total capital (to risk-weighted assets)	\$ 21,598	15.96 %	\$ ≥ 10,824	8.00 %	\$ ≥ 13,530	10.00 %
Common equity Tier 1 (CET1) capital (to risk-weighted assets)	20,368	15.05	≥ 6,088	4.50	≥ 8,794	6.50
Tier 1 capital (to risk-weighted assets)	20,368	15.05	≥ 8,118	6.00	≥ 10,824	8.00
Tier 1 capital (to average assets)	20,368	7.81	≥ 10,427	4.00	≥ 13,033	5.00

	2020			
	Actual		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio
	(Dollar in Thousands)			
Tier 1 capital (to average assets)	\$ 19,039	8.13 %	\$ ≥18,732	8.00 %

A national bank is required to obtain the approval of the Comptroller of the Currency if the total of all dividends declared in any calendar year exceeds the Bank's net profits (as defined) for that year combined with its retained net profits for the preceding two calendar years.

14. Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends 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 at each year-end.

FASB Accounting Standards Codification (ASC) 820 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 under FASB ASC 820 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.

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).

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An asset's 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.

The following methods and assumptions were used in estimating fair value disclosures for financial instruments:

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) were used to support fair values of certain Level 3 investments.

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, 2021 and 2020 are as follows:

	2021			
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:				
U.S. Treasury securities	\$ 31,747,142	\$ -	\$ 31,747,142	\$ -
Obligations of U.S. government corporations and agencies	85,756,443	-	85,756,443	-
Corporate debt securities	50,395,268	-	50,395,268	-
Mortgage-backed securities, government sponsored entities, residential	1,686,263	-	1,686,263	-
	169,585,116	-	169,585,116	-
Equity securities	1,127,920	1,127,920	-	-
	<u>\$ 170,713,036</u>	<u>\$ 1,127,920</u>	<u>\$ 169,585,116</u>	<u>\$ -</u>

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	2020			
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:				
U.S. Treasury securities	\$ 12,884,709	\$ -	\$ 12,884,709	\$ -
Obligations of U.S. government corporations and agencies	62,037,424	-	62,037,424	-
Corporate debt securities	68,111,478	-	68,111,478	-
Mortgage-backed securities, government sponsored entities, residential	2,577,434	-	2,577,434	-
	145,611,045	-	145,611,045	-
Equity securities	901,819	901,819	-	-
	<u>\$ 146,512,864</u>	<u>\$ 901,819</u>	<u>\$ 145,611,045</u>	<u>\$ -</u>

For financial assets measured at fair value on a nonrecurring basis, the fair value measurement by level within the fair value hierarchy used at December 31, 2021 and 2020, are as follows:

	2021			
Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans	\$ 315,743	\$ -	\$ -	\$ 315,743
Other Real Estate Owned	119,541			119,541

	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	\$ 740,493	\$ -	\$ -	\$ 740,493
Other Real Estate Owned	910,337			910,337

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The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine fair value measurements at December 31, 2021 and 2020:

2021				
Qualitative Information About Level 3 Fair Value Measurements				
	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Estimated Range
Impaired loans	\$ 315,743	Appraisal of collateral	Appraisal adjustments Liquidation expenses	20% - 30%
Other Real Estate Owned	119,541	Appraisal of collateral	Appraisal adjustments	10% - 20%

2020				
Qualitative Information About Level 3 Fair Value Measurements				
	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Estimated Range
Impaired loans	\$ 740,493	Appraisal of collateral	Appraisal adjustments Liquidation expenses	20% - 30%
Other Real Estate Owned	910,337	Appraisal of collateral/Sales Contract	Appraisal adjustments	10% - 20%

15. Contingencies and Commitments

There are no material legal proceedings to which the Company is 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 of the Company.