
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2022
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File No. 001-40255

WILLIAM PENN BANCORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Maryland
(Statement or Other Jurisdiction of
Incorporation or Organization)
10 Canal Street, Suite 104, Bristol, Pennsylvania
(Address of Principal Executive Offices)

85-3898797
(I.R.S. Employer
Identification No.)
19007
(Zip Code)

(267) 540-8500
(Registrant's telephone number, including area code)

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

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Common Stock, par value \$0.01 per share | WMPN | The Nasdaq Stock Market LLC |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the issuer's common stock, as of February 2, 2023: 14,024,657 shares.

WILLIAM PENN BANCORPORATION

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

**WILLIAM PENN BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

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

As of December 31, 2022 and June 30, 2022 (unaudited)

| | December 31, 2022 | June 30, 2022 |
|--|------------------------------|--------------------------|
| ASSETS | | |
| Cash and due from banks | \$ 7,860 | \$ 8,117 |
| Interest bearing deposits with other banks | 11,282 | 28,053 |
| Total cash and cash equivalents | 19,142 | 36,170 |
| Interest-bearing time deposits | 600 | 600 |
| Securities available for sale | 171,951 | 182,745 |
| Securities held to maturity, fair value of \$85,504 and \$88,321, as of December 31, 2022 and June 30, 2022, respectively | 103,030 | 102,135 |
| Equity securities | 2,039 | 2,258 |
| Loans receivable, net of allowance for loan losses of \$3,334 and \$3,409 as of December 31, 2022 and June 30, 2022, respectively | 492,163 | 475,511 |
| Premises and equipment, net | 11,355 | 11,696 |
| Regulatory stock, at cost | 3,567 | 3,807 |
| Deferred income taxes | 9,267 | 7,459 |
| Bank-owned life insurance | 39,717 | 39,170 |
| Goodwill | 4,858 | 4,858 |
| Intangible assets | 615 | 712 |
| Operating lease right-of-use assets | 8,306 | 6,843 |
| Accrued interest receivable and other assets | 4,334 | 5,988 |
| TOTAL ASSETS | \$ 870,944 | \$ 879,952 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Deposits | \$ 615,438 | \$ 606,617 |
| Advances from Federal Home Loan Bank | 60,000 | 65,000 |
| Advances from borrowers for taxes and insurance | 2,643 | 3,356 |
| Operating lease liabilities | 8,439 | 6,949 |
| Accrued interest payable and other liabilities | 5,194 | 5,704 |
| TOTAL LIABILITIES | 691,714 | 687,626 |
| Commitments and contingencies (note 12) | — | — |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, \$0.01 par value, 50,000,000 shares authorized; no shares issued | — | — |
| Common stock, \$0.01 par value, 150,000,000 shares authorized; 14,143,327 shares issued and outstanding at December 31, 2022 and 14,896,590 shares issued and outstanding at June 30, 2022 | 141 | 149 |
| Additional paid-in capital | 151,942 | 159,546 |
| Unearned common stock held by employee stock ownership plan | (9,395) | (9,599) |
| Retained earnings | 58,851 | 57,587 |
| Accumulated other comprehensive loss | (22,309) | (15,357) |
| TOTAL WILLIAM PENN BANCORPORATION STOCKHOLDERS' EQUITY | 179,230 | 192,326 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 870,944 | \$ 879,952 |

See accompanying notes to consolidated financial statements

WILLIAM PENN BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

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

For the Three and Six Months Ended December 31, 2022 and 2021 (unaudited)

| | <u>Three Months Ended December 31,</u> | | <u>Six Months Ended December 31,</u> | |
|---|--|-----------------|--------------------------------------|-----------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| INTEREST INCOME | | | | |
| Loans receivable, including fees | \$ 5,666 | \$ 5,109 | \$ 10,963 | \$ 10,323 |
| Securities | 1,707 | 1,033 | 3,364 | 1,697 |
| Other | 187 | 40 | 316 | 146 |
| Total interest income | <u>7,560</u> | <u>6,182</u> | <u>14,643</u> | <u>12,166</u> |
| INTEREST EXPENSE | | | | |
| Deposits | 974 | 421 | 1,483 | 905 |
| Borrowings | 550 | 231 | 883 | 469 |
| Total interest expense | <u>1,524</u> | <u>652</u> | <u>2,366</u> | <u>1,374</u> |
| Net interest income | 6,036 | 5,530 | 12,277 | 10,792 |
| Provision (recovery) for loan losses | — | — | — | (30) |
| NET INTEREST INCOME AFTER PROVISION (RECOVERY) FOR LOAN LOSSES | <u>6,036</u> | <u>5,530</u> | <u>12,277</u> | <u>10,822</u> |
| OTHER INCOME | | | | |
| Service fees | 209 | 243 | 420 | 456 |
| Net gain on sale of securities | — | — | — | 62 |
| Earnings on bank-owned life insurance | 274 | 278 | 547 | 516 |
| Unrealized gain (loss) on equity securities | 54 | 35 | (219) | 140 |
| Net gain on disposition of premises and equipment | 300 | — | 299 | — |
| Other | 65 | 108 | 137 | 195 |
| Total other income | <u>902</u> | <u>664</u> | <u>1,184</u> | <u>1,369</u> |
| OTHER EXPENSES | | | | |
| Salaries and employee benefits | 3,222 | 2,796 | 6,463 | 5,508 |
| Occupancy and equipment | 907 | 726 | 1,695 | 1,401 |
| Data processing | 472 | 419 | 903 | 840 |
| Professional fees | 258 | 241 | 521 | 489 |
| Amortization of intangible assets | 49 | 56 | 97 | 113 |
| Prepayment penalties | — | — | — | 64 |
| Other | 752 | 601 | 1,544 | 1,291 |
| Total other expense | <u>5,660</u> | <u>4,839</u> | <u>11,223</u> | <u>9,706</u> |
| Income before income taxes | 1,278 | 1,355 | 2,238 | 2,485 |
| Income tax expense | 217 | 180 | 150 | 150 |
| NET INCOME | <u>\$ 1,061</u> | <u>\$ 1,175</u> | <u>\$ 2,088</u> | <u>\$ 2,335</u> |
| Basic and diluted earnings per share | \$ 0.08 | \$ 0.08 | \$ 0.16 | \$ 0.16 |

See accompanying notes to consolidated financial statements

WILLIAM PENN BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)

For the Three and Six Months Ended December 31, 2022 and 2021 (unaudited)

| | <u>Three Months Ended December 31,</u> | | <u>Six Months Ended December 31,</u> | |
|---|--|---------------|--------------------------------------|-----------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Net income | \$ 1,061 | \$ 1,175 | \$ 2,088 | \$ 2,335 |
| Other comprehensive income (loss): | | | | |
| Changes in net unrealized loss on securities available for sale | 1,038 | (576) | (9,028) | (1,285) |
| Tax effect | (240) | 129 | 2,076 | 288 |
| Reclassification adjustment for gain recognized in net income | — | — | — | (62) |
| Tax effect | — | — | — | 14 |
| Other comprehensive income (loss), net of tax | 798 | (447) | (6,952) | (1,045) |
| Comprehensive income (loss) | <u>\$ 1,859</u> | <u>\$ 728</u> | <u>\$ (4,864)</u> | <u>\$ 1,290</u> |

See accompanying notes to consolidated financial statements

WILLIAM PENN BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands, except share amounts)

For the Three and Six Months Ended December 31, 2022 and 2021 (unaudited)

| | Number of Shares, net | Common Stock | Additional Paid-in capital | Unearned Common Stock held by ESOP | Retained Earnings | Accumulated Other Comprehensive Loss | Total Stockholders' Equity |
|---|--------------------------|---------------|-------------------------------|---|----------------------|---|----------------------------------|
| Balance, June 30, 2022 | 14,896,590 | \$ 149 | \$ 159,546 | \$ (9,599) | \$ 57,587 | \$ (15,357) | \$ 192,326 |
| Net income | — | — | — | — | 1,027 | — | 1,027 |
| Other comprehensive loss | — | — | — | — | — | (7,750) | (7,750) |
| Restricted stock expense | — | — | 289 | — | — | — | 289 |
| Stock option expense | — | — | 201 | — | — | — | 201 |
| Stock purchased and retired | (397,352) | (4) | (4,578) | — | — | — | (4,582) |
| ESOP shares committed to be released | — | — | — | 102 | — | — | 102 |
| Regular cash dividend paid (\$0.03 per share) | — | — | — | — | (419) | — | (419) |
| Balance, September 30, 2022 | 14,499,238 | \$ 145 | \$ 155,458 | \$ (9,497) | \$ 58,195 | \$ (23,107) | \$ 181,194 |
| Net income | — | — | — | — | 1,061 | — | 1,061 |
| Other comprehensive income | — | — | — | — | — | 798 | 798 |
| Restricted stock expense | — | — | 269 | — | — | — | 269 |
| Stock option expense | — | — | 186 | — | — | — | 186 |
| Shares forfeited under the William Penn Bancorporation 2022 Equity Incentive Plan | (13,904) | — | — | — | — | — | — |
| Stock purchased and retired | (342,007) | (4) | (3,973) | — | — | — | (3,977) |
| ESOP shares committed to be released | — | — | 2 | 102 | — | — | 104 |
| Regular cash dividend paid (\$0.03 per share) | — | — | — | — | (405) | — | (405) |
| Balance, December 31, 2022 | 14,143,327 | \$ 141 | \$ 151,942 | \$ (9,395) | \$ 58,851 | \$ (22,309) | \$ 179,230 |
| | | | | | | | |
| | Number of Shares, net | Common Stock | Additional Paid-in capital | Unearned Common Stock held by ESOP | Retained Earnings | Accumulated Other Comprehensive Loss | Total Stockholders' Equity |
| Balance, June 30, 2021 | 15,170,566 | \$ 152 | \$ 168,349 | \$ (10,004) | \$ 58,493 | \$ (64) | \$ 216,926 |
| Net income | — | — | — | — | 1,160 | — | 1,160 |
| Other comprehensive loss | — | — | — | — | — | (598) | (598) |
| ESOP shares committed to be released | — | — | 5 | 103 | — | — | 108 |
| Special cash dividend paid (\$0.30 per share) | — | — | — | — | (4,551) | — | (4,551) |
| Balance, September 30, 2021 | 15,170,566 | \$ 152 | \$ 168,354 | \$ (9,901) | \$ 55,102 | \$ (662) | \$ 213,045 |
| Net income | — | — | — | — | 1,175 | — | 1,175 |
| Other comprehensive loss | — | — | — | — | — | (447) | (447) |
| ESOP shares committed to be released | — | — | 6 | 101 | — | — | 107 |
| Balance, December 31, 2021 | 15,170,566 | \$ 152 | \$ 168,360 | \$ (9,800) | \$ 56,277 | \$ (1,109) | \$ 213,880 |

See accompanying notes to consolidated financial statements

WILLIAM PENN BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

For the Six Months Ended December 31, 2022 and 2021 (unaudited)

| | Six Months Ended December 31, | |
|---|----------------------------------|------------------|
| | 2022 | 2021 |
| Cash flows from operating activities | | |
| Net income | \$ 2,088 | \$ 2,335 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision (recovery) for loan losses | — | (30) |
| Depreciation expense | 584 | 470 |
| Other accretion, net | (190) | (483) |
| Deferred income taxes | 319 | 204 |
| Net gain on sale of fixed assets held for sale | (299) | — |
| Amortization of core deposit intangibles | 97 | 113 |
| Amortization of ESOP | 206 | 215 |
| Net gain on sale of securities | — | (62) |
| Unrealized loss (gain) on equity securities | 219 | (140) |
| Earnings on bank-owned life insurance | (547) | (516) |
| Stock based compensation expense | 945 | — |
| Other, net | (515) | 338 |
| Net cash provided by operating activities | 2,907 | 2,444 |
| Cash flows from investing activities | | |
| Securities available for sale: | | |
| Purchases | (4,778) | (22,687) |
| Maturities, calls and principal paydowns | 6,325 | 6,342 |
| Proceeds from sale of securities | — | 5,008 |
| Securities held to maturity: | | |
| Purchases | (5,023) | (106,967) |
| Maturities, calls and principal paydowns | 4,130 | 1,126 |
| Equity securities: | | |
| Purchases | — | (2,500) |
| Net (increase) decrease in loans receivable | (16,374) | 5,026 |
| Interest bearing time deposits: | | |
| Maturities and principal paydowns | — | 750 |
| Purchase of bank-owned life insurance | — | (2,000) |
| Regulatory stock purchases | (2,327) | (1) |
| Regulatory stock redemptions | 2,567 | 393 |
| Proceeds from the sale of fixed assets held for sale | 1,934 | — |
| Purchases of premises and equipment, net | (243) | (459) |
| Net cash used in investing activities | (13,789) | (115,969) |
| Cash flows from financing activities | | |
| Net increase in deposits | 8,950 | 17,922 |
| Net repayment of short-term borrowed funds | (5,000) | (7,000) |
| Repurchase of common stock | (8,559) | — |
| Decrease in advances from borrowers for taxes and insurance | (713) | (943) |
| Cash dividends | (824) | (4,551) |
| Net cash (used in) provided by financing activities | (6,146) | 5,428 |
| Net decrease in cash and cash equivalents | (17,028) | (108,097) |
| Cash and cash equivalents - beginning | 36,170 | 168,722 |
| Cash and cash equivalents - ending | \$ 19,142 | \$ 60,625 |
| Supplementary cash flows information | | |
| Interest paid | \$ 2,415 | \$ 1,622 |
| Income tax refunds | (107) | (666) |
| Operating lease right-of-use asset recorded | 1,731 | 4,919 |
| Operating lease liabilities recorded | 1,731 | 4,919 |

See accompanying notes to consolidated financial statements

Notes to the Consolidated Financial Statements

Note 1 - Nature of Operations

William Penn Bancorporation (“the Company”) is a Maryland corporation that was incorporated in July 2020 to be the successor to William Penn Bancorp, Inc. (“William Penn Bancorp”) upon completion of the second-step conversion of William Penn Bank (the “Bank”) from the two-tier mutual holding company structure to the stock holding company structure. William Penn, MHC was the former mutual holding company for William Penn Bancorp prior to completion of the second-step conversion. In conjunction with the second-step conversion, each of William Penn, MHC and William Penn Bancorp ceased to exist. The second-step conversion was completed on March 24, 2021, at which time the Company sold, for gross proceeds of \$126.4 million, a total of 12,640,035 shares of common stock at \$10.00 per share. As part of the second-step conversion, each of the existing 776,647 outstanding shares of William Penn Bancorp common stock owned by persons other than William Penn, MHC was converted into 3.2585 shares of Company common stock. In addition, \$5.4 million of cash held by William Penn, MHC was transferred to the Company and recorded as an increase to additional paid-in capital following the completion of the second-step conversion.

In connection with the second-step conversion offering, the William Penn Bank Employee Stock Ownership Plan (“ESOP”) trustees subscribed for, and intended to purchase, on behalf of the ESOP, 8% of the shares of the Company common stock sold in the offering and to fund its stock purchase through a loan from the Company equal to 100% of the aggregate purchase price of the common stock. As a result of the second-step conversion offering being oversubscribed in the first tier of subscription priorities, the ESOP trustees were unable to purchase shares of the Company’s common stock in the second-step conversion offering. Subsequent to the completion of the second-step conversion on March 24, 2021, the ESOP trustees purchased 881,130 shares, or \$10.1 million, of the Company’s common stock in the open market. Such shares represent 6.97% of the shares of the Company common stock sold in the offering. The ESOP did not purchase any additional shares of Company common stock in connection with the second-step conversion and offering.

The Company owns 100% of the outstanding common stock of the Bank, a Pennsylvania chartered stock savings bank. The Bank offers consumer and commercial banking services to individuals, businesses, and nonprofit organizations throughout the Delaware Valley area through twelve full-service branch offices in Bucks County and Philadelphia, Pennsylvania, and Burlington, Camden, and Mercer Counties in New Jersey. The Company is subject to regulation and supervision by the Board of Governors of the Federal Reserve System. The Bank is supervised and regulated by the Federal Deposit Insurance Corporation (“FDIC”) and the Pennsylvania Department of Banking and Securities.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company, and its wholly owned subsidiary, the Bank, as well as the Bank’s wholly owned subsidiary, WPSLA Investment Corporation (“WPSLA”). WPSLA is a Delaware corporation organized in April 2000 to hold certain investment securities for the Bank. At December 31, 2022, WPSLA held \$266.7 million of the Bank’s \$277.0 million investment securities portfolio. All significant intercompany accounts and transactions have been eliminated. Management makes significant operating decisions based upon the analysis of the entire Company and financial performance is evaluated on a company-wide basis.

Use of Estimates in the Preparation of Financial Statements

These consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and in accordance with the rules of the U.S. Securities and Exchange Commission for Quarterly Reports on Form 10-Q. The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The significant estimates include the allowance for loan losses, goodwill, income taxes, postretirement benefits, and the fair value of investment securities. Actual results could differ from those estimates and assumptions.

The interim unaudited consolidated financial statements reflect all normal and recurring adjustments, which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three and six months ended December 31, 2022 are not necessarily indicative of the results of operations that may be expected for the entire fiscal year or any other period. Certain reclassifications have been made in the consolidated financial statements to conform with current year classifications.

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.

Revenue Recognition

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 and loan gains (losses) and earnings on bank owned life insurances, are not within the scope of ASC 606. The main types of noninterest income within the scope of ASC 606 include 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. 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.

Segment Reporting

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 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 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.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*, which changes the impairment model for most financial assets. This update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be affected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. With certain exceptions, transition to the new requirements will be through a cumulative-effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. This update is effective for SEC filers that are eligible to be smaller reporting companies, non-SEC filers, and all other companies, to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is actively working on preliminary test calculations and data validation, as well as process and procedural documentation. As of September 30, 2022, the Company began performing a parallel run of the new lifetime expected loss model with its current incurred loss model and is currently evaluating the results and assumptions of its new model to estimate lifetime credit losses. The Company expects to recognize a one-time cumulative-effect adjustment to the allowance for loan losses as of July 1, 2023, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The amendments in this ASU eliminate the accounting guidance for troubled debt restructurings (TDRs) by creditors in Subtopic 310-40, *Receivables—Troubled Debt Restructurings by Creditors*, while enhancing disclosure requirements for certain loan refinances and restructurings by creditors when a borrower is experiencing financial difficulty. In addition, for public business entities, the amendments in this ASU require that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, *Financial Instruments—Credit Losses—Measured at Amortized Cost*. For entities that have not yet adopted the amendments in Update 2016-13, which is discussed in greater detail above, the effective dates for the amendments in this update are the same as the effective dates in Update 2016-13. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position and results of operations.

In January 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, March 2020*, to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate. Entities can elect not to apply certain modification accounting requirements to contracts affected by what the guidance calls “reference rate reform” if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. Also, entities can elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform if certain criteria are met, and can make a one-time election to sell and/or reclassify held-to-maturity debt securities that reference an interest rate affected by reference rate reform. The sunset provision included in Topic 848 was based on the expectations of when LIBOR would cease being published. In March 2021, the UK Financial Conduct Authority announced that the intended cessation date of LIBOR would be June 30, 2023, which is beyond the established sunset date of Topic 848. In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*. The amendments in this ASU provide temporary relief by deferring the sunset date provision included in Topic 848. The amendments in ASU 2022-06 defer the effective date for all entities upon issuance through December 31, 2024. These updates are not expected to have a significant impact on the Company’s financial statements.

Note 3 - Earnings Per Share

The following table presents a calculation of basic and diluted earnings per share for the three and six months ended December 31, 2022 and 2021. Earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding. The difference between common shares issued and basic average common shares outstanding, for purposes of calculating basic earnings per share, is a result of subtracting unallocated ESOP shares and unvested restricted stock shares. There are no convertible securities which would affect the numerator in calculating basic and diluted earnings per share; therefore, the net income of \$1.1 million and \$2.1 million for the three and six months ended December 31, 2022, respectively, and \$1.2 million and \$2.3 million for the three and six months ended December 31, 2021, respectively, were used as the numerators. See Note 11 to these consolidated financial statements for further discussion of stock grants.

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

| (Dollars in thousands, except share and per share amounts) | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--|------------------------------------|------------|----------------------------------|------------|
| | 2022 | 2021 | 2022 | 2021 |
| Basic and diluted earnings per share: | | | | |
| Net income | \$ 1,061 | \$ 1,175 | \$ 2,088 | \$ 2,335 |
| Basic average common shares outstanding | 12,985,244 | 14,310,839 | 13,210,259 | 14,306,398 |
| Effect of dilutive securities | 44,892 | — | 31,303 | — |
| Dilutive average shares outstanding | 13,030,136 | 14,310,839 | 13,241,562 | 14,306,398 |
| Earnings per share: | | | | |
| Basic | \$ 0.08 | \$ 0.08 | \$ 0.16 | \$ 0.16 |
| Diluted | \$ 0.08 | \$ 0.08 | \$ 0.16 | \$ 0.16 |

Anti-dilutive shares are common stock equivalents with weighted average exercise prices in excess of the weighted average market value for the periods presented. There were 1,197,640 stock options that were anti-dilutive for both the three and six months ended December 31, 2022 and 2021.

Note 4 – Changes in and Reclassifications Out of Accumulated Other Comprehensive Loss

The following tables present the changes in the balances of each component of accumulated other comprehensive loss (“AOCI”) for the three and six months ended December 31, 2022 and 2021.

(Dollars in thousands)

| Accumulated Other Comprehensive Loss (1) | Unrealized Losses on Securities Available for Sale | |
|--|--|------------|
| | 2022 | 2021 |
| Balance at June 30, | \$ (15,357) | \$ (64) |
| Other comprehensive loss before reclassifications | (7,750) | (550) |
| Amounts reclassified from accumulated other comprehensive loss | — | (48) |
| Period change | (7,750) | (598) |
| Balance at September 30, | \$ (23,107) | \$ (662) |
| Other comprehensive income (loss) before reclassifications | 798 | (447) |
| Amounts reclassified from accumulated other comprehensive loss | — | — |
| Period change | 798 | (447) |
| Balance at December 31, | \$ (22,309) | \$ (1,109) |

(1) All amounts are net of tax. Related income tax expense is calculated using an income tax rate approximating 23% and 22% for 2022, and 2021, respectively.

There were no reclassifications out of AOCI during the three months ended December 31, 2022 and 2021. The following table presents reclassifications out of AOCI by component for the six months ended December 31, 2022 and 2021:

| Details about Accumulated Other Comprehensive Loss Components | Amounts Reclassified from Accumulated Other Comprehensive Loss (1) | | Affected Line Item in the Consolidated Statements of Income |
|---|--|-------|---|
| | Six Months Ended December 31, | | |
| | 2022 | 2021 | |
| Securities available for sale: | | | |
| Net securities gains reclassified into net income | \$ — | \$ 62 | Net gain on sale of securities |
| Related income tax expense | — | (14) | Income tax expense |
| | \$ — | \$ 48 | |

(1) Amounts in parenthesis indicate debits.

Note 5 – Investment Securities

Debt Securities

The amortized cost, gross unrealized gains and losses, and fair value of investments in debt securities are as follows:

| | December 31, 2022 | | | |
|---|-------------------|------------------------------|-------------------------------|-------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| (Dollars in thousands) | | | | |
| Available For Sale: | | | | |
| Mortgage-backed securities | \$ 128,812 | \$ 54 | \$ (18,185) | \$ 110,681 |
| U.S. agency collateralized mortgage obligations | 10,415 | — | (1,753) | 8,662 |
| U.S. government agency securities | 4,376 | 57 | (92) | 4,341 |
| Municipal bonds | 20,120 | — | (5,739) | 14,381 |
| Corporate bonds | 37,200 | — | (3,314) | 33,886 |
| Total Available For Sale | \$ 200,923 | \$ 111 | \$ (29,083) | \$ 171,951 |

Held To Maturity:

| | | | | |
|-----------------------------------|-------------------|-------------|--------------------|------------------|
| Mortgage-backed securities | \$ 98,002 | \$ — | \$ (17,439) | \$ 80,563 |
| U.S. government agency securities | 4,968 | — | (87) | 4,881 |
| Municipal bonds | 60 | — | — | 60 |
| Total Held To Maturity | \$ 103,030 | \$ — | \$ (17,526) | \$ 85,504 |

| | June 30, 2022 | | | |
|---|-------------------|------------------------------|-------------------------------|-------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| (Dollars in thousands) | | | | |
| Available For Sale: | | | | |
| Mortgage-backed securities | \$ 130,146 | \$ 85 | \$ (12,725) | \$ 117,506 |
| U.S. agency collateralized mortgage obligations | 11,001 | — | (1,292) | 9,709 |
| U.S. government agency securities | 5,082 | 11 | (55) | 5,038 |
| Municipal bonds | 20,160 | — | (4,518) | 15,642 |
| Corporate bonds | 36,300 | 16 | (1,466) | 34,850 |
| Total Available For Sale | \$ 202,689 | \$ 112 | \$ (20,056) | \$ 182,745 |

Held To Maturity:

| | | | | |
|-------------------------------|-------------------|-------------|--------------------|------------------|
| Mortgage-backed securities | \$ 102,135 | \$ — | \$ (13,814) | \$ 88,321 |
| Total Held To Maturity | \$ 102,135 | \$ — | \$ (13,814) | \$ 88,321 |

The Company did not sell any investment securities during the three and six months ended December 31, 2022. The Company recognized \$62 thousand of gross gains on the sale of \$5.0 million of investment securities during the six months ended December 31, 2021. The Company did not sell any investment securities during the three months ended December 31, 2021.

The amortized cost and fair value of debt securities, by contractual maturity, are shown below. Maturities for mortgage-backed securities are dependent upon the rate environment and prepayments of the underlying loans. Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without penalties.

| | December 31, 2022 | | | |
|--|--------------------|-------------------|-------------------|------------------|
| | Available For Sale | | Held To Maturity | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| (Dollars in thousands) | | | | |
| Due in one year or less | \$ — | \$ — | \$ 541 | \$ 541 |
| Due after one year through five years | 35 | 34 | 4,487 | 4,400 |
| Due after five years through ten years | 41,321 | 37,294 | — | — |
| Due after ten years | 159,567 | 134,623 | 98,002 | 80,563 |
| | \$ 200,923 | \$ 171,951 | \$ 103,030 | \$ 85,504 |

The following tables provide information on the gross unrealized losses and fair market value of the Company's investments with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2022 and June 30, 2022:

| (Dollars in thousands) | December 31, 2022 | | | | | |
|---|---------------------|--------------------|-------------------|--------------------|-------------------|-------------------------|
| | Less than 12 Months | | 12 Months or More | | Total Fair Value | Total Unrealized Losses |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | | |
| Available For Sale: | | | | | | |
| Mortgage-backed securities | \$ 66,449 | \$ (9,083) | \$ 40,433 | \$ (9,102) | \$ 106,882 | \$ (18,185) |
| U.S. agency collateralized mortgage obligations | 1,176 | (257) | 7,486 | (1,496) | 8,662 | (1,753) |
| U.S. government agency securities | — | — | 1,138 | (92) | 1,138 | (92) |
| Municipal bonds | 376 | (135) | 14,005 | (5,604) | 14,381 | (5,739) |
| Corporate bonds | 25,163 | (2,487) | 5,473 | (827) | 30,636 | (3,314) |
| | <u>93,164</u> | <u>(11,962)</u> | <u>68,535</u> | <u>(17,121)</u> | <u>161,699</u> | <u>(29,083)</u> |
| Held To Maturity: | | | | | | |
| Mortgage-backed securities | 2,282 | (461) | 78,281 | (16,978) | 80,563 | (17,439) |
| U.S. government agency securities | 4,881 | (87) | — | — | 4,881 | (87) |
| | <u>7,163</u> | <u>(548)</u> | <u>78,281</u> | <u>(16,978)</u> | <u>85,444</u> | <u>(17,526)</u> |
| Total Temporarily Impaired Securities | <u>\$ 100,327</u> | <u>\$ (12,510)</u> | <u>\$ 146,816</u> | <u>\$ (34,099)</u> | <u>\$ 247,143</u> | <u>\$ (46,609)</u> |

| (Dollars in thousands) | June 30, 2022 | | | | | |
|---|---------------------|--------------------|-------------------|-------------------|-------------------|-------------------------|
| | Less than 12 Months | | 12 Months or More | | Total Fair Value | Total Unrealized Losses |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | | |
| Available For Sale: | | | | | | |
| Mortgage-backed securities | \$ 93,726 | \$ (10,351) | \$ 13,750 | \$ (2,374) | \$ 107,476 | \$ (12,725) |
| U.S. agency collateralized mortgage obligations | 2,968 | (488) | 6,741 | (804) | 9,709 | (1,292) |
| U.S. government agency securities | 61 | (3) | 1,556 | (52) | 1,617 | (55) |
| Municipal bonds | 7,415 | (1,979) | 8,227 | (2,539) | 15,642 | (4,518) |
| Corporate bonds | 25,584 | (1,466) | — | — | 25,584 | (1,466) |
| | <u>129,754</u> | <u>(14,287)</u> | <u>30,274</u> | <u>(5,769)</u> | <u>160,028</u> | <u>(20,056)</u> |
| Held To Maturity: | | | | | | |
| Mortgage-backed securities | 88,321 | (13,814) | — | — | 88,321 | (13,814) |
| | <u>88,321</u> | <u>(13,814)</u> | <u>—</u> | <u>—</u> | <u>88,321</u> | <u>(13,814)</u> |
| Total Temporarily Impaired Securities | <u>\$ 218,075</u> | <u>\$ (28,101)</u> | <u>\$ 30,274</u> | <u>\$ (5,769)</u> | <u>\$ 248,349</u> | <u>\$ (33,870)</u> |

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 most recent Statement of Financial Condition date. For securities that meet neither of these conditions, management performs an 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.

The unrealized loss on securities is due to current interest rate levels relative to the Company’s cost. Because the unrealized losses are due to current interest rate levels relative to the Company’s cost and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell these investments before recovery of its amortized cost, which may be at maturity, the Company does not consider these investments to be other-than temporarily impaired at December 31, 2022 and June 30, 2022. There were 124 investment securities that were temporarily impaired at December 31, 2022 and 115 investment securities that were temporarily impaired at June 30, 2022.

At December 31, 2022 and June 30, 2022, \$2.5 million and \$2.0 million, respectively, of investment securities were pledged to secure municipal deposits.

Equity Securities

The Company had one equity security with a fair value of \$2.0 million as of December 31, 2022 and \$2.3 million as of June 30, 2022. During the three and six months ended December 31, 2022, the Company recorded \$54 thousand of unrealized gains and \$219 thousand of unrealized losses, respectively, and during the three and six months ended December 31, 2021, the Company recorded \$35 thousand and \$140 thousand, respectively, of unrealized gains, which were recorded in *Unrealized gain (loss) on equity securities* in the Consolidated Statements of Income.

Note 6 – Loans

Major classifications of loans at December 31, 2022 and June 30, 2022 are summarized as follows:

| (Dollars in thousands) | December 31, 2022 | | June 30, 2022 | |
|---------------------------------|----------------------|-----------------|-------------------|-----------------|
| | Amount | Percent | Amount | Percent |
| Residential real estate: | | | | |
| 1 - 4 family | \$ 142,055 | 28.62 % | \$ 147,061 | 30.66 % |
| Home equity and HELOCs | 32,527 | 6.56 | 32,529 | 6.78 |
| Construction -residential | 11,736 | 2.37 | 14,834 | 3.09 |
| Commercial real estate: | | | | |
| 1 - 4 family investor | 99,589 | 20.07 | 96,850 | 20.19 |
| Multi-family (five or more) | 15,595 | 3.14 | 13,069 | 2.72 |
| Commercial non-residential | 166,154 | 33.48 | 158,727 | 33.10 |
| Construction and land | 10,750 | 2.17 | 4,951 | 1.03 |
| Commercial | 15,577 | 3.14 | 9,409 | 1.96 |
| Consumer loans | 2,215 | 0.45 | 2,239 | 0.47 |
| Total Loans | <u>496,198</u> | <u>100.00 %</u> | <u>479,669</u> | <u>100.00 %</u> |
| Unearned loan origination fees | (701) | | (749) | |
| Allowance for loan losses | (3,334) | | (3,409) | |
| Net Loans | <u>\$ 492,163</u> | | <u>\$ 475,511</u> | |

Mortgage loans serviced for others are not included in the accompanying Consolidated Statements of Financial Condition. The total amount of loans serviced for the benefit of others was approximately \$13.1 million and \$14.4 million at December 31, 2022 and June 30, 2022, respectively. The Bank retained the related servicing rights for the loans that were sold and receives a 25 basis point servicing fee from the purchasers of the loans. Custodial escrow balances maintained in connection with the foregoing loan servicing are included in advances from borrowers for taxes and insurance.

Commercial non-residential loans include shared national credits, which are participations in loans or loan commitments of at least \$20.0 million that are shared by three or more banks. As of December 31, 2022 and June 30, 2022, the Company had one shared national credit loan commitment for \$12.5 million with \$7.1 million and \$9.2 million outstanding, respectively, that is a purchased participation classified as pass rated and all payments are current and the loan is performing in accordance with its contractual terms. The Company's accounting policies for shared national credits, including our charge off and reserve policy, are consistent with the significant accounting policies disclosed in our financial statements for the Company's total loan portfolio. Shared national credits are subject to the same underwriting guidelines as loans originated by the Bank and are subject to annual reviews where the risk rating of the loan is evaluated. Additionally, the Bank obtains quarterly financial information and performs a financial analysis on a regular basis to ensure that the borrower can comply with the financial terms of the loan. The information used in the analysis is provided by the borrower through the agent bank.

Allowance for Loan Losses. The following tables set forth the allocation of the Bank's allowance for loan losses by loan category 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 Company generally charges-off the collateral or discounted cash flow deficiency on all loans at 90 days past due and all loans rated substandard or worse that are 90 days past due.

The provision for loan losses was determined by management to be an amount necessary to maintain a balance of allowance for loan losses at a level that considers all known and current losses in the loan portfolio as well as potential losses due to unknown factors such

as the economic environment. Changes in the provision were based on management's analysis of various factors such as: estimated fair value of underlying collateral, recent loss experience in particular segments of the portfolio, levels and trends in delinquent loans, and changes in general economic and business conditions. The Company considers the allowance for loan losses of \$3.3 million and \$3.4 million adequate to cover loan losses inherent in the loan portfolio at both December 31, 2022 and June 30, 2022, respectively.

The following table presents by portfolio segment, the changes in the allowance for loan losses for the three months ended December 31, 2022 and 2021:

| December 31, 2022 | Residential real estate: | | | Commercial real estate: | | | | Commercial | Consumer | Total |
|--------------------------------------|--------------------------|------------------------|--------------------------|-------------------------|-----------------------------|----------------------------|-----------------------|------------|----------|----------|
| | 1 - 4 family | Home Equity and HELOCs | Construction-residential | 1 - 4 family investor | Multi-family (five or more) | Commercial non-residential | Construction and Land | | | |
| <i>(Dollar amounts in thousands)</i> | | | | | | | | | | |
| Allowance for credit losses: | | | | | | | | | | |
| Beginning balance | \$ 493 | \$ 116 | \$ 301 | \$ 495 | \$ 112 | \$ 1,431 | \$ 224 | \$ 111 | \$ 50 | \$ 3,333 |
| Charge-offs | — | — | — | — | — | — | — | — | — | — |
| Recoveries | — | — | — | — | — | — | — | — | 1 | 1 |
| Provision (recovery) | 21 | (7) | (29) | 13 | (20) | (22) | 25 | 12 | 7 | — |
| Ending Balance | \$ 514 | \$ 109 | \$ 272 | \$ 508 | \$ 92 | \$ 1,409 | \$ 249 | \$ 123 | \$ 58 | \$ 3,334 |
| December 31, 2021 | | | | | | | | | | |
| | Residential real estate: | | | Commercial real estate: | | | | | | |
| | 1-4 family | Home Equity and HELOCs | Construction-residential | 1 - 4 family investor | Multi-family (five or more) | Commercial non-residential | Construction and Land | Commercial | Consumer | Total |
| <i>(Dollar amounts in thousands)</i> | | | | | | | | | | |
| Allowance for credit losses: | | | | | | | | | | |
| Beginning balance | \$ 658 | \$ 123 | \$ 386 | \$ 876 | \$ 148 | \$ 968 | \$ 368 | \$ 49 | \$ 15 | \$ 3,591 |
| Charge-offs | (15) | — | — | (55) | — | — | — | — | — | (70) |
| Recoveries | — | 1 | — | 42 | — | — | — | — | — | 43 |
| Provision (recovery) | (38) | (15) | (60) | (121) | (32) | 352 | (103) | (18) | 35 | — |
| Ending Balance | \$ 605 | \$ 109 | \$ 326 | \$ 742 | \$ 116 | \$ 1,320 | \$ 265 | \$ 31 | \$ 50 | \$ 3,564 |

The following table presents by portfolio segment, the changes in the allowance for loan losses for the six months ended December 31, 2022 and 2021:

| December 31, 2022 | Residential real estate: | | | Commercial real estate: | | | | Commercial | Consumer | Total |
|--------------------------------------|--------------------------|------------------------|--------------------------|-------------------------|-----------------------------|----------------------------|-----------------------|------------|----------|----------|
| | 1 - 4 family | Home Equity and HELOCs | Construction-residential | 1 - 4 family investor | Multi-family (five or more) | Commercial non-residential | Construction and Land | | | |
| <i>(Dollar amounts in thousands)</i> | | | | | | | | | | |
| Allowance for credit losses: | | | | | | | | | | |
| Beginning balance | \$ 506 | \$ 113 | \$ 386 | \$ 527 | \$ 110 | \$ 1,451 | \$ 166 | \$ 100 | \$ 50 | \$ 3,409 |
| Charge-offs | (79) | — | — | — | — | — | — | — | — | (79) |
| Recoveries | — | — | — | — | — | — | — | — | 4 | 4 |
| Provision (recovery) | 87 | (4) | (114) | (19) | (18) | (42) | 83 | 23 | 4 | — |
| Ending Balance | \$ 514 | \$ 109 | \$ 272 | \$ 508 | \$ 92 | \$ 1,409 | \$ 249 | \$ 123 | \$ 58 | \$ 3,334 |
| December 31, 2021 | | | | | | | | | | |
| | Residential real estate: | | | Commercial real estate: | | | | | | |
| | 1-4 family | Home Equity and HELOCs | Construction-residential | 1 - 4 family investor | Multi-family (five or more) | Commercial non-residential | Construction and Land | Commercial | Consumer | Total |
| <i>(Dollar amounts in thousands)</i> | | | | | | | | | | |
| Allowance for credit losses: | | | | | | | | | | |
| Beginning balance | \$ 709 | \$ 133 | \$ 487 | \$ 843 | \$ 159 | \$ 854 | \$ 362 | \$ 51 | \$ 15 | \$ 3,613 |
| Charge-offs | (15) | — | — | (55) | — | — | — | — | — | (70) |
| Recoveries | — | 8 | — | 42 | — | — | — | — | 1 | 51 |
| Provision (recovery) | (89) | (32) | (161) | (88) | (43) | 466 | (97) | (20) | 34 | (30) |
| Ending Balance | \$ 605 | \$ 109 | \$ 326 | \$ 742 | \$ 116 | \$ 1,320 | \$ 265 | \$ 31 | \$ 50 | \$ 3,564 |

During the three and six months ended December 31, 2022, the changes in the provision for loan losses for each portfolio of loans were primarily due to fluctuations in the outstanding balance of each portfolio of loans collectively evaluated for impairment. Specifically, we experienced significant growth in our commercial construction and land portfolio and a corresponding increase in the provision for loan losses for this portfolio. The overall decrease in the allowance during the six months ended December 31, 2022 can be primarily attributed to improved asset quality metrics with continued low levels of net charge-offs and a decrease in non-performing assets.

During the three and six months ended December 31, 2021, the changes in the provision for loan losses for each portfolio of loans were primarily due to fluctuations in the outstanding balance of each portfolio of loans collectively evaluated for impairment. Specifically, we experienced significant growth in our commercial non-residential real estate portfolio and a corresponding increase in the provision for loan losses for this portfolio. The overall decrease in the allowance and provision credit during the six months ended December 31, 2021 can be primarily attributed to an improving economic outlook combined with improved asset quality metrics.

The following tables present the allowance for loan losses and recorded investment by loan portfolio classification as December 31, 2022 and June 30, 2022:

| December 31, 2022 (Dollar amounts in thousands) | Residential real estate: | | | Commercial real estate: | | | | Commercial | Consumer | Total |
|--|--------------------------|------------------------|--------------------------|-------------------------|-----------------------------|----------------------------|-----------------------|------------------|-----------------|-------------------|
| | 1 - 4 family | Home Equity and HELOCs | Construction-residential | 1 - 4 family investor | Multi-family (five or more) | Commercial non-residential | Construction and land | | | |
| Allowance ending balance: | | | | | | | | | | |
| Individually evaluated for impairment | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Collectively evaluated for impairment | 514 | 109 | 272 | 508 | 92 | 1,409 | 249 | 123 | 58 | 3,334 |
| Total allowance | \$ 514 | \$ 109 | \$ 272 | \$ 508 | \$ 92 | \$ 1,409 | \$ 249 | \$ 123 | \$ 58 | \$ 3,334 |
| Loans receivable ending balance: | | | | | | | | | | |
| Individually evaluated for impairment | \$ 1,612 | \$ 297 | \$ — | \$ 94 | \$ 275 | \$ 1,063 | \$ — | \$ — | \$ — | \$ 3,341 |
| Collectively evaluated for impairment | 80,331 | 16,798 | 11,736 | 86,323 | 15,068 | 147,688 | 10,750 | 14,842 | 624 | 384,160 |
| Acquired non-credit impaired loans ⁽¹⁾ | 59,981 | 15,409 | — | 13,172 | 252 | 17,403 | — | 735 | 1,591 | 108,543 |
| Acquired credit impaired loans ⁽²⁾ | 131 | 23 | — | — | — | — | — | — | — | 154 |
| Total portfolio | \$ 142,055 | \$ 32,527 | \$ 11,736 | \$ 99,589 | \$ 15,595 | \$ 166,154 | \$ 10,750 | \$ 15,577 | \$ 2,215 | \$ 496,198 |

(1) Acquired non-credit impaired loans are evaluated collectively, excluding loans that have subsequently moved to non-accrual status which are individually evaluated for impairment.

(2) Acquired credit impaired loans are evaluated on an individual basis.

| June 30, 2022 (Dollar amounts in thousands) | Residential real estate: | | | Commercial real estate: | | | | Commercial | Consumer | Total |
|---|--------------------------|------------------------|--------------------------|-------------------------|-----------------------------|----------------------------|-----------------------|-----------------|-----------------|-------------------|
| | 1 - 4 family | Home Equity and HELOCs | Construction-residential | 1 - 4 family investor | Multi-family (five or more) | Commercial non-residential | Construction and land | | | |
| Allowance ending balance: | | | | | | | | | | |
| Individually evaluated for impairment | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Collectively evaluated for impairment | 506 | 113 | 386 | 527 | 110 | 1,451 | 166 | 100 | 50 | 3,409 |
| Total allowance | \$ 506 | \$ 113 | \$ 386 | \$ 527 | \$ 110 | \$ 1,451 | \$ 166 | \$ 100 | \$ 50 | \$ 3,409 |
| Loans receivable ending balance: | | | | | | | | | | |
| Individually evaluated for impairment | \$ 3,336 | \$ 275 | \$ — | \$ 173 | \$ 291 | \$ 1,213 | \$ — | \$ — | \$ — | \$ 5,288 |
| Collectively evaluated for impairment | 78,478 | 15,679 | 14,834 | 81,834 | 12,525 | 138,812 | 4,951 | 8,626 | 531 | 356,270 |
| Acquired non-credit impaired loans ⁽¹⁾ | 65,114 | 16,552 | — | 14,843 | 253 | 18,702 | — | 783 | 1,708 | 117,955 |
| Acquired credit impaired loans ⁽²⁾ | 133 | 23 | — | — | — | — | — | — | — | 156 |
| Total portfolio | \$ 147,061 | \$ 32,529 | \$ 14,834 | \$ 96,850 | \$ 13,069 | \$ 158,727 | \$ 4,951 | \$ 9,409 | \$ 2,239 | \$ 479,669 |

(1) Acquired non-credit impaired loans are evaluated collectively, excluding loans that have subsequently moved to non-accrual status which are individually evaluated for impairment.

(2) Acquired credit impaired loans are evaluated on an individual basis.

Credit Quality Information

The following tables represent credit exposures by internally assigned grades as of December 31, 2022 and June 30, 2022. 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.

The following tables set forth the amounts of the portfolio of classified asset categories for the commercial loan portfolios at December 31, 2022 and June 30, 2022:

| December 31, 2022 | | | | | | |
|------------------------|-----------------------|------------------|-------------------|-----------------------|------------------|-------------------|
| Commercial Real Estate | | | | | | |
| | 1 - 4 family investor | Multi-family | Non-residential | Construction and land | Commercial | Total |
| Pass | \$ 98,151 | \$ 15,320 | \$ 165,091 | \$ 10,750 | \$ 15,577 | \$ 304,889 |
| Special Mention | 1,344 | — | 278 | — | — | 1,622 |
| Substandard | 94 | 275 | 785 | — | — | 1,154 |
| Doubtful | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — |
| Ending Balance | <u>\$ 99,589</u> | <u>\$ 15,595</u> | <u>\$ 166,154</u> | <u>\$ 10,750</u> | <u>\$ 15,577</u> | <u>\$ 307,665</u> |

| June 30, 2022 | | | | | | |
|------------------------|-----------------------|------------------|-------------------|-----------------------|-----------------|-------------------|
| Commercial Real Estate | | | | | | |
| | 1 - 4 family investor | Multi-family | Non-residential | Construction and land | Commercial | Total |
| Pass | \$ 95,271 | \$ 12,778 | \$ 157,514 | \$ 4,951 | \$ 9,409 | \$ 279,923 |
| Special Mention | 1,473 | — | 300 | — | — | 1,773 |
| Substandard | 106 | 291 | 913 | — | — | 1,310 |
| Doubtful | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — |
| Ending Balance | <u>\$ 96,850</u> | <u>\$ 13,069</u> | <u>\$ 158,727</u> | <u>\$ 4,951</u> | <u>\$ 9,409</u> | <u>\$ 283,006</u> |

The following tables set forth the amounts of the portfolio that are not rated by class of loans for the residential and consumer loan portfolios at December 31, 2022 and June 30, 2022:

Residential Real Estate and Consumer Loans
Credit Risk Internally Assigned
(Dollars in thousands)

| December 31, 2022 | | | | | |
|-------------------------|-------------------|----------------------|------------------|-----------------|-------------------|
| Residential Real Estate | | | | | |
| | 1 - 4 family | Home equity & HELOCs | Construction | Consumer | Total |
| Performing | \$ 139,160 | \$ 32,436 | \$ 11,736 | \$ 2,099 | \$ 185,431 |
| Non-performing | 2,895 | 91 | — | 116 | 3,102 |
| | <u>\$ 142,055</u> | <u>\$ 32,527</u> | <u>\$ 11,736</u> | <u>\$ 2,215</u> | <u>\$ 188,533</u> |

| June 30, 2022 | | | | | |
|-------------------------|-------------------|----------------------|------------------|-----------------|-------------------|
| Residential Real Estate | | | | | |
| | 1 - 4 family | Home equity & HELOCs | Construction | Consumer | Total |
| Performing | \$ 142,280 | \$ 32,188 | \$ 14,834 | \$ 2,122 | \$ 191,424 |
| Non-performing | 4,781 | 341 | — | 117 | 5,239 |
| | <u>\$ 147,061</u> | <u>\$ 32,529</u> | <u>\$ 14,834</u> | <u>\$ 2,239</u> | <u>\$ 196,663</u> |

Loan Delinquencies and Non-accrual Loans

Following are tables which include an aging analysis of the recorded investment of past due loans as of December 31, 2022 and June 30, 2022.

| Aged Analysis of Past Due and Non-accrual Loans As of December 31, 2022 | | | | | | | | | |
|--|--------------------------|--------------------------|-----------------------|-------------------|--------------------------------|------------|---------------------------|--|---|
| (Dollar amounts in thousands) | 30 - 59 Days Past Due | 60 - 89 Days Past Due | 90 Days Or Greater | Total Past Due | Acquired Credit Impaired | Current | Total Loans Receivable | Recorded Investment >90 Days and Accruing | Recorded Investment Loans on Non-Accrual |
| Residential real estate: | | | | | | | | | |
| 1 - 4 family | \$ 599 | \$ 1,595 | \$ 1,240 | \$ 3,434 | \$ 131 | \$ 138,490 | \$ 142,055 | \$ — | \$ 2,895 |
| Home equity and HELOCs | 147 | — | — | 147 | 23 | 32,357 | 32,527 | — | 91 |
| Construction - residential | — | — | — | — | — | 11,736 | 11,736 | — | — |
| Commercial real estate: | | | | | | | | | |
| 1 - 4 family investor | — | — | — | — | — | 99,589 | 99,589 | — | 94 |
| Multi-family | 275 | 776 | — | 1,051 | — | 14,544 | 15,595 | — | 275 |
| Commercial non-residential | — | — | 308 | 308 | — | 165,846 | 166,154 | — | 785 |
| Construction and land | — | — | — | — | — | 10,750 | 10,750 | — | — |
| Commercial | — | — | — | — | — | 15,577 | 15,577 | — | — |
| Consumer | 6 | — | 13 | 19 | — | 2,196 | 2,215 | — | 116 |
| Total | \$ 1,027 | \$ 2,371 | \$ 1,561 | \$ 4,959 | \$ 154 | \$ 491,085 | \$ 496,198 | \$ — | \$ 4,256 |

| Aged Analysis of Past Due and Non-accrual Loans As of June 30, 2022 | | | | | | | | | |
|--|--------------------------|--------------------------|-----------------------|-------------------|--------------------------------|------------|---------------------------|--|---|
| (Dollar amounts in thousands) | 30 - 59 Days Past Due | 60 - 89 Days Past Due | 90 Days Or Greater | Total Past Due | Acquired Credit Impaired | Current | Total Loans Receivable | Recorded Investment >90 Days and Accruing | Recorded Investment Loans on Non-Accrual |
| Residential real estate: | | | | | | | | | |
| 1 - 4 family | \$ 1,528 | \$ 622 | \$ 2,392 | \$ 4,542 | \$ 133 | \$ 142,386 | \$ 147,061 | \$ — | \$ 4,781 |
| Home equity and HELOCs | 19 | — | 183 | 202 | 23 | 32,304 | 32,529 | — | 341 |
| Construction - residential | — | — | — | — | — | 14,834 | 14,834 | — | — |
| Commercial real estate: | | | | | | | | | |
| 1 - 4 family investor | — | — | — | — | — | 96,850 | 96,850 | — | 106 |
| Multi-family | — | — | — | — | — | 13,069 | 13,069 | — | 291 |
| Commercial non-residential | 275 | 494 | 418 | 1,187 | — | 157,540 | 158,727 | — | 875 |
| Construction and land | — | — | — | — | — | 4,951 | 4,951 | — | — |
| Commercial | — | — | — | — | — | 9,409 | 9,409 | — | — |
| Consumer | 27 | — | — | 27 | — | 2,212 | 2,239 | — | 117 |
| Total | \$ 1,849 | \$ 1,116 | \$ 2,993 | \$ 5,958 | \$ 156 | \$ 473,555 | \$ 479,669 | \$ — | \$ 6,511 |

Interest income on non-accrual loans that would have been recorded if these loans had performed in accordance with their terms was approximately \$56 thousand, \$111 thousand, \$58 thousand, and \$115 thousand during the three and six months ended December 31, 2022 and 2021, respectively.

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 for loan losses.

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable, at December 31, 2022 and June 30, 2022.

December 31, 2022

| (Dollars in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|--|--------------------------------|---|------------------------------|
| With no related allowance recorded: | | | |
| 1 - 4 family residential real estate | \$ 1,612 | \$ 1,750 | \$ — |
| Home equity and HELOCs | 297 | 297 | — |
| Construction residential | — | — | — |
| 1 - 4 family investor commercial real estate | 94 | 108 | — |
| Multi-family | 275 | 297 | — |
| Commercial non-residential | 1,063 | 1,066 | — |
| Construction and land | — | — | — |
| Commercial | — | — | — |
| Consumer | — | — | — |
| With an allowance recorded: | | | |
| 1 - 4 family residential real estate | \$ — | \$ — | \$ — |
| Home equity and HELOCs | — | — | — |
| Construction residential | — | — | — |
| 1 - 4 family investor commercial real estate | — | — | — |
| Multi-family | — | — | — |
| Commercial non-residential | — | — | — |
| Construction and land | — | — | — |
| Commercial | — | — | — |
| Consumer | — | — | — |
| Total: | | | |
| 1 - 4 family residential real estate | \$ 1,612 | \$ 1,750 | \$ — |
| Home equity and HELOCs | 297 | 297 | — |
| Construction residential | — | — | — |
| 1 - 4 family investor commercial real estate | 94 | 108 | — |
| Multi-family | 275 | 297 | — |
| Commercial non-residential | 1,063 | 1,066 | — |
| Construction and land | — | — | — |
| Commercial | — | — | — |
| Consumer | — | — | — |

The impaired loans table above includes accruing troubled debt restructurings (“TDRs”) in the amount of \$575 thousand that are performing in accordance with their modified terms. The Company recognized \$9 thousand and \$19 thousand of interest income on accruing TDRs during the three and six months ended December 31, 2022, respectively. The table above does not include \$154 thousand of loans acquired with deteriorated credit quality, which have been recorded at their fair value at acquisition.

June 30, 2022

| (Dollars in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|--|------------------------|--------------------------------|----------------------|
| With no related allowance recorded: | | | |
| 1-4 Family residential real estate | \$ 3,336 | \$ 3,582 | \$ — |
| Home equity and HELOCs | 275 | 277 | — |
| Construction Residential | — | — | — |
| 1 - 4 Family investor commercial real estate | 173 | 185 | — |
| Multi-family | 291 | 308 | — |
| Commercial non-residential | 1,213 | 1,265 | — |
| Construction and land | — | — | — |
| Commercial | — | — | — |
| Consumer | — | — | — |
| With an allowance recorded: | | | |
| 1-4 Family residential real estate | \$ — | \$ — | \$ — |
| Home equity and HELOCs | — | — | — |
| Construction Residential | — | — | — |
| 1 - 4 Family investor commercial real estate | — | — | — |
| Multi-family | — | — | — |
| Commercial non-residential | — | — | — |
| Construction and land | — | — | — |
| Commercial | — | — | — |
| Consumer | — | — | — |
| Total: | | | |
| 1-4 Family residential real estate | \$ 3,336 | \$ 3,582 | \$ — |
| Home equity and HELOCs | 275 | 277 | — |
| Construction Residential | — | — | — |
| 1 - 4 Family investor commercial real estate | 173 | 185 | — |
| Multi-family | 291 | 308 | — |
| Commercial non-residential | 1,213 | 1,265 | — |
| Construction and land | — | — | — |
| Commercial | — | — | — |
| Consumer | — | — | — |

The impaired loans table above includes accruing TDRs in the amount of \$593 thousand that are performing in accordance with their modified terms. The Company recognized \$11 thousand and \$23 thousand of interest income on accruing TDRs during the three and six months ended December 31, 2021, respectively. The table above does not include \$156 thousand of loans acquired with deteriorated credit quality, which have been recorded at their fair value at acquisition.

The following tables include the average recorded investment balances for impaired loans and the interest income recognized for the three and six months ended December 31, 2022 and 2021.

| December 31, 2022 | Three Months Ended | | Six Months Ended | |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| (Dollars in thousands) | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded: | | | | |
| 1-4 family residential real estate | \$ 1,599 | \$ — | \$ 2,099 | \$ — |
| Home equity and HELOCs | 320 | 4 | 353 | 8 |
| Construction residential | — | — | — | — |
| 1-4 family investor commercial real estate | 99 | — | 111 | 1 |
| Multi-family | 283 | — | 286 | — |
| Commercial non-residential | 1,035 | 7 | 1,149 | 12 |
| Construction and land | — | — | — | — |
| Commercial | — | — | — | — |
| Consumer | — | — | — | — |
| With an allowance recorded: | | | | |
| 1-4 family residential real estate | \$ — | \$ — | \$ — | \$ — |
| Home equity and HELOCs | — | — | — | — |
| Construction residential | — | — | — | — |
| 1-4 family investor commercial real estate | — | — | — | — |
| Multi-family | — | — | — | — |
| Commercial non-residential | — | — | — | — |
| Construction and land | — | — | — | — |
| Commercial | — | — | — | — |
| Consumer | — | — | — | — |
| Total: | | | | |
| 1-4 family residential real estate | \$ 1,599 | \$ — | \$ 2,099 | \$ — |
| Home equity and HELOCs | 320 | 4 | 353 | 8 |
| Construction residential | — | — | — | — |
| 1-4 family investor commercial real estate | 99 | — | 111 | 1 |
| Multi-family | 283 | — | 286 | — |
| Commercial non-residential | 1,035 | 7 | 1,149 | 12 |
| Construction and land | — | — | — | — |
| Commercial | — | — | — | — |
| Consumer | — | — | — | — |

| | December 31, 2021 | | Three Months Ended | | Six Months Ended | |
|--|-------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|-------|
| | | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | |
| (Dollars in thousands) | | | | | | |
| With no related allowance recorded: | | | | | | |
| 1-4 family residential real estate | \$ | 1,785 | \$ | — | \$ | 1,801 |
| Home equity and HELOCs | | 449 | | 5 | | 504 |
| Construction residential | | — | | — | | — |
| 1-4 family investor commercial real estate | | 388 | | 1 | | 406 |
| Multi-family | | 500 | | — | | 261 |
| Commercial non-residential | | 968 | | 6 | | 928 |
| Construction and land | | — | | — | | — |
| Commercial | | 5 | | — | | 3 |
| Consumer | | — | | — | | — |
| With an allowance recorded: | | | | | | |
| 1-4 family residential real estate | \$ | — | \$ | — | \$ | — |
| Home equity and HELOCs | | — | | — | | — |
| Construction residential | | — | | — | | — |
| 1-4 family investor commercial real estate | | — | | — | | — |
| Multi-family | | — | | — | | — |
| Commercial non-residential | | — | | — | | — |
| Construction and land | | — | | — | | — |
| Commercial | | — | | — | | — |
| Consumer | | — | | — | | — |
| Total: | | | | | | |
| 1-4 family residential real estate | \$ | 1,785 | \$ | — | \$ | 1,801 |
| Home equity and HELOCs | | 449 | | 5 | | 504 |
| Construction residential | | — | | — | | — |
| 1-4 family investor commercial real estate | | 388 | | 1 | | 406 |
| Multi-family | | 500 | | — | | 261 |
| Commercial non-residential | | 968 | | 6 | | 928 |
| Construction and land | | — | | — | | — |
| Commercial | | 5 | | — | | 3 |
| Consumer | | — | | — | | — |

Generally, the Bank will charge-off the collateral or discounted cash flow deficiency on all impaired loans. Interest income that would have been recorded for the three and six months ended December 31, 2022, had impaired loans been current according to their original terms, amounted to \$29 thousand and \$76 thousand, respectively. Interest income that would have been recorded for the three and six months ended December 31, 2021, had impaired loans been current according to their original terms, amounted to \$47 thousand and \$93 thousand, respectively.

Troubled Debt Restructurings

The Bank determines whether a restructuring of debt constitutes a TDR in accordance with guidance under *FASB ASC Topic 310 Receivables*. The Bank considers a loan a TDR when the borrower is experiencing financial difficulty and the Bank grants a concession that they would not otherwise consider but for the borrower's financial difficulties. A TDR includes a modification of debt terms or assets received in satisfaction of the debt (including a foreclosure or a deed in lieu of foreclosure) or a combination of types. The Bank evaluates selective criteria to determine if a borrower is experiencing financial difficulty, including the ability of the borrower to obtain funds from sources other than the Bank at market rates. The Bank considers all TDR loans as impaired loans and, generally, they are put on non-accrual status. The Bank will not consider the loan a TDR if the loan modification was made for customer retention purposes and the modification reflects prevailing market conditions. The Bank's policy for returning a loan to accruing status requires the preparation of a well-documented credit evaluation which includes the following:

- A review of the borrower's current financial condition in which the borrower must demonstrate sufficient cash flow to support the repayment of all principal and interest including any amounts previously charged-off;

- An updated appraisal or home valuation which must demonstrate sufficient collateral value to support the debt; and
- Sustained performance based on the restructured terms for at least six consecutive months.

During the three and six months ended December 31, 2022 and 2021, there were no loans modified that were identified as a TDR. The Company did not experience any re-defaulted TDRs subsequent to the loan being modified during the three and six months ended December 31, 2022 and 2021.

Note 7 – Premises and Equipment

The components of premises and equipment are as follows as of December 31, 2022 and June 30, 2022:

| (Dollars in thousands) | December 31, 2022 | June 30, 2022 |
|-----------------------------------|----------------------|------------------|
| Land | \$ 2,156 | \$ 2,156 |
| Office buildings and improvements | 11,515 | 11,769 |
| Furniture, fixtures and equipment | 2,398 | 2,540 |
| Automobiles | 58 | 58 |
| | <u>16,127</u> | <u>16,523</u> |
| Accumulated depreciation | (4,772) | (4,827) |
| | <u>\$ 11,355</u> | <u>\$ 11,696</u> |

Depreciation expense amounted to \$319 thousand and \$584 thousand for the three and six months ended December 31, 2022, respectively, and \$239 thousand and \$470 thousand for the three and six months ended December 31, 2021, respectively. During the three months ended September 30, 2022, the Company made a strategic decision to close the Bank's branch office located in Collingswood, New Jersey and to consolidate the deposits from this branch office into the Bank's Audubon, New Jersey branch office after assessing the branch's profitability and its close geographic proximity to the Audubon, New Jersey branch location. The branch office located in Collingswood, New Jersey was closed effective December 31, 2022.

Note 8 – Goodwill and Intangibles

The goodwill and intangible assets arising from acquisitions is accounted for in accordance with the accounting guidance in FASB *ASC Topic 350 for Intangibles — Goodwill and Other*. The Company recorded goodwill of \$4.9 million and core deposit intangibles of \$1.4 million in connection with the 2018 acquisition of Audubon Savings Bank. The Company also recorded core deposit intangibles totaling \$65 thousand and \$197 thousand in connection with the 2020 acquisitions of Fidelity Savings and Loan Association of Bucks County ("Fidelity") and Washington Savings Bank ("Washington"), respectively. As of December 31, 2022 and June 30, 2022, the other intangibles consisted of \$615 thousand and \$712 thousand, respectively, of core deposit intangibles, which are amortized over an estimated useful life of ten years.

The Company performs its annual impairment evaluation on June 30 or more frequently if events and circumstances indicate that the fair value of the banking unit is less than its carrying value. During the year ended June 30, 2022, management included considerations of the current economic environment caused by COVID-19 in its evaluation, and determined that it is not more likely than not that the carrying value of goodwill is impaired. No goodwill impairment existed at June 30, 2022. During the six months ended December 31, 2022, management considered the current economic environment in its evaluation, and determined based on the totality of its qualitative assessment that it is not more likely than not that the carrying value of goodwill is impaired. No goodwill impairment existed during the six months ended December 31, 2022.

Goodwill and other intangibles are summarized as follows for the periods presented:

| (Dollars in thousands) | Goodwill | Core Deposit Intangibles |
|-----------------------------|-----------------|--------------------------|
| Balance, June 30, 2022 | \$ 4,858 | \$ 712 |
| Adjustments: | | |
| Additions | — | — |
| Amortization | — | (48) |
| Balance, September 30, 2022 | \$ 4,858 | \$ 664 |
| Adjustments: | | |
| Additions | — | — |
| Amortization | — | (49) |
| Balance, December 31, 2022 | <u>\$ 4,858</u> | <u>\$ 615</u> |

| (Dollars in thousands) | Goodwill | Core Deposit Intangibles |
|-----------------------------|-----------------|--------------------------|
| Balance, June 30, 2021 | \$ 4,858 | \$ 937 |
| Adjustments: | | |
| Additions | — | — |
| Amortization | — | (57) |
| Balance, September 30, 2021 | \$ 4,858 | \$ 880 |
| Adjustments: | | |
| Additions | — | — |
| Amortization | — | (56) |
| Balance, December 31, 2021 | <u>\$ 4,858</u> | <u>\$ 824</u> |

Aggregate amortization expense was \$49 thousand and \$97 thousand for the three and six months ended December 31, 2022, respectively, and \$56 thousand and \$113 thousand for the three and six months ended December 31, 2021, respectively.

Note 9 – Deposits

Deposits consist of the following major classifications as of December 31, 2022 and June 30, 2022:

| (Dollars in thousands) | December 31, 2022 | June 30, 2022 |
|-------------------------------|-------------------|-------------------|
| Non-interest bearing checking | \$ 66,656 | \$ 75,758 |
| Interest bearing checking | 125,148 | 122,675 |
| Money market accounts | 188,501 | 171,316 |
| Savings and club accounts | 97,692 | 105,507 |
| Certificates of deposit | 137,441 | 131,361 |
| | <u>\$ 615,438</u> | <u>\$ 606,617</u> |

Note 10 – Borrowings

The Bank is a member of the Federal Home Loan Bank (“FHLB”) system, which consists of 11 regional Federal Home Loan Banks. The FHLB provides a central credit facility primarily for member institutions. The Bank had a maximum borrowing capacity with the FHLB of Pittsburgh of approximately \$294.5 million and \$292.7 million at December 31, 2022 and June 30, 2022, respectively. FHLB advances are secured by qualifying assets of the Bank, which include Federal Home Loan Bank stock and loans. The Bank had \$426.2 million and \$423.1 million of loans pledged as collateral as of December 31, 2022 and June 30, 2022, respectively. The Bank, as a member of the FHLB of Pittsburgh, is required to acquire and hold shares of capital stock in the FHLB of Pittsburgh. The Bank was in compliance with the requirements for the FHLB of Pittsburgh with an investment of \$3.3 million and \$3.5 million at December 31, 2022 and June 30, 2022, respectively.

Advances from the FHLB of Pittsburgh consisted of \$60.0 million and \$65.0 million of fixed rate short-term borrowings as of December 31, 2022 and June 30, 2022, respectively.

As of December 31, 2022, the Bank had \$11.4 million of loans pledged as collateral to secure a \$4.5 million overnight line of credit with the Federal Reserve Bank. The Bank had no loans pledged to the Federal Reserve Bank as of June 30, 2022. There was no outstanding balance for the overnight line of credit with the Federal Reserve Bank as of December 31, 2022 and June 30, 2022.

Note 11 – Stock Based Compensation

Stock-based compensation is accounted for in accordance with FASB ASC Topic 718 for Compensation — Stock Compensation. The Company establishes fair value for its equity awards to determine their cost. The Company recognizes the related expense for employees over the appropriate vesting period, or when applicable, service period, using the straight-line method. However, consistent with the guidance, the amount of stock-based compensation recognized at any date must at least equal the portion of the grant date value of the award that is vested at that date. As a result, it may be necessary to recognize the expense using a ratable method.

On May 10, 2022, the shareholders of the Company approved the William Penn Bancorporation 2022 Equity Incentive Plan (the “Plan”). The Plan provides for the issuance of up to 1,769,604 shares (505,601 restricted stock awards and 1,264,003 stock options) of Company common stock.

During the year ended June 30, 2022, the Company granted 492,960 shares of restricted stock, with a weighted average grant date fair value of \$11.67 per share. To fund the grant of restricted common stock, the Company issued shares from authorized but unissued shares. Restricted shares granted under the Plan vest in equal installments over a five year period. Compensation expense related to the restricted shares is recognized ratably over the vesting period in an amount which totals the market price of the Company’s stock at the grant date. The expense recognized for the restricted shares for the three and six months ended December 31, 2022 was \$269 thousand and \$558 thousand, respectively. The expected future compensation expense related to the non-vested restricted shares outstanding at December 31, 2022 is \$4.9 million over a weighted average period of 4.37 years.

The following is a summary of the Company's restricted stock activity during the six months ended December 31, 2022:

| Summary of Non-vested Restricted Stock Award Activity | Number of Shares | Average Grant Price |
|--|-----------------------------|--------------------------------|
| Non-vested Restricted Stock Awards outstanding July 1, 2022 | 492,960 | \$ 11.67 |
| Issued | — | — |
| Vested | — | — |
| Forfeited | (13,904) | 11.82 |
| Non-vested Restricted Stock Awards outstanding December 31, 2022 | <u>479,056</u> | <u>\$ 11.66</u> |

During the year ended June 30, 2022, the Company granted 1,232,400 stock options, with a weighted average grant date fair value of \$3.24 per share. Stock options granted under the Plan vest in equal installments over a five year period. Stock options were granted at a weighted average exercise price of \$11.67, which represents the fair value of the Company's common stock price on the grant date based on the closing market price, and have an expiration period of 10 years. The fair value of stock options granted was valued using the Black-Scholes option pricing model using the following weighted average assumptions: expected life of 6.5 years, risk-free rate of return of 2.92%, volatility of 24.85%, and a dividend yield of 1.03%. Compensation expense recognized for the stock options for the three and six months ended December 31, 2022 was \$186 thousand and \$387 thousand, respectively. The expected future compensation expense related to the non-vested stock options outstanding at December 31, 2022 is \$3.4 million over a weighted average period of 4.37 years.

The following is a summary of the Company's stock option activity during the six months ended December 31, 2022:

| Summary of Stock Option Activity | Number of Options | Exercise Price per Shares |
|---|------------------------------|--------------------------------------|
| Beginning balance July 1, 2022 | 1,232,400 | \$ 11.67 |
| Granted | — | — |
| Exercised | — | — |
| Forfeited | (34,760) | 11.82 |
| Expired | — | — |
| Ending balance December 31, 2022 | <u>1,197,640</u> | <u>\$ 11.66</u> |

The weighted average remaining contractual term was approximately 9.38 years and 9.88 years as of December 31, 2022 and June 30, 2022, respectively. The aggregate intrinsic value was \$545 thousand and \$80 thousand for outstanding options as of December 31, 2022 and June 30, 2022, respectively.

Note 12 – Commitments and Contingencies

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Company’s Consolidated Statements of Financial Condition.

A summary of the Company's loan commitments is as follows as of December 31, 2022 and June 30, 2022:

| <u>(Dollars in thousands)</u> | <u>December 31, 2022</u> | <u>June 30, 2022</u> |
|--|------------------------------|--------------------------|
| Commitments to extend credit | \$ 6,681 | \$ 16,894 |
| Unfunded commitments under lines of credit | 68,917 | 71,999 |
| Standby letters of credit | 30 | 30 |

Commitments to extend credit are agreements to lend to a customer if 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 primarily includes residential and commercial real estate.

Periodically, there have been other various claims and lawsuits against the Bank, such as claims to enforce liens, condemnation proceedings on properties in which it holds security interests, claims involving the making and servicing of real property loans and other issues incident to its business. The Bank is not a party to any pending legal proceedings that it believes would have a material adverse effect on its financial condition, results of operations or cash flows.

Note 13 - 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 (described below) of tangible and core capital to total adjusted assets and of total capital to risk-weighted assets.

As of December 31, 2022 and June 30, 2022, the most recent notification from the regulators categorized the Bank as “well capitalized” under the regulatory framework for prompt corrective action.

Federal banking agencies have established an optional “community bank leverage ratio” of between 8% to 10% tangible equity to average total consolidated assets for qualifying institutions with assets of less than \$10 billion of assets. Institutions with capital meeting the specified requirement and electing to follow the alternative framework would be deemed to comply with the applicable regulatory capital requirements, including the risk-based requirements and would be considered well-capitalized under the prompt corrective action framework. In April 2020, the Federal banking regulatory agencies modified the original Community Bank Leverage Ratio (CBLR) framework and provided that, as of the second quarter 2020, a banking organization with a leverage ratio of 8 percent or greater and that meets the other existing qualifying criteria may elect to use the community bank leverage ratio framework. The modified rule also states that the community bank leverage ratio requirement will be greater than 8 percent for the second through fourth quarters of calendar year 2020, greater than 8.5 percent for calendar year 2021, and greater than 9 percent thereafter. The transition rule also maintains a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 100 basis points below the applicable community bank leverage ratio requirement.

| As of December 31, 2022 (Dollars in thousands except for ratios) | Actual | | CBLR Framework Requirement | |
|---|------------|---------|----------------------------|--------|
| | Amount | Ratio | Amount | Ratio |
| William Penn Bank: | | | | |
| Tier 1 leverage | \$ 160,448 | 18.26 % | \$ 79,077 | 9.00 % |

| As of June 30, 2022 (Dollars in thousands except for ratios) | Actual | | CBLR Framework Requirement | |
|---|------------|---------|----------------------------|--------|
| | Amount | Ratio | Amount | Ratio |
| William Penn Bank: | | | | |
| Tier 1 leverage | \$ 157,519 | 18.28 % | \$ 77,547 | 9.00 % |

Note 14 – Fair Value of Financial Instruments

The Company follows authoritative guidance under FASB ASC Topic 820 for Fair Value Measurements and Disclosures which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The definition of fair value under ASC 820 is the exchange price. The guidance clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability. The definition focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). The guidance emphasizes that fair value is a market-based measurement, not an entity-specific measurement.

Fair value is based on quoted market prices, when available. If listed prices or quotes are not available, fair value is based on fair value models that use market participant or independently sourced market data which include: discount rate, interest rate yield curves, credit risk, default rates and expected cash flow assumptions. In addition, valuation adjustments may be made in the determination of fair value. These fair value adjustments may include amounts to reflect counter party credit quality, creditworthiness, liquidity, and other unobservable inputs that are applied consistently over time. These adjustments are estimated and, therefore, subject to significant management judgment, and at times, may be necessary to mitigate the possibility of error or revision in the model-based estimate of the fair value provided by the model. The methods described above may produce fair value calculations that may not be indicative of the net realizable value. While the Company believes its valuation methods are consistent with other financial institutions, the use of different methods or assumptions to determine fair values could result in different estimates of fair value. FASB ASC Topic 820 for Fair Value Measurements and Disclosures describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level 2: 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 3: 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 required to be measured and reported on a recurring basis on the Company's Consolidated Statements of Financial Condition at their fair value as of December 31, 2022 and June 30, 2022, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| (Dollars in thousands) | December 31, 2022 | | | |
|---|-------------------|------------|-----------|------------|
| | Level I | Level II | Level III | Total |
| Assets: | | | | |
| Investments available for sale: | | | | |
| Mortgage-backed securities | \$ — | \$ 110,681 | \$ — | \$ 110,681 |
| U.S. agency collateralized mortgage obligations | — | 8,662 | — | 8,662 |
| U.S. government agency securities | — | 4,341 | — | 4,341 |
| Municipal bonds | — | 14,381 | — | 14,381 |
| Corporate bonds | — | 33,886 | — | 33,886 |
| Equity securities | 2,039 | — | — | 2,039 |
| Total Assets | \$ 2,039 | \$ 171,951 | \$ — | \$ 173,990 |

| (Dollars in thousands) | June 30, 2022 | | | |
|---|---------------|------------|-----------|------------|
| | Level I | Level II | Level III | Total |
| Assets: | | | | |
| Investments available for sale: | | | | |
| Mortgage-backed securities | \$ — | \$ 117,506 | \$ — | \$ 117,506 |
| U.S. agency collateralized mortgage obligations | — | 9,709 | — | 9,709 |
| U.S. government agency securities | — | 5,038 | — | 5,038 |
| Municipal bonds | — | 15,642 | — | 15,642 |
| Corporate bonds | — | 34,850 | — | 34,850 |
| Equity securities | 2,258 | — | — | 2,258 |
| Total Assets | \$ 2,258 | \$ 182,745 | \$ — | \$ 185,003 |

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. As of December 31, 2022 and June 30, 2022, the Company charged-off the collateral deficiency on impaired loans. As a result, there were no specific reserves on impaired loans as of December 31, 2022 and June 30, 2022.

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.

As of December 31, 2022, there were no assets required to be measured and reported at fair value on a non-recurring basis. As of June 30, 2022, assets required to be measured and reported at fair value on a non-recurring basis are summarized as follows:

| (Dollars in thousands) | June 30, 2022 | | | |
|---------------------------------------|---------------|----------|-----------|----------|
| | Level I | Level II | Level III | Total |
| Assets: | | | | |
| Impaired loans | \$ — | \$ — | \$ 1,690 | \$ 1,690 |
| Premises transferred to held for sale | — | — | 1,596 | 1,596 |
| | \$ — | \$ — | \$ 3,286 | \$ 3,286 |

Quantitative information regarding assets measured at fair value on a non-recurring basis as of June 30, 2022 is as follows:

| (Dollars in thousands) | Quantitative Information about Level 3 Fair Value Measurements | | | |
|---------------------------------------|--|---|--------------------------------------|-------|
| | Fair Value Estimate | Valuation Techniques | Unobservable Input | Range |
| June 30, 2022 | | | | |
| Impaired loans | \$ 1,690 | Appraisal of collateral ⁽¹⁾⁽³⁾ | Appraisal adjustments ⁽²⁾ | 0-7 % |
| Premises transferred to held for sale | 1,596 | Appraisal of premises ⁽¹⁾⁽³⁾ | Appraisal adjustments ⁽²⁾ | 0-1 % |

- (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 due to the relatively short time between origination of the instrument and its expected realization.

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.

Equity Securities

The fair value of equity securities is equal to the available quoted market price.

Loans Receivable

The fair value is estimated by discounting future cash flows using current market inputs at which loans with similar terms are adjusted for liquidity and credit risk.

Regulatory Stock

The carrying amount of Federal Home Loan Bank stock approximates fair value because Federal Home Loan Bank stock can only be redeemed or sold at par value and only to the respective issuing government supported institution or to another member institution.

Bank-Owned Life Insurance

The Company reports bank-owned life insurance on its Consolidated Statements of Financial Condition at the cash surrender value. The carrying amount of bank-owned life insurance approximates fair value because the fair value of bank-owned life insurance 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 money market deposits are, by definition, equal to the amount payable on demand at the reporting date as these products have no stated maturity. 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, considering market interest rates, the remaining terms and present credit worthiness of the counterparties.

In accordance with *FASB ASC Topic 825 for Financial Instruments, Disclosures about Fair Value of Financial Instruments*, the Company is required to disclose the fair value of financial instruments. The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a distressed sale. Fair value is best determined using observable market prices; however, for many of the Company's financial instruments no quoted market prices are readily available. In instances where quoted market prices are not readily available, fair value is determined using present value or other techniques appropriate for the particular instrument. These techniques involve some degree of judgment, and as a result, are not necessarily indicative of the amounts the Company would realize in a current market exchange. Different assumptions or estimation techniques may have a material effect on the estimated fair value.

The following tables set forth the carrying value of financial assets and liabilities and the fair value for certain financial instruments that are not required to be measured or reported at fair value on the Consolidated Statements of Financial Condition for the periods indicated. The tables below exclude financial instruments for which the carrying amount approximates fair value.

| (Dollars in thousands) | Fair Value Measurements at December 31, 2022 | | | | |
|---|--|------------|--|---|---|
| | 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 instruments - assets: | | | | | |
| Loans receivable, net | \$ 492,163 | \$ 448,367 | \$ — | \$ — | \$ 448,367 |
| Securities held to maturity | 103,030 | 85,504 | — | 85,504 | — |
| Financial instruments - liabilities: | | | | | |
| Certificates of deposit | 137,441 | 133,961 | — | — | 133,961 |
| Advances from Federal Home Loan Bank | 60,000 | 60,000 | — | — | 60,000 |
| Off-balance sheet financial instruments | — | — | — | — | — |

Fair Value Measurements at June 30, 2022

| (Dollars in thousands) | 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 instruments - assets: | | | | | |
| Loans receivable, net | \$ 475,511 | \$ 468,485 | \$ — | \$ — | \$ 468,485 |
| Securities held to maturity | 102,135 | 88,321 | — | 88,321 | — |
| Financial instruments - liabilities: | | | | | |
| Certificates of deposit | 131,361 | 130,974 | — | — | 130,974 |
| Advances from Federal Home Loan Bank | 65,000 | 65,000 | — | — | 65,000 |
| Off-balance sheet financial instruments | — | — | — | — | — |

Note 15 – Leases

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. Substantially all of the leases in which the Company is the lessee include real estate property for branches and office space with terms extending through 2043. Topic 842 requires the Company to recognize a right-of-use (“ROU”) asset and corresponding lease liability for each of its operating leases. The operating lease ROU asset was \$8.3 million and \$6.8 million as of December 31, 2022 and June 30, 2022, respectively, and the operating lease liability was \$8.4 million and \$6.9 million as of December 31, 2022 and June 30, 2022, respectively. The Company elected not to include short-term leases (i.e., leases with initial terms of twelve months or less), or equipment leases (deemed immaterial) on the Consolidated Statements of Financial Condition.

The calculated amount of the ROU assets and lease liabilities are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company’s lease agreements often include one or more options to renew at the Company’s discretion. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term.

During the six months ended December 31, 2022, the Company’s lease agreement for the Levittown branch office location commenced, which resulted in an increase of the ROU asset and lease liability of \$1.7 million.

| | <u>December 31, 2022</u> |
|--|------------------------------|
| Weighted average remaining lease term | |
| Operating leases | 16.8 years |
| Weighted average discount rate | |
| Operating leases | 2.66 % |
| | |
| | <u>June 30, 2022</u> |
| Weighted average remaining lease term | |
| Operating leases | 17.6 years |
| Weighted average discount rate | |
| Operating leases | 2.01 % |

The Company recorded \$191 thousand and \$353 thousand of net lease costs during the three and six months ended December 31, 2022, respectively. The Company recorded \$151 thousand and \$265 thousand of net lease costs during the three and six months ended December 31, 2021, respectively. Future minimum payments for operating leases with initial or remaining terms of one year or more as of December 31, 2022 were as follows:

| (in thousands) | December 31, 2022 |
|---|------------------------------|
| | Operating Leases |
| Twelve months ended December 31, | |
| 2023 | \$ 750 |
| 2024 | 751 |
| 2025 | 641 |
| 2026 | 544 |
| 2027 | 558 |
| Thereafter | 7,381 |
| Total future minimum lease payments | \$ 10,625 |
| Amounts representing interest | (2,186) |
| Present value of net future minimum lease payments | \$ 8,439 |

Note 16 – Subsequent Events

On January 10, 2023, the Company exhausted its second stock repurchase program that was approved on June 9, 2022 and began repurchasing shares under its third stock repurchase program that was approved on August 18, 2022.

On January 18, 2023, the Company declared a cash dividend of \$0.03 per share, payable on February 9, 2023, to common shareholders of record at the close of business on January 30, 2023.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Statements contained in this report that are not historical facts may constitute forward-looking statements (within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended), which involve significant risks and uncertainties. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of invoking these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by the use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project,” “plan,” or similar expressions. The Company’s ability to predict results or the actual effect of future plans or strategies is inherently uncertain and actual results may differ from those predicted. The Company undertakes no obligation to update these forward-looking statements in the future.

The Company cautions readers of this report that a number of important factors could cause the Company’s actual results to differ materially from those expressed in forward-looking statements. Factors that could cause actual results to differ from those predicted and could affect the future prospects of the Company include, but are not limited to: (i) general economic conditions, either nationally or in our market area, that are worse than expected (including higher inflation and its impact on national and local economic conditions); (ii) changes in the interest rate environment that reduce our interest margins, reduce the fair value of financial instruments or reduce the demand for our loan products; (iii) increased competitive pressures among financial services companies; (iv) changes in consumer spending, borrowing and savings habits; (v) changes in the quality and composition of our loan or investment portfolios; (vi) changes in real estate market values in our market area; (vii) decreased demand for loan products, deposit flows, competition, or decreased demand for financial services in our market area; (viii) major catastrophes such as earthquakes, floods or other natural or human disasters and infectious disease outbreaks, including the current coronavirus (COVID-19) pandemic, the related disruption to local, regional and global economic activity and financial markets, and the impact that any of the foregoing may have on us and our customers and other constituencies; (ix) legislative or regulatory changes that adversely affect our business or changes in the monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board; (x) technological changes that may be more difficult or expensive than expected; (xi) success or consummation of new business initiatives may be more difficult or expensive than expected; (xii) our ability to successfully execute our business plan and integrate the business operations of acquired businesses into our business operations, (xiii) the inability to successfully deploy the proceeds raised in our recently completed second-step conversion offering; (xiv) adverse changes in the securities markets; (xv) the inability of third party service providers to perform; and (xvi) changes in accounting policies and practices, as may be adopted by bank regulatory agencies or the Financial Accounting Standards Board.

Critical Accounting Policies

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider these accounting policies to be our critical accounting policies. The judgments and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Actual results could differ from these judgments and estimates under different conditions, resulting in a change that could have a material impact on the carrying values of our assets and liabilities and our results of operations.

Allowance for Loan Losses

We consider the allowance for loan and losses to be a critical accounting policy. The allowance for loan losses is determined by management based upon portfolio segments, past historical experience, evaluation of estimated losses and impairment in the loan portfolio, current economic conditions, and other pertinent factors. Management also considers risk characteristics by portfolio segments including, but not limited to, renewals and real estate valuations. The allowance for loan losses is maintained at a level that management considers adequate to provide for estimated losses and impairment based upon an evaluation of known and inherent risk in the loan portfolio. Loan impairment is evaluated based on the fair value of collateral or present value of expected cash flows. While management uses the best information available to make such evaluations, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluations.

The allowance for loan losses is established through a provision for loan losses charged to expense, which is based upon past loan loss experience and an evaluation of estimated losses in the current loan portfolio, including the evaluation of impaired loans. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: overall economic conditions; value of collateral; strength of guarantors; loss exposure at default; the amount and timing of future cash flows on impaired loans; and determination of loss factors to be applied to the various segments of the portfolio. All of these estimates are susceptible to significant change. Management regularly reviews the level of loss experience, current economic conditions and other factors related to the collectability of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking and Securities, as an integral part of their examination process, periodically review our allowance for loan losses.

Our financial results are affected by the changes in and the level of the allowance for loan losses. This process involves our analysis of complex internal and external variables, and it requires that we exercise judgment to estimate an appropriate allowance for loan losses. As a result of the uncertainty associated with this subjectivity, we cannot assure the precision of the amount reserved, should we experience sizeable loan losses in any particular period. For example, changes in the financial condition of individual borrowers, economic conditions, or the condition of various markets in which collateral may be sold could require us to significantly decrease or increase the level of the allowance for loan losses. Such an adjustment could materially affect net income as a result of the change in provision for loan losses. We also have approximately \$4.3 million as of December 31, 2022 in non-performing assets consisting of non-performing loans. Most of these assets are collateral dependent loans where we have incurred credit losses to write the assets down to their current appraised value less selling costs. We continue to assess the collectability of these loans and update our appraisals on these loans each year. To the extent the property values continue to decline, there could be additional losses incurred on these non-performing loans which may be material. In recent periods, we experienced strong asset quality metrics including low levels of delinquencies, net charge-offs and non-performing assets. Management considered market conditions in deriving the estimated allowance for loan losses; however, given the continued economic difficulties and uncertainties and the COVID-19 pandemic, the ultimate amount of loss could vary from that estimate.

In June 2016, the FASB issued ASU 2016-13: *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Topic 326 amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. This update affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this update are expected to be effective for us on July 1, 2023. The Company is actively working on preliminary test calculations and data validation, as well as process and procedural documentation. As of September 30, 2022 and December 31, 2022, the Company began performing a parallel run of the new expected lifetime loss model with its current incurred loss model and is currently evaluating the results and assumptions of its new model to estimate lifetime credit losses. The Company expects to recognize a one-time cumulative-effect adjustment to the allowance for loan losses as of July 1, 2023, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

Goodwill

The acquisition method of accounting for business combinations requires us to record assets acquired, liabilities assumed, and consideration paid at their estimated fair values as of the acquisition date. The excess of consideration paid (or the fair value of the equity of the acquiree) over the fair value of net assets acquired represents goodwill. Goodwill totaled \$4.9 million at December 31, 2022. Goodwill and other indefinite lived intangible assets are not amortized on a recurring basis, but rather are subject to periodic impairment testing. The provisions of Accounting Standards Codification (“ASC”) Topic 350 allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test.

During the three and six months ended December 31, 2022, management considered the then current economic environment caused by the COVID-19 pandemic in its evaluation, and determined, based on the totality of its qualitative assessment, that it is not more likely than not that the carrying value of goodwill is impaired. No goodwill impairment existed during the three and six months ended December 31, 2022.

Income Taxes

We are subject to the income tax laws of the various jurisdictions where we conduct business and estimate income tax expense based on amounts expected to be owed to these various tax jurisdictions. The estimated income tax expense (benefit) is reported in the Consolidated Statements of Income. The evaluation pertaining to the tax expense and related tax asset and liability balances involves a high degree of judgment and subjectivity around the ultimate measurement and resolution of these matters.

Accrued taxes represent the net estimated amount due to or to be received from tax jurisdictions either currently or in the future and are reported in other assets on our Consolidated Statements of Financial Condition. We assess the appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other pertinent information and maintain tax accruals consistent with our evaluation. Changes in the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations by the authorities and newly issued or enacted statutory, judicial and regulatory guidance that could impact the relative merits of tax positions. These changes, when they occur, impact accrued taxes and can materially affect our operating results. We regularly evaluate our uncertain tax positions and estimate the appropriate level of reserves related to each of these positions.

As of December 31, 2022, we had net deferred tax assets totaling \$9.3 million. We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial carrying amounts of existing assets and liabilities and their respective tax bases. If currently available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax assets and liabilities. These judgments require us to make projections of future taxable income. Management believes, based upon current facts, that it is more likely than not that there will be sufficient taxable income in future years to realize the deferred tax assets. The judgments and estimates we make in determining our deferred tax assets are inherently subjective and are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. A valuation allowance that results in additional income tax expense in the period in which it is recognized would negatively affect earnings. Our net deferred tax assets were determined based on the current enacted federal tax rate of 21%. Any possible future reduction in federal tax rates, would reduce the value of our net deferred tax assets and result in immediate write-down of the net deferred tax assets though our statement of operations, the effect of which would be material.

Comparison of Financial Condition at December 31, 2022 and June 30, 2022

Summary. Total assets decreased \$9.1 million, or 1.0%, to \$870.9 million at December 31, 2022, from \$880.0 million at June 30, 2022, primarily due to \$8.6 million of cash used to repurchase shares, a \$7.0 million increase in the unrealized loss on available for sale securities net of deferred taxes, and a \$5.0 million decrease in advances from the FHLB of Pittsburgh, partially offset by an \$8.8 million increase in deposits.

Cash and cash equivalents decreased \$17.1 million, or 47.1%, to \$19.1 million at December 31, 2022, from \$36.2 million at June 30, 2022. The decrease in cash and cash equivalents was primarily driven by a \$16.7 million increase in net loans, the repurchase of 739,359 shares at a total cost of \$8.6 million, and a \$5.0 million decrease in advances from the FHLB of Pittsburgh, partially offset by an \$8.8 million increase in deposits.

Investments. Total investments decreased \$10.1 million, or 3.5%, to \$277.0 million at December 31, 2022, from \$287.1 million at June 30, 2022. The decrease in investments was primarily due to a \$9.0 million increase in the gross unrealized loss on available for sale securities. The increase in the gross unrealized loss on available for sale securities is due to current interest rate levels relative to the Company's cost and not credit quality. The Company remains focused on maintaining a high-quality investment portfolio that provides a steady stream of cash flows both in the current and in rising interest rate environments.

Loans. Net loans increased \$16.7 million, or 3.5%, to \$492.2 million at December 31, 2022, from \$475.5 million at June 30, 2022. During the six months ended December 31, 2022, the Company originated \$44.3 million of new loans, including \$36.5 million of commercial loans. The Company maintains conservative lending practices and is focused on lending to borrowers with high credit quality within its market footprint.

Deposits. Deposits increased \$8.8 million, or 1.5%, to \$615.4 million at December 31, 2022, from \$606.6 million at June 30, 2022. The increase in deposits was primarily due to a \$17.2 million increase in money market accounts and a \$6.1 million increase in time

deposit accounts, partially offset by an \$8.5 million decrease in non-interest bearing checking accounts and a \$7.8 million decrease in savings accounts. The interest rate environment has created a highly competitive market for deposits.

Borrowings. Borrowings decreased \$5.0 million, or 7.7%, to \$60.0 million at December 31, 2022, from \$65.0 million at June 30, 2022.

Stockholders' Equity. Stockholders' equity decreased \$13.1 million, or 6.8%, to \$179.2 million at December 31, 2022, from \$192.3 million at June 30, 2022. The decrease in stockholders' equity was primarily due to the payment of a \$0.03 per share quarterly cash dividend in August 2022 totaling \$419 thousand and in November 2022 totaling \$405 thousand and a \$7.0 million increase in the accumulated other comprehensive loss component of the unrealized loss on available for sale securities, as well as the repurchase of 739,359 shares at a total cost of \$8.6 million, or \$11.58 per share, during the six months ended December 31, 2022 under the Company's previously announced stock repurchase programs. These decreases to stockholders' equity were partially offset by \$2.1 million of net income during the six months ended December 31, 2022.

Book value per share measured \$12.67 as of December 31, 2022, compared to \$12.91 as of June 30, 2022, and tangible book value per share measured \$12.29 as of December 31, 2022, compared to \$12.54 as of June 30, 2022. Tangible book value per share is a non-GAAP financial measure that excludes goodwill and other intangible assets. Please refer to the "Non-GAAP Financial Information" section below for a reconciliation of tangible book value per share to book value per share.

As previously announced, the Company's Board of Directors had authorized three stock repurchase programs to acquire up to 2,269,358 shares of the Company's outstanding shares. As of December 31, 2022, the Company had repurchased a total of 1,506,295 shares under these repurchase programs at a total cost of \$17.6 million, or \$11.71 per share.

Results of Operations for the Three Months Ended December 31, 2022 and 2021

Summary

The following table sets forth the income summary for the periods indicated:

| (Dollars in thousands) | Three Months Ended December 31, | | | |
|--|---------------------------------|-----------------|-------------------------|---------------|
| | 2022 | 2021 | Change Fiscal 2022/2021 | |
| | | | \$ | % |
| Net interest income | \$ 6,036 | \$ 5,530 | \$ 506 | 9.15 % |
| Provision for loan losses | — | — | — | — |
| Non-interest income | 902 | 664 | 238 | 35.84 |
| Non-interest expenses | 5,660 | 4,839 | 821 | 16.97 |
| Income tax expense | 217 | 180 | 37 | 20.56 |
| Net income | <u>\$ 1,061</u> | <u>\$ 1,175</u> | <u>\$ (114)</u> | <u>(9.70)</u> |
| Return on average assets (annualized) | 0.49 % | 0.57 % | | |
| Core return on average assets ⁽¹⁾ (non-GAAP) (annualized) | 0.37 | 0.53 | | |
| Return on average equity (annualized) | 2.38 | 2.21 | | |
| Core return on average equity ⁽¹⁾ (non-GAAP) (annualized) | 1.77 | 2.06 | | |

(1) Core return on average assets and core return on average equity are non-GAAP financial measures. Please refer to the "Non-GAAP Financial Information" section below for a reconciliation of core return on average assets to return on average assets and core return on average equity to return on average equity.

General

The Company recorded net income of \$1.1 million, or \$0.08 per basic and diluted share, for the three months ended December 31, 2022, compared to net income of \$1.2 million, or \$0.08 per basic and diluted share, for the three months ended December 30, 2021. The Company recorded core net income of \$788 thousand, or \$0.06 per basic and diluted share, for the three months ended December 31, 2022, compared to core net income of \$1.1 million, or \$0.08 per basic and diluted share, for the three months ended December 30, 2021. Core net income is a non-GAAP financial measure that excludes certain pre-tax adjustments and the tax impact of such adjustments, and income tax benefit adjustments. Please refer to the "Non-GAAP Financial Information" section below for a reconciliation of core net income to net income.

Net Interest Income

For the three months ended December 31, 2022, net interest income was \$6.0 million, an increase of \$506 thousand, or 9.2%, from the three months ended December 31, 2021. The increase in net interest income was primarily due to an increase in interest income on investments and loans, partially offset by an increase in interest expense on borrowings and deposits. The net interest margin measured 3.10% for the three months ended December 31, 2022, compared to 3.00% for the three months ended December 31, 2021. The increase in the net interest margin during the three months ended December 31, 2022, compared to the same period in 2021 was primarily due to an improvement in asset mix during the twelve months ended December 31, 2022, including a \$41.5 million decrease in cash and cash equivalents, a \$35.5 million increase in investment securities and an \$35.4 million increase in net loans.

Provision for Loan Losses

We did not record a provision for loan losses during the three months ended December 31, 2022 due to improved asset quality metrics and continued low levels of net charge-offs and non-performing assets. We did not record a provision for loan losses during the three months ended December 30, 2021 due to continued stable asset quality metrics, including low levels of net charge-offs and non-performing assets. Our allowance for loan losses totaled \$3.3 million, or 0.67% of total loans, and 0.86% of total loans, excluding acquired loans, as of December 31, 2022, compared to \$3.4 million, or 0.71% of total loans, and 0.94% of total loans, excluding acquired loans, as of June 30, 2022. Total loans, excluding acquired loans, is a non-GAAP financial measure that excludes loans acquired in a business combination. Please refer to the “Non-GAAP Financial Information” section below for a reconciliation of the ratio of the allowance for loan losses to total loans, excluding acquired loans, to the ratio of the allowance for loan losses to total loans. Based on a review of the loans that were in the loan portfolio at December 31, 2022, management believes that the allowance is maintained at a level that represents its best estimate of inherent losses in the loan portfolio that were both probable and reasonably estimable at such date.

Management uses available information to establish the appropriate level of the allowance for loan losses. Future additions or reductions to the allowance may be necessary based on estimates that are susceptible to change as a result of changes in economic conditions and other factors. As a result, our allowance for loan losses may not be sufficient to cover actual loan losses, and future provisions for loan losses could materially adversely affect our operating results. In addition, various bank regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses.

Non-Interest Income

The following table sets forth a summary of non-interest income for the periods indicated:

| (Dollars in thousands) | Three Months Ended December 31, | |
|---|--|---------------|
| | 2022 | 2021 |
| Service fees | \$ 209 | \$ 243 |
| Earnings on bank-owned life insurance | 274 | 278 |
| Net gain on disposition of premises and equipment | 300 | — |
| Unrealized gain on equity securities | 54 | 35 |
| Other | 65 | 108 |
| Total | <u>\$ 902</u> | <u>\$ 664</u> |

For the three months ended December 31, 2022, non-interest income totaled \$902 thousand, an increase of \$238 thousand, or 35.8%, from the three months ended December 31, 2021. The increase was primarily due to a \$300 thousand net gain on the sale of premises and equipment associated with the sale of two properties with a total carrying value of \$1.5 million that were transferred to the held for sale classification during the three months ended June 30, 2022.

Non-Interest Expense

The following table sets forth an analysis of non-interest expense for the periods indicated:

| (Dollars in thousands) | Three Months Ended December 31, | |
|-----------------------------------|--|-----------------|
| | 2022 | 2021 |
| Salaries and employee benefits | \$ 3,222 | \$ 2,796 |
| Occupancy and equipment | 907 | 726 |
| Data processing | 472 | 419 |
| Professional fees | 258 | 241 |
| Amortization of intangible assets | 49 | 56 |
| Other | 752 | 601 |
| Total | \$ 5,660 | \$ 4,839 |

For the three months ended December 31, 2022, non-interest expense totaled \$5.7 million, an increase of \$821 thousand, or 17.0%, from the three months ended December 31, 2021. The increase in non-interest expense was primarily due to a \$426 thousand increase in salaries and employee benefits due to annual merit increases and a \$351 thousand increase in employee stock-based compensation expense associated with the Company's 2022 Equity Incentive Plan. The increase in non-interest expense can also be attributed to a \$181 thousand increase in occupancy and equipment expense associated with new branch locations in Doylestown, Pennsylvania and Hamilton Township, New Jersey that were opened during the three months ended December 31, 2021. In addition, the increase in non-interest expense can be attributed to a \$104 thousand increase in director stock-based compensation expense associated with the Company's 2022 Equity Incentive Plan. During the three months ended September 30, 2022, the Company made a strategic decision to close the Bank's branch office located in Collingswood, New Jersey and to consolidate the deposits from this branch office into the Bank's Audubon, New Jersey branch office after assessing the branch's profitability and its close geographic proximity to the Audubon, New Jersey branch location. The branch office located in Collingswood, New Jersey was closed effective December 31, 2022.

Income Taxes

For the three months ended December 31, 2022, the Company recorded a provision for income taxes of \$217 thousand, reflecting an effective tax rate of 17.0%, compared to a provision for income taxes of \$180 thousand, reflecting an effective tax rate of 13.3%, for the same period in 2021. The increase in the provision for income taxes and the effective tax rate during the three months ended December 31, 2022, compared to the same period in 2021, can primarily be attributed to a \$53 thousand income tax benefit recorded during the three months ended December 31, 2021 related to refunds received associated with the carryback of net operating losses under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act.

Results of Operations for the Six Months Ended December 31, 2022 and 2021

Summary

The following table sets forth the income summary for the periods indicated:

| (Dollars in thousands) | Six Months Ended December 31, | | | |
|--|-------------------------------|-----------|------------------|---------|
| | 2022 | 2021 | Change 2022/2021 | |
| | | | \$ | % |
| Net interest income | \$ 12,277 | \$ 10,792 | \$ 1,485 | 13.76 % |
| Provision (recovery) for loan losses | — | (30) | 30 | 100.00 |
| Non-interest income | 1,184 | 1,369 | (185) | (13.51) |
| Non-interest expenses | 11,223 | 9,706 | 1,517 | 15.63 |
| Income tax expense | 150 | 150 | — | — |
| Net income | \$ 2,088 | \$ 2,335 | \$ (247) | (10.58) |
| Return on average assets (annualized) | 0.48 % | 0.57 % | | |
| Core return on average assets ⁽¹⁾ (non-GAAP) (annualized) | 0.42 | 0.47 | | |
| Return on average equity (annualized) | 2.24 | 2.17 | | |
| Core return on average equity ⁽¹⁾ (non-GAAP) (annualized) | 1.95 | 1.80 | | |

(1) Core return on average assets and core return on average equity are non-GAAP financial measures. Please refer to the “Non-GAAP Financial Information” section below for a reconciliation of core return on average assets to return on average assets and core return on average equity to return on average equity.

General

The Company recorded net income of \$2.1 million, or \$0.16 per basic and diluted share, for the six months ended December 31, 2022, compared to net income of \$2.3 million, or \$0.16 per basic and diluted share, for the six months ended December 30, 2021. The Company recorded core net income of \$1.8 million, or \$0.14 per basic and diluted share, for the six months ended December 31, 2022, compared to core net income of \$1.9 million, or \$0.14 per basic diluted share, for the six months ended December 30, 2021. Core net income is a non-GAAP financial measure that excludes certain pre-tax adjustments and the tax impact of such adjustments, and income tax benefit adjustments. Please refer to the “Non-GAAP Financial Information” section below for a reconciliation of core net income to net income.

Net Interest Income

For the six months ended December 31, 2022, net interest income was \$12.3 million, an increase of \$1.5 million, or 13.8%, from the six months ended December 31, 2021. The increase in net interest income was primarily due to an increase in interest income on investments and loans, partially offset by an increase in interest expense on borrowings and deposits. The net interest margin measured 3.14% for the six months ended December 31, 2022, compared to 2.90% for the six months ended December 31, 2021. The increase in the net interest margin during the six months ended December 31, 2022, compared to the same period in 2021 was primarily due to the previously mentioned improvement in asset mix during the twelve months ended December 31, 2022.

Provision for Loan Losses

We did not record a provision for loan losses during the six months ended December 31, 2022 due to improved asset quality metrics and continued low levels of net charge-offs and non-performing assets. The provision for loan losses was a \$30 thousand net recovery during the six months ended December 31, 2021. The credit to the provision for the six months ended December 31, 2021 was primarily due to continued stable asset quality metrics, including continued low levels of net charge-offs and non-performing assets. Our allowance for loan losses totaled \$3.3 million, or 0.67% of total loans, and 0.86% of total loans, excluding acquired loans, as of December 31, 2022, compared to \$3.4 million, or 0.71% of total loans, and 0.94% of total loans, excluding acquired loans, as of June 30, 2022. Total loans, excluding acquired loans, is non-GAAP financial measure that excludes loans acquired in a business combination. Please refer to the “Non-GAAP Financial Information” section below for a reconciliation of the ratio of the allowance for loan losses to total loans, excluding acquired loans, to the ratio of the allowance for loan losses to total loans. Based on a review of the loans that were in the loan portfolio at December 31, 2022, management believes that the allowance is maintained at a level that represents its best estimate of inherent losses in the loan portfolio that were both probable and reasonably estimable at such date.

Management uses available information to establish the appropriate level of the allowance for loan losses. Future additions or reductions to the allowance may be necessary based on estimates that are susceptible to change as a result of changes in economic conditions and other factors. As a result, our allowance for loan losses may not be sufficient to cover actual loan losses, and future provisions for loan losses could materially adversely affect our operating results. In addition, various bank regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses.

Non-Interest Income

The following table sets forth a summary of non-interest income for the periods indicated:

| (Dollars in thousands) | Six Months Ended December 31, | |
|---|--------------------------------------|-----------------|
| | 2022 | 2021 |
| Service fees | \$ 420 | \$ 456 |
| Net gain on sale of securities | — | 62 |
| Earnings on bank-owned life insurance | 547 | 516 |
| Net gain on disposition of premises and equipment | 299 | — |
| Unrealized (loss) gain on equity securities | (219) | 140 |
| Other | 137 | 195 |
| Total | \$ 1,184 | \$ 1,369 |

For the six months ended December 31, 2022, non-interest income totaled \$1.2 million, a decrease of \$185 thousand, or 13.5%, from the six months ended December 31, 2021. The decrease was primarily due to a \$359 thousand increase in the unrealized loss on equity securities and a \$62 thousand net gain on the sale of securities recorded during the six months ended December 31, 2021, partially offset by the previously discussed \$300 thousand net gain on the sale of premises and equipment recorded during the three months ended December 31, 2022.

Non-Interest Expense

The following table sets forth an analysis of non-interest expense for the periods indicated:

| (Dollars in thousands) | Six Months Ended December 31, | |
|-----------------------------------|--------------------------------------|-----------------|
| | 2022 | 2021 |
| Salaries and employee benefits | \$ 6,463 | \$ 5,508 |
| Occupancy and equipment | 1,695 | 1,401 |
| Data processing | 903 | 840 |
| Professional fees | 521 | 489 |
| Amortization of intangible assets | 97 | 113 |
| Prepayment penalties | — | 64 |
| Other | 1,544 | 1,291 |
| Total | \$ 11,223 | \$ 9,706 |

For the six months ended December 31, 2022, non-interest expense totaled \$11.2 million, an increase of \$1.5 million, or 15.6%, from the six months ended December 31, 2021. The increase in non-interest expense was primarily due to a \$955 thousand increase in salaries and employee benefits due to annual merit increases and a \$702 thousand increase in employee stock-based compensation expense associated with the Company's 2022 Equity Incentive Plan. The increase in non-interest expense can also be attributed to a \$294 thousand increase in occupancy and equipment expense associated with new branch locations in Doylestown, Pennsylvania and Hamilton Township, New Jersey that were opened during the three months ended December 31, 2021. In addition, the increase in non-interest expense can be attributed to a \$244 thousand increase in director stock-based compensation expense associated with the Company's 2022 Equity Incentive Plan.

Income Taxes

For the six months ended December 31, 2022, the Company recorded a provision for income taxes of \$150 thousand, reflecting an effective tax rate of 6.7%, compared to a provision for income taxes of \$150 thousand, reflecting an effective tax rate of 6.0%, for the same period in 2021. The provision for income taxes and the effective tax rate for the six months ended December 31, 2022 and 2021 were impacted by a \$211 thousand and a \$288 thousand income tax benefit related to refunds received associated with the carryback of net operating losses under the CARES Act during the six months ended December 31, 2022 and 2021, respectively.

Asset Quality

During the six months ended December 31, 2022, nonperforming assets decreased 34.6% to \$4.3 million from \$6.5 million as of June 30, 2022. During the six months ended December 31, 2022, we received payments from borrowers for full satisfaction of three non-performing loans with a total carrying value of \$2.6 million. The payoff of these non-performing loans contributed to a significant reduction in our non-performing assets and the Company's ratio of non-performing assets to total assets decreased to 0.49% as of December 31, 2022 from 0.74% as of June 30, 2022.

Total nonperforming loans consisted of 30 loans to 28 unrelated borrowers at December 31, 2022, as compared to 37 loans to 36 unrelated borrowers at June 30, 2022. Interest income related to non-performing loans would have been approximately \$111 thousand during the six months ended December 31, 2022 if these loans had performed in accordance with their terms during the period rather than having been on non-accrual.

There are circumstances when foreclosure and liquidations are the remedy pursued. However, from time to time, as part of our loss mitigation strategy, we may renegotiate the loan terms (i.e., interest rate, structure, repayment term, etc.) based on the economic or legal reasons related to the borrower's financial difficulties. We had no new TDRs during the six months ended December 31, 2022.

Impaired loans at December 31, 2022 included \$575 thousand of performing loans whose terms have been modified in TDRs, compared to \$593 thousand at June 30, 2022. The amount of TDR loans included in impaired loans decreased as a result principal payments and pay-offs. These restructured loans are being monitored by management and are performing in accordance with their restructured terms. At December 31, 2022, none of our thirty substandard loans with an aggregate balance of \$4.3 million were considered TDRs.

Average Balances and Yields

The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average daily balances of assets or liabilities, respectively, for the periods presented. Loan fees, including prepayment fees, are included in interest income on loans and are not material. Non-accrual loans are included in the average balances only. Any adjustments necessary to present yields on a tax-equivalent basis are insignificant.

| (Dollars in thousands) | Three Months Ended December 31, | | | | | |
|--|---------------------------------|------------------------|-------------|-----------------|------------------------|-------------|
| | 2022 | | | 2021 | | |
| | Average Balance | Interest and Dividends | Yield/ Cost | Average Balance | Interest and Dividends | Yield/ Cost |
| Interest-earning assets: | | | | | | |
| Loans ⁽¹⁾ | \$ 484,700 | \$ 5,666 | 4.68 % | \$ 457,567 | \$ 5,109 | 4.47 % |
| Investment securities ⁽²⁾ | 276,741 | 1,707 | 2.47 | 209,553 | 1,033 | 1.97 |
| Other interest-earning assets | 17,508 | 187 | 4.27 | 69,601 | 40 | 0.23 |
| Total interest-earning assets | 778,949 | 7,560 | 3.88 | 736,721 | 6,182 | 3.36 |
| Non-interest-earning assets | 84,421 | | | 84,395 | | |
| Total assets | \$ 863,370 | | | \$ 821,116 | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing checking accounts | \$ 133,690 | 97 | 0.29 % | \$ 106,365 | 14 | 0.05 % |
| Money market deposit accounts | 179,357 | 544 | 1.21 | 159,356 | 119 | 0.30 |
| Savings and club accounts | 99,553 | 21 | 0.08 | 102,560 | 17 | 0.07 |
| Certificates of deposit | 136,352 | 312 | 0.92 | 147,193 | 271 | 0.74 |
| Total interest-bearing deposits | 548,952 | 974 | 0.71 | 515,474 | 421 | 0.33 |
| FHLB advances and other borrowings | 55,950 | 550 | 3.93 | 34,008 | 231 | 2.72 |
| Total interest-bearing liabilities | 604,902 | 1,524 | 1.01 | 549,482 | 652 | 0.47 |
| Non-interest-bearing liabilities: | | | | | | |
| Non-interest-bearing deposits | 63,282 | | | 53,635 | | |
| Other non-interest-bearing liabilities | 16,640 | | | 4,999 | | |
| Total liabilities | 684,824 | | | 608,116 | | |
| Total stockholders' equity | 178,546 | | | 213,000 | | |
| Total liabilities and equity | \$ 863,370 | | | \$ 821,116 | | |
| Net interest income | | \$ 6,036 | | | \$ 5,530 | |
| Interest rate spread ⁽³⁾ | | 2.87 % | | | 2.89 % | |
| Net interest-earning assets ⁽⁴⁾ | \$ 174,047 | | | \$ 187,239 | | |
| Net interest margin ⁽⁵⁾ | | 3.10 % | | | 3.00 % | |
| Ratio of interest-earning assets to interest-bearing liabilities | 128.77% | | | 134.08% | | |

⁽¹⁾ Includes nonaccrual loan balances and interest recognized on such loans.

⁽²⁾ Includes securities available for sale, securities held to maturity, and equity securities.

⁽³⁾ Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

⁽⁴⁾ Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

⁽⁵⁾ Net interest margin represents net interest income divided by average total interest-earning assets.

| (Dollars in thousands) | Six Months Ended December 31, | | | | | |
|--|-------------------------------|------------------------|-------------|-------------------|------------------------|-------------|
| | 2022 | | | 2021 | | |
| | Average Balance | Interest and Dividends | Yield/ Cost | Average Balance | Interest and Dividends | Yield/ Cost |
| Interest-earning assets: | | | | | | |
| Loans ⁽¹⁾ | \$ 481,048 | \$ 10,963 | 4.56 % | \$ 458,296 | \$ 10,323 | 4.50 % |
| Investment securities ⁽²⁾ | 282,218 | 3,364 | 2.38 | 170,668 | 1,697 | 1.99 |
| Other interest-earning assets | 17,622 | 316 | 3.59 | 114,989 | 146 | 0.25 |
| Total interest-earning assets | 780,888 | 14,643 | 3.75 | 743,953 | 12,166 | 3.27 |
| Non-interest-earning assets | 83,172 | | | 73,467 | | |
| Total assets | <u>\$ 864,060</u> | | | <u>\$ 817,420</u> | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing checking accounts | \$ 131,975 | 163 | 0.25 % | \$ 105,084 | 33 | 0.06 % |
| Money market deposit accounts | 176,153 | 760 | 0.86 | 152,194 | 240 | 0.32 |
| Savings and club accounts | 102,001 | 41 | 0.08 | 101,865 | 43 | 0.08 |
| Certificates of deposit | 132,967 | 519 | 0.78 | 151,490 | 589 | 0.78 |
| Total interest-bearing deposits | 543,096 | 1,483 | 0.55 | 510,633 | 905 | 0.35 |
| FHLB advances and other borrowings | 55,337 | 883 | 3.19 | 34,732 | 469 | 2.70 |
| Total interest-bearing liabilities | 598,433 | 2,366 | 0.79 | 545,365 | 1,374 | 0.50 |
| Non-interest-bearing liabilities: | | | | | | |
| Non-interest-bearing deposits | 64,216 | | | 52,152 | | |
| Other non-interest-bearing liabilities | 14,926 | | | 4,766 | | |
| Total liabilities | 677,575 | | | 602,283 | | |
| Total stockholders' equity | 186,485 | | | 215,137 | | |
| Total liabilities and equity | <u>\$ 864,060</u> | | | <u>\$ 817,420</u> | | |
| Net interest income | | <u>\$ 12,277</u> | | | <u>\$ 10,792</u> | |
| Interest rate spread ⁽³⁾ | | 2.96 % | | | 2.77 % | |
| Net interest-earning assets ⁽⁴⁾ | \$ 182,455 | | | \$ 198,588 | | |
| Net interest margin ⁽⁵⁾ | | 3.14 % | | | 2.90 % | |
| Ratio of interest-earning assets to interest-bearing liabilities | 130.49% | | | 136.41% | | |

(1) Includes nonaccrual loan balances and interest recognized on such loans.

(2) Includes securities available for sale, securities held to maturity, and equity securities.

(3) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(4) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

(5) Net interest margin represents net interest income divided by average total interest-earning assets.

Rate/Volume Analysis

The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by current rate). The total column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated proportionately based on the changes due to rate and volume.

| (Dollars in thousands) | Three Months Ended 12/31/2022 Compared to Three Months Ended 12/31/2021 | | | Six Months Ended 12/31/2022 Compared to Six Months Ended 12/31/2021 | | |
|------------------------------------|---|--------|--------|---|----------|----------|
| | Increase (Decrease) | | | Increase (Decrease) | | |
| | Volume | Rate | Total | Volume | Rate | Total |
| Interest income: | | | | | | |
| Loans | \$ 254 | \$ 303 | \$ 557 | \$ 202 | \$ 438 | \$ 640 |
| Investment securities | 343 | 331 | 674 | 456 | 1,211 | 1,667 |
| Other interest-earning assets | (224) | 371 | 147 | (454) | 624 | 170 |
| Total interest-earning assets | 373 | 1,005 | 1,378 | 204 | 2,273 | 2,477 |
| Interest expense: | | | | | | |
| Interest-bearing checking accounts | 25 | 58 | 83 | 25 | 105 | 130 |
| Money market deposit accounts | 106 | 319 | 425 | 114 | 406 | 520 |
| Savings and club accounts | (3) | 7 | 4 | — | (2) | (2) |
| Certificates of deposit | (113) | 154 | 41 | (77) | 7 | (70) |
| Total interest-bearing deposits | 15 | 538 | 553 | 62 | 516 | 578 |
| FHLB advances and other borrowings | 170 | 149 | 319 | 105 | 309 | 414 |
| Total interest-bearing liabilities | 185 | 687 | 872 | 167 | 825 | 992 |
| Net change in net interest income | \$ 188 | \$ 318 | \$ 506 | \$ 37 | \$ 1,448 | \$ 1,485 |

Non-GAAP Financial Information

In this report, we present the non-GAAP financial measures discussed below, which are used to evaluate our performance and exclude the effects of certain transactions and one-time events that we believe are unrelated to our core business and not necessarily indicative of our current performance or financial position. Management believes excluding these items facilitates greater visibility into our core businesses and underlying trends that may, to some extent, be obscured by inclusion of such items.

Tangible Book Value per Share. Tangible book value per share represents our total equity less goodwill and other intangible assets divided by total common shares outstanding. Management believes tangible book value per share helps management and investors better understand and assess changes from period to period in stockholders' equity exclusive of changes in intangible assets. This non-GAAP data should be considered in addition to results prepared in accordance with Generally Accepted Accounting Principles in the U.S. (GAAP), and is not a substitute for, or superior to, GAAP results. The following table provides a reconciliation of tangible book value per share of common stock to book value per share of common stock, the most directly comparable GAAP financial measure, for the periods presented.

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

| Calculation of Tangible Book Value per Share: | As of December 31, | As of June 30, |
|---|--------------------|----------------|
| | 2022 | 2022 |
| Total stockholders' equity | \$ 179,230 | \$ 192,326 |
| Less: goodwill and other intangible assets | 5,473 | 5,570 |
| Total tangible equity (non-GAAP) | 173,757 | 186,756 |
| Total common shares outstanding | 14,143,327 | 14,896,590 |
| Book value per share (GAAP) | \$ 12.67 | \$ 12.91 |
| Tangible book value per share (non-GAAP) | \$ 12.29 | \$ 12.54 |

Ratio of the Allowance for Loan Losses to Total Loans, Excluding Acquired Loans. The ratio of the allowance for loan losses to total loans, excluding acquired loans, represents our allowance for loan losses divided by our gross loans receivable less loans acquired in a business combination. We believe the ratio of the allowance for loan losses to total loans, excluding acquired loans, helps management and investors better understand and assess changes from period to period in the allowance for loan losses exclusive of acquired loans. This non-GAAP data should be considered in addition to results prepared in accordance with Generally Accepted Accounting Principles in the U.S. (GAAP), and is not a substitute for, or superior to, GAAP results. The following table provides a reconciliation of the ratio of the allowance for loan losses to total loans, excluding acquired loans, to the ratio of the allowance for loan losses to total loans, the most directly comparable GAAP financial measure.

(Dollars in thousands)

| Calculation of Allowance for Loan Losses to Total Loans, Excluding Acquired Loans: | As of December 31, | As of June 30, |
|---|---------------------------|-----------------------|
| | 2022 | 2022 |
| Gross loans receivable | \$ 496,198 | \$ 479,669 |
| Less: Loans acquired in a business combination | <u>108,697</u> | <u>118,111</u> |
| Gross loans receivable, excluding acquired loans (non-GAAP) | 387,501 | 361,558 |
| | | |
| Allowance for loan losses | \$ 3,334 | \$ 3,409 |
| | | |
| Allowance for loan losses to total loans (GAAP) | 0.67 % | 0.71 % |
| Allowance for loan losses to total loans, excluding acquired loans (non-GAAP) | 0.86 % | 0.94 % |

Core net income, core earnings per share, core return on average assets, and core return on average equity. These non-GAAP financial measures exclude certain pre-tax adjustments and the tax impact of such adjustments, and income tax benefit adjustments. We believe these ratios help management and investors better understand the earnings attributable to our core business. This non-GAAP data should be considered in addition to results prepared in accordance with Generally Accepted Accounting Principles in the U.S. (GAAP), and is not a substitute for, or superior to, GAAP results. The following table provides a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures.

| | For the Three Months Ended | | For the Six Months Ended | |
|--|----------------------------|----------------------|--------------------------|----------------------|
| | December 31, 2022 | December 31, 2021 | December 31, 2022 | December 31, 2021 |
| Calculation of core net income: | | | | |
| Net income (GAAP) | \$ 1,061 | \$ 1,175 | \$ 2,088 | \$ 2,335 |
| Less pre-tax adjustments: | | | | |
| Net gain on sale of securities | - | - | - | (62) |
| Net (gain) loss on disposition of premises and equipment | (300) | - | (299) | - |
| Unrealized (gain) loss on equity securities | (54) | (35) | 219 | (140) |
| Prepayment penalties | - | - | - | 64 |
| Tax impact of pre-tax adjustments | 81 | 8 | 18 | 31 |
| Income tax benefit adjustment | - | (53) | (211) | (288) |
| Core net income (non-GAAP) | <u>\$ 788</u> | <u>\$ 1,095</u> | <u>\$ 1,815</u> | <u>\$ 1,940</u> |
| Calculation of core earnings per share: | | | | |
| Earnings per share (GAAP) | \$ 0.08 | \$ 0.08 | \$ 0.16 | \$ 0.16 |
| Less pre-tax adjustments: | | | | |
| Net gain on sale of securities | - | - | - | - |
| Net (gain) loss on disposition of premises and equipment | (0.02) | - | (0.02) | - |
| Unrealized (gain) loss on equity securities | (0.01) | - | 0.02 | (0.01) |
| Prepayment penalties | - | - | - | 0.01 |
| Tax impact of pre-tax adjustments | 0.01 | - | - | - |
| Income tax benefit adjustment | - | - | (0.02) | (0.02) |
| Core earnings per share (non-GAAP) | <u>\$ 0.06</u> | <u>\$ 0.08</u> | <u>\$ 0.14</u> | <u>\$ 0.14</u> |
| Calculation of core return on average assets: | | | | |
| Return on average assets (GAAP) | 0.49% | 0.57% | 0.48% | 0.57% |
| Less pre-tax adjustments: | | | | |
| Net gain on sale of securities | - | - | - | (0.03) |
| Net (gain) loss on disposition of premises and equipment | (0.13) | - | (0.06) | - |
| Unrealized (gain) loss on equity securities | (0.03) | (0.01) | 0.05 | (0.03) |
| Prepayment penalties | - | - | - | 0.02 |
| Tax impact of pre-tax adjustments | 0.04 | - | - | 0.01 |
| Income tax benefit adjustment | - | (0.03) | (0.05) | (0.07) |
| Core return on average assets (non-GAAP) | <u>0.37%</u> | <u>0.53%</u> | <u>0.42%</u> | <u>0.47%</u> |
| Average assets | \$ 863,370 | \$ 821,116 | \$ 864,060 | \$ 817,420 |
| Calculation of core return on average equity: | | | | |
| Return on average equity (GAAP) | 2.38% | 2.21% | 2.24% | 2.17% |
| Less pre-tax adjustments: | | | | |
| Net gain on sale of securities | - | - | - | (0.06) |
| Net (gain) loss on disposition of premises and equipment | (0.67) | - | (0.32) | - |
| Unrealized (gain) loss on equity securities | (0.12) | (0.07) | 0.23 | (0.13) |
| Prepayment penalties | - | - | - | 0.06 |
| Tax impact of pre-tax adjustments | 0.18 | 0.02 | 0.02 | 0.03 |
| Income tax benefit adjustment | - | (0.10) | (0.22) | (0.27) |
| Core return on average equity (non-GAAP) | <u>1.77%</u> | <u>2.06%</u> | <u>1.95%</u> | <u>1.80%</u> |
| Average equity | \$ 178,546 | \$ 213,000 | \$ 186,485 | \$ 215,137 |

Liquidity and Capital Resources

We maintain liquid assets at levels we believe are adequate to meet our liquidity needs. The Bank's liquidity ratio was 40.6% as of December 31, 2022 compared to 44.1% as of June 30, 2022. We adjust our liquidity levels to fund deposit outflows, pay real estate taxes on mortgage loans, repay our borrowings, and to fund loan commitments. We also adjust liquidity as appropriate to meet asset and liability management objectives. Our liquidity ratio is calculated as the sum of total cash and cash equivalents and unencumbered investments securities divided by the sum of total deposits and advances from the FHLB of Pittsburgh. The Bank maintains a liquidity ratio policy that requires this metric to be above 10.0% to provide for the effective management of extension risk and other interest rate risks.

Our primary sources of liquidity are deposits, amortization and prepayment of loans and mortgage-backed securities, maturities of investment securities, other short-term investments, earnings, and funds provided from operations. While scheduled principal repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by market interest rates, economic conditions, and rates offered by our competition. We set the interest rates on our deposits to maintain a desired level of total deposits. In addition, we invest excess funds in short-term interest-earning assets, which provide liquidity to meet lending requirements.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the FHLB of Pittsburgh to provide advances and with the Federal Reserve Bank to provide an overnight line of credit. As a member of the FHLB of Pittsburgh, we are required to own capital stock in the FHLB of Pittsburgh and are authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to creditworthiness have been met. We had an available borrowing limit of \$294.5 million with the FHLB of Pittsburgh at December 31, 2022. There were \$60.0 million of FHLB of Pittsburgh advances outstanding at December 31, 2022.

At December 31, 2022, we had outstanding commitments to originate loans of \$6.7 million, unfunded commitments under lines of credit of \$68.9 million and \$30 thousand of standby letters of credit. At December 31, 2022, certificates of deposit scheduled to mature in less than one year totaled \$95.0 million. Based on prior experience, management believes that a significant portion of such deposits will remain with us, although there can be no assurance that this will be the case. In the event a significant portion of our deposits are not retained by us, we will have to utilize other funding sources, such as FHLB of Pittsburgh advances, in order to maintain our level of assets. Alternatively, we could reduce our level of liquid assets, such as our cash and cash equivalents. In addition, the cost of such deposits may be significantly higher if market interest rates are higher at the time of renewal.

Inflation

Substantially all of the Company's assets and liabilities relate to banking activities and are monetary. The consolidated financial statements and related financial data are presented following GAAP. GAAP currently requires the Company to measure the financial position and results of operations in terms of historical dollars, except for securities available for sale, impaired loans, and other real estate loans that are measured at fair value. Changes in the value of money due to rising inflation can cause purchasing power loss.

Management's opinion is that movements in interest rates affect the financial condition and results of operations to a greater degree than changes in the rate of inflation. It should be noted that interest rates and inflation do affect each other but do not always move in correlation with each other. The Company's ability to match the interest sensitivity of its financial assets to the interest sensitivity of its liabilities in its asset/liability management may tend to minimize the effect of changes in interest rates on the Company's performance.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk is defined as the exposure to current and future earnings and capital that arises from adverse movements in interest rates. Depending on a bank's asset/liability structure, adverse movements in interest rates could be either rising or falling interest rates. For example, a bank with predominantly long-term fixed-rate assets and short-term liabilities could have an adverse earnings exposure to a rising rate environment. Conversely, a short-term or variable-rate asset base funded by longer term liabilities could be negatively affected by falling rates. This is referred to as re-pricing or maturity mismatch risk.

Interest rate risk also arises from changes in the slope of the yield curve (yield curve risk), from imperfect correlations in the adjustment of rates earned and paid on different instruments with otherwise similar re-pricing characteristics (basis risk), and from interest rate related options embedded in our assets and liabilities (option risk).

Our objective is to manage our interest rate risk by determining whether a given movement in interest rates affects our net interest income and the market value of our portfolio equity in a positive or negative way and to execute strategies to maintain interest rate risk within established limits. The analysis at December 31, 2022 indicates a level of risk within the parameters of our model. Our management believes that the December 31, 2022 analysis indicates a profile that reflects interest rate risk exposures in both rising and declining rate environments for both net interest income and economic value.

Model Simulation Analysis. We view interest rate risk from two different perspectives. The traditional accounting perspective, which defines and measures interest rate risk as the change in net interest income and earnings caused by a change in interest rates, provides the best view of short-term interest rate risk exposure. We also view interest rate risk from an economic perspective, which defines and measures interest rate risk as the change in the market value of portfolio equity caused by changes in the values of assets and liabilities, which fluctuate due to changes in interest rates. The market value of portfolio equity, also referred to as the economic value of equity, is defined as the present value of future cash flows from existing assets, minus the present value of future cash flows from existing liabilities.

These two perspectives give rise to income simulation and economic value simulation, each of which presents a unique picture of our risk of any movement in interest rates. Income simulation identifies the timing and magnitude of changes in income resulting from changes in prevailing interest rates over a short-term time horizon (usually one or two years). Economic value simulation reflects the interest rate sensitivity of assets and liabilities in a more comprehensive fashion, reflecting all future time periods. It can identify the quantity of interest rate risk as a function of the changes in the economic values of assets and liabilities, and the corresponding change in the economic value of equity of the Bank. Both types of simulation assist in identifying, measuring, monitoring, and controlling interest rate risk and are employed by management to ensure that variations in interest rate risk exposure will be maintained within policy guidelines.

We produce these simulation reports and discuss them with our management Asset and Liability Committee and Board Risk Committee on at least a quarterly basis. The simulation reports compare baseline (no interest rate change) to the results of an interest rate shock, to illustrate the specific impact of the interest rate scenario tested on income and equity. The model, which incorporates all asset and liability rate information, simulates the effect of various interest rate movements on income and equity value. The reports identify and measure our interest rate risk exposure present in our current asset/liability structure. Management considers both a static (current position) and dynamic (forecast changes in volume) analysis as well as non-parallel and gradual changes in interest rates and the yield curve in assessing interest rate exposures.

If the results produce quantifiable interest rate risk exposure beyond our limits, then the testing will have served as a monitoring mechanism to allow us to initiate asset/liability strategies designed to reduce and therefore mitigate interest rate risk. The table below sets forth an approximation of our interest rate risk exposure. The simulation uses projected repricing of assets and liabilities at December 31, 2022. The income simulation analysis presented represents a one-year impact of the interest scenario assuming a static balance sheet. Various assumptions are made regarding the prepayment speed and optionality of loans, investment securities and deposits, which are based on analysis and market information. The assumptions regarding optionality, such as prepayments of loans and the effective lives and repricing of non-maturity deposit products, are documented periodically through evaluation of current market conditions and historical correlations to our specific asset and liability products under varying interest rate scenarios. Because the prospective effects of hypothetical interest rate changes are based on a number of assumptions, these computations should not be relied upon as indicative of actual results. While we believe such assumptions to be reasonable, assumed prepayment rates may not approximate actual future prepayment activity on mortgage-backed securities or agency issued collateralized obligations (secured by one- to four-family loans and multi-family loans). Further, the computation does not reflect any actions that management may undertake in response to changes in interest rates and assumes a constant asset base. Management periodically reviews the rate assumptions based on existing and projected economic conditions and consults with industry experts to validate our model and simulation results.

The table below sets forth, as of December 31, 2022, the Bank's net portfolio value, the estimated changes in our net portfolio value and net interest income that would result from the designated instantaneous parallel changes in market interest rates.

| Change in Interest Rates (Basis Points) | Twelve Month Net Interest Income | Net Portfolio Value | |
|---|--|------------------------|----------------------|
| | Percent of Change | Estimated NPV | Percent of Change |
| +200 | (5.08)% | \$ 192,938 | (8.53)% |
| +100 | (2.49) | 201,537 | (4.45) |
| 0 | — | 210,919 | — |
| -100 | 1.88 | 220,579 | 4.58 |
| -200 | 2.99 | 229,972 | 9.03 |

As of December 31, 2022, based on the scenarios above, net interest income would decrease by approximately 2.49% to 5.08%, over a one-year time horizon in a rising interest rate environment. One-year net interest income would increase by approximately 1.88% to 2.99% in a declining interest rate environment.

Economic value at risk would be negatively impacted by a rise in interest rates and would be positively impacted by a decline in interest rates. We have established an interest rate floor of zero percent for measuring interest rate risk. The difference between the two results reflects the relatively long terms of a portion of our assets which is captured by the economic value at risk but has less impact on the one-year net interest income sensitivity.

Overall, our December 31, 2022 analysis indicates that we are adequately positioned with an acceptable net interest income and economic value at risk and that all interest rate risk results continue to be within our policy guidelines.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure (1) that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms; and (2) that they are alerted in a timely manner about material information relating to the Company required to be filed in its periodic Securities and Exchange Commission filings.

During the quarter ended December 31, 2022, there were no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in various legal actions and claims arising in the normal course of business. In the opinion of management, these legal actions and claims are not expected to have a material adverse impact on the Company's financial condition.

ITEM 1A. RISK FACTORS

For information regarding the Company's risk factors, refer to the "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the year ended June 30, 2022, filed with the Securities and Exchange Commission on September 8, 2022 (the "Form 10-K"). As of December 31, 2022, the risk factors of the Company have not changed materially from those disclosed in the Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On March 11, 2022, the Company issued a press release announcing that the Company's Board of Directors has authorized a stock repurchase program to acquire up to 758,528 shares of the Company's outstanding common stock, or approximately 5% of outstanding shares. That stock repurchase program became effective on March 25, 2022.

On June 9, 2022, the Company issued a press release announcing that the Company's Board of Directors had authorized a second stock repurchase program to acquire up to 771,445 shares, or approximately 5.0%, of the Company's currently issued and outstanding stock, commencing upon the completion of the Company's first stock repurchase program. As of June 30, 2022, the Company had exhausted the first repurchase program and began repurchasing shares under the second repurchase program.

On August 18, 2022, the Company issued a press release announcing that the Company's Board of Directors has authorized a third stock repurchase program to acquire up to 739,385 shares, or approximately 5.0%, of the Company's currently issued and outstanding common stock, commencing upon the completion of the Company's second stock repurchase program. As of December 31, 2022, there were 763,063 shares remaining to be repurchased under the Company's second and third repurchase programs.

Each of the Company's stock repurchase programs was adopted following the Company's consultation with the Federal Reserve Board.

The following table provides information on repurchases by the Company of its common stock under the Company's Board approved program.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|-----------------------|----------------------------------|------------------------------|--|--|
| October 1 - 31, 2022 | 149,408 | \$ 11.43 | 149,408 | 955,662 |
| November 1 - 30, 2022 | 77,752 | 11.43 | 77,752 | 877,910 |
| December 1 - 31, 2022 | 114,847 | 11.92 | 114,847 | 763,063 |
| Total | <u>342,007</u> | \$ 11.60 | <u>342,007</u> | |

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

See Exhibit Index.

EXHIBIT INDEX

| Exhibit No. | Description |
|--------------------|---|
| 3.1 | Amended and Restated Articles of Incorporation of William Penn Bancorporation (Incorporated by reference to Exhibit 3.1 to William Penn Bancorporation's Registration Statement on Form S-1 (Registration No. 333-249492)) |
| 3.2 | Bylaws of William Penn Bancorporation (Incorporated by reference to Exhibit 3.2 to William Penn Bancorporation's Registration Statement on Form S-1 (Registration No. 333-249492)) |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of William Penn Bancorporation |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of William Penn Bancorporation |
| 32.1 | Certification of Chief Executive Officer of William Penn Bancorporation Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer of William Penn Bancorporation Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.0 | The following materials from the Company's Quarterly Report to Stockholders on Form 10-Q for the quarter ended December 31, 2022, formatted in Inline XBRL (Extensible Business Reporting Language): (i) the Consolidated Financial Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholder's Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements. |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WILLIAM PENN BANCORPORATION

Date: February 2, 2023

By: /s/ Kenneth J. Stephon
Kenneth J. Stephon
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Date: February 2, 2023

By: /s/ Jonathan T. Logan
Jonathan T. Logan
Executive Vice President and Chief Financial Officer
(Principal Financial and Chief Accounting Officer)