WILLIAM PENN
BANCORP, INC.

Annual Report

2019

Corporate Profile

William Penn Bancorp, Inc. (the "Company") is the holding company for William Penn Bank (the "Bank"). The Bank operates as a full-service community bank and serves Bucks County, Pennsylvania and Southern New Jersey through six branch offices in Levittown, Richboro, and Morrisville, Pennsylvania and Audubon, Mount Laurel, and Pine Hill, New Jersey. The Bank's deposits are insured up to the legal maximum (generally $250,000 per depositor) by the FDIC. The Bank is regulated by the FDIC and the Pennsylvania Department of Banking and Securities.

The Company's executive offices are located at 10 Canal Street, Suite 104, Bristol, Pennsylvania 19007. For more information about the Company and the Bank visit: www.williampenn.bank.

Stock Market Information

The Company's common stock trades on the OTC Pink Market Place under the symbol "WMPN."

At June 30, 2019, there were 3,980,154 shares of the Company's common stock outstanding, including 3,194,999 shares held by the MHC, and 28,322 shares held by William Penn Bank Community Foundation.

At June 30, 2019, the Company had approximately 245 stockholders of record. This number does not reflect the number of persons or entities who held stock in nominee or street name through various brokerage firms.

On July 25, 2019, the Company declared a regular cash dividend of $0.40 per share and a special cash dividend of $0.10 per share payable on August 12, 2019 to shareholders of record on August 5, 2019. The Company anticipates paying dividends on an annual basis. The Company's ability to pay dividends to stockholders is, to some extent, dependent upon the dividends it receives from the Bank, which may only pay dividends out of accumulated net earnings.

Dear Fellow Shareholders,

Fiscal 2019 was a pivotal year for William Penn Bancorp, Inc. We began the year by achieving a significant milestone – on July 1, 2018, our subsidiary bank, William Penn Bank, completed its merger with Audubon Savings Bank. Audubon Savings, where I served as President and Chief Executive Officer, was a mutual community bank with a long tradition of service to its South Jersey communities dating back to 1904, and it has proven to be an excellent addition to our Company. Through the merger, William Penn Bank added $150 million in total assets and $108 million in deposits, and we extended our presence beyond Bucks County, Pennsylvania by adding three full-service offices in Southern New Jersey. In connection with the completion of the merger, the Company issued 517,095 additional shares of common stock to William Penn, MHC to reflect the value of Audubon Savings that was transferred to William Penn in the merger.

FINANCIAL HIGHLIGHTS

Our 2019 fiscal year proved to be a very strong year for William Penn Bancorp in which our company generated record earnings. We posted net income of $3.756 million, reflecting the positive effect of the economies of scale derived from the merger with Audubon Savings Bank, and the combination of the two banks' balance sheets and operations. Basic and diluted earnings per share for the fiscal year ended June 30, 2019 were $0.94.

Return on average assets, a key measure of profitability, was 0.92% in 2019, placing us in the top tier of community banks in our region. The return on average tangible common equity, although constrained by our large equity base, was 5.82% in 2019.

Our balance sheet is extraordinarily strong. As of June 30, 2019, total assets at William Penn Bancorp were $415,829,000; total deposits stood at $281,206,000; and tangible common equity measured $68,437,000. The Bank's Tier 1 leverage ratio, a measure of capital strength, remains among the highest of the region's community banks, and measured 16.94% at June 30, 2019.

Our profitability and capital strength allowed us to increase total cash dividends paid per share in 2019. On August 12, 2019, the Company paid an annual regular cash dividend of $0.40 per share, as well as a $0.10 per share special cash dividend, to shareholders of record as of the close of business on August 5, 2019.

KEY ADDITIONS TO OUR TEAM

The merger of William Penn Bank with Audubon Savings Bank brought together two exceptional management teams. This depth of managerial talent, combined with several key strategic hirings, helped to facilitate a seamless transition to the Company's new management team.

After the merger, I became President of the Company and the Bank on October 1, 2018, and became CEO of the Company and the Bank on February 1, 2019, following the retirement of long-time CEO Terry Sager. Mrs. Sager had served as President and CEO since April 2010, after having joined William Penn Bank in 1986. Terry continues to serve on the Boards of Directors of the Company and the Bank. On behalf of the Board, I would like to thank Terry for her many years of exemplary service to William Penn and the communities we serve.

Gregory Garcia (left) joined the Bank as Senior Vice President in September 2018, and became Chief Financial Officer on January 1, 2019. Greg was already very familiar with the Company because of his long tenure at FinPro, Inc., where he most recently served as Executive Managing Director providing advisory services to community banks. Greg's hiring was in connection with the planned retirement of Jan Summers who, after serving as the Chief Financial Officer of Audubon Savings prior to the merger, stepped into the CFO role of the combined banks until her retirement on December 31, 2018. Jan was a key contributor in our accomplishing the smooth integration of the two banks, and I would like to extend my appreciation to Jan for her dedication and service throughout her long and distinguished career in community banking.

Bruce Knipe (right) became Chief Lending Officer on January 1, 2019, after initially serving as Director of Commercial Lending following the merger with Audubon Savings, where he was also Chief Lending Officer. Bruce's promotion followed the planned retirement of James Douglas as the Bank's Chief Lending Officer on December 31, 2018. Jim joined William Penn Bank in 1977, and served the Bank continuously for 41 years. We are thankful to Jim for his more than four decades of dedication and service. He will continue to serve as a director of the William Penn Bank Community Foundation.

We further strengthened our executive management team with the hiring of Jill Ross (left) as Senior Vice President and Chief Retail Officer on March 18, 2019. Prior to joining William Penn Bank, Jill had been with Beneficial Bank for 11 years as their Senior Vice President and New Jersey Regional Director. Jill and her team of experienced business development officers are energetically driving strong and healthy organic growth for the Bank in our core markets.

INVESTING IN OUR FUTURE

As part of our continuing mission to strengthen the Company for the future, during the past twelve months we have made significant investments in our products, facilities, and technology.

We are always on a quest to improve our products and services. We will soon be introducing a number of substantial upgrades to our suite of business products, including Business Online Banking with online wire transfers and ACH, Business Mobility with mobile check deposits, as well as online account opening capabilities. The highlight on the consumer side will be the introduction of Mortgagebot, an online mortgage application program. These important investments help to drive the future prospects of our Company and position it to grow and prosper.

We are very excited about our move this fall to our new Corporate Headquarters in the historic Canal Works building in Bristol, Bucks County, PA. Since the merger, we have had several administrative departments dispersed to various locations in Bucks County and South Jersey. Our move to the Canal Works brings our management team and administrative staff under one roof, which will greatly enhance our efficiency. The Canal Works is a beautiful, meticulously restored and renovated 19th century mill located in historic Bristol Borough, which is centrally located between the two former bank headquarters. It offers one of the most unique office environments in the Greater Philadelphia area, and is consistent with our corporate objective of standing out in the crowd.

As part of our long-term retail strategy, we plan to open a new branch office in the revitalized borough of Collingswood, NJ in late 2019. This historic, highly walk-able downtown location fits our plan to enter vibrant new markets as we position the Bank for the next phase of our existence. The Collingswood office will have a smaller footprint and a more modern feel than the previous generation of branch facilities, and will be a destination for our local clientele to meet for coffee and pastries while conducting their banking business.

IN CLOSING

As a team, we have made significant progress at William Penn Bancorp over the last year, and we are excited about our plans for 2020 and beyond. However, our progress would not have been possible without the tremendous dedication and talent we have at every level of this organization.

Once again, I want to thank Terry Sager for her partnership in engineering the successful merger of William Penn Bank with Audubon Savings Bank. It was an honor and a pleasure to work with her throughout the merger and integration process. Additionally, I thank our Board of Directors, whose members have come together in a very effective way, and who have provided great advice and guidance to me and the management team.

I want to extend a special word of appreciation to the members of our management team, all of whom have brought extraordinary efforts to the ongoing mission of our organization. Collectively, we managed every facet of the merger in-house, and this talented group of banking professionals worked tirelessly to deliver a smooth and seamless combination of our banks.

Finally, thanks to all of the hardworking employees of William Penn Bank for their amazing efforts of the past year. There is nothing more important to our mission than our people, and we are fortunate to have high caliber and high character individuals throughout our organization.

Together, we have come a long way, and we are well on the road to realizing the vast potential of this Company in the years to come. On behalf of all of us at William Penn Bancorp, thank you for your continued confidence and support. I am very proud to be a part of this great institution.

Sincerely,

Kenneth J. Stephon
President and Chief Executive Officer

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
William Penn Bancorp, Inc.
Levittown, Pennsylvania

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of William Penn Bancorp, Inc. and subsidiary, which comprise the consolidated balance sheets as of June 30, 2019 and 2018; the related consolidated statements of income, comprehensive income, changes in 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.

Auditor's 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 auditor's 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 William Penn Bancorp, Inc. and subsidiary as of June 30, 2019 and 2018, 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.

S. R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
October 10, 2019

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William Penn Bancorp, Inc.

Consolidated Balance Sheets

(Dollars in thousands, except share and per share data)

	June 30, 2019	June 30, 2018
ASSETS		
Cash and due from banks	$ 8,260	$ 3,348
Interest bearing deposits with other banks	17,908	12,780
Total cash and cash equivalents	26,168	16,128
Interest-bearing time deposits	8,486	32,422
Securities available for sale	20,660	1,816
Securities held to maturity, fair value of $1,937 and $3,141	1,906	3,147
Loans receivable, net of allowance for loan losses of $3,209 and $3,138, respectively	326,017	233,389
Premises and equipment, net	8,406	2,511
Regulatory stock, at cost	2,785	2,727
Deferred income taxes	2,111	1,569
Other real estate owned	-	135
Bank-owned life insurance	11,203	5,932
Goodwill	4,858	-
Intangible assets	1,172	-
Accrued interest receivable and other assets	2,057	1,333
TOTAL ASSETS	$ 415,829	$ 301,109
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	$ 281,206	$ 180,657
Advances from Federal Home Loan Bank	50,000	51,500
Advances from borrowers for taxes and insurance	3,814	3,014
Accrued interest payable and other liabilities	4,179	4,043
TOTAL LIABILITIES	339,199	239,214
Commitments and contingencies	-	-
STOCKHOLDERS' EQUITY		
Preferred stock, no par value, 1,000,000 shares authorized; no shares issued	-	-
Common Stock, $.10 par value, 49,000,000 shares authorized; 4,158,113 and 3,641,018 shares issued and 3,980,154 and 3,463,059 shares outstanding at June 30, 2019 and 2018, respectively.	416	364
Additional paid-in capital	22,441	10,243
Treasury Stock, 177,959 shares at cost at June 30, 2019 and 2018	(3,710)	(3,710)
Retained earnings	57,255	54,779
Accumulated other comprehensive income	228	219
TOTAL STOCKHOLDERS' EQUITY	76,630	61,895
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 415,829	$ 301,109

See accompanying notes to the audited consolidated financial statements

Consolidated Statements of Income
(Dollars in thousands, except share and per share data)

	Year ended June 30, 2019	Year ended June 30, 2018
INTEREST INCOME		
Loans receivable, including fees	$ 16,595	$ 10,992
Securities	415	317
Other	811	866
Total Interest Income	17,821	12,175
INTEREST EXPENSE		
Deposits	2,297	1,486
Borrowings	1,294	1,696
Total Interest Expense	3,591	3,182
Net Interest Income	14,230	8,993
Provision (Credit) For Loan Losses	88	(120)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	14,142	9,113
OTHER INCOME		
Service fees	483	323
Realized (losses) gains on sale of REO, net	(30)	47
Gain on sale of loans	12	-
Gain on sale of securities	140	-
Earnings on bank-owned life insurance	327	146
Other	195	125
Total Other Income	1,127	641
OTHER EXPENSES		
Salaries and employee benefits	6,860	3,666
Occupancy and equipment	1,096	408
Data processing	1,066	353
Professional fees	277	356
Merger related expenses	-	375
Amortization on intangible assets	260	-
Other	894	1,125
Total Other Expense	10,453	6,283
Income Before Income Taxes	4,816	3,471
Income Tax Expenses	1,060	2,007
NET INCOME	$ 3,756	$ 1,464
Basic and diluted earnings per share	$ 0.94	$ 0.42

See accompanying notes to the audited consolidated financial statements

Consolidated Statements of Comprehensive Income
(Dollars in thousands)

	Year Ended June, 2019	Year Ended June, 2018
Net income	$ 3,756	$ 1,464
Other comprehensive income (loss):		
Changes in net unrealized gain (loss) on securities available for sale	151	(102)
Tax effect	(31)	28
Reclassification adjustment for gain recognizd in net income	(140)	-
Tax effect	29	-
Other comprehensive income (loss), net of tax	9	(74)
Comprehensive income	$ 3,765	$ 1,390

See accompanying notes to the audited consolidated financial statements

Consolidated Statements of Changes in Stockholders' Equity
(Dollar amounts in thousands, except share and per share data)

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in capital	Treasury Stock	Unallocated Common Stock Held by the ESOP	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance- June 30, 2017	**3,464,686**	**$ 364**	**$ 10,231**	**$ (3,666)**	**$ (7)**	**$ 54,425**	**$ 257**	**$ 61,604**
Net income						1,464		1,464
Other comprehensive loss							(74)	(74)
Reclassification of certain income tax effects from accumulated other comprehensive income						(36)	36	-
Dividend paid ($0.31 per share)						(1,074)		(1,074)
Allocation of ESOP Stock (757 shares)			12		7			19
Stock Repurchase	(1,627)			(44)				(44)
Balance- June 30, 2018	**3,463,059**	**364**	**10,243**	**(3,710)**	**-**	**54,779**	**219**	**61,895**
Net income						3,756		3,756
Other comprehensive income							9	9
Dividend paid ($0.32 per share)						(1,280)		(1,280)
Merger with Audubon Savings Bank	517,095	52	12,198					12,250
Balance- June 30, 2019	**3,980,154**	**$ 416**	**$ 22,441**	**$ (3,710)**	**$ -**	**$ 57,256**	**$ 228**	**$ 76,631**

See accompanying notes to the audited consolidated financial statements

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Year ended June 30, 2019	Year ended June 30, 2018
Cash Flows from Operating Activities		
Net income	$ 3,757	$ 1,464
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan losses	88	(120)
Depreciation expense	408	172
Net accretion of securities premiums and discounts	(265)	(128)
Deferred income taxes	(544)	980
Proceeds from gain on sale of loans	604	-
Origination of loans sold	(592)	-
Gain on sale of loans	(12)	-
Loss (gain) on sale of other real estate owned	30	(47)
Amortization of core deposit intangibles	260	-
Gain on sale of securities	(140)	-
Earnings on bank-owned life insurance	(327)	(146)
Decrease (increase) in accrued interest receivable and other assets	294	(190)
Decrease (increase) in accrued interest payable and other liabilities	(805)	447
Net Cash Provided by Operating Activities	2,755	2,432
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases	(20,907)	-
Maturities, calls and principal paydowns	1,198	1,109
Proceeds from sale of securities	40,383	-
Securities held to maturity:		
Maturities, calls and principal paydowns	1,252	1,079
Net decrease (increase) in loans receivable	(5,834)	1,111
Interest bearing time deposits:		
Purchases	(1,499)	(13,218)
Maturities & principal paydowns	25,435	26,196
Regulatory stock		
Purchases	(983)	(271)
Redemptions	2,535	831
Proceeds from sale of other real estate owned	250	420
Purchases of premises and equipment, net	(247)	(88)
Acquisition, net of cash acquired	6,693	-
Net Cash Provided by Investing Activities	48,276	17,169
Cash Flows from Financing Activities		
Net decrease in deposits	(6,631)	(1,542)
Proceeds from Federal Home Loan Bank advances	19,000	6,000
Repayment of Federal Home Loan Bank advances	(52,880)	(20,000)
Purchase of Treasury Stock	-	(44)
Increase (decrease) in advances from borrowers for taxes and insurance	800	(65)
Cash dividends	(1,280)	(1,074)
Net Cash Used for Financing Activities	(40,991)	(16,725)
Net Increase in Cash and Cash Equivalents	10,040	2,876
Cash and Cash Equivalents-Beginning	16,128	13,252
Cash and Cash Equivalents-Ending	$ 26,168	$ 16,128
Supplementary Cash Flows Information		
Interest paid	$ 3,610	$ 3,206
Income taxes paid	$ 12	$ 1,011
Transfers from loans to other real estate owned	$ 178	$ 485

See accompanying notes to the audited consolidated financial statements

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Year ended June 30, 2019	2018
Supplementary Cash Flows Information (Continued)		
Acquisition of Audubon Savings Bank		
Consideration Paid	$ 12,250	$ -
Noncash assets acquired:		
Securities available for sale	39,113	-
Loans receivable	86,840	-
Premises and equipment, net	6,056	-
Regulatory stock	1,610	-
Deferred income taxes	1,256	-
Bank-owned life insurance	4,944	-
Goodwill	4,858	-
Core deposit intangible	1,432	-
Accrued interest receivable	522	-
Other assets	683	-
Total noncash assets acquired	147,314	-
Liabilities assumed:		
Deposits	107,180	-
Advances from Federal Home Loan Bank	32,380	-
Accrued interest payable	81	-
Other liabilities	2,116	-
Total liabilities assumed	141,757	-
Net noncash assets acquired	5,557	-
Cash acquired	$ 6,693	$ -

See accompanying notes to the audited consolidated financial statements

Notes to the Consolidated Financial Statements

Note 1-Nature of Operations and Basis of Presentation

The consolidated financial statements include the accounts of William Penn Bancorp, Inc. (the “Company”), and its wholly owned subsidiary, William Penn Bank (the “Bank”), and the Bank's wholly owned subsidiary, WPSLA Investment Corporation. The primary purpose of the Company is to act as the holding company for the Bank. The Company is subject to regulation and supervision by the Board of Governors of the Federal Reserve System. The Bank's primary business consists of the taking of deposits and granting of mortgage loans to the customers generally in the Bucks County, Pennsylvania and southwestern New Jersey area. The Bank is supervised and regulated by the Federal Deposit Insurance Corporation (“FDIC”) and the Pennsylvania Department of Banking and Securities. The investment in subsidiary on the parent company's financial statements is carried at the parent company's equity in the underlying net assets.

Note 1-Nature of Operations and Basis of Presentation (continued)

WPSLA Investment Corporation was incorporated under Delaware law in 2000 to hold investment securities for the Bank. At June 30, 2019, this subsidiary held $15.1 million of the Bank's $22.6 million securities portfolio and $36.7 million of the Bank's $329.2 million loan portfolio.

All intercompany transactions and balances have been eliminated in consolidation.

Note 2- Summary of Significant Accounting Policies

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates relate to the determination of the allowance for loan losses, deferred income taxes, evaluation of other-than-temporary impairment of investment securities and the fair value of the financial instruments.

Presentation of Cash Flows
For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and interest-bearing demand deposits.

Securities
Securities classified as held to maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by the interest method over the terms of the 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 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 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. Premiums and discounts are recognized in interest income using the interest method over the term of the securities.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent to sell the security or whether it's more likely than not that the Company would be required to sell the security before its anticipated recovery in fair value. Management determines the appropriate classification of debt securities at the time of purchase.

Note 2- Summary of Significant Accounting Policies (continued)

Regulatory Stock

The Company is a member of the Federal Home Loan Bank of Pittsburgh (FHLB) and as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding and participation in select loan partnership programs with the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the FHLB; and (d) the liquidity position of the FHLB. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein.

Loans Receivable

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

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.

Purchased Loans

The Company purchases individual loans and groups of loans. Purchased loans that show evidence of credit deterioration since origination are recorded at the amount paid (or allocated fair value in a purchase business combination), such that there is no carryover of the seller's allowance for loan losses. After acquisition, incurred losses are recognized by an increase in the allowance for loan losses.

Purchased loans are accounted for individually or aggregated into pools of loans based on common risk characteristics (e.g., credit score, loan type, and date of origination). The Company estimates the amount and timing of expected cash flows for each purchased loan or pool, and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loan's, or pool's, contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected future cash flows is greater than the carrying amount, the excess is recognized as part of future interest income.

Note 2- Summary of Significant Accounting Policies (continued)

Allowance for Loan Losses
Management establishes the allowance for loan losses based upon its evaluation of the pertinent factors underlying the types and quality of loans in the portfolio. Commercial loans and commercial real estate loans are reviewed on a regular basis with a focus on larger loans along with loans which have experienced past payment or financial deficiencies. Larger commercial loans and commercial real estate loans which are 60 days or more past due are selected for impairment testing in accordance with Generally Accepted Accounting Principles (GAAP). These loans are analyzed to determine if they are “impaired”, which means that it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. All loans that are delinquent 90 days and are placed on nonaccrual status are classified on an individual basis. Residential loans 60 days past due, which are still accruing interest are sometimes classified as substandard as per the Company's asset classification policy. The remaining loans are evaluated and classified as groups of loans with similar risk characteristics.

The Company allocates allowances based on the factors described below, which conform to the Company's asset classification policy. In reviewing risk within the Bank's loan portfolio, management has determined there to be several different risk categories within the loan portfolio. The allowance for loan losses consists of amounts applicable to: (i) the residential construction portfolio; (ii) the commercial construction portfolio; (iii) the 1-4 family residential real estate portfolio; (iv) the commercial non-residential real estate portfolio; (v) the multi-family loan portfolio; (vi) the home equity and second mortgage portfolio; (vii) the land loans portfolio; (viii) the consumer loan portfolio; and (ix) the commercial loan portfolio. Factors considered in this process included general loan terms, collateral, and availability of historical data to support the analysis. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. Certain qualitative factors are then added to the historical allocation percentage to get the adjusted factor to be applied to non-classified loans. The following qualitative factors are analyzed:

- Levels of and trends in delinquencies and nonaccruals
- Trends in volume and terms
- Changes in lending policies and procedures
- Economic trends
- Concentrations of credit
- Experience depth and ability of management

The Company also maintains an unallocated allowance to account for any factors or conditions that may cause a potential loss but are not specifically addressed in the process described above.

The Company analyzes its loan portfolio each quarter to determine the appropriateness of its allowance for loan losses.

Loan Charge-off Policies
Consumer loans are generally fully or partially charged down to the fair value of collateral securing the asset when the loan is 180 days past due for open-end loans or 90 days past due for closed-end loans unless the loan is well secured and in the process of collection. All other loans are generally charged down to the net realizable value when the loan is 90 days past due.

Note 2- Summary of Significant Accounting Policies (continued)

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. In addition to the allowance for the pooled portfolios, management has developed a separate allowance for loans that are identified as impaired through a TDR. These loans are excluded from pooled loss forecasts and a separate reserve is provided under the accounting guidance for loan impairment. Consumer loans whose terms have been modified in a TDR are also individually analyzed for estimated impairment.

Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation 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.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the following estimated useful lives of the related assets:

	Years
Office buildings and improvements	5 – 33
Furniture, fixtures, and equipment	5 – 10
Automobiles	4

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for each of the years ended June 30, 2019 and 2018 was $77,000 and $56,000, respectively.

Income Taxes

Deferred taxes are provided on the liability method, whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Note 2- Summary of Significant Accounting Policies (continued)

Real Estate Owned
Real estate owned acquired in settlement of foreclosed loans is carried as a component of other assets at fair value minus estimated cost to sell. Prior to foreclosure, the estimated collectible value of the collateral is evaluated to determine whether a partial charge-off of the loan balance is necessary. After transfer to real estate owned, any subsequent write-downs are charged against other operating expenses. Direct costs incurred in the foreclosure process and subsequent holding costs incurred on such properties are recorded as expenses of current operations.

Goodwill and Other Intangible Assets
Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified. Other intangible assets consist of core deposit intangibles arising from whole bank acquisitions. These intangible assets are measured at fair value and then amortized on an accelerated method over their estimated useful lives, which range from five to twelve years of ten years.

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. Such financial instruments are recorded in the Consolidated Balance Sheets when they are funded.

Comprehensive Income
GAAP generally requires that recognized revenue, expenses, gains and losses be included in net income. 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 stockholders' equity section of the Consolidated Balance Sheets. Such items, along with net income, are components of comprehensive income, as presented in the Consolidated Statements of Comprehensive Income.

Business Combinations
At the date of acquisition the Company records the assets and liabilities of the acquired companies on the Consolidated Balance Sheets at their fair value. The results of operations for acquired companies are included in the Company's Consolidated Statements of Income beginning at the acquisition date. Expenses arising from acquisition activities are recorded in the Consolidated Statements of Income during the period incurred

Segment Report
The Company acts as an independent community financial services provider, and offers traditional banking and related financial services to individual, business, and government customers. Through its branch and automated teller machine network, the Bank offers a full array of commercial and retail financial services, including; the taking of time, savings and demand deposits; the making of commercial, consumer, and mortgage loans; and the providing of other financial services. Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial and retail operations of the Bank. As such, discrete financial information is not available and segment reporting would not be meaningful.

Reclassifications
Certain amounts in the previous year financial statements have been reclassified to conform to the current year presentation. These reclassifications have no impact on prior year net income or stockholders equity.

Note 2- Summary of Significant Accounting Policies (continued)

Revenue Recognition

Effective July 1, 2018, the Company adopted Accounting Standards Update ASU 2014-09, *Revenue from contracts with Customers – Topic 606*, and all subsequent ASUs that modified ASC 606. The Company has elected to apply the standard to all prior periods presented utilizing the full retrospective approach. The implementation of the new standard had no material impact to the measurement or recognition of revenue of prior periods. Management determined that the primary sources of revenue emanating from interest and dividend income on loans and investments along with noninterest revenue resulting from investment security gains, and earnings on bank owned life insurances are not within the scope of ASC 606. As a result, no changes were made during the period related to these sources of revenue. The main types of noninterest income within the scope of the standard are as follows: service charges on deposit accounts—the Company has contracts with its deposit customers where fees are charged if certain parameters are not met. These agreements can be cancelled at any time by either the Company or the deposit customer. Revenue from these transactions is recognized on a monthly basis as the Company has an unconditional right to the fee consideration. The Company also has transaction fees related to specific transactions or activities resulting from a customer request or activity that include overdraft fees, online banking fees, interchange fees, ATM fees and other transaction fees. All of these fees are attributable to specific performance obligations of the Company where the revenue is recognized at a defined point in time upon the completion of the requested service/transaction.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This accounting standard (a) requires separate presentation of equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) on the balance sheet and measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (g) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

The Company adopted ASU 2016-01 during the reporting period. On a prospective basis, the Company implemented changes to the measurement of the fair value of financial instruments using an exit price notion for disclosure purposes in the financial statements. The June 30, 2018, fair value of each class of financial instruments disclosure did not utilize the exit price notion when measuring fair value and, therefore, would not be comparable to the June 30, 2019 disclosure. The Company estimated the fair value based on guidance from ASC 820-10, *Fair Value Measurements*, which defines fair value as the price which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is no active observable market for sale information on community bank loans and, thus, Level 3 fair value procedures were utilized, primarily in the use of present value techniques incorporating assumptions that market participants would use in estimating fair values. The fair value of loans held for investment, excluding impaired loans measured at fair value on a non-recurring basis, is estimated using discounted cash flow analyses. The discount rates used to determine fair value use interest rate spreads that reflect factors such as liquidity, credit and nonperformance risk of the loans. Loans are considered a Level 3 classification.

Note 3 - Earnings Per Share

There are no convertible securities which would affect the numerator in calculating basic and diluted earnings per share; therefore, the net income of $3,756,000 and $1,464,000 for the years ended June 30, 2019 and 2018 respectively, will be used as the numerator.

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation.

	Year ended June 30,	
	2019	**2018**
Weighted-average common shares outstanding	4,156,696	3,641,018
Average treasury stock shares	(177,959)	(176,599)
Average unearned ESOP shares	-	(162)
Weighted-average common shares and common stock equivalents used to calculate basic and diluted earnings per share	3,978,737	3,464,257
Net Income	$ 3,756,000	$ 1,464,000
Basic and diluted earnings per share	$ 0.94	$ 0.42

Note 4 - Merger

On July 1 2018, William Penn Bancorp, Inc. completed a merger with mutually-owned Audubon Savings Bank (“ASB”) in a stock transaction for aggregate consideration of approximately $12,250,000. As a result of the merger, the Company issued 517,095 common shares that represent ASB's depositor ownership rights. The Company and ASB had first announced that they had entered into an agreement to merge in December of 2017. Immediately following the merger, ASB was merged into the Company's banking subsidiary, William Penn Bank, MHC.

At the time of the merger, ASB had total assets of $150 million, including $88 million in loans, and $107 million in deposits. The transaction was recorded as a purchase and, accordingly, the operating results of ASB have been included in the Company's Consolidated Financial Statements since the close of business on July 1, 2018.

Note 4 - Merger (continued)

As of June 30, 2019, the estimated future amortization expense for the core deposit intangible is as follows (in thousands):

	Core deposit intangible
2020	$ 234
2021	208
2022	182
2023	156
2024	130
Thereafter	262
	$ 1,172

The following table presents unaudited pro forma information for the periods ended June 30, 2019 and 2018 as if the acquisition of ASB had occurred on July 1, 2017. This table has been prepared for comparative purposes only and is not indicative of the actual results that would have been attained had the acquisition occurred as of the beginning of the periods presented, nor is it indicative of future results (in thousands):

	Pro Forma (Unaudited) Twelve Months Ended June 30, 2019	2018
Net interest income after provision for loan losses	$ 14,142	$ 12,939
Other income	1,127	1,240
Net income	3,756	552
Pro forma earnings per share:		
Basic	$ 0.94	$ 0.14
Diluted	$ 0.94	$ 0.14

Note 4 - Merger (continued)

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition for ASB. Core deposit intangibles will be amortized over a period of ten year using an accelerated method. Goodwill will not be amortized, but instead will be evaluated for impairment. Furthermore, the unaudited pro forma information does not reflect management's estimate of any revenue-enhancing opportunities nor anticipated cost savings as a result of the integration and consolidated of the acquisition. Merger and acquisition integration costs and amortization of fair value adjustments net of related income tax effects are included in the amounts below.

Consideration paid		$ 12,250
Net assets acquired:		
Cash and due from financial institutions	$ 6,693	
Securities available for sale	39,113	
Loans receivable, net	86,840	
Premises and equipment	6,056	
Regulatory stock	1,610	
Deferred income taxes	1,256	
Bank-owned life insurance	4,944	
Core deposit intangible	1,432	
Accrued interest receivable	522	
Other assets	683	
Deposits	(107,180)	
Advances from Federal Home Loan Bank	(32,380)	
Accrued interest payable	(81)	
Other liabilities	(2,116)	
		7,392
Goodwill resulting from ASB merger		$ 4,858

The acquired assets and liabilities were measured at estimated fair values. Management made certain estimates and exercised judgment in accounting for the acquisition. The following is a description of the methods used to determine fair value of significant assets and liabilities at the acquisition date:

Cash: The Company acquired $6.7 million in cash, which management deemed to reflect fair value based on the short term nature of the asset.

Loans: The Company acquired $86.8 million in loans receivable with and without evidence of credit quality deterioration. The loans consisted of commercial loans, commercial real estate loans, residential mortgage loans (including home equity secured lines of credit), real estate construction loans, and consumer and other loans. The fair value of the performing loan portfolio includes separate adjustments to reflect a credit risk and marketability component and a yield component reflecting the differential between portfolio and market yields. Additionally, certain loans were valued based on their observable sales price.

Note 4 - Merger (continued)

Deposits: The Company acquired $107.2 million in deposits. Savings and transaction accounts are variable, have no stated maturity and can be withdrawn on short notice with no penalty. Therefore, the fair value of such deposits is considered equal to the carrying value. The fair value of CD's consists of comparing the contractual cost of the CD's to the market rates with corresponding maturities. The valuation adjustment reflects the present value of the difference between the cash flows attributable to the CD's based on contractual and market rates. The core deposit intangible is determined by the present value difference of the net cost of the core deposit versus the same amount for an alternative funding source.

This acquisition provided the Company with the strategic opportunity to expand into new markets that, while similar to existing markets, are projected to be more vibrant in population growth and business opportunity growth. Additionally, the acquisition will provide exposure to suburbs of larger urban areas without the commitment of operating inside large metropolitan areas dominated by regional and national financial organizations. The acquisition also creates synergies on the operational side of the Company by allowing noninterest expenses to be spread over a larger operating base.

Note 5 – Investment in Interest-Bearing Time Deposits

The interest-bearing time deposits by contractual maturity are shown below (in thousands):

	Year ended June 30,	
	2019	2018
Due in one year or less	$ 7,986	$ 25,435
Due after one year through five years	500	6,987
	$ 8,486	$ 32,422

Note 6 – Securities

The amortized cost, gross unrealized gains and losses, and fair value of securities are summarized as follows (in thousands):

	June 30, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available For Sale:				
Mortgage-backed securities	$ 3,609	$ 69	$ -	$ 3,678
U.S. agency collateralized mortgage obligations	5,634	138	(5)	5,767
U.S. government agency securities	10,865	68	(21)	10,912
Private label collateralized mortgage obligations	264	39	-	303
Total AFS	**$ 20,372**	**$ 314**	**$ (26)**	**$ 20,660**
Held to Maturity:				
Mortgage-backed securities	$ 1,500	$ 37	$ (15)	$ 1,522
U.S. agency CMOs	206	8	-	214
Municipal bonds	100	-	-	100
Corporate bonds	100	1	-	101
Total HTM	**$ 1,906**	**$ 46**	**$ (15)**	**$ 1,937**

	June 30, 2018			
	Amortized Cost	Gross Unreal Gains	Gross Unreal Losses	Fair Value
Available For Sale:				
Private label collateralized mortgage obligations	$ 1,539	$ 277	$ -	$ 1,816
Total AFS	**$ 1,539**	**$ 277**	**$ -**	**$ 1,816**
Held to Maturity:				
Mortgage-backed securities	$ 2,336	$ 40	$ (71)	$ 2,305
U.S. agency collateralized mortgage obligations	611	23	-	634
Municipal bonds	100	-	-	100
Corporate bonds	100	2	-	102
Total HTM	**$ 3,147**	**$ 65**	**$ (71)**	**$ 3,141**

Note 6 – Securities (continued)

The amortized cost and fair value of debt securities, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without penalties (in thousands).

	June 30, 2019			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 1,500	$ 1,500	$ 2	$ 2
Due after one year through five years	1,491	1,498	204	206
Due after five years through ten years	1,839	1,875	431	442
Due after ten years	15,543	15,787	1,269	1,287
	$ 20,372	**$ 20,660**	**$ 1,906**	**$ 1,937**

The following table shows 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 (in thousands):

	June 30, 2019					
	Less than 12 Months		12 Months or More		Total	Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available For Sale:						
U.S. agency collateralized						
mortgage obligations	$ 1,237	$ (5)	$ -	$ -	$ 1,237	$ (5)
U.S. government agency securities	2,524	(21)	-	-	2,524	(21)
	3,761	(26)	-	-	3,761	(26)
Held to Maturity:						
Mortgage-backed securities	-	-	716	(15)	716	(15)
	-	-	716	(15)	716	(15)
Total Temporarily						
Impaired Securities	**$ 3,761**	**$ (26)**	**$ 716**	**$ (15)**	**$ 4,477**	**$ (41)**

	June 30, 2018					
	Less than 12 Months		12 Months or More		Total	Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held to Maturity:						
Mortgage-backed securities	$ 520	$ (15)	$ 1,105	$ (56)	$ 1,625	$ (71)
	520	(15)	1,105	(56)	1,625	(71)
Total Temporarily						
Impaired Securities	**$ 520**	**$ (15)**	**$ 1,105**	**$ (56)**	**$ 1,625**	**$ (71)**

Note 6 – Securities (continued)

The Company evaluates its investment securities holdings for other-than-temporary impairment ("OTTI") on at least a quarterly basis. As part of this process, management considers its intent to sell each debt security and whether it is more likely than not the Company will be required to sell the security before its anticipated recovery. If either of these conditions is met, OTTI is recognized in earnings equal to the entire difference between the security's amortized cost basis and its fair value at the balance sheet date. For securities that meet neither of these conditions, management performs analysis to determine whether any of these securities are at risk for OTTI. To determine which individual securities are at risk for OTTI and should be quantitatively evaluated utilizing a detailed analysis, management uses indicators which consider various characteristics of each security including, but not limited to, the following: the credit rating; the duration and level of the unrealized loss; prepayment assumptions; and certain other collateral-related characteristics such as delinquency rates, the security's performance, and the severity of expected collateral losses.

Based on its analysis, management has concluded that the securities portfolio has experienced unrealized losses and a decrease in fair value due to interest rate volatility. However, the decline is considered temporary, and the Company does not intend to sell these securities nor is it more likely than not the Company would be required to sell the security before its anticipated recovery, which may be maturity.

The Company recognized gross gains and gross losses of $156,000 and $16,000, respectively, during the year ended June 30, 2019 on sales of $40.4 million of investment securities. There were no sales of investment securities during the year ended June 30, 2018.

Note 7 – Loans Receivable

The composition of net loans receivable is as follows (dollars in thousands):

	June 30, 2019		June 30, 2018	
	Amount	Percent	Amount	Percent
Residential real estate:				
1-4 family	$ 220,176	65.98 %	$ 170,322	70.00 %
Home equity and second mortgages	31,905	9.56	21,158	8.70
Construction -residential	9,739	2.92	11,831	4.86
Commercial real estate:				
Multi-family (five or more)	11,028	3.30	12,061	4.96
Commercial non-residential	53,557	16.05	23,759	9.76
Land	4,438	1.33	3,131	1.29
Commercial	2,099	0.63	196	0.08
Consumer Loans	741	0.22	859	0.35
Total Loans	333,683	100.00 %	243,317	100.00 %
Loans in process	(3,669)		(5,716)	
Unearned loan origination fees	(788)		(1,074)	
Allowance for loan losses	(3,209)		(3,138)	
Net Loans	$ 326,017		$ 233,389	

Note 7 – Loans Receivable (continued)

At June 30, 2019 and 2018, the Company had approximately $87.1 million and $84.5 million of loans on non-owner-occupied, one-to-four-family residences ("investor loans"), representing approximately 26.1% and 34.7% of total loans on such dates. This $87.1 million of one- to four-family investor loans at June 30, 2019 includes: $86.3 million of first mortgages and $729,000 of second mortgages. The $84.5 million of one- to four-family investor loans at June 30, 2018 includes: $79.4 million of first mortgages; $434,000 of second mortgages; and $4.7 million of construction loans.

Mortgage loans serviced for others are not included in the accompanying Consolidated Balance Sheets. The total amount of loans serviced for the benefit of others was approximately $12,395,000 and $13,323,000 at June 30, 2019 and 2018, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing are included in advances from borrowers for taxes and insurance.

Allocation of Allowance for Loan Losses. The following tables set forth the allocation of the Bank's allowance for loan losses by loan category and the percent of loans in each category to total loans receivable, net, at the dates indicated. The portion of the loan loss allowance allocated to each loan category does not represent the total available for future losses which may occur within the loan category since the total loan loss allowance is a valuation allocation applicable to the entire loan portfolio.

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Company considers the allowance for loan losses of $3.2 million adequate to cover loan losses inherent in the loan portfolio, at June 30, 2019.

William Penn Bancorp, Inc.

Note 7 – Loans Receivable (continued)

The following table presents by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans for the years ended June 30, 2019 and 2018, respectively:

June 30, 2019

(Dollar amounts in thousands)	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	Unallocated	Total
Allowance for credit losses:						
Beginning balance	$ 1,727	$ 1,407	$ 4	$ -	$ -	$ 3,138
Charge-offs	(21)	-	-	-	-	(21)
Recoveries	4	-	-	-	-	4
Provision	234	(507)	91	3	267	88
Ending Balance	$ 1,944	$ 900	$ 95	$ 3	$ 267	$ 3,209
Ending balance: individually evaluated for impairment	$ 58	$ -	$ -	$ -	$ -	$ 58
Ending balance: collectively evaluated for impairment	$ 1,886	$ 900	$ 95	$ 3	$ -	$ 2,884
Loan receivable:						
Ending Balance	$ 261,820	$ 69,023	$ 2,099	$ 741	$ -	$ 333,683
Ending balance: individually evaluated for impairment	$ 3,974	$ -	$ 430	$ -	$ -	$ 4,404
Ending balance: collectively evaluated for impairment	$ 257,846	$ 69,023	$ 1,669	$ 741	$ -	$ 329,279

June 30, 2018

(Dollar amounts in thousands)	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	Unallocated	Total
Allowance for credit losses:						
Beginning balance	$ 2,016	$ 1,284	$ 3	$ -	$ -	$ 3,303
Charge-offs	(82)	-	-	-	-	(82)
Recoveries	31	6	-	-	-	37
Provision	(238)	117	1	-	-	(120)
Ending Balance	$ 1,727	$ 1,407	$ 4	$ -	$ -	$ 3,138
Ending balance: individually evaluated for impairment	$ 58	$ -	$ -	$ -	$ -	$ 58
Ending balance: collectively evaluated for impairment	$ 1,873	$ 1,284	$ 4	$ -	$ -	$ 3,080
Loan receivable:						
Ending Balance	$ 203,311	$ 38,951	$ 196	$ 859	$ -	$ 243,317
Ending balance: individually evaluated for impairment	$ 3,974	$ 430	$ -	$ -	$ -	$ 4,404
Ending balance: collectively evaluated for impairment	$ 199,337	$ 38,521	$ 196	$ 859	$ -	$ 238,913

Note 7 – Loans Receivable (continued)

During 2019, the change in the provision for loan losses related to residential real estate loans was primarily due to modest growth in the originated loan portfolio and maintaining of strong credit quality of the portfolio. There was also a change in related reserves for commercial real estate resulting from the removal of a large classified loan.

During 2018, the decrease in the provision for loan losses related to residential real estate loans was primarily due to a lower amount of non-performing loans and repayments on classified loans. The increase in the provision for loan losses related to commercial real estate loans was primarily due to allocating additional reserves for a certain land loan.

Credit Quality Information

The following tables represent credit exposures by internally assigned grades for the year ended June 30, 2019 and 2018, respectively. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on experiences with similarly graded loans.

The Company's internally assigned grades are as follows:

Pass – loans which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral.

Special Mention – loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected.

Substandard – loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – loans classified as doubtful have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances.

Loss – loans classified as a loss are considered uncollectible, or of such value that continuance as an asset is not warranted.

June 30, 2019

(Dollar amounts in thousands)	Commercial Real Estate: Multi-family	Commercial Real Estate: Non-residential	Commercial Real Estate: Land	Commercial	Total
Pass	$ 10,445	$ 52,151	$ 4,438	$ 2,099	$ 69,133
Special Mention	394	744	-	-	1,138
Substandard	189	662	-	-	851
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Ending Balance	$ 11,028	$ 53,557	$ 4,438	$ 2,099	$ 71,122

	Residential Real Estate: 1-4 family	Residential Real Estate: Home equity & Second Mtgs	Residential Real Estate: Construction	Consumer	Total
Performing	$ 218,899	$ 31,380	$ 9,739	$ 741	$ 260,759
Non-performing	1,277	525	-	-	1,802
	$ 220,176	$ 31,905	$ 9,739	$ 741	$ 262,561

June 30, 2018

(Dollar amounts in thousands)	Commercial Real Estate: Multi-family	Commercial Real Estate: Non-residential	Commercial Real Estate: Land	Commercial	Total
Pass	$ 8,942	$ 23,140	$ 130	$ 196	$ 32,408
Special Mention	413	-	-	-	413
Substandard	2,706	619	3,001	-	6,326
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Ending Balance	$ 12,061	$ 23,759	$ 3,131	$ 196	$ 39,147

	Residential Real Estate: 1-4 family	Residential Real Estate: Home equity & Second Mtgs	Residential Real Estate: Construction	Consumer	Total
Performing	$ 169,222	$ 21,117	$ 11,831	$ 859	$ 203,029
Non-performing	1,100	41	-	-	1,141
	$ 170,322	$ 21,158	$ 11,831	$ 859	$ 204,170

Note 7 – Loans Receivable (continued)

Age Analysis of Past Due Financing Receivables by Class

Following are tables which include an aging analysis of the recorded investment of past due loans as of June 30, 2019 and 2018.

Age Analysis of Past Due Loans
As of June 30, 2019

(Dollar amounts in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current	Total Loans Receivable	Recorded Investment Loans on Non-Accrual	Recorded Investment > 90 Days and Accruing
Residential real estate:								
1-4 family	$ -	$ 807	$ 1,038	$ 1,845	$ 218,331	$ 220,176	$ 1,270	$ 7
Home equity and second mortgages	246	59	315	620	31,285	31,905	385	140
Construction - residential	-	-	-	-	9,739	9,739	-	-
Commercial real estate:								
Multi-family	-	394	189	583	10,445	11,028	189	-
Commercial non-residential	-	-	-	-	53,557	53,557		-
Land	-	-	-	-	4,438	4,438	-	-
Commercial	-	-	-	-	2,099	2,099	-	-
Consumer	-	-	-	-	741	741	-	-
Total	$ 246	$ 1,260	$ 1,542	$ 3,048	$ 330,635	$ 333,683	$ 1,844	$ 147

Age Analysis of Past Due Loans
As of June 30, 2018

(Dollar amounts in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current	Total Loans Receivable	Recorded Investment Loans on Non-Accrual	Recorded Investment > 90 Days and Accruing
Residential real estate:								
1-4 family	$ 647	$ 21	$ 1,100	$ 1,768	$ 168,554	$ 170,322	$ 1,100	$ -
Home equity and second mortgages	87	89	41	217	20,941	21,158	41	-
Construction - residential	-	-	-	-	11,831	11,831	-	-
Commercial real estate:								
Multi-family		-	-	-	12,061	12,061	-	-
Commercial non-residential		-		-	23,759	23,759	-	-
Land	-	-	3,001	3,001	130	3,131	-	3,001
Commercial	-	-	-	-	196	196	-	-
Consumer	-	-	-	-	859	859	-	-
Total	$ 734	$ 110	$ 4,142	$ 4,986	$ 238,331	$ 243,317	$ 1,141	$ 3,001

Impaired Loans

Management considers commercial loans and commercial real estate loans which are 90 days or more past due to be impaired. Larger commercial loans and commercial real estate loans which are 60 days or more past due are selected for impairment testing in accordance with GAAP. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. These loans are analyzed to determine if it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

Note 7 – Loans Receivable (continued)

The following tables include the recorded investment and unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable.

June 30, 2019

(Dollar amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
1-4 Family	$ 3,813	$ 3,813	$ -	$ 3,863
Residential construction	-	-	-	-
Multi-family	-	-	-	-
Commercial non-residential	430	430	-	443
Land	-	-	-	-
With an allowance recorded:				
1-4 Family	$ 161	$ 161	$ 58	$ 110
Residential construction	-	-	-	-
Multi-family	-	-	-	-
Commercial non-residential	-	-	-	-
Land	-	-	-	-
Total:				
1-4 Family	$ 3,974	$ 3,974	$ 58	$ 3,973
Residential construction	-	-	-	-
Multi-family	-	-	-	-
Commercial non-residential	430	430	-	443
Land	-	-	-	-

June 30, 2018

(Dollar amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
1-4 Family	$ 1,317	$ 1,317	$ -	$ 1,351
Residential construction	-	-	-	-
Multi-family	-	-	-	-
Commercial non-residential	464	464	-	480
Land	3,001	3,001	-	3,001
With an allowance recorded:				
1-4 Family	$ 169	$ 169	$ 58	$ 230
Residential construction	-	-	-	-
Multi-family	-	-	-	-
Commercial non-residential	-	-	-	-
Land	-	-	-	-
Total:				
1-4 Family	$ 1,486	$ 1,486	$ 58	$ 1,581
Residential construction	-	-	-	-
Multi-family	-	-	-	-
Commercial non-residential	464	464	-	480
Land	3,001	3,001	-	3,001

Note 7 – Loans Receivable (Continued)

The following tables present loans classified as TDRs segregated by class for the period indicated:

	For the year ended June 30, 2019		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(in thousands)	
Commercial real estate	2	$ 232	$ 232
Total	2	$ 232	$ 232

During the year ended June 30, 2018, there were no loans modified that were identified as a trouble debt restructuring. The Company did not have any troubled debt restructuring within the 12-month period where a concession had been made that then defaulted.

Note 8 – Premises and Equipment, Net

The components of premises and equipment are as follows (in thousands):

	June 30, 2019	June 30, 2018
Land	$ 2,471	$ 781
Office buildings and improvements	8,198	4,074
Furniture, fixtures and equipment	978	494
Automobiles	57	86
	11,704	5,435
Accumulated depreciation	(3,298)	(2,924)
	$ 8,406	$ 2,511

Depreciation expenses amounted to $408,000 and $172,000 for the years ended June 30, 2019 and 2018, respectively.

Note 9 – Deposits

Deposits and their respective weighted-average interest rates consist of the following major classifications (dollars in thousands):

	2019		2018	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Checking accounts	$ 67,547	0.09 %	$ 28,278	0.06 %
Money market accounts	69,107	1.66	50,010	0.44
Savings and club accounts	31,713	0.15	18,542	0.17
Certificates of deposit	112,839	1.90	83,827	1.51
	$ 281,206	1.21 %	$ 180,657	0.85 %

The aggregate amount of certificates of deposit with a minimum denomination of $250,000 was approximately $21,992,000 and $21,375,000 at June 30, 2019 and 2018, respectively. Generally, deposits in excess of $250,000 are not insured by the Federal Deposit Insurance Corporation.

The scheduled maturities of certificates of deposit are as follows (in thousands):

Fiscal year ending June 30:	2019
2020	$ 53,694
2021	32,781
2022	14,451
2023	4,349
2024	4,237
Thereafter	3,327
	$ 112,839

Note 10 – Advances from Federal Home Loan Bank

The Bank has a maximum borrowing capacity with the FHLB of Pittsburgh of approximately $202,729,000 at June 30, 2019 of which $50,000,000 was outstanding at June 30, 2019. Advances are secured by qualifying assets of the Bank, which include the Federal Home Loan Bank stock and mortgage loans.

Advances from the Federal Home Loan Bank consist of the following (dollars in thousands):

			June 30,	
Maturity Date	**Interest Rate (%)**		**2019**	**2018**
August 20, 2018	3.65%	Convertible	$ -	$ 5,000
December 10,2018	1.93%	Convertible	-	10,000
September 17, 2019	3.20%	Convertible	-	5,500
December 5, 2019	2.09%	Mid-Term	6,000	6,000
January 8, 2020	1.86%	Fixed	5,000	5,000
May 7, 2021	2.38%	Mid-Term	5,000	-
June 4, 2021	2.19%	Mid-Term	5,000	-
March 28, 2022	2.43%	Mid-Term	3,000	-
March 27, 2023	2.44%	Fixed	3,000	-
May 8, 2023	3.59%	Convertible	6,000	6,000
March 27, 2024	2.45%	Fixed	3,000	-
October 15, 2024	2.87%	Convertible	5,000	5,000
February 19, 2025	3.02%	Convertible	4,000	4,000
April 28, 2025	2.88%	Convertible	5,000	5,000
			$ 50,000	$ 51,500

Note 10 – Advances from Federal Home Loan Bank (continued)

On the convertible rate notes, the Federal Home Loan Bank has the option to convert the notes at rates ranging from 0.01% to 0.23% above the three-month LIBOR on a quarterly basis upon the arrival of specified conversion dates or the occurrence of specific events. Accordingly, contractual maturities above may differ from expected maturities. Should the Federal Home Loan Bank convert these advances, the Bank has the option of accepting the variable rate or repaying the advances without penalty.

Maturities of long-term debt at June 30, 2019 are as follows (dollars in thousands):

Fiscal year ending June 30:	Amount	Weighted Avg Rate
2020	11,000	1.98%
2021	10,000	2.29%
2022	3,000	2.43%
2023	9,000	3.21%
2024	3,000	2.45%
Thereafter	14,000	2.92%
	$ 50,000	2.58%

Note 11 – Income Taxes

The components of income tax expense are as follows (in thousands):

	Year ended June 30,	
	2019	2018
Federal:		
Current	$ 1,594	$ 1,003
Deferred	(544)	21
Change in corporate tax rate	-	959
	1,050	1,983
State, current	10	24
	$ 1,060	$ 2,007

A reconciliation of the statutory federal income tax at a rate of 21.0% in 2019 and 27.5% in 2018 to the income tax expense included in the consolidated statements of income is as follows (dollars in thousands):

Note 11 – Income Taxes (continued)

	Year ended June 30,			
	2019		2018	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Federal income tax at statutory rate	$ 1,011	21.0%	$ 955	27.5%
State tax, net of federal benefit	8	0.2%	17	0.5
Bank owned-life insurance	(69)	-1.4%	(40)	(1.2)
Change in corporate tax rate	-	-	959	27.6
Merger expenses	-	-	103	3.0
Other	110	2.2%	13	0.4
	$ 1,060	22.0%	$ 2,007	57.8%

Income tax expense for the year ended June 30, 2018 included a $959,000 one-time-non-cash charge due to a re-evaluation of the Company's deferred tax assets as a result of the enactment of the Tax Cuts and Jobs Acts ("Act") in December 2017. The Act reduced the federal corporate income tax rate to 21% from 34%. For the year ended June 30, 2019 the statutory federal income tax rate for the Company was 21.0%.

Items that gave rise to significant portions of deferred tax assets and liabilities are as follows (in thousands):

	June 30,	
	2019	2018
Deferred tax assets:		
Loan origination fees	$ 186	$ 225
Allowance for loan losses	757	659
Deferred director's fees	303	254
Deferred compensation	475	361
Premises and equipment	-	118
NOL carry forward	453	-
Other	60	10
Total Deferred Tax Assets	2,234	1,627
Deferred tax liabilities		
Net unrealized gain on securities	(60)	(58)
Premises and equipment	(63)	-
Total Deferred Tax Liabilities	(123)	(58)
Net Deferred Tax Asset	$ 2,111	$ 1,569

Note 11 – Income Taxes (continued)

GAAP prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Accounting literature also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest, and penalties. In accordance with GAAP, interest or penalties incurred for income taxes will be recorded as a component of other expenses. There are no material uncertain tax positions at June 30, 2019 or 2018. With few exceptions, the Company is no longer subject to U. S. Federal income tax examinations by taxing authorities for years before 2015.

Retained earnings included $2,800,000 at June 30, 2019, for which no provision for federal income tax has been made. These amounts represent deductions for bad debt reserves for tax purposes which were only allowed to savings institutions which met certain definitional tests prescribed by the Internal Revenue Code of 1986, as amended. The Small Business Job Protection Act of 1996 eliminated the special bad debt deduction granted solely to thrifts. Under the terms of the Act, there would be no recapture of the pre-1988 (base year) reserves. However, these pre-1988 reserves would be subject to recapture under the rules of the Internal Revenue Code if the Bank itself pays a cash dividend in excess of earnings and profits, or liquidates. The Act also provides for the recapture of deductions arising from “applicable excess reserve” defined as the total amount of reserve over the base year reserve. The Bank's total reserve exceeds the base year reserve and deferred taxes have been provided for this excess.

Note 12 – Employee and Director Benefit Plans

401(k) Plan

The Bank has a savings plan qualified under Section 401(k) of the Internal Revenue Code which covers substantially all of its employees. Employees can contribute up to 50% of gross pay, and the Bank matches 100% of such contributions up to 6%. Savings plan expense charged to operations amounted to $237,000 and $104,000 for the years ended June 30, 2019 and 2018, respectively.

Employee Stock Ownership Plan (“ESOP”)

In connection with its minority stock offering, the Company created the ESOP for the benefit of employees who met the eligibility requirements, which included having completed one year of service with the Company. The ESOP trust acquired 87,384 shares of the Company's stock from proceeds from a loan with Company. The Bank made cash contributions on an annual basis sufficient to enable the ESOP to make the required loan payments. Cash Dividends paid on allocated shares were used to repay the outstanding debt of the ESOP and allocated to participants. Cash dividends paid on unallocated shares were returned to the Bancorp.

Note 12 – Employee and Director Benefit Plans

On December 31, 2017, the loan between the ESOP and the Bancorp was repaid in full and all shares acquired by the ESOP in the initial public offering were allocated to participants. The Bank recognized ESOP expenses of $19,000 for the fiscal year ended June 30, 2018 associated with the leveraged ESOP. The ESOP is now handled on a "pay as you go" basis, whereby the bank contributes cash to the ESOP to purchase stock that will be allocated to participant accounts. Stock may be purchased by the ESOP in the open market, directly from retiring participants, or from participants electing to diversify their ESOP shares in accordance with the Plan document. During the fiscal year ended June 30, 2019, the Bank recognized ESOP expenses of $224,000 under the "pay as you go" method.

Directors Retirement Plan

The Bank has a retirement plan for the directors of the Bank, who are not full-time employees. Upon retirement, a director who agrees to serve as a consulting director to the Bank will receive a monthly benefit amount for a period of up to 120 months. The plan was amended in October 2017 to allow credit for service as a director while also serving as an employee. The expense included in the Consolidated Statements of Income for these benefits was $154,000 and $409,000 for years ended June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, approximately $1,431,000 and $1,277,000 respectively, had been accrued under this plan.

Director Deferred Compensation Plan

The Bank has deferred compensation plans for certain directors of the Bank whereby they can elect to defer their directors' fees. Under the plans' provisions, benefits which accrue at the Bank's highest certificate of deposit rate will be payable upon retirement, death, or permanent disability. At June 30, 2019 and 2018, approximately $1,284,000 and $1,210,000, respectively, had been accrued. Interest expense included in the Consolidated Statements of Income for these benefits was $6000 and $25,000 for periods ended June 30, 2019 and 2018, respectively.

Supplemental Executive Retirement Plan

In 2014, the Bank entered into supplemental executive retirement plan ("SERP") agreements with certain former executives of the Bank. The plan required the Bank to make annual contributions for five years with amounts payable to participants upon retirement. The accumulated liability was $583,000 and $442,000 at June 30, 2019 and 2018, respectively. The related expenses for the years ended June 30, 2019 and 2018 was $47,000 and $106,000, respectively.

Note 13 – 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 include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Consolidated 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 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.

Note 13 – Financial Instruments with Off-Balance Sheet Risk (continued)

A summary of the Company's financial instruments with off-balance sheet risk is as follows (in thousands):

	June 30, 2019	June 30, 2018
Commitments to extend credit	$ 10,952	$ 7,014
Unfunded commitments under lines of credit	27,981	22,321

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have 90-day fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies, but includes principally residential or commercial real estate.

Note 14 – Concentration of Credit Risk

The Company grants loans to customers primarily located in Bucks County, Pennsylvania and southwestern New Jersey. The concentration of credit by type of loan is set forth in Note 67. Although the Company has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy.

Note 15 - Regulatory Restrictions

Dividend Restrictions

The Bank is subject to dividend restrictions by the Pennsylvania Department of Banking and Securities. The Pennsylvania Banking Code restricts the availability of capital funds for the payment of dividends by all state-chartered banks to the accumulated net earnings of the Bank. Accordingly, at June 30, 2019, the balance in the Bank's accumulated net earnings account totaling $3,220,000 is unavailable for dividends. As a subsidiary of a savings and loan holding company, the Bank is required to give the Federal Reserve Board not less than 30 days' prior notice of the declaration of a dividend. The Federal Reserve Board may disapprove the notice if it determines that the Bank will be undercapitalized following the proposed dividend, the proposed dividend raises safety and soundness concerns or the proposed dividend violates a prohibition contained in any statute, regulation, enforcement action or agreement with a federal banking agency or any condition imposed in connection with the approval of an application or notice by a federal banking agency.

Note 15 - Regulatory Restrictions (continued)

Regulatory Capital Requirements

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

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

Management believes, as of June 30, 2019, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2019, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum amounts and ratios of Tier I leverage capital to average assets and of common equity Tier I capital, Tier I capital, and total capital to risk-weighted assets, all as defined in the regulation.

The Bank's actual capital amounts and ratios are also presented below (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2019:						
Total risk-based capital	$ 71,558	25.8 %	$ >22,172	>8.0 %	$ >27,715	>10.0 %
Common Equity Tier 1 Capital	68,437	24.7	>12,477	>4.5	>18,022	>6.5
Core capital (to risk-weighted assets)	68,437	24.7	>16,636	>6.0	>22,181	>8.0
Core capital (to adjusted total assets)	68,437	16.9	>16,162	>4.0	>20,203	>5.0
As of June 30, 2018:						
Total risk-based capital	$ 62,843	33.7 %	$ >14,918	>8.0 %	$ >18,648	>10.0 %
Common Equity Tier 1 Capital	60,611	32.5	>8,392	>4.5	>12,122	>6.5
Core capital (to risk-weighted assets)	60,611	32.5	>11,190	>6.0	>14,920	>8.0
Core capital (to adjusted total assets)	60,611	20.0	>12,122	>4.0	>15,153	>5.0

Note 16 – Fair Value of Financial Instruments

The Company presents enhanced disclosures about assets and liabilities carried at fair value. U.S. generally accepted accounting standards establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels of hierarchy are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The following table presents the assets measured on a recurring basis on the Consolidated Balance Sheets at their fair value as of June 30, 2019 and 2018, by level within the fair value hierarchy (in thousands). Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets Measured on a Recurring Basis

	June 30, 2019			
	Level I	Level II	Level III	Total
Assets:				
Investments available-for-sale				
Mortgage-backed securities	$ -	$ 3,678	$ -	$ 3,678
U.S. agency collateralized mortgage obligations	-	5,767	-	5,767
U.S. government agency securities	-	10,912	-	10,912
Private label collateralized mortgage obligations	-	303	-	303
	$ -	$ 20,660	$ -	$ 20,660

	June 30, 2018			
	Level I	Level II	Level III	Total
Assets:				
Investments available-for-sale				
Private label collateralized mortgage obligations	$ -	$ 1,816	$ -	$ 1,816
	$ -	$ 1,816	$ -	$ 1,816

Note 16 – Fair Value of Financial Instruments (continued)

Assets and Liabilities Measured on a Non-Recurring Basis

Certain assets and liabilities may be required to be measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition. Generally, nonrecurring valuation is the result of the application of other accounting pronouncements which require assets and liabilities to be assessed for impairment or recorded at the lower of cost or fair value.

Impaired loans are generally measured for impairment using the fair value of the collateral supporting the loan. Evaluating impaired loan collateral is based on Level 3 inputs utilizing outside appraisals adjusted by management for sales costs and other assumptions regarding market conditions to arrive at fair value. At June 30, 2019, impaired loans with a carrying value of $4,404,000 were reduced by specific valuation allowance totaling $58,000 resulting in a net fair value of $4,346,000, based on Level 3 inputs. At June 30, 2018, impaired loans with a carrying value of $4,951,000 were reduced by specific valuation allowance totaling $58,000 resulting in a net fair value of $4,893,000, based on Level 3 inputs.

Other real estate owned (OREO) is measured at fair value, based on appraisals less cost to sell at the date of foreclosure. Valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less cost to sell. Income and expenses from operations and changes in valuation allowance are included in the net expenses from OREO.

Assets measured at fair value on a non-recurring basis are summarized (dollars in thousands):

	June 30, 2019			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ -	$ 4,346	$ 4,346
Other real estate owned	-	-	-	-
	$ -	$ -	$ 4,346	$ 4,346

	June 30, 2018			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ -	$ 4,893	$ 4,893
Other real estate owned	-	-	135	135
	$ -	$ -	$ 5,028	$ 5,028

Note 16 – Fair Value of Financial Instruments (continued)

		Quantative Information about Level 3 Fair Value Measurements			
(in thousands)		Fair Value Estimate	Valuation Techniques	Unobservable Input	Range
June 30, 2019					
Impaired loans	$	4,346	Appraisal of collateral(1)	Appraisal adjustments(2)	0-25%
Foreclosed real estate owned	$	-	Appraisal of collateral(1)(3)	Liquidation expenses(2)	0%

		Quantative Information about Level 3 Fair Value Measurements			
(in thousands)		Fair Value Estimate	Valuation Techniques	Unobservable Input	Range
June 30, 2018					
Impaired loans	$	4,893	Appraisal of collateral(1)	Appraisal adjustments(2)	0-25%
Foreclosed real estate owned	$	135	Appraisal of collateral(1)(3)	Liquidation expenses(2)	0-25%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable, less any associated allowance.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.
(3) Includes qualitative adjustments by management and estimated liquidation expenses.

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

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

Cash and Due from Banks and Interest-Bearing Time Deposits

The carrying amounts of cash and amounts due from banks and interest bearing time deposits approximate their fair value.

Note 16 – Fair Value of Financial Instruments (continued)

Securities Available for Sale and Held to Maturity

The fair value of investment and mortgage-backed securities is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities.

Loans Receivable, net

The fair value is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted market prices were available, primarily for certain residential mortgage loans, such market rates were utilized as estimates for fair value.

Regulatory Stock

The carrying amount of Federal Home Loan Bank stock approximates fair value.

Bank-Owned Life Insurance

The fair value is equal to the cash surrender value of the life insurance policies.

Accrued Interest Receivable and Payable

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

Deposits

Fair values for demand deposits, NOW accounts, savings and club accounts, and certain money market deposits are, by definition, equal to the amount payable on demand at the reporting date. Fair values of fixed-maturity certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on similar instruments with similar maturities.

Advances from Federal Home Loan Bank

Fair value of advances from Federal Home Loan Bank is estimated using discounted cash flow analyses, based on rates currently available to the Company for advances from Federal Home Loan Bank with similar terms and remaining maturities.

Off-Balance Sheet Financial Instruments

Fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account market interest rates, the remaining terms and present credit worthiness of the counterparties.

Note 16 – Fair Value of Financial Instruments (continued)

The estimated fair values of the Company's financial instruments were as follows (in thousands):

	Fair Value Measurements at June 30, 2019				
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and due from banks	$ 26,168	$ 26,168	$ 26,168	$ -	$ -
Interest-bearing time deposits	8,486	8,486	8,486	-	-
Securities available for sale	20,660	20,660	-	20,660	-
Securities held to maturity	1,906	1,937	-	1,937	-
Loans receivable, net	326,017	330,060	-	-	330,060
Regulatory stock	2,785	2,785	2,785	-	-
Bank-owned life insurance	11,203	11,203	11,203	-	-
Accrued interest receivable	1,340	1,340	1,340	-	-
Financial liabilities:					
Checking accounts	67,547	67,547	67,547	-	-
Money market accounts	69,107	69,107	69,107	-	-
Savings and club accounts	31,713	31,713	31,713	-	-
Certificates of deposit	112,839	112,245	-	-	112,245
Advances from Federal Home Loan Bank	50,000	50,651	-	-	50,651
Advances from borrowers for taxes and insurance	3,814	3,814	3,814	-	-
Accrued interest payable	171	171	171	-	-
Off-balance sheet financial instruments	-	-	-	-	-

Note 16 – Fair Value of Financial Instruments (continued)

	Fair Value Measurements at June 30, 2018				
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and due from banks	$ 16,128	$ 16,128	$ 16,128	$ -	$ -
Interest-bearing time deposits	32,422	32,422	32,422	-	-
Securities available for sale	1,816	1,816	-	1,816	-
Securities held to maturity	3,147	3,141	-	3,141	-
Loans receivable, net	233,389	232,052	-		232,052
Regulatory stock	2,727	2,727	2,727	-	-
Bank-owned life insurance	5,932	5,932	5,932	-	-
Accrued Interest receivable	830	830	830	-	-
Financial liabilities:					
NOW accounts	28,278	28,278	28,278	-	-
Money market accounts	50,010	50,010	50,010	-	-
Savings and club accounts	18,542	18,542	18,542	-	-
Certificates of deposit	83,827	82,528	-	-	82,528
Advances from Federal Home Loan Bank	51,500	51,733	-	-	51,733
Advances from borrowers for taxes and insurance	3,014	3,014	3,014	-	3,014
Accrued interest payable	190	190	190	-	-
Off-balance sheet financial instruments	-	-	-	-	-

Note 17 – Legal Contingencies

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

Note 18 – Accumulated Other Comprehensive Income

The activity in accumulated other comprehensive income for the years ended June 30, 2019 and 2018 is as follows:

Accumulated Other Comprehensive Income (1) (2)		Unrealized Gain (Loss) on Securities Available for Sale
Balance at June 30, 2017	$	257
Other comprehensive loss before reclassifications		(74)
Amounts reclassified from accumulated other comprehensive income		-
Reclassification of certain income tax effects from accumulated other comprehensive income		36
Period change		(38)
Balance at June 30, 2018	$	219
Other comprehensive income before reclassifications		120
Amounts reclassified from accumulated other comprehensive income		(111)
Period change		9
Balance at June 30, 2019	$	228

(1) All amounts are net of tax. Related income tax expense is calculated using an income tax rate approximating 21%.
(2) At June 30, 2018, a cumulative effect adjustment was made to reflect these values assuming the reduced effective corporate tax rate of 21% from 34%.

The following table presents significant amounts reclassified out of accumulated other comprehensive loss for the period ended June 30, 2019 and 2018 (in thousands):

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income (1) 2019	2018	Affected Line Item in the Consolidated Statements of Income
Securities available for sale:			
Net securities gains reclassified into net income	$ 140	$ -	Gain on sale of securities
Related income tax expense	(29)	-	Income tax expense
	$ 111	$ -	

(1) Amounts in parenthesis indicate debits.

Note 19 – Subsequent Events

Management has reviewed events occurring through October 10, 2019, the date the financial statements were issued, and no additional subsequent events occurred requiring accrual or disclosure.

Board of Directors

William J. Feeney
Chairman of the Board
Retired Chief of Police,
Richboro, Pennsylvania

Craig Burton
Principal
Bee, Bergvall & Co.
Certified Public Accountants

D. Michael Carmody, Jr.
Certified Public Accountant

Charles Corcoran
Retired Executive Vice President and
Chief Financial Officer
William Penn Bank

Glenn Davis
Owner
G. Davis Properties LLC

William B. K. Parry, Jr.
President
William B. Parry & Son, Ltd.
Independent Insurance Agency

Terry L. Sager
Retired President and
Chief Executive Officer
William Penn Bank

Vincent P. Sarubbi
Partner
Archer & Greiner, P.C.

Kenneth J. Stephon
President and
Chief Executive Officer
William Penn Bank

William Penn Bank Leadership Team

Executive Management

Kenneth J. Stephon
President
Chief Executive Officer

Gregory S. Garcia
Senior Vice President
Chief Financial Officer

Jill M. Ross
Senior Vice President
Chief Retail Officer

Bruce W. Knipe
Senior Vice President
Chief Lending Officer

James R. Read
Senior Vice President
Chief Technology Officer

Laurie A. Wallace
Senior Vice President
Chief Admin. & Risk Officer

Other Bank Officers

Christopher Coslove
Vice President
Relationship Manager

Patricia Dykes
Vice President
Deposit Operations

Robin L. Fadio
Vice President
Loan Servicing Manager

Steven Gillespie
Senior Vice President
Chief Compliance & BSA Officer

Michele Herzog
Vice President
Human Resources

Karen Hunter
Vice President
Controller

Marie Ost
Vice President
Relationship Manager

Commercial Lending Team

Pennsylvania

Bob Monk
Vice President
Commercial Lending

Rob Padfield
Vice President
Commercial Lending

New Jersey

Anthony Marino
Vice President
Commercial Lending

Phil Wessner
Vice President
Commercial Lending

Branch Managers

Dawn Day
Branch Manager
Richboro Office

Sean Ferguson
Branch Manager
Audubon Office

Lisa Framo
Branch Manager
Mt. Laurel Office

Nora Palumbi
Branch Manager
Pine Hill Office

Gretchen Rudloff
Branch Manager
Morrisville Office

Brett Raspanti
Branch Manager
Levittown Office

William Penn Bank Locations

Pennsylvania

Administrative Offices
10 Canal Street
Bristol, PA 19007
800-845-3577

Levittown Office
1309 S. Woodbourne Road
Levittown, PA 19057
215-269-1200

Morrisville Office
400 West Trenton Avenue
Morrisville, PA 19067
215-295-5008

Richboro Office
911 Second Street Pike
Richboro, PA 18954
215-355-1105

Canal Works - New Administrative Offices

South Jersey

Audubon Office
509 S. White Horse Pike
Audubon, NJ 08106
856-547-8100

Mt. Laurel Office
5039 Church Road
Mt. Laurel, NJ 08054
856-642-7880

Pine Hill Office
701 Erial Road
Pine Hill, NJ 08021
856-782-0500

Coming Soon:
Collingswood Office
765 Haddon Avenue
Collingswood, NJ 08108
856-833-1333

Coming Soon - Collingswood Branch

Member FDIC

EQUAL HOUSING LENDER

Corporate and Shareholder Information

Corporate Headquarters
10 Canal Street, Suite 104
Bristol, PA 19007
215-269-1200

Annual Shareholder Meeting Information
2019 Annual Meeting of Shareholders
November 20, 2019 at 10:00 a.m. at:
King George II Inn
102 Radcliffe Street
Bristol, PA

Transfer Agent and Registrar
Computershare Inc.
P.O. Box 505005
Louisville, KY 40233-5005
781-575-4223

Independent Auditors
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Corporate Counsel
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WILLIAM PENN
BANCORP, INC.

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