

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

**FORM 10-K**

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

For the fiscal year ended June 30, 2023

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 if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b). ☐

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

The aggregate market value of the voting and non-voting equity held by non-affiliates as of December 31, 2022 was approximately \$171.4 million. The number of shares outstanding of the issuer's common stock, as of September 7, 2023: 11,137,403 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement for the 2023 Annual Meeting of Shareholders  
are incorporated by reference into Part III of this Form 10-K.

# WILLIAM PENN BANCORPORATION

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## **PART I**

### **ITEM 1. BUSINESS**

#### **OUR BUSINESS**

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 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.

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. 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.

The Bank’s principal business consists of originating one- to four-family residential real estate mortgage loans, home equity lines of credit, construction residential and one- to four-family investor commercial real estate, non-residential real estate, multi-family and construction and land loans. We offer a variety of retail deposits to the general public in the areas surrounding our main office and our branch offices. We offer our customers a variety of deposit products with interest rates that are competitive with those of similar products offered by other financial institutions operating in our market area. We also utilize borrowings as a source of funds. Our revenues are derived primarily from interest on loans and, to a lesser extent, interest on investment securities. We also generate revenues from other income including deposit fees and service charges, realized gains on sales of securities, gains on the sale on the disposition of premises and equipment, realized gains on sales of other real estate owned, earnings on bank-owned life insurance, unrealized gains on equity securities, and other income.

#### **Acquisition History**

On July 1, 2018, we acquired Audubon Savings Bank (“Audubon”), a New Jersey-chartered mutual savings association headquartered in Audubon, New Jersey and with two additional branch offices located in Mount Laurel and Pine Hill, New Jersey. The acquisition of Audubon enhanced our market share in Burlington and Camden Counties in New Jersey, and provided the Bank with a physical presence in Southern New Jersey.

On May 1, 2020, we acquired both (i) Fidelity Savings and Loan Association of Bucks County (“Fidelity”), a Pennsylvania-chartered mutual savings bank headquartered in Bristol, Pennsylvania and with a branch office located in Bristol Pennsylvania, and (ii) Washington Savings Bank (“Washington”), a Pennsylvania-chartered mutual savings bank headquartered in Philadelphia, Pennsylvania and with three additional branch offices located in Philadelphia, Pennsylvania. The acquisitions of Fidelity Savings and Loan Association of Bucks County and Washington Savings Bank further increased our market presence in our existing market area.

#### **Market Area**

We are headquartered in Bristol, Pennsylvania and currently operate twelve full-service branch offices in Bucks and Philadelphia Counties in Pennsylvania and in Burlington, Camden, and Mercer Counties in New Jersey. We periodically evaluate our network of banking offices to optimize the penetration in our market area. Our business strategy currently includes opening new branches in and around our market area, which may include neighboring counties.

We consider our primary market area to be the Philadelphia suburbs of central and lower Bucks County and Northeast Philadelphia in Pennsylvania and the New Jersey counties of Burlington, Camden, Gloucester, and Mercer. This area has historically benefitted from having a large number of corporate headquarters located within it. The area benefits from having a well-educated employment base and the diversity provided by a large number of industrial, service, retail and high technology businesses. Other employment is provided by a variety of wholesale trade, manufacturing, federal, state and local governments, hospitals and utilities.

According to the U.S. Census Bureau, as of July 1, 2022 (estimated population) and July 1, 2021 (median household income), respectively, (i) Bucks County had an estimated population of 645,054, representing a 0.2% decrease from April 1, 2020, and a median household income of \$99,302 and (ii) Philadelphia County had an estimated population of 1.6 million, representing a 2.3% decrease from April 1, 2020, and a median household income of \$52,649. In addition, (i) Burlington County had an estimated population of 466,103, representing a 0.9% increase from April 1, 2020, and a median household income of \$95,935, (ii) Camden County had an estimated population of 524,907, representing a 0.3% increase from April 1, 2020, and a median household income of \$75,485, (iii) Gloucester County had an estimated population of 306,601, representing a 1.4% increase from April 1, 2020, and a median household income of \$93,208 and (iv) Mercer County had an estimated population of 380,688, representing a 1.7% decrease from April 1, 2020, and a median household income of \$85,687. As of July 1, 2021, the median household income in the United States was \$69,021.

As of June 2023, the unemployment rate in Bucks and Philadelphia Counties totaled 3.2% and 4.6%, respectively, and the unemployment rate in Burlington, Camden, Gloucester, and Mercer Counties totaled 4.0%, 4.9%, 4.4% and 4.1%, respectively, as compared to a national unemployment rate of 3.8% for June 2023.

## Competition

We face significant competition for the attraction of deposits and origination of loans. Our most direct competition for deposits and loans has historically come from the numerous national, regional and local community financial institutions operating in our market area, including a number of independent banks and credit unions, in addition to other financial service companies, such as brokerage firms, mortgage companies and mortgage brokers. In addition, we face competition for investors' funds from money market funds and other corporate and government securities. Competition for loans also comes from the increasing number of non-depository financial service companies entering the mortgage and consumer credit market, such as financial technology companies, securities companies and specialty finance companies. We believe that our long-standing presence in Bucks County, Southern and Central New Jersey, and Northeast Philadelphia, and our personal service philosophy enhance our ability to compete favorably in attracting and retaining individual and business customers. We actively solicit deposit-related customers and compete for deposits by offering customers personal attention, professional service and competitive interest rates.

## Lending Activities

Our loan portfolio consists primarily of one- to four-family residential mortgage loans, one- to four-family investor commercial real estate loans, and commercial non-residential real estate loans. Our loan portfolio also includes multi-family residential loans, home equity loans and lines of credit, residential construction, commercial business, commercial construction and land and consumer loans. Substantially all of our loans are secured by properties located within our local markets.

***One- to Four-Family Residential Loans.*** One of our primary lending activities is the origination of mortgage loans to enable borrowers to purchase or refinance existing homes in our market area. Such loans totaled \$135.0 million, or 28.1% of our total loan portfolio, at June 30, 2023.

We offer fixed-rate and adjustable-rate mortgage loans with terms up to 30 years. Borrower demand for adjustable-rate loans rather than fixed-rate loans is a function of the level of interest rates, the expectations of changes in the level of interest rates, the difference between the interest rates and loan fees offered for fixed-rate mortgage loans and the initial period interest rates and loan fees for adjustable-rate loans. The relative amount of fixed-rate mortgage loans (as opposed to adjustable interest rates) and adjustable-rate mortgage loans that can be originated or purchased at any time is largely determined by the demand for each in a competitive environment and the effect each has on our interest rate risk. The loan fees charged, interest rates, and other provisions of mortgage loans are determined by us on the basis of our own pricing criteria and competitive market conditions.

We offer fixed-rate loans with terms of either 10, 15, 20 or up to 30 years. Our adjustable-rate mortgage loans are also based on a 10, 15, 20 or up to 30 year amortization schedule. Interest rates and payments on our adjustable-rate mortgage loans adjust every three, five, seven or ten years. Interest rates and payments on our adjustable-rate loans generally are adjusted to a rate that is based on the respective three, five, seven or ten year monthly Constant Maturity U.S. Treasury indices.

Throughout the low interest rate environment that extended through 2021, borrowers generally preferred fixed-rate loans. However, due to the recent rise in interest rate levels in 2022 and 2023, borrowers generally currently prefer our adjustable-rate loan products. We anticipate that an increase in adjustable-rate loans would allow us to better offset the adverse effects on our net interest income of an increase in interest rates as compared to fixed-rate mortgages. The increased mortgage payments required under adjustable-rate loans in a rising interest rate environment, however, could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate mortgage loans help make our asset base more responsive to changes in interest rates, the extent of this interest rate sensitivity is limited by the annual and lifetime interest rate adjustment limits.

While one- to four-family residential real estate loans are normally originated with up to 30-year terms, such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full upon sale of the property pledged as security or upon refinancing the original loan. Therefore, average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans.

We do not make conventional loans with loan-to-value ratios exceeding 95% and generally limit loan-to-value ratios on our conventional loans to 80%. Loans with loan-to-value ratios in excess of 80% generally require private mortgage insurance, a government guarantee or additional collateral. We require all properties securing mortgage loans to be appraised by licensed independent appraisers from appraisal management companies approved by our board of directors. We require title insurance on all first mortgage loans. Borrowers must obtain hazard insurance and/or flood insurance for loans on property located in a flood zone, before closing the loan.

Our largest one- to four-family residential loan at June 30, 2023 was for \$2.1 million and is secured by a single-family residence located in New Hope, Pennsylvania. This loan is performing in accordance with its terms.

***One- to Four-Family Investor Commercial Real Estate Loans.*** One of our other primary lending activities is the origination of loans secured by non-owner occupied one- to four-family residential properties. These borrowers generally include individuals that purchase an investment property to generate rental income. Such loans totaled \$98.2 million, or 20.4% of our total loan portfolio, at June 30, 2023.

We offer fixed-rate and adjustable-rate non-owner occupied one- to four-family commercial real estate loans with terms up to 25 years. Borrower demand for adjustable-rate loans rather than fixed-rate loans is a function of the level of interest rates, the expectations of changes in the level of interest rates, the difference between the interest rates and loan fees offered for fixed-rate mortgage loans and the initial period interest rates and loan fees for adjustable-rate loans. The relative amount of fixed-rate mortgage loans (as opposed to adjustable interest rates) and adjustable-rate mortgage loans that can be originated or purchased at any time is largely determined by the demand for each in a competitive environment and the effect each has on our interest rate risk. The loan fees charged, interest rates, and other provisions of mortgage loans are determined by us on the basis of our own pricing criteria and competitive market conditions.

We offer fixed-rate loans with terms of either 10, 15, 20 or up to 25 years. Our adjustable-rate mortgage loans are also based on a 10, 15, 20 or up to 25 year amortization schedule. Interest rates and payments on our adjustable-rate mortgage loans adjust every three, five, seven or ten years. Interest rates and payments on our adjustable-rate loans generally are adjusted to a rate that is based on the respective three, five, seven or ten year monthly Constant Maturity U.S. Treasury indexes.

Throughout the low interest rate environment that extended through 2021, borrowers generally preferred fixed-rate loans. However, due to the recent rise in interest rate levels in 2022 and 2023, borrowers generally currently prefer our adjustable-rate loan products. We anticipate that adjustable-rate loans would allow us to better offset the adverse effects on our net interest income of an increase in interest rates as compared to fixed-rate mortgages. The increased mortgage payments required under adjustable-rate loans in a rising interest rate environment, however, could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate mortgage loans help make our asset base more responsive to changes in interest rates, the extent of this interest rate sensitivity is limited by the annual and lifetime interest rate adjustment limits.

While non-owner occupied one- to four-family commercial real estate loans are normally originated with up to 25-year terms, such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full upon sale of the property pledged as security or upon refinancing the original loan. Therefore, average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans.

Loans secured by non-owner occupied properties generally expose a lender to greater risk of non-payment and loss than loans secured by owner occupied properties because repayment of such loans depend primarily on the tenant's continuing ability to pay rent to the

property owner, who is our borrower, or, if the property owner is unable to find a tenant, the property owner's ability to repay the loan without the benefit of a rental income stream. In reaching a decision on whether to originate a non-owner occupied one- to four-family residential real estate loan, we consider the net operating income of the property, the borrower's credit history and profitability, and the value of the underlying property.

Our largest one- to four-family investor commercial real estate loan at June 30, 2023 was for \$5.5 million and is secured by fifty-five single-family and multi-family properties located in the South Jersey area. This loan is performing in accordance with its terms.

***Non-Residential Real Estate and Multi-Family Loans.*** Another one of our other primary lending activities is the origination of fixed rate and adjustable-rate mortgage loans secured by commercial real estate, multi-family residential real estate and land. Our non-residential and multi-family real estate loans are generally secured by office buildings, retail and mixed-use properties, condominiums, apartment buildings, single-family subdivisions and owner-occupied properties used for businesses. At June 30, 2023, our commercial and multi-family real estate loan portfolio totaled \$172.8 million, or 36.0% of our total loan portfolio, and commercial real estate loans secured by office space totaled \$9.9 million, or 2.0% of our total portfolio.

We originate multi-family and non-residential real estate loans with terms generally up to 25 years. Interest rates and payments on adjustable-rate loans adjust every one, three, five and ten years. Interest rates and payments on our adjustable-rate loans generally are adjusted to a rate typically equal to the interest rate used for one-to four-family loan products, plus a spread based on creditworthiness and risk. Loan amounts generally do not exceed 80% of the appraised value for well-qualified borrowers.

Loans secured by multi-family residential and non-residential real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in multi-family residential and non-residential real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income producing properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject, to a greater extent than residential real estate loans, to adverse conditions in the real estate market or the economy. In reaching a decision on whether to make a multi-family residential or non-residential real estate loan, we consider the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property.

Non-residential real estate 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. Shared national credit loans are typically variable rate with terms ranging from one to seven years. At June 30, 2023, there was one shared national credit relationship with a total commitment of \$12.5 million and no balance disbursed and outstanding. This loan is secured by various properties located within the United States that have triple-net leases with national tenants and the loans are performing in accordance with their terms.

Excluding shared national credit loans, our largest non-residential real estate loan at June 30, 2023 was for \$11.0 million. This loan is secured by three hotels located in Ocean County, New Jersey and is performing in accordance with its terms.

***Home Equity Loans and Lines of Credit.*** We offer home equity loans and lines of credit, which have adjustable rates of interest that are indexed to the prime rate as published in The Wall Street Journal for terms of up to 20 years. These loans are originated with maximum loan-to-value ratios of 80% of the appraised value of the property, and we require that we have a second lien position on the property. We also offer secured and unsecured lines of credit for well-qualified individuals and small businesses. Management includes these loans based on the collateral supporting the line of credit in either the non-residential, multi-family, commercial or one-to-four family categories for the purposes of monitoring and evaluating the portfolio. At June 30, 2023, such loans totaled \$32.7 million, or 6.8% of our total loan portfolio.

***Residential and Commercial Construction Loans and Land Loans.*** We originate (i) residential construction loans to individuals that finance the construction of owner-occupied residential dwellings for personal use, which we classify within our residential real estate loan portfolio, (ii) commercial construction loans for the development of projects including non-owner occupied residential dwellings, condominiums, apartment buildings, single-family subdivisions, single-family investor loans, as well as owner-occupied properties used for business, which we classify within our commercial real estate loan portfolio and (iii) commercial land loans for the purchase and development of raw land.

Our residential construction loans generally provide for the payment of interest only during the construction phase, which can be up to 18 months. We also require periodic inspections of the property during the term of the construction. At the end of the construction phase, substantially all of our loans automatically convert to permanent mortgage loans. Construction loans generally can be made with a maximum loan to value ratio of 80% of the appraised value with maximum terms of 30 years. Our residential construction loans totaled \$9.1 million, or 1.9% of our total loan portfolio, at June 30, 2023. At June 30, 2023, our largest outstanding residential construction loan

was for \$1.6 million and related to the construction of residential housing located in Newtown, Pennsylvania. This loan is performing in accordance with its terms.

Our construction loans may include loans for the development of real estate for a variety of projects and properties. Generally, the owner's equity must be injected upfront prior to the Bank advancing funds. Interest rates for the construction projects will generally be variable with a lifetime floor, but may be fixed if approved by the appropriate lending authority. Generally, our commercial construction loans provide for payment of interest only during the construction phase and may, in the case of an apartment or commercial building, convert to a permanent mortgage loan upon the completion of construction. In the case of a single-family subdivision or construction or builder loan, as individual lots are sold, the principal balance is reduced by agreed upon release prices at the outset of the loan sufficient to liquidate the loan prior to the final sale. In the case of a commercial construction loan, the construction period may be from nine months to three years. Construction loans are generally made with a maximum of 75% loan-to-value, a maximum 75% loan-to-cost, and a requirement that guarantors own over 10% of the collateral underlying the loan. We also require periodic inspections of the property during the term of the construction loan. The Bank requires a minimum debt service coverage ratio of 1.25X on a stand-alone basis upon conversion to permanent financing.

Raw land loans are done as an exception to policy to accommodate high quality borrowers who demonstrate strong liquidity positions, high income, and high net worth. The Bank only extends credit on raw land loans when the extension of credit can be repaid from the personal income of the borrower/guarantor. Raw land loans are generally made with a maximum of 60% loan-to-value and a maximum 60% loan-to-cost. Approved land loans are generally made with a maximum of 65% loan-to-value and a maximum 65% loan-to-cost. Generally, land loans have a maximum term of two years and require guarantors that own over 10% of the collateral underlying the loan. In addition, the land loans in our portfolio are adjustable-rate loans with adjustments occurring every three and five years, based on the original contract. Interest rate adjustments are based on the Constant Maturity U.S. Treasury indexes plus a spread. Our adjustable-rate land loans in generally have an interest rate floor.

Our commercial construction and land loans totaled \$15.6 million, or 3.2% of our total loan portfolio, at June 30, 2023 and were comprised of \$13.5 million in commercial construction loans and \$2.1 million in land loans at that date. At June 30, 2023, our largest outstanding commercial construction and land loan was a commercial land loan for \$10.5 million, of which \$9.9 million was disbursed and outstanding, for a commercial development project in Somerset County, New Jersey. This loan is performing in accordance with its terms.

**Commercial Business Loans.** These loans consist of operating lines of credit secured by general business assets and equipment. The operating lines of credit are generally short term in nature with interest rates tied to short-term rates and adjustments occurring daily, monthly, or quarterly based on the original contract. For adjustable loans, there is also an interest rate floor. The equipment loans are typically made with maturities of less than five years and are priced with a fixed interest rate. Longer repayments of up to 15 years can be made depending on the useful life of the equipment being financed. Generally, rates are fixed for not longer than five years and will reset, generally based on the Constant Maturity U.S. Treasury indexes plus a spread, if the amortization or maturity of the loan is longer. At June 30, 2023, such loans totaled \$15.4 million, or 3.2% of our total loan portfolio. At June 30, 2023, our largest outstanding commercial business loan was for \$5.0 million, all of which was disbursed and outstanding, for the commercial headquarters of an office furniture manufacturer located in Pennsauken Township, New Jersey. This loan is performing in accordance with its terms.

**Consumer Loans.** In the past, we have offered a variety of consumer loans, which include student, automobile and personal secured and unsecured loans to our customer base. However, we no longer offer student or automobile loans to customers. At June 30, 2023, consumer loans totaled \$2.0 million, or 0.4% of our total loan portfolio.

Consumer loans may entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections depend on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws may limit the amount which can be recovered on such loans.

**Loan Origination, Purchases and Sales.** Loan originations come from a number of sources. The primary source of loan originations are our in-house loan originators, and to a lesser extent, advertising and referrals from customers and local realtors. Historically, we have primarily originated our own loans and retained them in our portfolio. However, we also occasionally purchase loans or participation interests in loans. As of June 30, 2023, we had an aggregate of \$15.3 million in purchased loan participations outstanding. A portion of our participation loans are 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. At June 30, 2023, we had one shared national credit participation relationship with a total commitment of \$12.5 million and no balance disbursed and outstanding. The loans in this shared national credit relationship are performing in accordance with their terms. Loan participations are subject to the same credit analysis and approvals as loans we originate. We are permitted to review all of the documentation relating to any loan in which we participate. However, for participation loans, we do not service the loan and, thus, are subject to the policies and procedures of the lead lender with regard to monitoring delinquencies, pursuing collections and instituting foreclosure proceedings.

We also occasionally sell some of the longer-term fixed-rate one-to-four family mortgage loans that we originate in the secondary market based on prevailing market interest rate conditions, an analysis of the composition and risk of the loan portfolio, liquidity needs and interest rate risk management goals. Generally, loans are sold with recourse and with servicing retained. We did not sell any loans during the year ended June 30, 2023 and we sold two loans for \$274 thousand during the year ended June 30, 2022. We occasionally sell participation interests in loans and may sell loan participations in the future.

***Loan Approval Procedures and Authority.*** Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our board of directors and management.

With respect to residential and consumer loans, loans with a total loan commitment of less than \$250,000 may be approved by the loan's residential underwriter, as well as one of the following individuals: the Assistant Vice President of Residential Lending and the Vice President of Residential Lending. Loans with a total loan commitment of between \$250,000 to \$1,000,000 must be approved by (i) the Assistant Vice President of Residential Lending or the Vice President of Residential Lending, and (ii) either our Director of Loan Servicing, Chief Retail Officer, Chief Lending Officer or Chief Executive Officer. Loans with a total loan commitment of between \$1,000,000 and \$2,000,000 must be approved by a majority vote from our Officers' Loan Committee, which consists of our Chief Executive Officer, Chief Lending Officer, and Director of Loan Servicing. Loans with a total loan commitment in excess of \$2,000,000, and up to our legal lending limit, must be approved by majority vote from our Directors' Loan Committee, which consists of our entire board of directors.

With respect to commercial loans, loans with a total loan commitment of up to \$1,000,000 (and unsecured lines or letters of credit with total loan commitments of up to \$500,000) may be approved by the originating loan officer as well as either our Chief Lending Officer or Chief Executive Officer. Loans with a total loan commitment of between \$1,000,000 and \$5,000,000 (and unsecured lines or letters of credit with total loan commitments of between \$500,000 and \$4,000,000) must generally be approved by majority vote from our Officers' Loan Committee, and loans with a total loan commitment in excess of \$5,000,000 (or \$4,000,000 for unsecured lines or letters of credit) must be approved by a majority vote from our Directors' Loan Committee.

***Loans to One Borrower.*** The maximum amount that we may lend to one borrower and the borrower's related entities is limited by statute to generally 15% of our stated capital and reserves. At June 30, 2023, our regulatory lending maximum was \$22.1 million. The Bank's internal lending limits are lower than the levels permitted by regulation and at June 30, 2023, the total exposure with our largest lending relationship was \$13.0 million, which is the total amount outstanding and committed for two commercial real estate loans.

***Loan Commitments.*** We issue commitments for fixed-rate and adjustable-rate mortgage loans conditioned upon the occurrence of certain events. Commitments to originate mortgage loans are legally binding agreements to lend to our customers and generally expire in 30 days.

***Delinquencies.*** When a borrower fails to make a required loan payment, we take a number of steps to have the borrower cure the delinquency and restore the loan to current status. We generally make initial contact with the borrower when the loan becomes ten to fifteen days past due. If payment is not received by the 45th day of delinquency, additional letters are sent and phone calls generally are made to the customer. When the loan becomes 120 days past due, we generally commence foreclosure proceedings against any real property that secures the loan or attempt to repossess any personal property that secures a consumer loan. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan generally is sold at foreclosure. We may consider loan workout arrangements with certain borrowers under certain circumstances. Management informs the board of directors on a monthly basis of the amount of loans delinquent more than 30 days, all loans in foreclosure and all foreclosed and repossessed property that we own.

## **Investment Activities**

We have legal authority to invest in various types of liquid assets, including, but not limited to, mortgage-backed securities, securities of various federal agencies and of state and municipal governments, subordinated debt and certificates of deposit of federally insured institutions. At June 30, 2023, our investment portfolio consisted primarily of mortgage-backed securities issued by Fannie Mae, Freddie



Mac or Gennie Mae with stated final maturities of 30 years or less, municipal securities with maturities of 20 years or less, corporate bonds, and preferred stock.

Our investment objectives are to provide and maintain liquidity, to maintain a balance of high quality, diversified investments to minimize risk, to provide collateral for pledging requirements, to establish an acceptable level of interest rate risk, to provide an alternate source of low-risk investments when demand for loans is weak and to generate a favorable return. Our board of directors has the overall responsibility for our investment portfolio, including approval of our investment policy. Our Chief Operating Officer is the designated investment officer and is responsible for the daily investment activities and is authorized to make investment decisions consistent with our investment policy.

### **Deposit Activities and Other Sources of Funds**

**General.** Deposits and loan repayments are the major sources of our funds for lending and other investment activities. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and market conditions.

**Deposit Accounts.** The vast majority of our depositors are residents of Southeastern Pennsylvania and Southern and Central New Jersey. Deposits are raised primarily from within our primary market area through the offering of a broad selection of deposit instruments, including checking accounts, money market accounts, regular savings accounts, club savings accounts, certificate accounts and various retirement accounts. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit, and the interest rate among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, profitability to us, matching deposit and loan products and customer preferences and concerns. We generally review our deposit mix and pricing weekly. Our current strategy is to offer competitive rates, but not be the market leader in every type and maturity.

**Borrowings.** If necessary, we borrow from the Federal Home Loan Bank of Pittsburgh to supplement our supply of lendable funds and to meet deposit withdrawal requirements. The Federal Home Loan Bank functions as a central reserve bank providing credit for member financial institutions. As a member, we are required to own capital stock in the Federal Home Loan Bank 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 that are obligations of, or guaranteed by, the United States), provided certain standards related to credit-worthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the Federal Home Loan Bank's assessment of the institution's creditworthiness. Under its current credit policies, the Federal Home Loan Bank generally limits advances to 25% of a member's assets, and short-term borrowings of less than one year may not exceed 10% of the institution's assets. The Federal Home Loan Bank determines specific lines of credit for each member institution. There were \$34.0 million of Federal Home Loan Bank advances outstanding at June 30, 2023. At June 30, 2023, we had the ability to borrow an additional \$261.0 million from the Federal Home Loan Bank of Pittsburgh. In addition, as of June 30, 2023, we had \$10.0 million of available credit from Atlantic Community Bankers Bank to purchase federal funds and we had \$3.7 million of available credit from the Federal Reserve Bank.

### **Personnel**

At June 30, 2023, we had 93 full-time employees and two part-time employees, none of whom is represented by a collective bargaining unit. We believe our relationship with our employees is good.

### **Subsidiaries**

The Company's only direct subsidiary is the Bank. The Bank has one wholly owned subsidiary, WPSLA. WPSLA is a Delaware corporation organized in April 2000 to hold certain investment securities for the Bank. At June 30, 2023, WPSLA held \$256.9 million of the Bank's \$264.8 million securities portfolio.

## **REGULATION AND SUPERVISION**

### **General**

The Bank is a Pennsylvania-chartered stock savings bank. The Bank's deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation. The Bank is subject to extensive regulation by the Pennsylvania Department of Banking and Securities, as its chartering agency, and by the Federal Deposit Insurance Corporation, as its primary federal regulator. The Bank is required to file reports with, and is periodically examined by, the Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking and

Securities, concerning its activities and financial condition and must obtain regulatory approvals prior to entering into certain transactions, including, but not limited to, mergers with or acquisitions of other financial institutions. The Bank is a member of the Federal Home Loan Bank of Pittsburgh.

The regulation and supervision of the Bank establish a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of depositors and borrowers and, for purposes of the Federal Deposit Insurance Corporation, the protection of the insurance fund. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

As a bank holding company, the Company must comply with the rules and regulations of the Federal Reserve Board and file certain reports with the Federal Reserve Board and is subject to examination by and the enforcement authority of the Federal Reserve Board. The Company is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Any change in applicable laws or regulations, whether by the Pennsylvania Department of Banking and Securities, the Federal Deposit Insurance Corporation, the Federal Reserve Board, the Commonwealth of Pennsylvania or Congress, could have a material adverse impact on the operations and financial performance of the Company and the Bank. In addition, the Company and the Bank will be affected by the monetary and fiscal policies of various agencies of the United States Government, including the Federal Reserve Board. In view of changing conditions in the national economy and in the money markets, it is impossible for management to accurately predict future changes in monetary policy or the effect of such changes on the business or financial condition of the Company and the Bank.

Set forth below is a brief description of material regulatory requirements that are or will be applicable to the Company and the Bank. The description is limited to certain material aspects of the statutes and regulations addressed, and is not intended to be a complete description of such statutes and regulations and their effects on the Company and the Bank.

## **Bank Regulation**

***Pennsylvania Savings Bank Law.*** The Pennsylvania Banking Code of 1965, as amended, contains detailed provisions governing the organization, location of offices, rights and responsibilities of directors, officers and employees, as well as corporate powers, savings and investment operations and other aspects of the Bank and its affairs. The Pennsylvania Banking Code delegates extensive rule-making power and administrative discretion to the Pennsylvania Department of Banking and Securities so that the supervision and regulation of state-chartered savings banks may be flexible and readily responsive to changes in economic conditions and in savings and lending practices. Specifically, under the Pennsylvania Banking Code, the Pennsylvania Department of Banking and Securities is given the authority to exercise such supervision over state-chartered savings banks as to afford the greatest safety to creditors, stockholders and depositors, ensure business safety and soundness, conserve assets, protect the public interest and maintain public confidence in such institutions.

The Pennsylvania Banking Code provides, among other powers, that state-chartered savings banks may engage in any activity permissible for a national banking association or federal savings association, subject to regulation by the Pennsylvania Department of Banking and Securities (which shall not be more restrictive than the regulation imposed upon a national banking association or federal savings association, respectively). Before it engages in an activity allowable for a national banking association or federal savings association, a state-chartered savings bank must either obtain prior approval from the Pennsylvania Department of Banking and Securities or provide at least 30 days' prior written notice to the Pennsylvania Department of Banking and Securities. The authority of the Bank under Pennsylvania law, however, may be constrained by federal law and regulation.

***Capital Requirements.*** Federal regulations require Federal Deposit Insurance Corporation-insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets ratio of 8.0%, and a Tier 1 capital to average assets leverage ratio of 4.0%.

For purposes of the regulatory capital requirements, common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that made such an election regarding the treatment of accumulated other comprehensive income ("AOCT"), up to 45%

of net unrealized gains on available for sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available for sale-securities). The Bank exercised the opt-out and therefore does not include AOCI in its regulatory capital determinations. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (such as recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one to four- family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted asset above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement began being phased in starting on January 1, 2016 at 0.625% of risk-weighted assets and increased each year until fully implemented at 2.5% on January 1, 2019. At June 30, 2023, the Bank exceeded the fully phased in regulatory requirement for the capital conservation buffer.

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% 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% for the second through fourth quarters of calendar year 2020, greater than 8.5% for calendar year 2021, and greater than 9% 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. The Bank has elected to adopt the community bank leverage ratio framework. Management believes, as of June 30, 2023, that the Bank meets all capital adequacy requirements to which it is subject.

The Federal Deposit Insurance Corporation Improvement Act required each federal banking agency to revise its risk-based capital standards for insured institutions to ensure that those standards take adequate account of interest-rate risk, concentration of credit risk, and the risk of nontraditional activities, as well as to reflect the actual performance and expected risk of loss on multi-family residential loans. The Federal Deposit Insurance Corporation, along with the other federal banking agencies, adopted a regulation providing that the agencies will take into account the exposure of a bank’s capital and economic value to changes in interest rate risk in assessing a bank’s capital adequacy. The Federal Deposit Insurance Corporation also has authority to establish individual minimum capital requirements in appropriate cases upon determination that an institution’s capital level is, or is likely to become, inadequate in light of the particular circumstances.

***Standards for Safety and Soundness.*** As required by statute, the federal banking agencies adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness to implement safety and soundness standards. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit system, credit underwriting, loan documentation, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. The agencies have also established standards for safeguarding customer information. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard.

***Investments and Activities.*** Under federal law, all state-chartered banks insured by the Federal Deposit Insurance Corporation have generally been limited to activities as principal and equity investments of the type and in the amount authorized for national banks, notwithstanding state law. The Federal Deposit Insurance Corporation Improvement Act and the Federal Deposit Insurance Corporation permit exceptions to these limitations. For example, state chartered banks may, with Federal Deposit Insurance Corporation approval, continue to exercise grandfathered state authority to invest in common or preferred stocks listed on a national securities exchange and in the shares of an investment company registered under federal law. The Bank received grandfathering authority from the Federal

Deposit Insurance Corporation to invest in listed stocks and/or registered shares. The maximum permissible investment is 100% of Tier 1 capital, as specified by the Federal Deposit Insurance Corporation's regulations, or the maximum amount permitted by Pennsylvania Banking Code of 1965, whichever is less. Such grandfathering authority may be terminated upon the Federal Deposit Insurance Corporation's determination that such investments pose a safety and soundness risk to the Bank or if the Bank converts its charter or undergoes a change in control. In addition, the Federal Deposit Insurance Corporation is authorized to permit such institutions to engage in other state authorized activities or investments (other than non-subsidiary equity investments) that meet all applicable capital requirements if it is determined that such activities or investments do not pose a significant risk to the Deposit Insurance Fund. As of June 30, 2023, the Bank held no marketable equity securities under such grandfathering authority.

**Interstate Banking and Branching.** Federal law permits well capitalized and well managed bank holding companies to acquire banks in any state, subject to Federal Reserve Board approval, certain concentration limits and other specified conditions. Interstate mergers of banks are also authorized, subject to regulatory approval and other specified conditions. In addition, amendments made by the Dodd-Frank Act permit banks to establish de novo branches on an interstate basis to the extent that branching is authorized by the law of the host state for the banks chartered by that state.

**Prompt Corrective Regulatory Action.** Federal law requires, among other things, that federal bank regulatory authorities take "prompt corrective action" with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

The Federal Deposit Insurance Corporation has adopted regulations to implement the prompt corrective action legislation. An institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%. As of June 30, 2023, the Bank was a "well capitalized" institution under the Federal Deposit Insurance Corporation regulations.

At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends, and restrictions on the acceptance of brokered deposits. Furthermore, if an insured depository institution is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the appropriate federal banking agency, and the holding company must guarantee the performance of that plan. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. An undercapitalized bank's compliance with a capital restoration plan is required to be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5.0% of the institution's total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an "undercapitalized" bank fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" banks must comply with one or more of a number of additional restrictions, including but not limited to an order by the Federal Deposit Insurance Corporation to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, cease receipt of deposits from correspondent banks or dismiss directors or officers, and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. "Critically undercapitalized" institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

The previously referenced regulations establishing a "community bank leverage ratio" adjusted the referenced categories for qualifying institutions that opt into the alternative framework for regulatory capital requirements. Institutions that exceed the community bank leverage ratio are considered to have met the capital ratio requirements to be "well capitalized" for the agencies' prompt corrective rules.

**Transaction with Affiliates and Regulation W of the Federal Reserve Regulations.** Transactions between banks and their affiliates are governed by federal law. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. In a holding company context, the parent bank holding company and any companies which are controlled by such parent

holding company are affiliates of the bank (although subsidiaries of the bank itself, except financial subsidiaries, are generally not considered affiliates). Generally, Section 23A of the Federal Reserve Act and the Federal Reserve Board's Regulation W limit the extent to which the bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10.0% of such institution's capital stock and surplus, and with all such transactions with all affiliates to an amount equal to 20.0% of such institution's capital stock and surplus. Section 23B applies to "covered transactions" as well as to certain other transactions and requires that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those provided to a non-affiliate. The term "covered transaction" includes the making of loans to, purchase of assets from, and issuance of a guarantee to an affiliate, and other similar transactions. Section 23B transactions also include the provision of services and the sale of assets by a bank to an affiliate. In addition, loans or other extensions of credit by the financial institution to the affiliate are required to be collateralized in accordance with the requirements set forth in Section 23A of the Federal Reserve Act.

Sections 22(h) and (g) of the Federal Reserve Act place restrictions on loans to a bank's insiders, i.e., executive officers, directors and principal stockholders. Under Section 22(h) of the Federal Reserve Act, loans to a director, an executive officer and to a greater than 10.0% stockholder of a financial institution, and certain affiliated interests of these, together with all other outstanding loans to such person and affiliated interests, may not exceed specified limits. Section 22(h) of the Federal Reserve Act also requires that loans to directors, executive officers and principal stockholders be made on terms and conditions substantially the same as offered in comparable transactions to persons who are not insiders and also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a financial institution to insiders cannot exceed the institution's unimpaired capital and surplus. Section 22(g) of the Federal Reserve Act places additional restrictions on loans to executive officers.

**Enforcement.** The Federal Deposit Insurance Corporation has extensive enforcement authority over insured state chartered savings banks, including the Bank. The enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease and desist orders and remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations, breaches of fiduciary duty and unsafe or unsound practices.

**Federal Insurance of Deposit Accounts.** The Bank is a member of the Deposit Insurance Fund, which is administered by the Federal Deposit Insurance Corporation. Deposit accounts in the Bank are insured up to a maximum of \$250,000 for each separately insured depositor.

The Federal Deposit Insurance Corporation imposes an assessment for deposit insurance on all depository institutions. Under the Federal Deposit Insurance Corporation's risk-based assessment system, insured institutions are assigned to risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned and certain adjustments specified by Federal Deposit Insurance Corporation regulations, with less risky institutions paying lower rates. Assessment rates (inclusive of possible adjustments) for most banks with less than \$10 billion of assets currently range from 1 1/2 to 30 basis points of each institution's total assets less tangible capital. The Federal Deposit Insurance Corporation may increase or decrease the scale uniformly, except that no adjustment can deviate more than two basis points from the base scale without notice and comment rulemaking. The Federal Deposit Insurance Corporation's current system represents a change, required by the Dodd-Frank Act, from its prior practice of basing the assessment on an institution's volume of deposits.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The Federal Deposit Insurance Corporation was required to seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of \$10 billion or more were supposed to fund the increase. The Federal Deposit Insurance Corporation indicated in November 2018 that the 1.35% ratio was exceeded. Insured institutions of less than \$10 billion of assets were to receive credits for the portion of their assessments that contributed to raising the reserve ratio between 1.15% and 1.35% effective when the fund rate achieves 1.38%. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the Federal Deposit Insurance Corporation and the Federal Deposit Insurance Corporation has exercised that discretion by establishing a long range fund ratio of 2%.

The Federal Deposit Insurance Corporation has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Future insurance assessment rates cannot be predicted. In October 2022, the Federal Deposit Insurance Corporation Board adopted a final rule to increase initial base deposit insurance assessment rate schedules by two basis points beginning in the first quarterly assessment period of 2023. The adoption of this final rule increased the Bank's annual deposit insurance premium by approximately \$144 thousand.

Insurance of deposits may be terminated by the Federal Deposit Insurance Corporation upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation,

rule order or regulatory condition imposed in writing. We do not know of any practice, condition or violation that might lead to termination of deposit insurance.

**Privacy Regulations.** Federal Deposit Insurance Corporation regulations generally require that the Bank disclose its privacy policy, including identifying with whom it shares a customer's "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter. In addition, the Bank is required to provide its customers with the ability to "opt-out" of having their personal information shared with unaffiliated third parties and not to disclose account numbers or access codes to non-affiliated third parties for marketing purposes. The Bank currently has a privacy protection policy in place and believes that such policy is in compliance with the regulations.

**Community Reinvestment Act.** Under the Community Reinvestment Act, or CRA, as implemented by Federal Deposit Insurance Corporation regulations, a non-member bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA does require the Federal Deposit Insurance Corporation, in connection with its examination of a non-member bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution, including applications to acquire branches and other financial institutions. The CRA requires the Federal Deposit Insurance Corporation to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. The Bank's latest Federal Deposit Insurance Corporation CRA rating was "Satisfactory."

**Consumer Protection and Fair Lending Regulations.** Pennsylvania savings banks are subject to a variety of federal statutes and regulations that are intended to protect consumers and prohibit discrimination in the granting of credit. These statutes and regulations provide for a range of sanctions for non-compliance with their terms, including imposition of administrative fines and remedial orders, and referral to the Attorney General for prosecution of a civil action for actual and punitive damages and injunctive relief. Certain of these statutes authorize private individual and class action lawsuits and the award of actual, statutory and punitive damages and attorneys' fees for certain types of violations.

**USA PATRIOT Act.** The Bank is subject to the USA PATRIOT Act, which gave federal agencies additional powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act provided measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents, and parties registered under the Commodity Exchange Act.

## **Other Regulations**

Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. Loan operations are also subject to state and federal laws applicable to credit transactions, such as the:

- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies; and
- Rules and regulations of the various federal and state agencies charged with the responsibility of implementing such federal and state laws.
- The deposit operations of William Penn Bank also are subject to, among others, the:
- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

- Check Clearing for the 21st Century Act (also known as “Check 21”), which gives “substitute checks,” such as digital check images and copies made from that image, the same legal standing as the original paper check; and
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers’ rights and liabilities arising from the use of automated teller machines and other electronic banking services.

### **Federal Reserve System**

The Federal Reserve Act authorizes the Federal Reserve Board to require depository associations to maintain noninterest-earning reserves against their transaction accounts (primarily negotiable order of withdrawal and regular checking accounts). The amounts are adjusted annually and, on March 15, 2020, the Federal Reserve Board reduced reserve requirement to 0% effective as of March 26, 2020, which eliminated reserve requirements for all depository institutions.

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

The Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. At June 30, 2023, the Bank had a maximum borrowing capacity from the Federal Home Loan Bank of Pittsburgh of \$295.0 million, of which it had \$34.0 million in outstanding borrowings. The Bank, as a member of the Federal Home Loan Bank of Pittsburgh, is required to acquire and hold shares of capital stock in that Federal Home Loan Bank. The Bank was in compliance with requirements for the Federal Home Loan Bank of Pittsburgh with an investment of \$2.3 million at June 30, 2023.

### **Holding Company Regulation**

The Company is subject to examination, regulation, and periodic reporting under the Bank Holding Company Act of 1956, as amended, as administered by the Federal Reserve Board. The Company is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior Federal Reserve Board approval would be required for the Company to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after such acquisition, it would, directly or indirectly, own or control more than 5% of any class of voting shares of the bank or bank holding company. In addition to the approval of the Federal Reserve Board, prior approval may also be necessary from other agencies having supervisory jurisdiction over the bank to be acquired before any bank acquisition can be completed.

A bank holding company is generally prohibited from engaging in non-banking activities, or acquiring direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the Federal Reserve Board has determined by regulation to be so closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as fiduciary, investment or financial advisor; (v) leasing personal or real property; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings and loan association whose direct and indirect activities are limited to those permitted for bank holding companies.

The Gramm-Leach-Bliley Act of 1999 authorized a bank holding company that meets specified conditions, including being “well capitalized” and “well managed,” to opt to become a “financial holding company” and thereby engage in a broader array of financial activities than previously permitted. Such activities can include insurance underwriting and investment banking.

The Company is subject to the Federal Reserve Board’s capital adequacy guidelines for bank holding companies (on a consolidated basis) which have historically been similar to, though less stringent than, those of the Federal Deposit Insurance Corporation for the Bank. The Dodd-Frank Act, however, required the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. Consolidated regulatory capital requirements identical to those applicable to the subsidiary banks apply to bank holding companies; as is the case with institutions themselves, the capital conservation buffer was phased in between 2016 and 2019. However, the Federal Reserve Board has provided a “small bank holding company” exception to its consolidated capital requirements, and legislation and the related issuance of regulations by the Federal Reserve Board has increased the threshold for the exception to \$3.0 billion. As a result, the Company is not subject to the capital requirement until such time as its consolidated assets exceed \$3.0 billion.

A bank holding company is generally required to give the Federal Reserve Board prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. There is an exception to this approval requirement for well-capitalized bank holding companies that meet certain other conditions.

The Federal Reserve Board has issued a policy statement regarding capital distributions, including dividends, by bank holding companies. In general, the Federal Reserve Board's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. The Federal Reserve Board's policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. The Dodd-Frank Act codified the source of strength doctrine. Under the prompt corrective action laws, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. In addition, the Federal Reserve Board has issued guidance that requires consultation with the agency prior to a bank holding company's payment of dividends or repurchase of stock under certain circumstances. These regulatory policies could affect the ability of the Company to pay dividends, repurchase its stock or otherwise engage in capital distributions.

Under the Federal Deposit Insurance Act, depository institutions are liable to the Federal Deposit Insurance Corporation for losses suffered or anticipated by the Federal Deposit Insurance Corporation in connection with the default of a commonly controlled depository institution or any assistance provided by the Federal Deposit Insurance Corporation to such an institution in danger of default.

The status of the Company as a registered bank holding company under the Bank Holding Company Act does not exempt it from certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws.

### **Federal Securities Laws**

The common stock of the Company is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934. As a result, the Company is required to file quarterly and annual reports with the Securities and Exchange Commission and is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

### **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. We have policies, procedures and systems designed to comply with these regulations, and we review and document such policies, procedures and systems to ensure continued compliance with these regulations.

### **Change in Control Regulations**

Under the Change in Bank Control Act, no person, or group of persons acting in concert, may acquire control of a bank holding company, such as the Company, unless the Federal Reserve Board has been given 60 days' prior written notice and not disapproved the proposed acquisition. The Federal Reserve Board considers several factors in evaluating a notice, including the financial and managerial resources of the acquirer and competitive effects. Control, as defined under the applicable regulations, means the power, directly or indirectly, to direct the management or policies of the company or to vote 25% or more of any class of voting securities of the company. Acquisition of more than 10% of any class of a bank holding company's voting securities constitutes a rebuttable presumption of control under certain circumstances, including where, as will be the case with the Company, the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934.

In addition, federal regulations provide that no company may acquire control (as defined in the Bank Holding Company Act) of a bank holding company without the prior approval of the Federal Reserve Board. Any company that acquires such control becomes a "bank holding company" subject to registration, examination and regulation by the Federal Reserve Board.



## Emerging Growth Company Status

The Company is an emerging growth company and, for so long as it continues to be an emerging growth company, the Company may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to “emerging growth companies,” including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. As an emerging growth company, the Company also is not subject to Section 404(b) of the Sarbanes-Oxley Act of 2002, which would require that our independent auditors review and attest as to the effectiveness of our internal control over financial reporting. We have also elected to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Such an election is irrevocable during the period a company is an emerging growth company. Accordingly, our financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.

The Company will cease to be an emerging growth company upon the earliest of: (i) the end of the fiscal year following the fifth anniversary of the completion of its second-step conversion offering; (ii) the first fiscal year after our annual gross revenues are \$1.07 billion (adjusted for inflation) or more; (iii) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt securities; or (iv) the end of any fiscal year in which the market value of our common stock held by non-affiliates exceeded \$700 million at the end of the second quarter of that fiscal year. Accordingly, our financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.

## FEDERAL AND STATE TAXATION

### Federal Income Taxation

**General.** We report our income on a fiscal year basis using the accrual method of accounting. The federal income tax laws apply to us in the same manner as to other corporations with some exceptions, including particularly our reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to us. The tax years corresponding to our fiscal years ended June 30, 2020 through 2023 remain subject to examination by the Internal Revenue Service and by Pennsylvania and Philadelphia taxing authorities. The tax years corresponding to our fiscal years ended June 30, 2019 through 2023 remain subject to examination by New Jersey taxing authorities. For 2022, the Bank’s maximum federal income tax rate was 21.0%.

The Company and the Bank have entered into a tax allocation agreement. Because the Company owns 100% of the issued and outstanding capital stock of the Bank, the Company and the Bank are members of an affiliated group within the meaning of Section 1504(a) of the Internal Revenue Code, of which group the Company is the common parent corporation. As a result of this affiliation, the Bank may be included in the filing of a consolidated federal income tax return with the Company and, if a decision to file a consolidated tax return is made, the parties agree to compensate each other for their individual share of the consolidated tax liability and/or any tax benefits provided by them in the filing of the consolidated federal income tax return.

**Bad Debt Reserves.** For fiscal years beginning before June 30, 1996, thrift institutions that qualified under certain definitional tests and other conditions of the Internal Revenue Code were permitted to use certain favorable provisions to calculate their deductions from taxable income for annual additions to their bad debt reserve. A reserve could be established for bad debts on qualifying real property loans, generally secured by interests in real property improved or to be improved, under the percentage of taxable income method or the experience method. The reserve for non-qualifying loans was computed using the experience method. Federal legislation enacted in 1996 repealed the reserve method of accounting for bad debts and the percentage of taxable income method for tax years beginning after 1995 and required savings institutions to recapture or take into income certain portions of their accumulated bad debt reserves as of December 31, 1987. Approximately \$2.8 million of income tax related to our accumulated bad debt reserves will not be recognized unless the Bank makes a “non-dividend distribution” to the Company as described below.

**Distributions.** If the Bank makes “non-dividend distributions” to the Company, the distributions will be considered to have been made from the Bank’s un-recaptured tax bad debt reserves, including the balance of its reserves as of December 31, 1987, to the extent of the “non-dividend distributions,” and then from the Bank’s supplemental reserve for losses on loans, to the extent of those reserves, and an amount based on the amount distributed, but not more than the amount of those reserves, will be included in the Bank’s taxable income. Non-dividend distributions include distributions in excess of the Bank’s current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock, and distributions in partial or complete liquidation. Dividends paid out of the Bank’s current or accumulated earnings and profits will not be included in the Bank’s taxable income.

The amount of additional taxable income triggered by a non-dividend is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Therefore, if the Bank makes a non-dividend distribution to the Company, approximately one and one-half times the amount of the distribution not in excess of the amount of the reserves would be includable in income for federal income tax purposes, assuming a 21.0% federal corporate income tax rate. The Bank does not intend to pay dividends that would result in a recapture of any portion of its bad debt reserves.

## State Taxation

**Pennsylvania Taxation.** The Bank, as a savings bank conducting business in Pennsylvania, is subject to tax under the Pennsylvania Mutual Thrift Institutions Tax (“MTIT”) Act, as amended to include thrift institutions having capital stock. The MTIT is a tax upon separately stated net book income, determined in accordance with generally accepted accounting principles with certain adjustments. In computing income subject to MTIT taxation, there is an allowance for the deduction of interest income earned on state, federal and local obligations, while also disallowing a portion of a thrift’s interest expense associated with such tax-exempt income. The MTIT tax rate is 11.5%. Net operating losses, if any, can be carried forward a maximum of three years for MTIT purposes.

**Philadelphia Taxation.** In addition, as a savings bank conducting business in Philadelphia, the Bank is also subject to the City of Philadelphia Business Privilege Tax. The City of Philadelphia Business Privilege Tax is a tax upon net income or taxable receipts imposed on persons carrying on or exercising for gain or profit certain business activities within Philadelphia. Pursuant to the City of Philadelphia Business Privilege Tax, the 2022 tax rate was 5.99% on net income and 0.1415% on gross receipts. For regulated industry taxpayers, the tax is the lesser of the tax on net income or the tax on gross receipts. The City of Philadelphia Business Privilege Tax allows for the deduction by financial businesses from receipts of (a) the cost of securities and other intangible property and monetary metals sold, exchanged, paid at maturity or redeemed, but only to the extent of the total gross receipts from securities and other intangible property and monetary metals sold, exchanged, paid out at maturity or redeemed; (b) moneys or credits received in repayment of the principal amount of deposits, advances, credits, loans and other obligations; (c) interest received on account of deposits, advances, credits, loans and other obligations made to persons resident or having their principal place of business outside Philadelphia; (d) interest received on account of other deposits, advances, credits, loans and other obligations but only to the extent of interest expenses attributable to such deposits, advances, credits, loans and other obligations; and (e) payments received on account of shares purchased by stockholders. An apportioned net operating loss may be carried forward for three tax years following the tax year for which it was first reported.

**New Jersey Taxation.** The Bank is subject to New Jersey’s Corporation Business Tax at the rate of 9.0% on its separate company apportioned taxable income. For this purpose, “taxable income” generally means federal taxable income subject to certain adjustments (including addition of interest income on state and municipal obligations). Net operating losses may be carried forward for twenty years following the tax year for which they were first reported.

## Executive Officers

Our executive officers are elected annually by the board of directors and serve at the board’s discretion. The following individuals currently serve as our executive officers:

<b>Name</b>	<b>Position</b>
Kenneth J. Stephon	Chairman, President and Chief Executive Officer of William Penn Bancorporation and William Penn Bank
Jeannine Cimino	Executive Vice President and Chief Retail Officer of William Penn Bancorporation and William Penn Bank
Amy J. Hannigan	Executive Vice President and Chief Operating Officer of William Penn Bancorporation and William Penn Bank
Jonathan T. Logan	Executive Vice President and Chief Financial Officer of William Penn Bancorporation and William Penn Bank
Alan B. Turner	Executive Vice President and Chief Lending Officer of William Penn Bancorporation and William Penn Bank

Below is information regarding our executive officers. Each executive officer has held his or her current position for the period indicated below. Ages presented are as of June 30, 2023.

**Kenneth J. Stephon** is the Chairman, President and Chief Executive Officer of William Penn Bancorporation and William Penn Bank. Mr. Stephon previously served as Senior Executive Vice President and Chief Operating Officer of William Penn Bank and William

Penn Bancorporation from July 2018 until October 2018, when he became President. He was appointed Chief Executive Officer of William Penn Bank and William Penn Bancorporation in February 2019. Mr. Stephon has over 40 years of banking industry experience and previously served as President and Chief Executive Officer, as well as a director, of Audubon Savings Bank from October 2013 until its merger with William Penn Bank on July 1, 2018. He also serves as a director of the Pennsylvania Association of Community Bankers and the Insured Financial Institutions of the Delaware Valley. Age 64.

***Jeannine Cimino*** joined William Penn Bancorporation and William Penn Bank as Executive Vice President and Chief Retail Officer in July 2021. Mrs. Cimino served as Regional President of Berkshire Bank from December 2016 to July 2021, following Berkshire Bank's acquisition of First Choice Bank, where she served as Director of Marketing from April 2010 to December 2016. Prior to that time, Mrs. Cimino served as Senior Vice President of Retail Banking at Sovereign Bank. Age 52.

***Amy J. Hannigan*** joined William Penn Bancorporation and William Penn Bank as Executive Vice President and Director of Corporate Development in May 2021 and in June 2021, was appointed as Executive Vice President and Chief Operating Officer of the Company and the Bank. Ms. Hannigan served as Senior Vice President and Corporate Controller of WSFS Bank, from April 2019 to April 2021, following the acquisition by WSFS Bank of Beneficial Bank, where she served as Senior Vice President and Chief Accounting Officer from March 2010 to April 2019. Ms. Hannigan is a certified public accountant and began her career with Coopers and Lybrand, where she served as an audit manager in the financial services industry. Age 56.

***Jonathan T. Logan*** joined William Penn Bancorporation and William Penn Bank as Senior Vice President and Chief Financial Officer in April 2020 and in June 2021, was appointed Executive Vice President and Chief Financial Officer of the Company and the Bank. Mr. Logan served as Vice President and Controller of Towne Park, a hospitality services company, from March 2019 to March 2020. Prior to that time, Mr. Logan served as Vice President and Corporate Controller of Beneficial Bank from April 2011 to March 2019. Mr. Logan is a certified public accountant and began his career with Ernst & Young where he served as an audit manager in the financial services industry. Age 39.

***Alan B. Turner*** joined William Penn Bancorporation and William Penn Bank as Executive Vice President and Chief Lending Officer in March 2021. Prior to that time, Mr. Turner served as Senior Vice President and Regional Commercial Manager for OceanFirst Bank, successor to Two River Community Bank, where he served as the Executive Vice President and Senior Loan Officer for 20 years. Age 59.

## **ITEM 1A. RISK FACTORS**

### **Risks Related to Market Interest Rates**

*Changes in interest rates may hurt our profits and asset values and our strategies for managing interest rate risk may not be effective.*

Like most financial institutions, our profitability depends to a large extent upon our net interest income, which is the difference between our interest income on interest-earning assets, such as loans and securities, and our interest expense on interest-bearing liabilities, such as deposits and borrowed funds. Accordingly, our results of operations depend largely on movements in market interest rates and our ability to manage our interest-rate-sensitive assets and liabilities in response to these movements. Factors such as inflation, recession and instability in financial markets, among other factors beyond our control, may affect interest rates.

In a rising interest rate environment, we would expect that the rates on our deposits and borrowings would reprice upwards faster than the rates on our longer-term loans and investments, which would be expected to compress our interest rate spread and have a negative effect on our profitability. In addition, the high percentage of fixed rate loans in our one- to four-family residential real estate loan portfolio would also contribute to the negative effect on our profitability in a rising interest rate environment. Furthermore, increases in interest rates may adversely affect the ability of our borrowers to make loan repayments on adjustable-rate loans, as the interest owed on such loans would increase as interest rates increase. Conversely, decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to redeploy such loan or securities proceeds into lower-yielding assets, which might also negatively impact our income.

Furthermore, the historically low interest rate environment in recent periods has contributed significantly to our loan growth, particularly in one- to four-family residential mortgage loans where refinance volume has been relatively high. The increase in market interest rates that we are now experiencing is likely to reduce our loan origination volume, particularly refinance volume, and/or reduce our interest rate spread, which would have a material adverse effect on our profitability and results of operations.

Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition, liquidity and results of operations. Changes in the level of interest rates also may negatively affect the value of our assets, including the value of our available-for-sale investment securities and interest rate swap derivatives which generally decrease when market interest rates rise, and ultimately affect our earnings.

Changes in the level of interest rates also may negatively affect our ability to originate real estate loans, the value of our assets, and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings. Also, our interest rate risk modeling techniques and assumptions likely may not fully predict or capture the impact of actual interest rate changes on our balance sheet or projected operating results.

Changes in interest rates also can affect: (1) our ability to originate loans; (2) the value of our interest-earning assets and our ability to realize gains from the sale of such assets; (3) our ability to obtain and retain deposits in competition with other available investment alternatives; and (4) the ability of our borrowers to repay their loans, particularly adjustable or variable-rate loans. Interest rates are highly sensitive to many factors, including government monetary policies, domestic and international economic and political conditions and other factors beyond our control.

### **Risks Related to Our Lending Activities**

*Our emphasis on one- to four-family residential mortgage and commercial real estate loans exposes us to lending risks.*

At June 30, 2023, \$233.2 million, or 48.5%, of our loan portfolio was secured by one- to four-family real estate and we intend to continue to make loans of this type in the future. One- to four-family residential mortgage and one- to four-family commercial real estate lending is generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. Declines in real estate values could cause some of our residential mortgages to be inadequately collateralized, which would expose us to a greater risk of loss if we seek to recover on defaulted loans by selling the real estate collateral.

***Our origination of non-owner occupied one- to four-family residential mortgage loans may expose us to increased lending risks.***

At June 30, 2023, loans secured by non-owner occupied one- to four-family residential properties totaled \$98.2 million, or 20.4% of our loan portfolio. We intend to continue to make loans secured by non-owner occupied one- to four-family residential properties in the future. Loans secured by non-owner occupied properties generally expose a lender to greater risk of non-payment and loss than loans secured by owner occupied properties because repayment of such loans depend primarily on the tenant's continuing ability to pay rent to the property owner, who is our borrower, or, if the property owner is unable to find a tenant, the property owner's ability to repay the loan without the benefit of a rental income stream.

***Our recent increase in and planned increase in commercial real estate and commercial lending could expose us to increased lending risks and related loan losses.***

At June 30, 2023, we had \$203.9 million in commercial real estate and business loans (which include non-residential real estate loans, multi-family loans, land loans and commercial loans), which represented 42.4% of our total loan portfolio at that date. Of this amount, \$157.6 million, or 32.8% of our total loan portfolio, was comprised of non-residential real estate loans made to small and medium-sized business located in our market area. Our current business strategy is to continue to increase our originations of commercial real estate loans in accordance with our conservative underwriting guidelines. Commercial real estate loans generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation of the properties and the income stream of the borrowers. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans.

In addition, to the extent that borrowers have more than one commercial loan outstanding, an adverse development with respect to one loan or one credit relationship could expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential real estate loan. Furthermore, if loans that are collateralized by commercial real estate become troubled and the value of the real estate has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest that we anticipated at the time we originated the loan, which could cause us to increase our provision for loan losses and adversely affect our operating results and financial condition.

***If our allowance for loan losses is not sufficient to cover actual loan losses, our results of operations would be negatively affected.***

In determining the amount of the allowance for loan losses, we analyze, among other things, our loss and delinquency experience by portfolio segments and we consider the effect of existing economic conditions. In addition, we make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. If the actual results are different from our estimates, or our analyses are inaccurate, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, which would require additions to our allowance and would decrease our net income. Our emphasis on loan growth and on increasing our portfolio, as well as any future credit deterioration, will require us to increase our allowance further in the future.

In addition, our banking regulators periodically review our allowance for loan losses and could require us to increase our provision for loan losses. Any increase in our allowance for loan losses or loan charge-offs resulting from these regulatory reviews may have a material adverse effect on our results of operations and financial condition.

***The geographic concentration of our loan portfolio and lending activities makes us vulnerable to a downturn in our local market area.***

While there is not a single employer or industry in our market area on which a significant number of our customers are dependent, a substantial portion of our loan portfolio is comprised of loans secured by property located in the suburbs of Philadelphia, particularly in Bucks and Philadelphia Counties in Pennsylvania and in Southern and Central New Jersey. This makes us vulnerable to a downturn in the local economy and real estate markets. Adverse conditions in the local economy such as unemployment, recession, a catastrophic event or other factors beyond our control could impact the ability of our borrowers to repay their loans, which could impact our net interest income. Decreases in local real estate values caused by economic conditions, recent changes in tax laws or other events could adversely affect the value of the property used as collateral for our loans, which could cause us to realize a loss in the event of a foreclosure. Further, deterioration in local economic conditions could drive the level of loan losses beyond the level we have provided for in our allowance for loan losses, which in turn could necessitate an increase in our provision for loan losses and a resulting reduction to our earnings and capital.

## **Risks Related to Economic Conditions**

### ***Inflation can have an adverse impact on our business and our customers.***

Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. Recently, there has been a rise in inflation and the Federal Reserve Board has raised certain benchmark interest rates in an effort to combat inflation. As inflation increases and market interest rates rise the value of our investment securities, particularly those with longer maturities, would decrease, although this effect can be less pronounced for floating rate instruments. In addition, inflation generally increases the cost of goods and services we use in our business operations, such as electricity and other utilities, which increases our noninterest expenses. Furthermore, our customers are also affected by inflation and the rising costs of goods and services used in their households and businesses, which could have a negative impact on their ability to repay their loans with us.

### ***Economic conditions could result in increases in our level of non-performing loans and/or reduce demand for our products and services, which could have an adverse effect on our results of operations.***

Prolonged deteriorating economic conditions could significantly affect the markets in which we do business, the value of our loans and investment securities, and our ongoing operations, costs and profitability. Further, declines in real estate values and sales volumes and elevated unemployment levels may result in higher loan delinquencies, increases in our non-performing and classified assets and a decline in demand for our products and services. These events may cause us to incur losses and may adversely affect our financial condition and results of operations. Reduction in problem assets can be slow, and the process can be exacerbated by the condition of the properties securing non-performing loans and the lengthy foreclosure process in Pennsylvania and New Jersey, where the majority of our borrowers reside. To the extent that we must work through the resolution of assets, economic problems may cause us to incur losses and adversely affect our capital, liquidity, and financial condition.

## **Risks Related to our Deferred Tax Assets and Goodwill**

### ***We may not be able to realize our deferred tax assets.***

We recognize deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of assets and liabilities. At June 30, 2023, we had net deferred tax assets totaling \$9.5 million. We have determined that no valuation allowance is required as of June 30, 2023, although there is no guarantee that those assets will be fully recognizable in future periods. Management regularly reviews the net deferred tax asset for recoverability based on our history of earnings, expectations for future earnings and expected timing of reversals of temporary differences.

### ***The value of our goodwill may decline in the future.***

As of June 30, 2023, we had \$4.9 million of goodwill. A significant decline in our expected future cash flows, a significant adverse change in the business climate or slower growth rates, any or all of which could be materially impacted by many of the risk factors discussed herein, may necessitate our taking charges in the future related to the impairment of our goodwill. Future regulatory actions could also have a material impact on assessments of goodwill for impairment. If the fair value of our net assets improves at a faster rate than the market value of our reporting units, or if we were to experience increases in book values of a reporting unit in excess of the increase in fair value of equity, we may also have to take charges related to the impairment of our goodwill. If we were to conclude that a future write-down of our goodwill is necessary, we would record the appropriate charge, which could have a material adverse effect on our results of operations.

## **Risks Related to Our Growth Strategy**

### ***We are subject to certain risks in connection with our strategy of growing through mergers and acquisitions.***

In July 2018, we acquired Audubon, a New Jersey-chartered mutual savings association headquartered in Audubon, New Jersey. Additionally, in May 2020, we acquired both Fidelity, a Pennsylvania-chartered mutual savings bank headquartered in Bristol, Pennsylvania and Washington, a Pennsylvania-chartered mutual savings bank headquartered in Philadelphia, Pennsylvania. It is possible that we could acquire other banking institutions, other financial services companies or branches of financial institutions in the future. Acquisitions typically involve the payment of a premium over book and trading values and, therefore, may result in the dilution of our tangible book value per share. Our ability to engage in future mergers and acquisitions depends on various factors, including: (1) our ability to identify suitable merger partners and acquisition opportunities; (2) our ability to finance and complete transactions on

acceptable terms and at acceptable prices; and (3) our ability to receive the necessary regulatory and, when required, stockholder approvals. Our inability to engage in an acquisition or merger for any of these reasons could have an adverse impact on the implementation of our business strategies. Furthermore, mergers and acquisitions involve a number of risks and challenges, including (1) our ability to achieve planned synergies and to integrate the branches and operations we acquire, and the internal controls and regulatory functions of the acquired entity into our current operations and (2) the diversion of management's attention from existing operations, which may adversely affect our ability to successfully conduct our business and negatively impact our financial results.

***The building of market share through our branch office strategy, and our ability to achieve profitability on new branch offices, may increase our expenses and negatively affect our earnings.***

We believe there may be branch expansion opportunities within our market area and adjacent markets, and we may seek to grow our deposit base by adding branches to our existing twelve-branch network. There are considerable costs involved in opening branch offices, especially in light of the capabilities needed to compete in today's environment. Moreover, new branch offices generally require a period of time to generate sufficient revenues to offset their costs, especially in areas in which we do not have an established presence. Accordingly, new branch offices could negatively impact our earnings and may do so for a period of time. Our investments in products and services, and the related personnel required to implement new policies and procedures, take time to earn returns and can be expected to negatively impact our earnings for the foreseeable future. The profitability of any prospective branch expansion will depend on whether the income that we generate from new branch offices will offset the increased expenses resulting from operating these branch offices.

### **Risks Related to Recent Banking Industry Events**

***Financial challenges at other banking institutions could lead to disruptive and destabilizing deposit outflows, as well as an increase in FDIC deposit premiums, which could negatively impact our profitability and results of operations.***

In March 2023, Silicon Valley Bank and Signature Bank experienced large deposit outflows, coupled with insufficient liquidity to meet withdrawal demands, resulting in the institutions being placed into FDIC receivership. Additionally in May 2023, First Republic Bank experienced similar circumstances which resulted in the institution being placed into FDIC receivership. The placement of these institutions into receivership has resulted in market disruption and increased concerns that diminished depositor confidence across the banking industry in general could lead to deposit outflows that could destabilize other institutions. At June 30, 2023, we had \$261.0 million in available liquidity with the FHLB of Pittsburgh and \$20.8 million in cash and cash equivalents, which was sufficient to cover 251.7% of our estimated uninsured and uncollateralized deposits, excluding intercompany deposits. Notwithstanding our significant liquidity, large deposit outflows could materially and adversely affect our financial condition and results of operations. Following the placement of Silicon Valley Bank and Signature Bank into FDIC receivership, the federal banking regulators also issued a joint statement providing that the losses to support the uninsured deposits of those banks would be recovered via a special assessment on banks. The prospective special assessment, as well as any future additional special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums, to the extent that they result in increased deposit insurance costs, would reduce our profitability.

***Insufficient liquidity could impair our ability to fund operations and jeopardize our financial condition, growth and prospects.***

We require sufficient liquidity to fund loan commitments, satisfy depositor withdrawal requests, make payments on our debt obligations as they become due, and meet other cash commitments. Liquidity risk is the potential that we will be unable to meet our obligations as they become due because of an inability to liquidate assets or obtain adequate funding at a reasonable cost, in a timely manner and without adverse conditions or consequences. Our sources of liquidity consist primarily of cash, assets readily convertible to cash (such as investment securities), increases in deposits, advances, as needed, from the FHLB of Pittsburgh, and other borrowings. Our access to funding sources in amounts adequate to finance our activities or on acceptable terms could be impaired by factors that affect our organization specifically or the financial services industry or economy in general. Any substantial, unexpected, and/or prolonged change in the level or cost of liquidity could impair our ability to fund operations and meet our obligations as they become due and could have a material adverse effect on our business, financial condition and results of operations.

## **Risks Related to our Funding and Liquidity**

***We may be required to rely more heavily on wholesale funding strategies for funding and liquidity needs if we are unable to generate core deposits, which could have an adverse effect on our net interest margin and profitability.***

We must maintain sufficient funds to respond to the needs of depositors and borrowers. Deposits have traditionally been our primary source of funds for use in lending and investment activities. We also receive funds from loan repayments, investment maturities and income on other interest-earning assets. While we emphasize generating transaction accounts, we cannot guarantee if and when this will occur. Moreover, deposit balances can decrease if customers perceive alternative investments as providing a better risk/return tradeoff. If we are not able to maintain our lower-cost transactional deposits at a level necessary to fund our asset growth or deposit outflows, we may be forced seek other sources of funds, including other certificates of deposit, Federal Home Loan Bank advances, and lines of credit to meet the borrowing and deposit withdrawal requirements of our customers, which may be more expensive and have an adverse effect on our net interest margin and profitability.

***Ineffective liquidity management could adversely affect our financial results and condition.***

Effective liquidity management is essential for the operation of our business. We require sufficient liquidity to meet customer loan requests, customer deposit maturities/withdrawals, payments on our debt obligations as they come due and other cash commitments under both normal operating conditions and other unpredictable circumstances causing industry or general financial market stress. Our access to funding sources in amounts adequate to finance our activities on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy generally. Factors that could detrimentally impact our access to liquidity sources include a downturn in the geographic markets in which our loans and operations are concentrated or difficult credit markets. Our access to deposits may also be affected by the liquidity needs of our depositors. In particular, a majority of our liabilities are checking accounts and other liquid deposits, which are payable on demand or upon several days' notice, while by comparison, a substantial majority of our assets are loans, which cannot be called or sold in the same time frame. Although we have historically been able to replace maturing deposits and advances as necessary, we might not be able to replace such funds in the future, especially if a large number of our depositors seek to withdraw their accounts, regardless of the reason. A failure to maintain adequate liquidity could materially and adversely affect our business, results of operations or financial condition.

## **Risks Related to Competitive Matters**

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

Our profitability depends upon our continued ability to compete successfully in our market area. We face intense competition both in making loans and attracting deposits. We continue to face stiff competition for one- to four-family residential loans from other financial service providers, including large national residential lenders, local community banks and credit unions. Other competitors for one- to four-family residential loans include credit unions and mortgage brokers which keep overhead costs and mortgage rates down by selling loans and not holding or servicing them. Our competitors for commercial real estate loans include other community banks and commercial lenders, some of which are larger than us and have greater resources and lending limits than we have and offer services that we do not provide. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which reduces net interest income. We expect competition to remain strong in the future.

## **Risks Related to Operational and Regulatory Matters**

***We depend on our management team to implement our business strategy and execute successful operations and we could be harmed by the loss of their services.***

We depend upon the services of the members of our senior management team who direct our strategy and operations. Our executive officers and lending personnel possess expertise in our markets and key business relationships, and the loss of any one of them could be difficult to replace. Our loss of one or more of these persons, or our inability to hire additional qualified personnel, could impact our ability to implement our business strategy and could have a material adverse effect on our results of operations and our ability to compete in our markets.



***We are a community bank and our ability to maintain our reputation is critical to the success of our business. The failure to do so may adversely affect our performance.***

We are a community bank and our reputation is one of the most valuable assets of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our market area and contiguous areas. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers. If our reputation is negatively affected by the actions of our employees, by our inability to conduct our operations in a manner that is appealing to current or prospective customers or otherwise, our business and operating results may be materially adversely affected. Threats to our reputation can also come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, cybersecurity incidents and questionable or fraudulent activities of our customers. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers and employees, costly litigation and increased governmental regulation, any or all of which could adversely affect our business and operating results.

***We are dependent on our information technology and telecommunications systems and third-party service providers; systems failures, interruptions and cybersecurity breaches could have a material adverse effect on us.***

Our business is dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party service providers. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on us.

Our third-party service providers may be vulnerable to unauthorized access, computer viruses, phishing schemes and other security breaches. We likely will expend additional resources to protect against the threat of such security breaches and computer viruses, or to alleviate problems caused by such security breaches or viruses. To the extent that the activities of our third-party service providers or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, regulatory scrutiny, litigation costs and other possible liabilities.

***Security breaches and cybersecurity threats could compromise our information and expose us to liability, which would cause our business and reputation to suffer.***

In the ordinary course of our business, we collect and store sensitive data, including our proprietary business information and that of our customers, suppliers and business partners, as well as personally identifiable information about our customers and employees. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. We, our customers, and other financial institutions with which we interact, are subject to ongoing, continuous attempts to penetrate key systems by individual hackers, organized criminals, and in some cases, state-sponsored organizations.

While we have established policies and procedures to prevent or limit the impact of cyber-attacks, there can be no assurance that such events will not occur or will be adequately addressed if they do. Although we take protective measures, the security of our computer systems, software, and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses, or other malicious code and cyber-attacks that could have an impact on information security. Because the techniques used to cause security breaches change frequently, we may be unable to proactively address these techniques or to implement adequate preventative measures.

We outsource a majority of our data processing requirements to certain third-party providers and also outsource certain cybersecurity functions, such as penetration testing, to third party service providers. Accordingly, our operations are exposed to the risk that these vendors will not perform in accordance with the contracted arrangements under service agreements. The failure of these service providers to adequately perform such functions could increase our exposure to security breaches and cybersecurity threats. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other malicious code and cyber-attacks that could have an impact on information security. Any such breach or attacks could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such unauthorized access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect

the privacy of personal information, and regulatory penalties; disrupt our operations and the services we provide to customers; damage our reputation; and cause a loss of confidence in our products and services, all of which could adversely affect our financial condition and results of operations.

***We must keep pace with technological change to remain competitive.***

Financial products and services have become increasingly technology-driven. Our ability to meet the needs of our customers competitively, and in a cost-efficient manner, is dependent on the ability to keep pace with technological advances and to invest in new technology as it becomes available, as well as related essential personnel. In addition, technology has lowered barriers to entry into the financial services market and made it possible for financial technology companies and other non-bank entities to offer financial products and services traditionally provided by banks. The ability to keep pace with technological change is important, and the failure to do so, due to cost, proficiency or otherwise, could have a material adverse impact on our business and therefore on our financial condition and results of operations.

***Because the nature of the financial services business involves a high volume of transactions, we face significant operational risks.***

We operate in diverse markets and rely on the ability of our employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or outside persons, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of our internal control system and compliance requirements, and business continuation and disaster recovery. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulations, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. Although our control testing has not identified any significant deficiencies in our internal control system, a breakdown in our internal control system, improper operation of our systems or improper employee actions could result in material financial loss to us, the imposition of regulatory action, and damage to our reputation.

***The implementation of the Current Expected Credit Loss accounting standard could require us to increase our allowance for credit losses and may have a material adverse effect on our financial condition and results of operations.***

In June 2016, the Financial Accounting Standards Board (the “FASB”) issued ASU 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 replaces the incurred loss model with an expected loss model, which is referred to as the current expected credit loss model, or CECL. ASU 2016-13. We previously elected to defer the adoption of ASU 2016-13 until December 31, 2020, as permitted by the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act, and based on legislation enacted in December 2020 which extended certain provision of the CARES Act, we elected to extend adopting of CECL until July 1, 2023 in accordance with the recent legislation. This standard requires earlier recognition of expected credit losses on loans and certain other instruments, compared to the incurred loss model. The change to the CECL framework requires us to greatly increase the data we must collect and review to determine the appropriate level of the allowance for credit losses. The adoption of CECL may result in greater volatility in the level of the allowance for credit losses, depending on various factors and assumptions applied in the model, such as the forecasted economic conditions in the foreseeable future and loan payment behaviors. Any increase in the allowance for credit losses, or expenses incurred to determine the appropriate level of the allowance for credit losses, may have an adverse effect on our financial condition and results of operations.

***Acts of terrorism and other external events, such as the emergence of a pandemic or health emergency, could impact our business.***

Financial institutions have been, and continue to be, targets of terrorist threats aimed at compromising operating and communication systems. Such events could cause significant damage, impact the stability of our facilities and result in additional expenses, reduce the demand for financial services, impair the ability of our borrowers to repay their loans, reduce the value of collateral securing repayment of our loans, and result in the loss of revenue. In addition, the emergence of a health emergency, epidemic or pandemic, such as the recent COVID-19 pandemic, could (i) reduce the demand for loans and other financial services, (ii) result in increases in loan delinquencies, problem assets, and foreclosures, (iii) cause the value of collateral for loans, especially real estate, to decline in value, (iv) reduce the availability and productivity of our employees, (v) cause our vendors and counterparties to be unable to meet existing obligations to us, (vi) negatively impact the business and operations of third-party service providers that perform critical services for our business, (vii) cause the value of our securities portfolio to decline, (viii) and cause the net worth and liquidity of loan guarantors to decline, impairing their ability to honor commitments to us. Any one or a combination of the above events could have a material, adverse

effect on our business, financial condition, and results of operations. The occurrence of any of these events could have a material adverse effect on our business, operations and financial condition.

***Regulation of the financial services industry is intense, and we may be adversely affected by changes in laws and regulations.***

The Bank is subject to extensive government regulation, supervision and examination by the Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking and Securities. In addition, the Company is subject to extensive regulation, supervision and examination by the Federal Reserve Board and the Pennsylvania Department of Banking and Securities. Such regulation, supervision and examination govern the activities in which we may engage, and are intended primarily for the protection of the deposit insurance fund and the Bank's depositors and not for the protection of our stockholders. Federal and state regulatory agencies have the ability to take strong supervisory actions against financial institutions that have experienced increased loan production and losses and other underwriting weaknesses or have compliance weaknesses. These actions include the entering into of formal or informal written agreements and cease and desist orders that place certain limitations on their operations. If we were to become subject to a regulatory action, such action could negatively impact our ability to execute our business plan, and result in operational restrictions, as well as our ability to grow, pay dividends, repurchase stock or engage in mergers and acquisitions. See "Regulation — Banking Regulation — Capital Requirements" for a discussion of regulatory capital requirements.

***We are an emerging growth company, and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.***

The Company is an emerging growth company and, for so long as it continues to be an emerging growth company, the Company may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to "emerging growth companies," including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. As an emerging growth company, the Company is not subject to Section 404(b) of the Sarbanes-Oxley Act of 2002, which would require that our independent auditors review and attest as to the effectiveness of our internal control over financial reporting. We have also elected to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Accordingly, our financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.

The Company will cease to be an emerging growth company upon the earliest of: (1) the end of the fiscal year following the fifth anniversary of the completion of its second-step conversion offering; (2) the first fiscal year after our annual gross revenues are \$1.07 billion (adjusted for inflation) or more; (3) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt securities; or (4) the end of any fiscal year in which the market value of our common stock held by non-affiliates exceeded \$700 million as of the end of the second quarter of that fiscal year. Investors may find our common stock less attractive if we choose to rely on these exemptions. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and the price of our common stock may be more volatile.

***Societal responses to climate change could adversely affect our business and performance, including indirectly through impacts on our customers.***

Concerns over the long-term impacts of climate change have led and will continue to lead to governmental efforts around the world to mitigate those impacts. Consumers and businesses also may change their behavior as a result of these concerns. We and our customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from climate change concerns. The impact on our customers will likely vary depending on their specific attributes, including reliance on or role in carbon intensive activities. Among the impacts to us could be a drop in demand for our products and services, particularly in certain sectors. In addition, we could face reductions in creditworthiness on the part of some customers or in the value of assets securing loans. Our efforts to take these risks into account in making lending and other decisions, including by increasing our business with climate-friendly companies, may not be effective in protecting us from the negative impact of new laws and regulations or changes in consumer or business behavior.

## **Risks Related to Accounting Matters**

*Changes in management's estimates and assumptions may have a material impact on our consolidated financial statements and our financial condition or operating results.*

In preparing our consolidated financial statements, our management is and will be required under applicable rules and regulations to make estimates and assumptions as of a specified date. These estimates and assumptions are based on management's best estimates and experience as of that date and are subject to substantial risk and uncertainty. Materially different results may occur as circumstances change and additional information becomes known. Areas requiring significant estimates and assumptions by management include our evaluation of the adequacy of our allowance for loan losses and our determinations with respect to amounts owed for income taxes.

*Changes in accounting standards could affect reported earnings.*

The regulatory bodies responsible for establishing accounting standards, including the Financial Accounting Standards Board, the Securities and Exchange Commission and other regulatory bodies, periodically change the financial accounting and reporting guidance that governs the preparation of our consolidated financial statements. In some cases, we could be required to apply new or revised guidance retroactively. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 2. PROPERTIES**

At June 30, 2023, we conducted business through our administrative headquarters located in Bristol, Pennsylvania and our twelve branch offices located in Bucks and Philadelphia Counties in Pennsylvania and Burlington, Camden and Mercer Counties in New Jersey. At June 30, 2023, we owned six of our branch office locations, leased building space at five of our branch office locations and leased the land at one of our branch office locations. We also lease our administrative headquarters located in Bristol, Pennsylvania and own one additional administrative office located in Camden County, New Jersey. However, we do not currently conduct business operations from this additional administrative office. At June 30, 2023, the total net book value of our land, buildings, furniture, fixtures and equipment was \$9.1 million. During the fiscal year ended June 30, 2023, 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. During the quarter ended June 30, 2023, the Company transferred one property with a total carrying value of \$1.1 million as of June 30, 2023 to the held for sale classification. The Company intends to sell this property by December 31, 2023.

### **ITEM 3. LEGAL PROCEEDINGS**

We are involved in routine legal proceedings in the ordinary course of business. Such routine legal proceedings, in the aggregate, are believed by management to be immaterial to our financial condition, results of operations and cash flows.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### **ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

#### **Market Information**

The common stock of the Company is traded on the Nasdaq Capital Market under the ticker symbol "WMPN."

#### **Holders**

The number of shareholders of record of the Company at September 7, 2023 was 528.

#### **Dividends**

The Company has historically paid dividends to its stockholders. During the fiscal year ended June 30, 2023, the Company paid quarterly dividends of \$0.03 per common share for an aggregate of \$0.12 per common share.

In determining the amount of any future dividends, the board of directors will take into account the Company's financial condition and results of operations, tax considerations, capital requirements and alternative uses for capital, industry standards, and economic conditions. The Company cannot guarantee that it will continue to pay dividends or that, if paid, it will not reduce or eliminate dividends in the future.

#### **Securities Authorized for Issuance Under Equity Compensation Plans**

The following table sets forth information regarding outstanding options and shares under the Company's 2022 Equity Incentive Plan at June 30, 2023:

	(a)	(b)	(c)
Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plan approved by security holders	1,197,640	\$ 11.66	92,908
Equity compensation plan not approved by security holders	—	—	—
<b>Total</b>	<b>1,197,640</b>	<b>\$ 11.66</b>	<b>92,908</b>

#### **Share Repurchases**

On March 11, 2022, the Company issued a press release announcing that the Company's Board of Directors had 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 outstanding stock, commencing upon the completion of the Company's first stock repurchase program.

On August 18, 2022, the Company issued a press release announcing that the Company's Board of Directors had authorized a third stock repurchase program to acquire up to 739,385 shares, or approximately 5.0%, of the Company's outstanding common stock, commencing upon the completion of the Company's second stock repurchase program.

On February 17, 2023, the Company issued a press release announcing that the Company's Board of Directors had authorized a fourth stock repurchase program to acquire up to 698,312 shares, or approximately 5.0%, of the Company's outstanding common stock, commencing upon the completion of the Company's third stock repurchase program. The Company completed this stock repurchase program on May 31, 2023.

On May 5, 2023, the Company issued a press release announcing that the Company's Board of Directors had authorized a fifth stock repurchase program to acquire up to 1,281,019 shares, or approximately 10.0%, of the Company's outstanding common stock, commencing upon the completion of the Company's fourth stock repurchase program. The Company completed this stock repurchase program on August 28, 2023.

On August 29, 2023, the Company issued a press release announcing that the Company's Board of Directors had authorized a sixth stock repurchase program to acquire up to 1,138,470 shares, or approximately 10.0%, of the Company's outstanding common stock. The sixth stock repurchase program was authorized following the completion of the Company's fifth stock repurchase program on August 28, 2023. As of September 7, 2023, there were 891,170 shares remaining to be repurchased under the Company's sixth repurchase program.

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 programs during the quarter ended June 30, 2023.

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
April 1 - 30, 2023	598,224	\$ 10.78	598,224	245,645
May 1 - 31, 2023	262,531	9.94	246,301	1,280,363
June 1 - 30, 2023	212,145	10.00	212,145	1,068,218
Total	<u>1,072,900</u>	<u>\$ 10.42</u>	<u>1,056,670</u>	

## **ITEM 6. RESERVED**

## **ITEM 7. 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; (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, such as the recent 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 strategies and integrate the business operations of acquired businesses into our business operations (xiii) our ability to manage market risk, credit risk and operational risk in the current economic environment; (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.

## **Overview**

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities, including mortgage-backed securities, and other interest-earning assets (primarily cash and cash equivalents), and the interest we pay on our interest-bearing liabilities, consisting primarily of interest-bearing checking accounts, money market accounts, statement savings accounts, individual retirement accounts, certificates of deposit and advances from the Federal Home Loan Bank of Pittsburgh. Our results of operations also are affected by our provisions for loan losses, noninterest income and noninterest expense. Noninterest income currently consists primarily of service fees, service charges, earnings on bank-owned life insurance, net gains on the sale of investment securities, net gains on the sale of other real estate owned and unrealized gains or losses on equity securities. Noninterest expense currently consists primarily of salaries and employee benefits, occupancy and equipment, data processing and professional fees. Our results of operations also may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies, and actions of regulatory authorities.

## **Business Strategy**

The Company is focused on serving the financial needs of consumers and businesses in our primary markets of Southeastern Pennsylvania and Southern and Central New Jersey. Through our wholly owned bank subsidiary, William Penn Bank, we deliver a comprehensive range of traditional depository and lending products, online banking services, and cash management tools for small businesses. Our business strategy is to continue to operate and grow a profitable community-oriented financial institution. We plan to achieve this by executing our strategy of:

### ***Continuing to emphasize our established relationship-based banking business model.***

Our primary strategic objective is to further our relationship-based business model that emphasizes securing strong, long-lasting customer relationships. We employ a group of talented employees with relationships in retail, commercial, and small business banking that assist us in our efforts to build relationships and enhance the William Penn brand. We believe that customer satisfaction is a key to sustainable growth and profitability. While continually striving to ensure that our products and services meet our customers' needs, we also encourage our employees to focus on providing personal service and attentiveness to our customers in a proactive manner. We believe that many opportunities remain to deliver what our customers want in the form of exceptional service and convenience, and we intend to continue to focus our operating strategy on taking advantage of these opportunities. Consistent with this strategy, in fiscal 2022 we began offering private banking services that provide high net worth clients a primary point of contact that is dedicated to their personal and business financial needs.

### ***Focusing on our commercial lending activities while also maintaining our residential portfolio.***

At June 30, 2023, \$203.9 million, or 42.4%, of our total loan portfolio was secured by commercial non-residential real estate, multi-family real estate, commercial construction and land, and commercial business loans, compared to \$120.4 million, or 25.9%, of our loan portfolio at June 30, 2021. During the years ended June 30, 2023 and 2022, we originated \$51.5 million and \$95.7 million, respectively, of commercial loans and we intend to continue to increase our commercial lending activities, particularly with respect to commercial real estate, multi-family residential and commercial business loans, in the future. We believe the recent expansion of our multi-family residential and commercial real estate lending activities has helped to diversify our balance sheet and increase our presence in our market area. We have added experienced commercial lending personnel and enhanced our infrastructure in order to implement this component of our business strategy.

At June 30, 2023, \$135.0 million, or 28.1%, of our total loan portfolio was secured by owner-occupied one- to four-family residential real estate loans and we intend to continue to offer this type of lending in the future. We believe there are opportunities to increase our residential mortgage lending in our market area, and we intend to take advantage of these opportunities through our existing lending staff and residential mortgage origination channels.

We believe that strong asset quality is a key to long-term financial success, and we have sought to maintain a high level of asset quality and mitigate credit risk by using conservative underwriting standards for all of our residential and commercial lending products, combined with diligent monitoring and collection efforts. We will continue to seek commercial and residential lending opportunities in our market area that will further our business strategy and that are also consistent with our conservative underwriting standards.

### ***Continuing to invest in our facilities and expand our branch network through de novo branching.***

We have been enhancing and optimizing both our facilities and branch network in recent years. We have consolidated most of our non-branch operations into one location located in Bristol, Pennsylvania that opened in November 2019 and we have consolidated our loan origination and servicing administration operations into one location located in Philadelphia, Pennsylvania that we acquired in connection with our recent acquisition of Washington Savings Bank. Effective June 30, 2022, we consolidated three existing Bank branches into one branch based on branch deposit levels and the close geographic proximity of the three consolidating branches. In addition, effective December 31, 2022, we consolidated two existing Bank branches into one branch based on branch deposit levels and the close geographic proximity of the two consolidating branches.

In the future, we may consider branch expansion opportunities within our market area and adjacent markets, and we may seek to grow our deposit base by adding branches to our existing twelve-branch network. We opened a new branch office in Yardley, Pennsylvania in March 2021, a new branch office in Doylestown, Pennsylvania in September 2021 and a new branch office in Hamilton Township, New Jersey in December 2021. We will consider opening additional new branches in desirable locations in attractive growth markets.

### ***Improving our technology platform.***

We are committed to building a technology platform that enables us to deliver best-in-class products and services to our customers and is also scalable to accommodate our long-term growth plans. To accomplish this objective, we have made and are continuing to make substantial investments in our information technology infrastructure, including data backup, security, accessibility, integration, business continuity, website development, online and mobile banking technologies, cash management technology and internal/external ease of use. We continue to develop new strategies for streamlining internal and external practices using technology such as online account opening, an online education center, and remote appointments.

### ***Employing a stockholder-focused management of capital.***

Maintaining a strong capital base is critical to support our long-range business plan. We intend to continue to manage our capital position through the growth of assets, as well as the utilization of appropriate capital management tools, consistent with applicable regulations and policies, and subject to market conditions. Under current federal regulations, subject to limited exceptions, we were not able to repurchase shares of our common stock during the first year following the completion of our second-step conversion offering, which occurred on March 24, 2021. On March 11, 2022, the Company issued a press release announcing that the Company's Board of Directors had 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. The 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 outstanding stock, commencing upon the completion of the Company's first stock repurchase program. On August 18, 2022, the Company issued a press release announcing that the Company's Board of Directors had authorized a third stock repurchase program to acquire up to 739,385 shares, or approximately 5.0%, of the Company's outstanding common stock, commencing upon the completion of the Company's second stock repurchase program. On February 17, 2023, the Company issued a press release announcing that the Company's Board of Directors had authorized a fourth stock repurchase program to acquire up to 698,312 shares, or approximately 5.0%, of the Company's outstanding common stock, commencing upon the completion of the Company's third stock repurchase program. The Company completed this stock repurchase program on May 31, 2023. On May 5, 2023, the Company issued a press release announcing that the Company's Board of Directors had authorized a fifth stock repurchase program to acquire up to 1,281,019 shares, or approximately 10.0%, of the Company's outstanding common stock, commencing upon the completion of the Company's fourth stock repurchase program and, on August 29, 2023, the Company issued a press release announcing that the Company's Board of Directors had authorized a sixth stock repurchase program to acquire up to 1,138,470 shares, or approximately 10.0%, of the Company's outstanding common stock. The sixth repurchase program was authorized following the completion of the Company's fifth stock repurchase program on August 28, 2023. As of September 7, 2023, there were 891,170 shares remaining to be repurchased under the Company's sixth repurchase program.

On July 21, 2021, the Company declared a one-time special dividend of \$0.30 per common share, payable August 18, 2021, to common shareholders of record at the close of business on August 2, 2021. During the fiscal year ended June 30, 2022, the Company paid regular cash dividends of \$0.06 per common share, including dividends of \$0.03 per common share for the quarters ended March 31, 2022 and June 30, 2022, but did not pay regular cash dividends during the quarters ended September 30, 2021 and December 31, 2022. During the fiscal year ended June 30, 2023, the Company paid regular cash dividends totalling an aggregate of \$0.12 per common share, consisting of quarterly cash dividends of \$0.03 per common share for the quarters ended September 30, 2022, December 31, 2022, March 31, 2023 and June 30, 2023. As previously disclosed, the Company's Board of Directors had declared a cash dividend of \$0.03 per share, that was paid on August 10, 2023, to common shareholders of record at the close of business on July 31, 2023. In determining



the amount of any future dividends, the board of directors will take into account the Company's financial condition and results of operations, tax considerations, capital requirements and alternative uses for capital, industry standards, and economic conditions. The Company cannot guarantee that it will continue to pay dividends or that, if paid, it will not reduce or eliminate dividends in the future.

### **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 and lease 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. For example, a change in the estimate resulting in a 10% to 20% difference in the allowance would have resulted in an additional provision for loan losses of \$331 thousand to \$663 thousand for the year ended June 30, 2023. We also have approximately \$4.2 million as of June 30, 2023 in non-performing assets consisting of non-performing loans and other real estate owned. 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 realizability 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 on these non-performing loans which may be material. For example, a 10% decrease in the collateral value supporting the non-performing loans could result in additional credit losses of \$417 thousand. In recent periods, we experienced steady 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 were effective for us on July 1, 2023. The Company adopted this guidance using the modified retrospective approach for all financial assets measured at amortized cost, including loans, available-for-sale debt securities and unfunded commitments. On July 1, 2023, the Company recorded a cumulative effect decrease to retained earnings of \$187 thousand related to loans and \$39 thousand related to unfunded commitments. The Company determined that there was no impact to retained earnings related to available-for-sale debt securities as a result of adopting this guidance.

### ***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 June 30, 2023 and June 30, 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.

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, 2023, the Company included considerations of the current economic environment in its evaluation, and determined that it is not more likely than not that the carrying value of goodwill is impaired. No goodwill impairment exists during the year ended June 30, 2023.

### ***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 tax authorities and newly 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 June 30, 2023 and 2022, we had net deferred tax assets totaling \$9.5 million and \$7.5 million, respectively. 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 statement 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.

## Balance Sheet Analysis

### Comparison of Financial Condition at June 30, 2023 and 2022

Total assets decreased \$32.4 million, or 3.7%, to \$847.6 million at June 30, 2023, from \$880.0 million at June 30, 2022, primarily due to a \$15.4 million decrease in cash and cash equivalents and a \$20.7 million decrease in investments, partially offset by a \$2.0 million increase in net loans. The Company used \$26.7 million of cash during the year ended June 30, 2023 to repurchase shares of stock under its previously announced stock repurchase programs.

Cash and cash equivalents decreased \$15.4 million, or 42.5%, to \$20.8 million at June 30, 2023, from \$36.2 million at June 30, 2022. The decrease in cash and cash equivalents was primarily due to the repurchase of 2,429,765 shares at a total cost of \$27.1 million during the year ended June 30, 2023.

### Investments

Our investment portfolio consists primarily of corporate bonds with maturities of five to ten years, municipal securities with maturities of five to more than ten years and mortgage-backed securities issued by Fannie Mae, Freddie Mac or Ginnie Mae with stated final maturities of 30 years or less. Total investments decreased \$20.7 million, or 7.2%, to \$266.4 million at June 30, 2023, from \$287.1 million at June 30, 2022. The decrease in investments was primarily due to a \$10.4 million increase in the gross unrealized loss on available for sale securities, as well as principal paydowns of the securities included in the available for sale and held to maturity portfolios. 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.

The following table sets forth the amortized cost and fair value of investment securities at the dates indicated:

	At June 30,			
	2023		2022	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale:				
Mortgage-backed securities	\$ 124,252	\$ 106,756	\$ 130,146	\$ 117,506
U.S. agency collateralized mortgage obligations	10,074	8,292	11,001	9,709
U.S. government agency securities	3,881	3,932	5,082	5,038
Municipal bonds	20,081	14,979	20,160	15,642
Corporate bonds	37,200	31,168	36,300	34,850
Total securities available for sale	195,488	165,127	202,689	182,745
Securities held to maturity:				
Mortgage-backed securities	94,648	77,373	102,135	88,321
U.S. government agency securities	4,982	4,880	—	—
Municipal bonds	60	60	—	—
Total securities held to maturity	99,690	82,313	102,135	88,321
Total investment securities	\$ 295,178	\$ 247,440	\$ 304,824	\$ 271,066

The following tables set forth the stated maturities and weighted average yields of investment securities at June 30, 2023. The weighted average yield is calculated by dividing income, which has not been tax effected on tax-exempt obligations, within each contractual maturity range by the outstanding amount of the related investment. Certain securities have adjustable interest rates and will reprice monthly, quarterly, semi-annually or annually within the various maturity ranges. The table presents contractual maturities for mortgage-backed securities and does not reflect repricing or the effect of prepayments.

June 30, 2023 (Dollars in thousands)	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Securities available for sale:										
Mortgage-backed securities	\$ —	— %	\$ —	— %	\$ —	— %	\$ 106,756	2.32 %	\$ 106,756	2.32 %
U.S. agency collateralized mortgage obligations	—	—	—	—	—	—	8,292	1.34	8,292	1.34
U.S. government agency securities	—	—	19	3.53	905	7.03	3,008	6.55	3,932	6.64
Municipal bonds	—	—	—	—	2,864	1.64	12,115	1.97	14,979	1.91
Corporate bonds	—	—	—	—	31,168	4.07	—	—	31,168	4.07
Total securities available for sale	—	—	19	3.53	34,937	3.93	130,171	2.30	165,127	2.65
Securities held to maturity:										
Mortgage-backed securities	—	—	—	—	—	—	94,648	1.59	94,648	1.59
U.S. agency collateralized mortgage obligations	492	4.62	4,490	3.33	—	—	—	—	4,982	3.46
Municipal bonds	60	3.92	—	—	—	—	—	—	60	3.92
Total securities held to maturity	552	4.55	4,490	3.33	—	—	94,648	1.59	99,690	1.68
Total investment securities	\$ 552	4.55 %	\$ 4,509	3.33 %	\$ 34,937	3.93 %	\$ 224,819	2.03 %	\$ 264,817	2.32 %

## Loans

Our loan portfolio consists primarily of one-to four-family residential mortgage loans, one-to four-family commercial real estate investor loans and non-residential commercial real estate loans. Our loan portfolio also consists of residential construction, home equity and lines of credit, multi-family residential real estate, commercial, construction and consumer loans. Net loans increased \$2.0 million, or 0.4%, to \$477.5 million at June 30, 2023, from \$475.5 million at June 30, 2022. During the year ended June 30, 2023, the Company originated \$64.4 million of new loans, including \$51.5 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.

The following table shows the loan portfolio at the dates indicated:

(Dollars in thousands)	At June 30,			
	2023		2022	
	Amount	Percent	Amount	Percent
Residential real estate loans:				
One- to four-family	\$ 135,046	28.08 %	\$ 147,143	30.72 %
Home equity and HELOCs	32,684	6.79	32,590	6.80
Residential construction	9,113	1.90	14,778	3.09
Total residential real estate loans	176,843	36.77	194,511	40.61
Commercial real estate loans:				
One- to four-family investor	98,160	20.41	96,508	20.15
Multi-family	15,281	3.18	13,015	2.72
Commercial non-residential	157,555	32.77	158,294	33.05
Commercial construction and land	15,584	3.24	4,942	1.03
Total commercial real estate loans	286,580	59.60	272,759	56.95
Commercial loans	15,433	3.21	9,411	1.97
Consumer loans	2,000	0.42	2,239	0.47
Total loans	480,856	100.00 %	478,920	100.00 %
Allowance for loan losses	(3,313)		(3,409)	
Loans, net	\$ 477,543		\$ 475,511	

The following table sets forth certain information at June 30, 2023 regarding the dollar amount of loan principal repayments becoming due during the periods indicated. The table below does not include any estimate of prepayments which significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below. Demand loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less.

June 30, 2023 (Dollars in thousands)	One- to Four-Family Residential	Home Equity and HELOCs	Residential Construction	One- to Four-Family Investor	Multi- Family	Commercial Non- Residential	Commercial Construction and Land	Commercial	Consumer	Total Loans
Amounts due in:										
One year or less	\$ 201	\$ 1,976	\$ 4,196	\$ 3,268	\$ 324	\$ 6,557	\$ —	\$ 7,480	\$ 464	\$ 24,466
More than 1 – 5 years	4,729	3,667	4,917	9,284	454	15,332	15,584	1,427	101	55,495
More than 5 – 15 years	44,313	13,525	—	44,505	3,764	96,581	—	6,526	365	209,579
More than 15 years	85,803	13,516	—	41,103	10,739	39,085	—	—	1,070	191,316
Total	<u>\$ 135,046</u>	<u>\$ 32,684</u>	<u>\$ 9,113</u>	<u>\$ 98,160</u>	<u>\$ 15,281</u>	<u>\$ 157,555</u>	<u>\$ 15,584</u>	<u>\$ 15,433</u>	<u>\$ 2,000</u>	<u>\$ 480,856</u>

The following table sets forth all loans at June 30, 2023 that are due after June 30, 2024 and have either fixed interest rates or floating or adjustable interest rates:

At June 30, 2023 (Dollars in thousands)	Due After June 30, 2024		
	Fixed Rates	Floating or Adjustable Rates	Total
Residential real estate loans:			
One- to four-family	\$ 109,247	\$ 25,598	\$ 134,845
Home equity and HELOCs	10,999	19,709	30,708
Residential construction	—	4,917	4,917
Commercial real estate loans:			
One- to four-family investor	28,066	66,826	94,892
Multi-family	3,091	11,866	14,957
Commercial non-residential	27,220	123,778	150,998
Commercial construction and land	2,146	13,438	15,584
Commercial loans	1,841	6,112	7,953
Consumer loans	206	1,330	1,536
Total	<u>\$ 182,816</u>	<u>\$ 273,574</u>	<u>\$ 456,390</u>

### *Premises and equipment, net*

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. During the quarter ended June 30, 2023, the Company transferred one property with a total carrying value of \$1.1 million as of June 30, 2023 to the held for sale classification. The Company intends to sell this property by December 31, 2023.

### *Deposits*

Deposits are a major source of our funds for lending and other investment purposes, and our deposits are provided primarily by individuals within our market area. Deposits increased \$28.7 million, or 4.7%, to \$635.3 million at June 30, 2023, from \$606.6 million at June 30, 2022. The increase in deposits was primarily due to a \$36.7 million increase in money market accounts and a \$28.0 million increase in time deposit accounts, partially offset by a \$15.2 million decrease in savings accounts, a \$14.3 million decrease in non-interest bearing checking accounts and a \$6.0 million decrease in interest bearing checking accounts. The interest rate environment has created a highly competitive market for deposits.

The following table sets forth the deposits as a percentage of total deposits for the dates indicated:

(Dollars in thousands)	At June 30,			
	2023		2022	
	Amount	Percent of Total Deposits	Amount	Percent of Total Deposits
Non-interest bearing checking	\$ 60,872	9.58 %	\$ 75,758	12.50 %
Interest bearing checking	116,700	18.37	122,675	20.22
Money market accounts	208,020	32.75	171,316	28.24
Savings and club accounts	90,291	14.21	105,507	17.39
Certificates of deposit	159,377	25.09	131,361	21.65
Total	<u>\$ 635,260</u>	<u>100.00 %</u>	<u>\$ 606,617</u>	<u>100.00 %</u>

The following table sets forth the maturity of the portion of our certificates of deposit that are in excess of the \$250,000 Federal Deposit Insurance Corporation insurance limit as of June 30, 2023:

June 30, 2023 (Dollars in thousands)	Certificates of Deposit
<b>Maturity Period:</b>	
Three months or less	\$ 4,064
Over three through six months	8,483
Over six through twelve months	1,622
Over twelve months	3,638
Total	<u>\$ 17,807</u>

Excluding intercompany deposits, the estimated amount of total uninsured and uncollateralized deposits as of June 30, 2023 was \$138.0 million compared to \$134.1 million as of June 30, 2022.

The following table sets forth the deposit activity for the periods indicated:

(Dollars in thousands)	Year Ended June 30,	
	2023	2022
Beginning balance	\$ 606,617	\$ 553,103
Increase before interest credited	23,186	51,767
Interest credited	5,457	1,747
Net increase in deposits	28,643	53,514
Ending balance	<u>\$ 635,260</u>	<u>\$ 606,617</u>

The following table sets forth the average balances and weighted average rates of our deposit products for the periods indicated:

	Year Ended June 30,					
	2023			2022		
	Average Balance	Weighted Percent	Average Cost	Average Balance	Weighted Percent	Average Cost
Non-interest bearing checking accounts	\$ 61,144	9.90 %	— %	\$ 55,806	9.53 %	— %
Interest-bearing checking accounts	127,294	20.61	0.40	115,753	19.77	0.06
Money market deposit accounts	190,421	30.82	1.61	166,195	28.39	0.34
Savings and club accounts	97,831	15.84	0.08	104,010	17.76	0.07
Certificates of deposit	141,047	22.83	1.28	143,756	24.55	0.72
Total	<u>\$ 617,737</u>	<u>100.00 %</u>	<u>0.88 %</u>	<u>\$ 585,520</u>	<u>100.00 %</u>	<u>0.30 %</u>

### ***Borrowings***

Borrowings decreased \$31.0 million, or 47.7%, to \$34.0 million at June 30, 2023, from \$65.0 million at June 30, 2022. During the year ended June 30, 2023, the Company used cash from the increase in deposits to pay off a portion of short-term borrowings.

The following table sets forth the outstanding borrowings and weighted averages at the dates or for the periods indicated. We did not have any outstanding borrowings other than Federal Home Loan Bank advances for any of the periods presented.

(Dollars in thousands)	At or For the Year Ended June 30,	
	2023	2022
Maximum amount outstanding at any month-end during period:		
Federal Home Loan Bank advances	\$ 65,000	\$ 65,000
Atlantic Community Bankers Bank overnight borrowings	—	—
Average outstanding balance during period:		
Federal Home Loan Bank advances	\$ 46,938	\$ 31,644
Atlantic Community Bankers Bank overnight borrowings	4	20
Weighted average interest rate during period:		
Federal Home Loan Bank advances	3.96 %	2.43 %
Atlantic Community Bankers Bank overnight borrowings	4.55	0.50
Balance outstanding at end of period:		
Federal Home Loan Bank advances	\$ 34,000	\$ 65,000
Atlantic Community Bankers Bank overnight borrowings	—	—
Weighted average interest rate at end of period:		
Federal Home Loan Bank advances	5.35 %	1.73 %
Atlantic Community Bankers Bank overnight borrowings	—	—

### Stockholders' Equity

Stockholders' equity decreased \$31.6 million, or 16.4%, to \$160.7 million at June 30, 2023, from \$192.3 million at June 30, 2022. The decrease in stockholders' equity was primarily due to the repurchase of 2,429,765 shares at a total cost of \$27.1 million during the year ended June 30, 2023, as well as the payment of a \$0.03 per share quarterly cash dividend in August 2022, November 2022, February 2023 and May 2023 totaling \$1.6 million, and an \$8.0 million increase in the accumulated other comprehensive loss component of equity related to the unrealized loss on available for sale securities. These decreases to stockholders' equity were partially offset by \$2.8 million of net income during the year ended June 30, 2023.

### Results of Operations for the Years Ended June 30, 2023 and 2022

#### Summary

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

(Dollars in thousands)	Year Ended June 30,			
	2023	2022	Change 2023/2022	
			\$	%
Net interest income	\$ 23,071	\$ 22,984	\$ 87	0.38 %
Provision (recovery) for loan losses	—	(20)	20	100.00
Non-interest income	1,950	2,075	(125)	(6.02)
Non-interest expenses	22,019	20,274	1,745	8.61
Income tax expense	200	568	(368)	(64.79)
Net income	<u>\$ 2,802</u>	<u>\$ 4,237</u>	<u>\$ (1,435)</u>	<u>(33.87)</u>
Return on average assets (annualized)	0.33 %	0.51 %		
Core return on average assets <sup>(1)</sup> (non-GAAP) (annualized)	0.32	0.50		
Return on average equity (annualized)	1.56	2.00		
Core return on average equity <sup>(1)</sup> (non-GAAP) (annualized)	1.54	1.98		

(1) Core return on average assets and core return on average equity are non-GAAP financial measures. For a reconciliation of these non-GAAP measures, see "—Non-GAAP Financial Information."

## General

We recorded net income of \$2.8 million, or \$0.22 per basic and diluted share, for the year ended June 30, 2023 compared to net income of \$4.2 million, or \$0.30 per basic and diluted share, for the year ended June 30, 2022. We recorded core net income<sup>(1)</sup> of \$2.8 million, or \$0.22 per basic and diluted share, for the year ended June 30, 2023 compared to core net income<sup>(1)</sup> of \$4.2 million, or \$0.29 per basic and diluted share, for the year ended June 30, 2022.

## Net Interest Income

For the year ended June 30, 2023, net interest income was \$23.1 million, an increase of \$87 thousand, or 0.4%, from the year ended June 30, 2022. The increase in net interest income was primarily due to an increase in interest income on loans and investments, partially offset by an increase in interest expense on deposits and borrowings. The net interest margin measured 2.97% for the year ended June 30, 2023, compared to 3.02% for the year ended June 30, 2022. The decrease in the net interest margin during the year ended June 30, 2023, compared to the same period in 2022 was primarily due to an increase in the average balance of deposits and borrowings and the rise in interest rates that caused an increase in the cost of borrowings and deposits, partially offset by an improvement in asset mix during the year ended June 30, 2023, including a \$62.4 million decrease in the average balance of other interest-earnings assets, including cash, and a \$22.6 million increase in the average balance of net loans.

## Provision for Loan Losses

During the year ended June 30, 2023, we did not record a provision for loan losses due to improved asset quality metrics and continued low levels of net charge-offs and non-performing assets. During the year ended June 30, 2023, we received payments from borrowers for full satisfaction of four non-performing loans with a total carrying value of \$3.4 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 June 30, 2023 from 0.74% as of June 30, 2022. The provision for loan losses was a \$20 thousand net recovery during the year ended June 30, 2022. The credit to the provision for the year ended June 30, 2022 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 0.69% of total loans and 0.86% of total loans, excluding acquired loans<sup>(2)</sup>, as of June 30, 2023, compared to \$3.4 million, or 0.71% of total loans and 0.94% of total loans, excluding acquired loans<sup>(2)</sup>, as of June 30, 2022. As of June 30, 2023, 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 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)	Year Ended June 30,	
	2023	2022
Service fees	\$ 843	\$ 863
Net gain on sale of other real estate owned	—	18
Net gain on sale of securities	—	62
Earnings on bank-owned life insurance	1,106	1,038
Net gain on disposition of premises and equipment	398	(7)
Unrealized loss on equity securities	(629)	(242)
Other	232	343
Total	<u>\$ 1,950</u>	<u>\$ 2,075</u>

<sup>(1)</sup> Core net income is a non-GAAP financial measure. For a reconciliation of this non-GAAP measure, see “—Non-GAAP Financial Information.”

<sup>(2)</sup> The ratio of the allowance for loan losses to total loans, excluding acquired loans, is a non-GAAP financial measure. For a reconciliation of this non-GAAP measure, see “—Non-GAAP Financial Information.”



For the year ended June 30, 2023, non-interest income totaled \$2.0 million, a decrease of \$125 thousand, or 6.0%, from the year ended June 30, 2022. The decrease was primarily due to a \$387 thousand increase in the unrealized loss on equity securities and a decrease in rental income consistent with the sale of properties during the fiscal year ended June 30, 2023. These decreases to non-interest income were partially offset by a \$398 thousand net gain on the sale of premises and equipment primarily associated with the sale of three properties securities with a total carrying value of \$1.9 million recorded during the year ended June 30, 2023.

### ***Non-Interest Expense***

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

<b>(Dollars in thousands)</b>	<b>Year Ended June 30,</b>	
	<b>2023</b>	<b>2022</b>
Salaries and employee benefits	\$ 12,785	\$ 11,482
Occupancy and equipment	3,258	2,759
Data processing	1,836	1,744
Professional fees	906	1,154
Amortization of intangible assets	193	225
Gain on lease abandonment	—	(117)
Prepayment penalties	—	460
Other	3,041	2,567
<b>Total</b>	<b>\$ 22,019</b>	<b>\$ 20,274</b>

For the year ended June 30, 2023, non-interest expense totaled \$22.0 million, an increase of \$1.7 million, or 8.6%, from the year ended June 30, 2022. The increase in non-interest expense was primarily due to a \$1.3 million increase in salaries and employee benefits due to annual merit increases and a \$1.2 million 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 \$499 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 quarter ended December 31, 2021. In addition, the increase in non-interest expense was due to a \$414 thousand increase in director stock-based compensation expense associated with the Company's 2022 Equity Incentive Plan. These increases to non-interest expense were partially offset by \$460 thousand of prepayment penalties associated with the prepayment of advances from the FHLB of Pittsburgh during the year ended June 30, 2022 and a \$248 thousand decrease in professional fees primarily due to a decrease in legal expenses.

### ***Income Taxes***

For the year ended June 30, 2023, the Company recorded a provision for income taxes of \$200 thousand, reflecting an effective tax rate of 6.7%, compared to a provision for income taxes of \$568 thousand, reflecting an effective tax rate of 11.8%, for the same period in 2022. The provision for income taxes and the effective tax rate for the year ended June 30, 2023 and 2022 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 year ended June 30, 2023 and 2022, respectively.

## Average Balances and Yields

The following tables present 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)	Year Ended June 30,					
	2023			2022		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
<b>Interest-earning assets:</b>						
Loans <sup>(1)</sup>	\$ 483,802	\$ 22,942	4.74 %	\$ 461,160	\$ 20,693	4.49 %
Investment securities <sup>(2)</sup>	278,373	6,780	2.44	221,885	4,555	2.05
Other interest-earning assets	15,515	664	4.28	77,902	250	0.32
Total interest-earning assets	777,690	30,386	3.91	760,947	25,498	3.35
Non-interest-earning assets	82,589			77,017		
Total assets	<u>\$ 860,279</u>			<u>\$ 837,964</u>		
<b>Interest-bearing liabilities:</b>						
Interest-bearing checking accounts	\$ 127,294	515	0.40 %	\$ 115,753	73	0.06 %
Money market deposit accounts	190,421	3,057	1.61	166,195	562	0.34
Savings and club accounts	97,831	78	0.08	104,010	72	0.07
Certificates of deposit	141,047	1,806	1.28	143,756	1,037	0.72
Total interest-bearing deposits	556,593	5,456	0.98	529,714	1,744	0.33
FHLB advances and other borrowings	46,942	1,859	3.96	31,664	770	2.43
Total interest-bearing liabilities	603,535	7,315	1.21	561,378	2,514	0.45
<b>Non-interest-bearing liabilities:</b>						
Non-interest-bearing deposits	61,144			55,806		
Other non-interest-bearing liabilities	15,758			8,489		
Total liabilities	680,437			625,673		
Total stockholders' equity	179,842			212,291		
Total liabilities and equity	<u>\$ 860,279</u>			<u>\$ 837,964</u>		
Net interest income		<u>\$ 23,071</u>			<u>\$ 22,984</u>	
Interest rate spread <sup>(3)</sup>		2.70 %			2.90 %	
Net interest-earning assets <sup>(4)</sup>	\$ 174,155			\$ 199,569		
Net interest margin <sup>(5)</sup>		2.97 %			3.02 %	
Ratio of interest-earning assets to interest-bearing liabilities	128.86%			135.55%		

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

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

(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 the changes due to volume.

(Dollars in thousands)	Year Ended 6/30/2023 Compared to Year Ended 6/30/2022 Increase (Decrease)		
	Due to		Total
	Volume	Rate	
<b>Interest income:</b>			
Loans	\$ 648	\$ 1,601	\$ 2,249
Investment securities	1,967	258	2,225
Other interest-earning assets	(351)	765	414
Total interest-earning assets	2,264	2,624	4,888
<b>Interest expense:</b>			
Interest-bearing checking accounts	7	435	442
Money market deposit accounts	69	2,426	2,495
Savings and club accounts	(4)	10	6
Certificates of deposit	(20)	789	769
Total interest-bearing deposits	52	3,660	3,712
FHLB advances and other borrowings	372	717	1,089
Total interest-bearing liabilities	424	4,377	4,801
Net change in net interest income	\$ 1,840	\$ (1,753)	\$ 87

## Risk Management

### General

Managing risk is an essential part of successfully managing a financial institution. Our most prominent risk exposures are credit risk, interest rate risk and market risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates. Market risk arises from fluctuations in interest rates that may result in changes in the values of financial instruments, such as available for sale securities that are accounted for at fair value. Other risks that we face are operational risk, liquidity risk and reputation risk. Operational risk includes risks related to fraud, regulatory compliance, processing errors, technology, and disaster recovery. Liquidity risk is the possible inability to fund obligations to depositors, lenders or borrowers. Reputation risk is the risk that negative publicity or press, whether true or not, could cause a decline in our customer base or revenue.

### Management of Credit Risk

The objective of our credit risk management strategy is to quantify and manage credit risk and to limit the risk of loss resulting from an individual customer default. Our credit risk management strategy focuses on conservatism, diversification within the loan portfolio and significant levels of monitoring. Our lending practices include conservative exposure limits and underwriting, extensive documentation and collection standards. Our credit risk management strategy also emphasizes diversification on both an industry and customer level as well as regular credit examinations and management reviews of large credit exposures and credits experiencing deterioration of credit quality.

### Classified Assets

Federal Deposit Insurance Corporation regulations and our Asset Classification Policy provide that loans and other assets considered to be of lesser quality be classified as “substandard,” “doubtful” or “loss” assets. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified as “substandard,” with the added characteristic that the

weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. We classify an asset as “special mention” if the asset has a potential weakness that warrants management’s escalated level of attention. While such assets are not impaired, management has concluded that if the potential weakness in the asset is not addressed, the value of the asset may deteriorate, adversely affecting the repayment of the asset. Loans classified as impaired for financial reporting purposes are generally those loans classified as substandard or doubtful for regulatory reporting purposes.

An insured institution is required to establish allowances for loan losses in an amount deemed prudent by management for loans classified as substandard or doubtful, as well as for other problem loans. General allowances represent loss allowances which have been established to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as “loss,” it is required to charge off such amounts. An institution’s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking and Securities.

The following table sets forth information with respect to our non-performing assets at the dates indicated.

(Dollars in thousands)	At June 30,	
	2023	2022
<b>Non-accrual loans:</b>		
Residential real estate loans:		
One- to four-family	\$ 2,090	\$ 4,781
Home equity and HELOCs	—	341
Residential construction	—	—
Total residential real estate loans	2,090	5,122
Commercial real estate loans:		
One- to four-family investor	832	106
Multi-family	251	291
Commercial non-residential	778	875
Commercial construction and land	—	—
Total commercial real estate loans	1,861	1,272
Commercial loans	—	—
Consumer loans	82	117
Total non-accrual loans	4,033	6,511
<b>Accruing loans past due 90 days or more:</b>		
Residential real estate loans:		
One- to four-family	—	—
Home equity and HELOCs	—	—
Residential construction	—	—
Total residential real estate loans	—	—
Commercial real estate loans:		
Multi-family	—	—
Commercial non-residential	—	—
Commercial construction and land.	—	—
Total commercial real estate loans	—	—
Commercial loans	—	—
Consumer loans	—	—
Total accruing loans past due 90 days or more	—	—
Total non-performing loans	\$ 4,033	\$ 6,511
Real estate owned	—	—
Total non-performing assets	\$ 4,033	\$ 6,511
Total non-performing loans to total loans	0.84 %	1.36 %
Total non-performing assets to total assets	0.49	0.74

During the year ended June 30, 2023, nonperforming assets decreased 35.9% to \$4.2 million from \$6.5 million as of June 30, 2022. During the year ended June 30, 2023, we received payments from borrowers for full satisfaction of four non-performing loans with a total carrying value of \$3.4 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 June 30, 2023 from 0.74% as of June 30, 2022.

Total nonperforming loans consisted of 30 loans to 27 unrelated borrowers as of June 30, 2023, as compared to 37 loans to 36 unrelated borrowers at June 30, 2022. Interest income on non-performing loans would have increased by approximately \$192 thousand and \$275 thousand during the years ended June 30, 2023 and 2022, respectively, if these loans had performed in accordance with their terms during the respective periods. There were no loans greater than 90 days delinquent that remained on accrual status as of June 30, 2023 and 2022.

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 troubled debt restructurings ("TDRs") during the years ended June 30, 2023 and 2022. TDRs are initially considered to be nonperforming and are placed on non-accrual, except for those that have established a sufficient performance history (generally a minimum of six consecutive months of performance) under the terms of the restructured loan.

Impaired loans at June 30, 2023 and 2022 included \$182 thousand and \$593 thousand of performing loans whose terms have been modified in troubled debt restructurings, respectively. 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 June 30, 2023, none of our 30 substandard loans with an aggregate balance of \$4.0 million were considered TDRs and were included in nonperforming assets. At June 30, 2022, none of our 38 substandard loans with an aggregate balance of \$6.5 million were considered TDRs and were included in nonperforming assets.

The following table provides information about delinquencies in our loan portfolio at the dates indicated:

(Dollars in thousands)	At June 30,					
	2023			2022		
	Days Past Due			Days Past Due		
	30-59	60-89	90 or more	30-59	60-89	90 or more
Residential real estate loans:						
One- to four-family	\$ 290	\$ 457	\$ 567	\$ 1,528	\$ 622	\$ 2,392
Home equity and HELOCs	—	—	—	19	—	183
Residential construction	—	—	—	—	—	—
Commercial real estate loans:						
One- to four-family investor	—	752	—	—	—	—
Multi-family	251	—	—	—	—	—
Commercial non-residential	—	322	778	275	494	418
Commercial construction and land	—	—	—	—	—	—
Commercial loans	—	—	—	—	—	—
Consumer loans	—	13	—	27	—	—
Total	<u>\$ 541</u>	<u>\$ 1,544</u>	<u>\$ 1,345</u>	<u>\$ 1,849</u>	<u>\$ 1,116</u>	<u>\$ 2,993</u>

The following table summarizes classified and criticized assets of all portfolio types at the dates indicated:

(Dollars in thousands)	At June 30,	
	2023	2022
Classified loans:		
Substandard	\$ 4,033	\$ 6,549
Doubtful	—	—
Loss	—	—
Total classified loans	4,033	6,549
Special mention	1,231	1,773
Total criticized loans <sup>(1)</sup>	\$ 5,264	\$ 8,322

(1) Criticized residential real estate and consumer loans include all residential real estate and consumer loans that were on non-accrual status and all residential and consumer loans that were greater than 90 days delinquent on the dates presented.

On the basis of management's review of its assets, at June 30, 2023 and 2022, we classified \$1.2 million and \$1.8 million, respectively, of our assets as special mention and \$4.0 million and \$6.5 million, respectively, of our assets as substandard. We classified none of our assets as doubtful or loss at June 30, 2023 or at June 30, 2022. The loan portfolio is reviewed on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all classified assets constitute nonperforming assets.

### *Allowance for Loan Losses*

Our allowance for loan losses is maintained at a level necessary to absorb loan losses which are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the losses inherent in its loan portfolio and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. We utilize a two-tier approach: (1) identification of impaired loans and establishment of specific loss allowances on such loans; and (2) establishment of general valuation allowances on the remainder of our loan portfolio. We maintain a loan review system, which provides for periodic reviews of our loan portfolio, which increases the probability that we will be able to obtain the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Loan impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The interest on these impaired loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Should full collection of principle be expected, cash collected on nonaccrual loans can be recognized as interest income.

The general component consists of quantitative and qualitative factors and covers non-impaired loans. The quantitative factors are based on historical loss experience adjusted for qualitative factors. For all loans other than performing credits acquired in a business combination, the historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by us or industry loss history experienced by peer banks in our market area using the most recent twelve quarters.

This actual and industry loss experience is supplemented with other qualitative factors based on the risks present for each portfolio segment. These qualitative factors include consideration of the following:

- levels of trends in delinquencies and impaired loans;
- levels of trends in charge-offs and recoveries;
- trends in volume and terms of loans;
- effects of any changes in risk selection and underwriting standards;
- other changes in lending policies, procedures and practices;
- experience, ability and depth of lending management and other relevant staff;

- national and local economic trends and conditions;
- industry conditions; and
- effects of changes in credit concentrations.

The allowance is increased through provisions charged against current earnings and offset by recoveries of previously charged-off loans. Loans which are determined to be uncollectible are charged against the allowance. Management uses available information to recognize probable and reasonably estimable loan losses, but future loss provisions may be necessary based on changing economic conditions and other factors. The allowance for loan losses as of June 30, 2023 and 2022 was maintained at a level that represents management's best estimate of losses inherent in the loan portfolio at such dates, and such losses were both probable and reasonably estimable. 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.

Each quarter, management evaluates the total balance of the allowance for loan losses based on several factors that are not loan specific but are reflective of the inherent losses in the loan portfolio. This process includes, but is not limited to, a periodic review of loan collectability in light of historical experience, the nature and volume of loan activity, conditions that may affect the ability of the borrower to repay, underlying value of collateral, if applicable, and economic conditions in our market areas. First, we group loans by delinquency status. All loans 90 days or more delinquent and all loans classified as substandard or doubtful are evaluated individually, based primarily on the value of the collateral securing the loan. Specific loss allowances are established as required by this analysis. All loans for which a specific loss allowance has not been assigned are segregated by type and delinquency status and a loss allowance is established by using loss experience data and management's judgment concerning other matters it considers relevant. The allowance is allocated to each category of loan based on the results of the above analysis.

This analysis process is inherently subjective, as it requires us to make estimates that are susceptible to revisions as more information becomes available. Although we believe that we have established the allowance at a level to absorb probable and estimable losses, additions may be necessary if economic or other conditions in the future differ from the current environment.

The following table sets forth the breakdown of the allowance for loan losses by loan category at the dates indicated:

(Dollars in thousands)	At June 30,					
	2023			2022		
	Amount	% of Allowance Amount to Total Allowance	% of Allowance to Loans in Category	Amount	% of Allowance Amount to Total Allowance	% of Allowance to Loans in Category
Residential real estate loans:						
One- to four-family	\$ 486	14.67 %	0.36 %	\$ 506	14.84 %	0.34 %
Home equity and HELOCs	113	3.42	0.35	113	3.32	0.35
Residential construction	214	6.46	2.35	386	11.32	2.60
Commercial real estate loans:						
One- to four-family investor	569	17.17	0.58	527	15.46	0.54
Multi-family	89	2.69	0.58	110	3.23	0.84
Commercial non-residential	1,420	42.85	0.90	1,451	42.56	0.91
Commercial construction and land	281	8.48	1.80	166	4.87	3.35
Commercial loans	82	2.48	0.53	100	2.93	1.06
Consumer loans	59	1.78	2.95	50	1.47	2.23
Total allowance for loan losses	\$ 3,313	100.00 %	0.69 %	\$ 3,409	100.00 %	0.71 %

The following table sets forth an analysis of the activity in the allowance for loan losses for the periods indicated:

(Dollars in thousands)	At or For the Year Ended June 30,	
	2023	2022
Allowance at beginning of period	\$ 3,409	\$ 3,613
(Recovery) provision for loan losses	—	(20)
Charge-offs:		
Residential real estate loans:		
One- to four-family	(79)	(154)
Home equity and HELOCs	—	—
Residential construction	—	—
Total residential real estate loans	(79)	(154)
Commercial real estate loans:		
One- to four-family investor	—	(55)
Multi-family	—	—
Commercial non-residential	—	—
Commercial construction and land	—	—
Total commercial real estate loans	—	(55)
Commercial loans	—	—
Consumer loans	(32)	(29)
Total charge-offs	(111)	(238)
Recoveries:		
Residential real estate loans:		
One- to four-family	—	—
Home equity and HELOCs	—	8
Residential construction	—	—
Total residential real estate loans	—	8
Commercial real estate loans:		
One- to four-family investor	—	42
Multi-family	—	—
Commercial non-residential	—	—
Commercial construction and land	—	—
Total commercial real estate loans	—	42
Commercial loans	—	—
Consumer loans	15	4
Total recoveries	15	54
Net (charge-offs) recoveries	(96)	(184)
Allowance at end of period	\$ 3,313	\$ 3,409
Total loans <sup>(1)</sup>	\$ 480,856	\$ 478,920
Average loans outstanding	483,802	461,160
Ratio of allowance to non-accruing loans	82.15 %	52.36 %
Ratio of allowance to total loans	0.69 %	0.71 %
Ratio of net (charge-offs) recoveries to average loans		
One- to four-family	(0.06)%	(0.10)%
Home equity and HELOCs	— %	0.02 %
Residential construction	— %	— %
One- to four-family investor	— %	(0.01)%
Multi-family	— %	— %
Commercial non-residential	— %	- %
Commercial construction and land	— %	— %
Commercial loans	— %	— %
Consumer loans	(0.80)%	(0.91)%
Total ratio of net (charge-offs) recoveries to average loans	(0.02)%	(0.04)%

The allowance for loan losses decreased \$96 thousand to \$3.3 million at June 30, 2023 from \$3.4 million at June 30, 2022. During the year ended June 30, 2023, the changes in the provision for loan losses for each category of loan type were primarily due to fluctuations in the outstanding balance of each category of loans collectively evaluated for impairment. The overall decrease in the allowance can be primarily attributed to improved asset quality metrics, including continued low levels of net charge-offs and non-performing assets.

The allowance for loan losses decreased \$204 thousand to \$3.4 million at June 30, 2022 from \$3.6 million at June 30, 2021. During the year ended June 30, 2022, the changes in the provision for loan losses for each category of loan type were primarily due to fluctuations in the outstanding balance of each category of loans collectively evaluated for impairment. The overall decrease in the allowance can be primarily attributed to stable asset quality metrics, including continued low levels of net charge-offs and non-performing assets, as well as a reduction of the adjustments to qualitative factors related to the COVID-19 pandemic.



Impaired loans were \$3.3 million and \$5.3 million with no specific valuation allowance necessary at June 30, 2023 and 2022, respectively. The \$3.3 million and \$5.3 million of impaired loans at June 30, 2023 and 2022, respectively, do not include \$72 thousand and \$156 thousand, respectively, of loans acquired with deteriorated credit quality, which have been recorded at their fair value at acquisition under FASB ASC 310-30.

## Interest Rate Risk Management

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 results at June 30, 2023 indicate a level of risk within the parameters of our model. Our management believes that the June 30, 2023 results indicate 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 Director 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 June 30, 2023. 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 multifamily 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 June 30, 2023, the Company'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	(11.64)%	\$ 169,560	(6.72)%
+100	(5.76)	175,500	(3.45)
0	—	181,774	—
-100	3.82	186,084	2.37
-200	7.39	189,927	4.49

As of June 30, 2023, based on the scenarios above, net interest income would decrease by approximately 5.76% to 11.64% in a rising interest rate environment. One-year net interest income would increase by approximately 3.82% and 7.39% in a declining interest rate environment.

Economic value at risk would be negatively impacted by a rise in interest rates and positively impacted by a decline in interest rates. We have established an interest rate floor of zero percent for measuring interest rate risk.

### 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 40.8% as of June 30, 2023 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 and other liabilities. 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.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included with the Consolidated Financial Statements.

Our primary investing activities are the origination of one- to four-family, non-residential and multi-family real estate and other loans, including loans originated for sale, and the purchase of investment securities. For the year ended June 30, 2023, our net increase in loans (originations in excess of principal payments and payoffs) totaled \$2.0 million compared to \$14.3 million for the year ended June 30, 2022. For the years ended June 30, 2023 and 2022, we did not purchase any loans. We did not sell any loans during the year ended June 30, 2023. We sold two loans for \$274 thousand during the year ended June 30, 2022. Cash received from the sales, calls, maturities and pay-downs on securities totaled \$19.0 million and \$23.0 million for the years ended June 30, 2023 and 2022, respectively. We purchased \$9.8 million and \$207.4 million of securities during the years ended June 30, 2023 and 2022, respectively.

Deposit flows are generally affected by the level of interest rates we offer, the interest rates and products offered by local competitors, and other factors. Total deposits increased \$28.6 million during the year ended June 30, 2023 primarily due to an increase in money market accounts and non-core time deposits. The significant rise in interest rates during the Company's fiscal year ended June 30, 2023

created a highly competitive market for deposits and created a shift in our depositors' preference to these products. Total deposits increased \$53.5 million during the year ended June 30, 2022 primarily due to an \$82.5 million increase in core deposits primarily due to branch expansion, partially offset by a \$29.0 million decrease in non-core time deposits. The decrease in time deposits was consistent with the planned run-off associated with our re-pricing of higher-cost, non-relationship-based deposit accounts.

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. 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 credit-worthiness have been met. We had an available borrowing limit of \$295.0 million and \$292.7 million from the FHLB of Pittsburgh as of June 30, 2023 and 2022, respectively. There were \$34.0 million and \$65.0 million, respectively, of FHLB advances outstanding at June 30, 2023 and 2022, respectively.

At June 30, 2023, we had outstanding commitments to originate loans of \$6.9 million, unfunded commitments under lines of credit of \$75.4 million and \$86 thousand of standby letters of credit. At June 30, 2023, certificates of deposit scheduled to mature in less than one year totaled \$121.7 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 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.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its stockholders, interest and principal on outstanding debt, if any, and for stock repurchases under the Company's previously announced stock repurchase programs. The Company's primary source of income is dividends received from the Bank. At June 30, 2023, the Company had liquid assets of \$15.7 million.

#### **Off-Balance Sheet Arrangements**

For the years ended June 30, 2023 and 2022, we did not engage in any off-balance sheet transactions reasonably likely to have a material adverse effect on our financial condition, results of operations or cash-flows.

#### **Recent Accounting Pronouncements**

For a discussion of the impact of recent accounting pronouncements, see Note 2 to the notes to the Consolidated Financial Statements of the Company.

#### **Impact of Inflation and Changing Prices**

The consolidated financial statements and related notes of the Company have been prepared in accordance with GAAP, which generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

#### **Non-GAAP Financial Information**

We prepare our financial statements in accordance with U.S. GAAP. To supplement our financial information presented in accordance with U.S. GAAP, we provide 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.

## Core Net Income, Core Return on Average Assets, and Core Return on Average Equity

Core net income excludes certain pre-tax adjustments and the tax impact of such adjustments, and income tax benefits. Core return on average assets and core return on average equity represent our core net income divided by average assets and average equity, respectively. Management believes that the presentation of these non-GAAP measures assists investors in understanding the impact of non-recurring items on our net income and return on average assets and our return on average equity ratios. The following table provides a reconciliation of our core net income and our core return on average assets and core return on average equity ratios for each of the periods where these non-GAAP measures are presented:

	For the Year Ended June 30,	
	2023	2022
<b>Calculation of core net income, core return on average assets, and core return on average equity</b>		
Net income (GAAP)	\$ 2,802	\$ 4,237
Less pre-tax adjustments:		
Net gain on sale of other real estate owned	-	(18)
Net gain on sale of securities	-	(62)
Net (gain) loss on disposition of premises and equipment	(398)	7
Unrealized loss on equity securities	629	242
Gain on lease abandonment	-	(117)
Prepayment penalties	-	460
Real estate tax adjustment	-	(192)
Tax impact of pre-tax adjustments	(53)	(74)
Income tax benefit adjustment	(211)	(288)
Core net income (non-GAAP)	<u>\$ 2,769</u>	<u>\$ 4,195</u>
Basic average common shares outstanding	12,661,882	14,255,901
Diluted average common shares outstanding	12,692,614	14,259,369
Basic and diluted earnings per share (GAAP)	\$ 0.22	\$ 0.30
Basic and diluted core earnings per share (non-GAAP)	\$ 0.22	\$ 0.29
Average assets	\$ 860,279	\$ 837,964
Return on average assets (GAAP)	0.33 %	0.51 %
Core return on average assets (non-GAAP)	0.32 %	0.50 %
Average equity	\$ 179,842	\$ 212,291
Return on average equity (GAAP)	1.56 %	2.00 %
Core return on average equity (non-GAAP)	1.54 %	1.98 %

## Allowance for Loan Losses to Total Loans (Excluding Acquired Loans)

Allowance for loan losses to total loans (excluding acquired loans) represents our allowance for loan losses divided by our adjusted loan balance (adjusted by the exclusion of acquired loans). Management believes that the presentation of this non-GAAP measure assists investors in understanding the impact of acquired loans on our allowance for loan losses to total loans ratio. The following table provides a reconciliation of our allowance for loan losses to total loans ratio (excluding acquired loans) for each of the periods where this non-GAAP measure is presented:

	For the Year Ended June 30,	
	2023	2022
<b>Calculation of the ratio of the allowance for loan losses to total loans, excluding acquired loans:</b>		
Gross loans receivable	\$ 480,856	\$ 478,920
Less: Loans acquired in a business combination	<u>97,592</u>	<u>118,111</u>
Gross loans receivable, excluding acquired loans (non-GAAP)	\$ 383,264	\$ 360,809
Allowance for loan losses	\$ 3,313	\$ 3,409
Allowance for loan losses to total loans (GAAP)	0.69 %	0.71 %
Allowance for loan losses to total loans, excluding acquired loans (non-GAAP)	0.86 %	0.94 %

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information required by this item is incorporated herein by reference to the section captioned “*Management’s Discussion and Analysis of Results of Operations and Financial Condition.*”

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information required by this item is included herein beginning on page F-1.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure 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.

### **Evulation of Internal Control Over Financial Reporting**

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company’s internal control over financial reporting as of June 30, 2023, utilizing the framework established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company’s internal control over financial reporting as of June 30, 2023 were effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the Company’s financial statements are prevented or timely detected.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This Annual Report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this Annual Report.

## **Changes in Internal Control Over Financial Reporting**

During the quarter or year ended June 30, 2023, 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.

## **ITEM 9B. OTHER INFORMATION**

None.

## **ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not applicable.

## **PART III**

## **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The Information required by this Item is incorporated herein by reference from the discussion responsive thereto under "Item 1: Business—Executive Officers" in this Annual Report on Form 10-K and under the headings "*Proposal 1—Election of Directors*," and "*Corporate Governance*" in our definitive proxy statement for our 2023 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year covered by this Annual Report on Form 10-K (the "Proxy Statement").

## **Compliance with Section 16(a) of the Securities Exchange Act of 1934**

For information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934, the section captioned "*Section 16(a) Beneficial Ownership Reporting Compliance*" in the Proxy Statement.

## **Code of Ethics and Business Conduct**

The Company has adopted a Code of Ethics and Business Conduct that is designed to ensure that the Company's directors and employees meet the highest standards of ethical conduct. The Code of Ethics and Business Conduct, which applies to all employees and directors, addresses conflicts of interest, the treatment of confidential information, general employee conduct and compliance with applicable laws, rules and regulations. In addition, the Code of Ethics and Business Conduct is designed to deter wrongdoing and promote honest and ethical conduct, the avoidance of conflicts of interest, full and accurate disclosure and compliance with all applicable laws, rules and regulations. A copy of the Code of Ethics and Business Conduct is available in the Corporate Governance portion of the Investor Relations section of our website ([www.williamspenn.bank](http://www.williamspenn.bank)).

## **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated herein by reference from the discussion responsive thereto under the headings "*Executive Compensation*" and "*Director Compensation*" in the Proxy Statement.

## **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

## **Security Ownership of Certain Beneficial Owners and Management**

Information required by this item is incorporated herein by reference to the section captioned "*Stock Ownership*" in the Proxy Statement.

## **Changes in Control**

Management of the Company knows of no arrangements, including any pledge by any person or securities of the Company the operation of which may at a subsequent date result in a change in control of the registrant.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item is incorporated herein by reference from the discussion responsive thereto under the heading “Policies and Procedures for Approval of Related Persons Transactions,” “Transactions with Related Persons” and “Corporate Governance” in the Proxy Statement.

## **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item is incorporated herein by reference from the discussion responsive thereto under the heading “Proposal 2—Ratification of Appointment of Independent Registered Public Accounting Firm” in the Proxy Statement.

### **PART IV**

## **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (1) The financial statements required in response to this item are incorporated herein by reference from Item 8 of this Annual Report on Form 10-K.
- (2) All financial statement schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.
- (3) Exhibits

<b>Exhibit No.</b>	<b>Description</b>
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))
4.1	Specimen Stock Certificate of William Penn Bancorporation (Incorporated by reference to Exhibit 4.0 to William Penn Bancorporation’s Registration Statement on Form S-1 (Registration No. 333-249492))
4.2	Description of Securities Registered Pursuant to Section 12 of the Securities and Exchange Act of 1934
10.1	Amended and Restated Employment Agreement by and between William Penn Bancorporation, William Penn Bank and Kenneth J. Stephon* (Incorporated by reference to Exhibit 10.1 to William Penn Bancorporation’s Annual Report on Form 10-K for the Year Ended June 30, 2022 filed with the SEC on September 8, 2022 (File No. 001-40255))
10.2	Change in Control Agreement by and between William Penn Bancorporation, William Penn Bank and Jeannine Cimino* (Incorporated by reference to Exhibit 10.2 to William Penn Bancorporation’s Annual Report on Form 10-K for the Year Ended June 30, 2022 filed with the SEC on September 8, 2022 (File No. 001-40255))
10.3	Change in Control Agreement by and between William Penn Bancorporation, William Penn Bank and Amy Hannigan* (Incorporated by reference to Exhibit 10.3 to William Penn Bancorporation’s Annual Report on Form 10-K for the Year Ended June 30, 2022 filed with the SEC on September 8, 2022 (File No. 001-40255))
10.4	Change in Control Agreement by and between William Penn Bancorporation, William Penn Bank and Jonathan Logan* (Incorporated by reference to Exhibit 10.4 to William Penn Bancorporation’s Annual Report on Form 10-K for the Year Ended June 30, 2022 filed with the SEC on September 8, 2022 (File No. 001-40255))
10.5	Change in Control Agreement by and between William Penn Bancorporation, William Penn Bank and Alan Turner* (Incorporated by reference to Exhibit 10.5 to William Penn Bancorporation’s Annual Report on Form 10-K for the Year Ended June 30, 2022 filed with the SEC on September 8, 2022 (File No. 001-40255))

- 10.6 William Penn Bank Deferred Compensation Plan for Directors (Incorporated by reference to Exhibit 10.6 to William Penn Bancorporation's Registration Statement on Form S-1 (Registration No. 333-249492)) \*
- 10.7 William Penn Bank Directors Consultation and Retirement Plan (Incorporated by reference to Exhibit 10.7 to William Penn Bancorporation's Registration Statement on Form S-1 (Registration No. 333-249492)) \*
- 10.8 William Penn Bancorporation 2022 Equity Incentive Plan (Incorporated by reference to Appendix A to William Penn Bancorporation's Definitive Proxy Materials on Schedule 14A filed with the SEC on March 25, 2022 (File No. 001-40255))
- 10.9 Agreement by and between William Penn, MHC, William Penn Bancorp, Inc., William Penn Bank, William Penn Bancorporation (formerly WPH Holding Company) and Tyndall Capital Partners LP and Jeffrey S. Halis (Incorporated by reference to Exhibit 10.8 to William Penn Bancorporation's Registration Statement on Form S-1 (Registration No. 333-249492))
- 21.0 List of Subsidiaries
- 23.1 Consent of S.R. Snodgrass, P.C.
- 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 Annual Report to Stockholders on Form 10-K for the year ended June 30, 2023, 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).

\* Management contract or compensation plan or arrangement.

## **ITEM 16. FORM 10-K SUMMARY**

None.





## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of William Penn Bancorporation

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of financial condition of William Penn Bancorporation and subsidiaries (the “Company”) as of June 30, 2023 and 2022; the related consolidated statements of income, comprehensive income (loss), changes in stockholders’ equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company, in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company’s auditor since 2008.

**/s/ S.R. Snodgrass, P.C.**

Cranberry Township, Pennsylvania  
September 7, 2023

**WILLIAM PENN BANCORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
(Dollars in thousands, except share and per share amounts)  
As of June 30, 2023 and 2022

	June 30, 2023	June 30, 2022
<b>ASSETS</b>		
Cash and due from banks	\$ 7,652	\$ 8,117
Interest bearing deposits with other banks	11,561	28,053
Federal funds sold	1,580	—
Total cash and cash equivalents	20,793	36,170
Interest-bearing time deposits	600	600
Securities available for sale	165,127	182,745
Securities held to maturity, fair value of \$82,313 and \$88,321, as of June 30, 2023 and 2022, respectively	99,690	102,135
Equity securities	1,629	2,258
Loans receivable, net of allowance for loan losses of \$3,313 and \$3,409 as of June 30, 2023 and 2022, respectively	477,543	475,511
Premises and equipment, net	9,054	11,696
Regulatory stock, at cost	2,577	3,807
Deferred income taxes	9,485	7,459
Bank-owned life insurance	40,575	39,170
Goodwill	4,858	4,858
Intangible assets	519	712
Operating lease right-of-use assets	8,931	6,843
Accrued interest receivable and other assets	6,198	5,988
<b>TOTAL ASSETS</b>	<b>\$ 847,579</b>	<b>\$ 879,952</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits	\$ 635,260	\$ 606,617
Advances from Federal Home Loan Bank	34,000	65,000
Advances from borrowers for taxes and insurance	3,227	3,356
Operating lease liabilities	9,107	6,949
Accrued interest payable and other liabilities	5,240	5,704
<b>TOTAL LIABILITIES</b>	<b>686,834</b>	<b>687,626</b>
Commitments and contingencies (note 14)	—	—
<b>STOCKHOLDERS' EQUITY</b>		
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; 12,452,921 shares issued and outstanding at June 30, 2023 and 14,896,590 shares issued and outstanding at June 30, 2022	125	149
Additional paid-in capital	134,387	159,546
Unearned common stock held by employee stock ownership plan	(9,194)	(9,599)
Retained earnings	58,805	57,587
Accumulated other comprehensive loss	(23,378)	(15,357)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>160,745</b>	<b>192,326</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 847,579</b>	<b>\$ 879,952</b>

*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 Years Ended June 30, 2023 and 2022

	Year Ended June 30,	
	2023	2022
<b>INTEREST INCOME</b>		
Loans receivable, including fees	\$ 22,942	\$ 20,693
Securities	6,780	4,555
Other	664	250
<b>Total interest income</b>	<b>30,386</b>	<b>25,498</b>
<b>INTEREST EXPENSE</b>		
Deposits	5,456	1,744
Borrowings	1,859	770
<b>Total interest expense</b>	<b>7,315</b>	<b>2,514</b>
<b>Net interest income</b>	<b>23,071</b>	<b>22,984</b>
Provision (recovery) for loan losses	—	(20)
<b>NET INTEREST INCOME AFTER PROVISION (RECOVERY) FOR LOAN LOSSES</b>	<b>23,071</b>	<b>23,004</b>
<b>OTHER INCOME</b>		
Service fees	843	863
Net gain on sale of other real estate owned	—	18
Net gain on sale of securities	—	62
Earnings on bank-owned life insurance	1,106	1,038
Unrealized loss on equity securities	(629)	(242)
Net gain (loss) on disposition of premises and equipment	398	(7)
Other	232	343
<b>Total other income</b>	<b>1,950</b>	<b>2,075</b>
<b>OTHER EXPENSES</b>		
Salaries and employee benefits	12,785	11,482
Occupancy and equipment	3,258	2,759
Data processing	1,836	1,744
Professional fees	906	1,154
Amortization of intangible assets	193	225
Gain on lease abandonment	—	(117)
Prepayment penalties	—	460
Other	3,041	2,567
<b>Total other expense</b>	<b>22,019</b>	<b>20,274</b>
<b>Income before income taxes</b>	<b>3,002</b>	<b>4,805</b>
<b>Income tax expense</b>	<b>200</b>	<b>568</b>
<b>NET INCOME</b>	<b>\$ 2,802</b>	<b>\$ 4,237</b>
Basic and diluted earnings per share	\$ 0.22	\$ 0.30

*See accompanying notes to consolidated financial statements*

**WILLIAM PENN BANCORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(Dollars in thousands)  
For the Years Ended June 30, 2023 and 2022

	<b>Year Ended June 30,</b>	
	<b>2023</b>	<b>2022</b>
Net income	\$ 2,802	\$ 4,237
Other comprehensive loss:		
Changes in net unrealized loss on securities available for sale	(10,417)	(19,800)
Tax effect	2,396	4,555
Reclassification adjustment for gain recognized in net income	—	(62)
Tax effect	—	14
Other comprehensive loss, net of tax	(8,021)	(15,293)
Comprehensive loss	<u>\$ (5,219)</u>	<u>\$ (11,056)</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 Years Ended June 30, 2023 and 2022

	Number of Shares	Common Stock	Additional Paid-in Capital	Unearned Common Stock held by ESOP	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
<b>Balance, June 30, 2021</b>	<b>15,170,566</b>	<b>\$ 152</b>	<b>\$ 168,349</b>	<b>\$ (10,004)</b>	<b>\$ 58,493</b>	<b>\$ (64)</b>	<b>\$ 216,926</b>
Net income	—	—	—	—	4,237	—	4,237
Other comprehensive loss	—	—	—	—	—	(15,293)	(15,293)
Special cash dividend paid (\$0.30 per share)	—	—	—	—	(4,288)	—	(4,288)
Regular cash dividends paid (\$0.06 per share)	—	—	—	—	(855)	—	(855)
Shares issued under the William Penn Bancorporation 2022 Equity Incentive Plan	492,960	5	(5)	—	—	—	—
Restricted stock expense	—	—	147	—	—	—	147
Stock option expense	—	—	102	—	—	—	102
Stock purchased and retired	(766,936)	(8)	(9,072)	—	—	—	(9,080)
ESOP shares committed to be released	—	—	25	405	—	—	430
<b>Balance, June 30, 2022</b>	<b>14,896,590</b>	<b>\$ 149</b>	<b>\$ 159,546</b>	<b>\$ (9,599)</b>	<b>\$ 57,587</b>	<b>\$ (15,357)</b>	<b>\$ 192,326</b>
Net income	—	—	—	—	2,802	—	2,802
Other comprehensive loss	—	—	—	—	—	(8,021)	(8,021)
Regular cash dividends paid (\$0.12 per share)	—	—	—	—	(1,584)	—	(1,584)
Shares forfeited under the William Penn Bancorporation 2022 Equity Incentive Plan	(13,904)	—	—	—	—	—	—
Restricted stock expense	—	—	1,112	—	—	—	1,112
Stock option expense	—	—	771	—	—	—	771
Stock purchased and retired, including shares withheld to cover tax liabilities	(2,429,765)	(24)	(27,032)	—	—	—	(27,056)
ESOP shares committed to be released	—	—	(10)	405	—	—	395
<b>Balance, June 30, 2023</b>	<b>12,452,921</b>	<b>\$ 125</b>	<b>\$ 134,387</b>	<b>\$ (9,194)</b>	<b>\$ 58,805</b>	<b>\$ (23,378)</b>	<b>\$ 160,745</b>

*See accompanying notes to consolidated financial statements*

**WILLIAM PENN BANCORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in thousands)  
For the Years Ended June 30, 2023 and 2022

	Year Ended June 30,	
	2023	2022
<b>Cash flows from operating activities</b>		
Net income	\$ 2,802	\$ 4,237
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (recovery) for loan losses	—	(20)
Depreciation expense	1,027	975
Other accretion, net	(362)	(1,057)
Deferred income taxes	570	683
Gain on lease abandonment	—	(117)
Net (gain) loss on disposition of premises and equipment	(398)	7
Net gain on sale of other real estate owned	—	(18)
Amortization of core deposit intangibles	193	225
Amortization of ESOP	395	430
Net gain on sale of securities	—	(62)
Unrealized loss on equity securities	629	242
Earnings on bank-owned life insurance	(1,106)	(1,038)
Stock based compensation expense	1,883	249
Other, net	(575)	124
<b>Net cash provided by operating activities</b>	<b>5,058</b>	<b>4,860</b>
<b>Cash flows from investing activities</b>		
Securities available for sale:		
Purchases	(4,778)	(97,948)
Maturities, calls and principal paydowns	11,534	13,201
Proceeds from sale of securities	—	5,008
Securities held to maturity:		
Purchases	(5,023)	(106,967)
Maturities, calls and principal paydowns	7,482	4,813
Equity securities:		
Purchases	—	(2,500)
Net increase in loans receivable	(1,602)	(13,092)
Interest bearing time deposits:		
Maturities and principal paydowns	—	1,250
Purchase of bank-owned life insurance	(300)	(2,901)
Regulatory stock purchases	(4,023)	(4,249)
Regulatory stock redemptions	5,253	3,396
Proceeds from sale of other real estate owned	—	93
Purchases of premises and equipment, net	(344)	(855)
Proceeds from the sale of premises and equipment	2,270	20
<b>Net cash provided by (used in) investing activities</b>	<b>10,469</b>	<b>(200,731)</b>
<b>Cash flows from financing activities</b>		
Net increase in deposits	28,865	53,917
Net (repayment) increase of borrowed funds	(31,000)	24,000
Repurchase of common stock	(27,056)	(9,080)
Decrease in advances from borrowers for taxes and insurance	(129)	(375)
Cash dividends	(1,584)	(5,143)
<b>Net cash (used in) provided by financing activities</b>	<b>(30,904)</b>	<b>63,319</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(15,377)</b>	<b>(132,552)</b>
<b>Cash and cash equivalents - beginning</b>	<b>36,170</b>	<b>168,722</b>
<b>Cash and cash equivalents - ending</b>	<b>\$ 20,793</b>	<b>\$ 36,170</b>
<b>Supplementary cash flows information</b>		
Interest paid	\$ 7,535	\$ 3,031
Income tax payments (refunds)	258	(666)
Transfers from loans to other real estate owned	141	—
Operating lease right-of-use asset recorded	2,701	5,202
Operating lease liabilities recorded	2,701	5,202
Premises transferred to held for sale	1,959	1,596

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, and as previously disclosed, 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 previously disclosed, 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. 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. William Penn Bancorporation 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. WPSLA is a Delaware corporation organized in April 2000 to hold certain investment securities for the Bank. At June 30, 2023, WPSLA held \$256.9 million of the Bank’s \$264.8 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. Accordingly, the various financial services and products offered are aggregated into one reportable operating segment: community banking as under guidance in the Financial Accounting Standards Board (the “FASB”) Accounting Standards Codification (“ASC” or “codification”) Topic 280 for Segment Reporting.

#### **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”). 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, intangible assets, income taxes, postretirement benefits, and the fair value of investment securities. Actual results could differ from those estimates and assumptions.

#### **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 the standard include service charges on deposit accounts and the gain on the sale of properties classified as other real estate owned. 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.

## Investment Securities

The Company classifies and accounts for debt securities as follows:

**Held to Maturity** — Debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and are recorded at amortized cost. Premiums are amortized and discounts are accreted using the interest method over the estimated remaining term of the underlying security.

**Available for Sale** — Debt securities that will be held for indefinite periods of time that may be sold in response to changes to market interest or prepayment rates, needs for liquidity, and changes in the availability of and the yield of alternative investments, are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported net of tax in other comprehensive income. Realized gains and losses on the sale of investment securities are recorded as of trade date and reported in the Consolidated Statements of Income and determined using the adjusted cost of the specific security sold.

The Company determines whether any unrealized losses are temporary in accordance with guidance under *FASB ASC Topic 320 for Investments — Debt Securities*. The evaluation is based upon factors such as the creditworthiness of the issuers/guarantors, the underlying collateral, if applicable, and the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an other-than-temporary impairment (“OTTI”) condition. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost, and near-term prospects of the issuer.

Accounting guidance for debt securities requires the Company to assess whether the loss existed by considering whether (1) the Company has the intent to sell the security, (2) it is more likely than not that it will be required to sell the security before recovery, or (3) it does not expect to recover the entire amortized cost basis of the security. The guidance requires the Company to bifurcate the impact on securities where impairment in value was deemed to be other than temporary between the component representing credit loss and the component representing loss related to other factors. The portion of the fair value decline attributable to credit loss must be recognized through a charge to earnings. The difference between the fair market value and the credit loss is recognized in other comprehensive income.

**Equity Investments** - The Company has an equity investment accounted for in accordance with both *ASC 321-10, Investments - Equity Securities* and *ASC 323-10, Investments - Equity Method and Joint Ventures*. The equity investment has a readily determinable fair value and is reported at fair value, with unrealized gains and losses included in earnings. Any dividends received are recorded in interest income. The fair value of equity investments with readily determinable fair values is primarily obtained from third-party pricing services. For additional detail regarding equity securities, see note 5 to these consolidated financial statements.

## Regulatory Stock, at Cost

Common stock of the Federal Home Loan Bank of Pittsburgh (“FHLB”) represents ownership in an institution which is wholly owned by other financial institutions. This restricted equity security is accounted for at cost. The Company invests in Federal Home Loan Bank of Pittsburgh (“FHLB”) stock as required to support borrowing activities, as detailed in note 10 to these consolidated financial statements. Although FHLB stock is an equity interest in a FHLB, it does not have a readily determinable fair value because its ownership is restricted and it lacks a market. FHLB stock can be sold back only at its par value of \$100 per share and only to the FHLBs or to another member institution. The Company evaluates this investment for impairment on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Company reviews this stock for impairment based on guidance from *FASB ASC*



*Topic 320 for Investments — Debt Securities* and *FASB ASC Topic 942 for Financial Services — Depository and Lending* and has concluded that its investment is not impaired.

## **Loans**

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

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for at least six months and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

### **Loans Acquired with Deteriorated Credit Quality**

The Company accounts for loans acquired with deteriorated credit quality in accordance with the provisions included in *FASB ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality*. For these loans, the Company determined that there is evidence of deterioration in credit quality since the origination of the loan and that it was probable, at the acquisition date, that the Company will be unable to collect all contractually required payments receivable.

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

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

### **Allowance for Loan Losses**

The allowance for loan losses is determined by management based upon portfolio segment, past experience, evaluation of estimated loss 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 appropriate 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 estimated net realizable value. 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 and loss experience and an evaluation of estimated losses in the current loan portfolio, including the evaluation of impaired loans.

Under the accounting guidance *FASB ASC Topic 310 for Receivables*, a loan is considered to be impaired when, based upon current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan. An insignificant delay or insignificant shortfall in amount of payments does not necessarily result in the loan being identified as impaired. When all or a portion of the loan is deemed uncollectible, the uncollectible portion is charged-off. The measurement is based either on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent. Impairment losses are included in the provision for loan losses.

## Loan Charge-off Policies

Generally, loans are charged down to the net realizable value when the loan is 90 days past due. However, student loans are fully charged down when the loan is 180 days past due.

## Troubled Debt Restructurings (“TDRs”)

The Company considers a loan a TDR when the borrower is experiencing financial difficulty and the Company has granted a concession that it 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 (which may include foreclosure or deed in lieu of foreclosure) or a combination of types. The Company 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 Company evaluates all TDR loans for impairment on an individual basis in accordance with ASC 310. Management does not consider a loan a TDR if the loan modification was a result of a customer retention program.

## Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

## Premises and Equipment

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

	Years
Office buildings and improvements	3 – 33
Furniture, fixtures, and equipment	1 – 10
Automobiles	4

## Other Real Estate Owned

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

## Income Taxes

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

## Goodwill and Intangible Assets

Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. In certain circumstances, the Company will record a gain on bargain purchase when the fair value of the net assets of the acquired company exceeds the fair value of the equity of the acquired company. When calculating goodwill or a gain on bargain purchase in accordance with FASB ASC 805-30-55-3, the Company evaluates whether the fair value of equity of the acquired company is a more reliable measure than the fair value of the equity interests transferred. The Company considers the assumptions required to calculate the fair value of equity of an acquired company using discounted cash flow models (income

approach) and/or change of control premium models (market approach) which are generally based on a higher level of market participant inputs and therefore a lower level of subjectivity when compared to the assumptions required to calculate the fair value of equity interests transferred under a fair value pricing model. As a result, the Company considers the calculation of the fair value of the equity of an acquired company to be more reliable than the calculation of the fair value of the equity interests transferred. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified. Intangible assets consist of core deposit intangibles arising from whole bank acquisitions. These intangible assets are measured at fair value and then amortized on an accelerated method over their estimated useful lives of ten years.

## **Leases**

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

As a lessee, the Company enters into operating leases for certain bank branches, office space, and office equipment. The right-of-use assets and lease liabilities are initially recognized based on the net present value of the remaining lease payments which include renewal options where the Company is reasonably certain they will be exercised. The net present value is determined using the incremental collateralized borrowing rate at commencement date. The right-of-use asset is measured at the amount of the lease liability adjusted for any prepaid rent, lease incentives and initial direct costs incurred. The right-of-use asset and lease liability is amortized over the individual lease terms. Lease expense for lease payments is recognized on a straight-line basis over the lease term. For additional information regarding leases, see note 17 to these consolidated financial statements.

## **Stock Based Compensation**

The Company accounts for stock awards and stock options granted to employees and directors based on guidance set forth in FASB *ASC Topic 718 for Compensation — Stock Compensation*. Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards at the grant date. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common shares at the date of the grant is used for restricted shares. Compensation cost is recognized over the required service period using the straight-line method.

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

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the Consolidated Statements of Financial Condition when they are funded.

## **Bank-owned Life Insurance**

The Company funds the purchase of insurance policies on the lives of certain former officers and employees of the Company. The policies were purchased to help offset the increase in the costs of various fringe benefit plans, including healthcare. The Company has recognized any change in cash surrender value of life insurance in other income in the Company's Consolidated Statements of Income.

## **Comprehensive Income (Loss)**

The Company presents a separate financial statement of comprehensive income (loss) that includes net unrealized holding gains and losses on securities available for sale and transactions from other events excluded from the Company's Consolidated Statements of Income and recorded directly to stockholders' equity.

## **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.

## Reclassifications

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

## Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 adopted this guidance using the modified retrospective approach for all financial assets measured at amortized cost, including loans, available-for-sale debt securities and unfunded commitments. On July 1, 2023, the Company recorded a cumulative effect decrease to retained earnings of \$187 thousand related to loans and \$39 thousand related to unfunded commitments. The Company determined that there was no impact to retained earnings related to available-for-sale or held-to-maturity debt securities as a result of adopting this guidance.

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.

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. 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 years ended June 30, 2023 and 2022. Earnings per share is computed by dividing net income available to common shareholders 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 \$2.8 million and \$4.2 million for the years ended June 30, 2023 and 2022, respectively, was used as the numerator. See Note 12 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)	Year Ended June 30,	
	2023	2022
<b>Basic and diluted earnings per share:</b>		
Net income	\$ 2,802	\$ 4,237
Basic average common shares outstanding	12,661,882	14,255,901
Effect of dilutive securities	30,732	3,468
Dilutive average shares outstanding	12,692,614	14,259,369
Earnings per share:		
Basic	\$ 0.22	\$ 0.30
Diluted	\$ 0.22	\$ 0.30

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 and 1,232,400 stock options that were anti-dilutive for the years ended June 30, 2023 and 2022, respectively, and were not included in the table above.

### 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 years ended June 30, 2023 and 2022. All amounts are presented net of tax.

(Dollars in thousands)

Accumulated Other Comprehensive Loss <sup>(1)</sup>	Unrealized Losses on Securities Available for Sale
Balance at June 30, 2021	\$ (64)
Other comprehensive loss before reclassifications	(15,245)
Amounts reclassified from accumulated other comprehensive loss	(48)
Period change	(15,293)
Balance at June 30, 2022	\$ (15,357)
Other comprehensive loss before reclassifications	(8,021)
Amounts reclassified from accumulated other comprehensive loss	—
Period change	(8,021)
Balance at June 30, 2023	\$ (23,378)

(1) All amounts are net of tax. Related income tax expense is calculated using an income tax rate of approximately 23% for both 2023 and 2022.

The following table presents reclassifications out of AOCI by component for the years ended June 30, 2023 and 2022:

(Dollars in thousands)	Amounts Reclassified from Accumulated Other Comprehensive Loss (1)		
Details about Accumulated Other Comprehensive Loss Components	Year Ended June 30,		Affected Line Item in the Consolidated Statements of Income
	2023	2022	
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

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

(Dollars in thousands)	June 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available For Sale:</b>				
Mortgage-backed securities	\$ 124,252	\$ 21	\$ (17,517)	\$ 106,756
U.S. agency collateralized mortgage obligations	10,074	—	(1,782)	8,292
U.S. government agency securities	3,881	140	(89)	3,932
Municipal bonds	20,081	—	(5,102)	14,979
Corporate bonds	37,200	—	(6,032)	31,168
<b>Total Available For Sale</b>	<u>\$ 195,488</u>	<u>\$ 161</u>	<u>\$ (30,522)</u>	<u>\$ 165,127</u>

<b>Held To Maturity:</b>				
Mortgage-backed securities	\$ 94,648	\$ —	\$ (17,275)	\$ 77,373
U.S. government agency securities	4,982	—	(102)	4,880
Municipal bonds	60	—	—	60
<b>Total Held To Maturity</b>	<u>\$ 99,690</u>	<u>\$ —</u>	<u>\$ (17,377)</u>	<u>\$ 82,313</u>

(Dollars in thousands)	June 30, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available For Sale:</b>				
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
<b>Total Available For Sale</b>	<u>\$ 202,689</u>	<u>\$ 112</u>	<u>\$ (20,056)</u>	<u>\$ 182,745</u>

<b>Held To Maturity:</b>				
Mortgage-backed securities	\$ 102,135	\$ —	\$ (13,814)	\$ 88,321
<b>Total Held To Maturity</b>	<u>\$ 102,135</u>	<u>\$ —</u>	<u>\$ (13,814)</u>	<u>\$ 88,321</u>

The Company did not sell any investment securities during the year ended June 30, 2023. The Company recognized \$62 thousand of gross gains on the sale of \$5.0 million of investment securities during the year ended June 30, 2022.

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.

(Dollars in thousands)	June 30, 2023			
	Available For Sale		Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ —	\$ —	\$ 552	\$ 551
Due after one year through five years	19	19	4,490	4,389
Due after five years through ten years	41,685	34,937	—	—
Due after ten years	153,784	130,171	94,648	77,373
	<u>\$ 195,488</u>	<u>\$ 165,127</u>	<u>\$ 99,690</u>	<u>\$ 82,313</u>

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 June 30, 2023 and 2022:

(Dollars in thousands)	June 30, 2023					
	Less than 12 Months		12 Months or More		Total	Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Available For Sale:</b>						
Mortgage-backed securities	\$ 16,794	\$ (967)	\$ 86,371	\$ (16,550)	\$ 103,165	\$ (17,517)
U.S. agency collateralized mortgage obligations	—	—	8,292	(1,782)	8,292	(1,782)
U.S. government agency securities	—	—	943	(89)	943	(89)
Municipal bonds	—	—	14,979	(5,102)	14,979	(5,102)
Corporate bonds	10,715	(1,435)	20,453	(4,597)	31,168	(6,032)
	<u>27,509</u>	<u>(2,402)</u>	<u>131,038</u>	<u>(28,120)</u>	<u>158,547</u>	<u>(30,522)</u>
<b>Held To Maturity:</b>						
Mortgage-backed securities	—	—	77,373	(17,275)	77,373	(17,275)
U.S. government agency securities	4,880	(102)	—	—	4,880	(102)
	<u>4,880</u>	<u>(102)</u>	<u>77,373</u>	<u>(17,275)</u>	<u>82,253</u>	<u>(17,377)</u>
<b>Total Temporarily Impaired Securities</b>	<u>\$ 32,389</u>	<u>\$ (2,504)</u>	<u>\$ 208,411</u>	<u>\$ (45,395)</u>	<u>\$ 240,800</u>	<u>\$ (47,899)</u>

(Dollars in thousands)	June 30, 2022					
	Less than 12 Months		12 Months or More		Total	Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Available For Sale:</b>						
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>
<b>Held To Maturity:</b>						
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>
<b>Total Temporarily Impaired Securities</b>	<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 Statement of Financial Condition date. For securities that meet neither of these conditions, management performs analysis to determine whether any of these securities are at

risk for OTTI. To determine which individual securities are at risk for OTTI and should be quantitatively evaluated utilizing a detailed analysis, management uses indicators which consider various characteristics of each security including, but not limited to, the following: the credit rating; the duration and level of the unrealized loss; prepayment assumptions; and certain other collateral-related characteristics such as delinquency rates, the security's performance, and the severity of expected collateral losses.

The unrealized loss on securities greater than 12 months 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 June 30, 2023 and 2022. There were 126 investment securities that were temporarily impaired at June 30, 2023. There were 115 investment securities that were temporarily impaired at June 30, 2022.

At June 30, 2023 and 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 \$1.6 million and \$2.3 million as of June 30, 2023 and 2022, respectively. During the year ended June 30, 2023 and 2022, the Company recorded \$629 thousand and \$242 thousand of unrealized losses, respectively, which were recorded in *Unrealized loss on equity securities* in the Consolidated Statements of Income.

### **Note 6 – Loans**

Major classifications of loans, net of deferred loan fees (costs), at June 30, 2023 and 2022 are summarized as follows:

(Dollars in thousands)	June 30, 2023		June 30, 2022	
	Amount	Percent	Amount	Percent
<b>Residential real estate:</b>				
1 - 4 family	\$ 135,046	28.08 %	\$ 147,143	30.72 %
Home equity and HELOCs	32,684	6.79	32,590	6.80
Construction -residential	9,113	1.90	14,778	3.09
<b>Commercial real estate:</b>				
1 - 4 family investor	98,160	20.41	96,508	20.15
Multi-family (five or more)	15,281	3.18	13,015	2.72
Commercial non-residential	157,555	32.77	158,294	33.05
Construction and land	15,584	3.24	4,942	1.03
Commercial	15,433	3.21	9,411	1.97
Consumer loans	2,000	0.42	2,239	0.47
<b>Total Loans</b>	<b>480,856</b>	<b>100.00 %</b>	<b>478,920</b>	<b>100.00 %</b>
Allowance for loan losses	(3,313)		(3,409)	
<b>Net Loans</b>	<b>\$ 477,543</b>		<b>\$ 475,511</b>	

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 \$12.5 million and \$14.4 million at, June 30, 2023 and 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 June 30, 2023 and 2022, the Company had one shared national credit loan commitment for \$12.5 million with no balance outstanding 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 Company and are subject to annual reviews where the risk rating of the loan is



evaluated. Additionally, the Company 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 June 30, 2023 and 2022, respectively.

The following table presents by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans for the years ended June 30, 2023 and 2022, respectively:

June 30, 2023	Residential real estate:			Commercial real estate:						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	Commercial	Consumer	
<b>(Dollar amounts in thousands)</b>										
<b>Allowance for credit losses:</b>										
Beginning balance	\$ 506	\$ 113	\$ 386	\$ 527	\$ 110	\$ 1,451	\$ 166	\$ 100	\$ 50	\$ 3,409
Charge-offs	(79)	—	—	—	—	—	—	—	(32)	(111)
Recoveries	—	—	—	—	—	—	—	—	15	15
Provision	59	—	(172)	42	(21)	(31)	115	(18)	26	—
Ending Balance	\$ 486	\$ 113	\$ 214	\$ 569	\$ 89	\$ 1,420	\$ 281	\$ 82	\$ 59	\$ 3,313
<b>Allowance ending balance:</b>										
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively evaluated for impairment	486	113	214	569	89	1,420	281	82	59	3,313
<b>Total allowance</b>	<u>\$ 486</u>	<u>\$ 113</u>	<u>\$ 214</u>	<u>\$ 569</u>	<u>\$ 89</u>	<u>\$ 1,420</u>	<u>\$ 281</u>	<u>\$ 82</u>	<u>\$ 59</u>	<u>\$ 3,313</u>
<b>Loans receivable ending balance:</b>										
Individually evaluated for impairment	\$ 1,209	\$ 182	\$ —	\$ 832	\$ 251	\$ 778	\$ —	\$ —	\$ —	\$ 3,252
Collectively evaluated for impairment	78,237	19,689	9,113	84,891	14,781	142,098	15,584	14,976	643	380,012
Acquired non-credit impaired loans <sup>(1)</sup>	55,528	12,813	—	12,437	249	14,679	—	457	1,357	97,520
Acquired credit impaired loans <sup>(2)</sup>	72	—	—	—	—	—	—	—	—	72
<b>Total portfolio</b>	<u>\$ 135,046</u>	<u>\$ 32,684</u>	<u>\$ 9,113</u>	<u>\$ 98,160</u>	<u>\$ 15,281</u>	<u>\$ 157,555</u>	<u>\$ 15,584</u>	<u>\$ 15,433</u>	<u>\$ 2,000</u>	<u>\$ 480,856</u>

- (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:						
	Home Equity		Construction-	1 - 4 family	Multi-family	Commercial	Construction			
	1 - 4 family	and HELOCs	residential	investor	(five or more)	non-residential	and land	Commercial	Consumer	Total
<b>Allowance for credit losses:</b>										
Beginning balance	\$ 709	\$ 133	\$ 487	\$ 843	\$ 159	\$ 854	\$ 362	\$ 51	\$ 15	\$ 3,613
Charge-offs	(154)	—	—	(55)	—	—	—	—	(29)	(238)
Recoveries	—	8	—	42	—	—	—	—	4	54
Provision	(49)	(28)	(101)	(303)	(49)	597	(196)	49	60	(20)
Ending Balance	<u>\$ 506</u>	<u>\$ 113</u>	<u>\$ 386</u>	<u>\$ 527</u>	<u>\$ 110</u>	<u>\$ 1,451</u>	<u>\$ 166</u>	<u>\$ 100</u>	<u>\$ 50</u>	<u>\$ 3,409</u>
<b>Allowance ending balance:</b>										
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively evaluated for impairment	506	113	386	527	110	1,451	166	100	50	3,409
<b>Total allowance</b>	<u>\$ 506</u>	<u>\$ 113</u>	<u>\$ 386</u>	<u>\$ 527</u>	<u>\$ 110</u>	<u>\$ 1,451</u>	<u>\$ 166</u>	<u>\$ 100</u>	<u>\$ 50</u>	<u>\$ 3,409</u>
<b>Loans receivable ending balance:</b>										
Individually evaluated for impairment	\$ 3,336	\$ 275	\$ —	\$ 173	\$ 291	\$ 1,213	\$ —	\$ —	\$ —	\$ 5,288
Collectively evaluated for impairment	78,478	15,679	14,778	81,834	12,471	138,812	4,942	8,626	531	356,151
Acquired non-credit impaired loans <sup>(1)</sup>	65,196	16,613	—	14,501	253	18,269	—	785	1,708	117,325
Acquired credit impaired loans <sup>(2)</sup>	133	23	—	—	—	—	—	—	—	156
<b>Total portfolio</b>	<u>\$ 147,143</u>	<u>\$ 32,590</u>	<u>\$ 14,778</u>	<u>\$ 96,508</u>	<u>\$ 13,015</u>	<u>\$ 158,294</u>	<u>\$ 4,942</u>	<u>\$ 9,411</u>	<u>\$ 2,239</u>	<u>\$ 478,920</u>

- (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.

During the year ended June 30, 2023, 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 loan portfolio during the year ended June 30, 2023 and a corresponding increase in the provision for loan losses for this portfolio. The overall decrease in the allowance during the year ended June 30, 2023 can primarily be attributed to improved credit quality metrics, including continued low levels of net charge-offs and a decrease in non-performing assets.

During the year ended June 30, 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. The overall decrease in the allowance during the year ended June 30, 2022 can primarily be attributed to stable credit quality metrics, including continued low levels of net charge-offs and non-performing assets, as well as a reduction of the adjustments to qualitative factors related to the COVID-19 pandemic.

## Credit Quality Information

The following tables represent credit exposures by internally assigned grades for the year ended June 30, 2023 and 2022, respectively. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on experiences with similarly graded loans.

The Company's internally assigned grades are as follows:

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

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

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

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

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

The following tables set forth the amounts of the portfolio of classified asset categories for the commercial loan portfolios at June 30, 2023 and 2022:

June 30, 2023						
	Commercial Real Estate					Total
	1 - 4 family investor	Multi-family	Non-residential	Construction and land	Commercial	
Pass	\$ 96,097	\$ 15,030	\$ 156,777	\$ 15,584	\$ 15,433	\$ 298,921
Special Mention	1,231	—	—	—	—	1,231
Substandard	832	251	778	—	—	1,861
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	—	—
Ending Balance	<u>\$ 98,160</u>	<u>\$ 15,281</u>	<u>\$ 157,555</u>	<u>\$ 15,584</u>	<u>\$ 15,433</u>	<u>\$ 302,013</u>

  

June 30, 2022						
	Commercial Real Estate					Total
	1 - 4 family investor	Multi-family	Non-residential	Construction and land	Commercial	
Pass	\$ 94,929	\$ 12,724	\$ 157,081	\$ 4,942	\$ 9,411	\$ 279,087
Special Mention	1,473	—	300	—	—	1,773
Substandard	106	291	913	—	—	1,310
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	—	—
Ending Balance	<u>\$ 96,508</u>	<u>\$ 13,015</u>	<u>\$ 158,294</u>	<u>\$ 4,942</u>	<u>\$ 9,411</u>	<u>\$ 282,170</u>

The following tables set forth the amounts of the portfolio of classified asset categories for the residential and consumer loan portfolios at June 30, 2023 and 2022:

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

June 30, 2023					
	Residential Real Estate				Total
	1 - 4 family	Home equity & HELOCs	Construction	Consumer	
Performing	\$ 132,956	\$ 32,684	\$ 9,113	\$ 1,918	\$ 176,671
Non-performing	2,090	—	—	82	2,172
	<u>\$ 135,046</u>	<u>\$ 32,684</u>	<u>\$ 9,113</u>	<u>\$ 2,000</u>	<u>\$ 178,843</u>

  

June 30, 2022					
	Residential Real Estate				Total
	1 - 4 family	Home equity & HELOCs	Construction	Consumer	
Performing	\$ 142,362	\$ 32,249	\$ 14,778	\$ 2,122	\$ 191,511
Non-performing	4,781	341	—	117	5,239
	<u>\$ 147,143</u>	<u>\$ 32,590</u>	<u>\$ 14,778</u>	<u>\$ 2,239</u>	<u>\$ 196,750</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 June 30, 2023 and 2022:

Aged Analysis of Past Due and Non-accrual Loans As of June 30, 2023									
(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	\$ 290	\$ 457	\$ 567	\$ 1,314	\$ 72	\$ 133,660	\$ 135,046	\$ —	\$ 2,090
Home equity and HELOCs	—	—	—	—	—	32,684	32,684	—	—
Construction - residential	—	—	—	—	—	9,113	9,113	—	—
Commercial real estate:									
1 - 4 family investor	—	752	—	752	—	97,408	98,160	—	832
Multi-family	251	—	—	251	—	15,030	15,281	—	251
Commercial non-residential	—	322	778	1,100	—	156,455	157,555	—	778
Construction and land	—	—	—	—	—	15,584	15,584	—	—
Commercial	—	—	—	—	—	15,433	15,433	—	—
Consumer	—	13	—	13	—	1,987	2,000	—	82
Total	\$ 541	\$ 1,544	\$ 1,345	\$ 3,430	\$ 72	\$ 477,354	\$ 480,856	\$ —	\$ 4,033

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	\$ 142,468	\$ 147,143	\$ —	\$ 4,781
Home equity and HELOCs	19	—	183	202	23	32,365	32,590	—	341
Construction - residential	—	—	—	—	—	14,778	14,778	—	—
Commercial real estate:									
1 - 4 family investor	—	—	—	—	—	96,508	96,508	—	106
Multi-family	—	—	—	—	—	13,015	13,015	—	291
Commercial non-residential	275	494	418	1,187	—	157,107	158,294	—	875
Construction and land	—	—	—	—	—	4,942	4,942	—	—
Commercial	—	—	—	—	—	9,411	9,411	—	—
Consumer	27	—	—	27	—	2,212	2,239	—	117
Total	\$ 1,849	\$ 1,116	\$ 2,993	\$ 5,958	\$ 156	\$ 472,806	\$ 478,920	\$ —	\$ 6,511

Interest income on non-accrual loans would have increased by approximately \$192 thousand, and \$275 thousand during the years ended June 30, 2023 and 2022, respectively, if these loans had performed in accordance with their terms.

## 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.

June 30, 2023					
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
1 - 4 family residential real estate	\$ 1,209	\$ 1,302	\$ —	\$ 1,780	\$ —
Home equity and HELOCs	182	182	—	325	20
Construction residential	—	—	—	—	—
1 - 4 family investor commercial real estate	832	850	—	179	1
Multi-family	251	283	—	277	—
Commercial non-residential	778	783	—	1,042	19
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	\$ 1,209	\$ 1,302	\$ —	\$ 1,780	\$ —
Home equity and HELOCs	182	182	—	325	20
Construction residential	—	—	—	—	—
1 - 4 family investor commercial real estate	832	850	—	179	1
Multi-family	251	283	—	277	—
Commercial non-residential	778	783	—	1,042	19
Construction and land	—	—	—	—	—
Commercial	—	—	—	—	—
Consumer	—	—	—	—	—

The impaired loans table above includes accruing TDRs in the amount of \$182 thousand that are performing in accordance with their modified terms. The Company recognized \$38 thousand of interest income on accruing TDRs during the year ended June 30, 2023. The table above does not include \$72 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	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
1-4 Family residential real estate	\$ 3,336	\$ 3,582	\$ —	\$ 2,552	\$ —
Home equity and HELOCs	275	277	—	462	18
Construction Residential	—	—	—	—	—
1 - 4 Family investor commercial real estate	173	185	—	303	4
Multi-family	291	308	—	384	—
Commercial non-residential	1,213	1,265	—	1,071	24
Construction and land	—	—	—	—	—
Commercial	—	—	—	2	—
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	\$ —	\$ 2,552	\$ —
Home equity and HELOCs	275	277	—	462	18
Construction Residential	—	—	—	—	—
1 - 4 Family investor commercial real estate	173	185	—	303	4
Multi-family	291	308	—	384	—
Commercial non-residential	1,213	1,265	—	1,071	24
Construction and land	—	—	—	—	—
Commercial	—	—	—	2	—
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 \$45 thousand of interest income on accruing TDRs during the year ended June 30, 2022. 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.

Generally, the Company will charge-off the collateral or discounted cash flow deficiency on all impaired loans. Interest income that would have been recorded for the years ended June 30, 2023 and 2022, had impaired loans been current according to their original terms, amounted to \$104 thousand and \$183 thousand, respectively.

### Troubled Debt Restructurings

The Bank determines whether a restructuring of debt constitutes a troubled debt restructuring (“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.

For the years ended June 30, 2023 and 2022, there were no loans modified that were identified as a troubled debt restructuring. The Company did not experience any re-defaulted TDRs subsequent to the loan being modified during the years ended June 30, 2023 and 2022.

#### Note 7 – Premises and Equipment

The components of premises and equipment are as follows as of June 30, 2023 and 2022:

(Dollars in thousands)	June 30,	
	2023	2022
Land	\$ 1,778	\$ 2,156
Office buildings and improvements	9,080	11,769
Furniture, fixtures and equipment	2,273	2,540
Automobiles	58	58
	<u>13,189</u>	<u>16,523</u>
Accumulated depreciation	(4,135)	(4,827)
	<u>\$ 9,054</u>	<u>\$ 11,696</u>

Depreciation expense amounted to \$1.0 million and \$975 thousand for the years ended June 30, 2023 and 2022, 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. During the quarter ended June 30, 2023, the Company transferred one property with a total carrying value of \$1.1 million as of June 30, 2023 to the held for sale classification. The Company intends to sell this property by December 31, 2023.

#### 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 acquisition of Audubon. The Company also recorded core deposit intangibles totaling \$65 thousand and \$197 thousand in connection with the acquisitions of Fidelity and Washington, respectively. As of June 30, 2023 and 2022, the other intangibles consisted of \$519 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, 2023, the Company included considerations of the current economic environment in its evaluation, and determined that it is not more likely than not that the carrying value of goodwill is impaired. No goodwill impairment exists during the year ended June 30, 2023.

Goodwill and other intangibles at June 30, 2023 and 2022, are summarized as follows:

<b>(Dollars in thousands)</b>	<b>Goodwill</b>	<b>Core Deposit Intangibles</b>
Balance, July 1, 2021	\$ 4,858	\$ 937
Adjustments:		
Additions	—	—
Amortization	—	(225)
Balance, June 30, 2022	\$ 4,858	\$ 712
Adjustments:		
Additions	—	—
Amortization	—	(193)
Balance, June 30, 2023	<u>\$ 4,858</u>	<u>\$ 519</u>

The following tables summarize amortizing intangible assets at June 30, 2023 and 2022:

<b>(Dollars in thousands)</b>		<b>June 30, 2023</b>	
	<b>Gross</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Core deposit intangibles	\$ 1,694	\$ (1,175)	\$ 519

<b>(Dollars in thousands)</b>		<b>June 30, 2022</b>	
	<b>Gross</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Core deposit intangibles	\$ 1,694	\$ (982)	\$ 712

Aggregate amortization expense was \$193 thousand and \$225 thousand for the years ended June 30, 2023 and 2022, respectively. Amortization expense for the next five years and thereafter is expected to be as follows:

<b>(Dollars in thousands)</b>	<b>Expense</b>
<b>For the year ended June 30,</b>	
2024	\$ 163
2025	132
2026	101
2027	70
2028	40
2029 and thereafter	13
	<u>\$ 519</u>

## Note 9 – Deposits

Deposits and their respective weighted-average interest rates consist of the following major classifications as of June 30, 2023 and 2022:

	<b>June 30, 2023</b>		<b>June 30, 2022</b>	
<b>(Dollars in thousands)</b>	<b>Amount</b>	<b>Weighted Average Rate</b>	<b>Amount</b>	<b>Weighted Average Rate</b>
Non-interest bearing checking	\$ 60,872	— %	\$ 75,758	— %
Interest bearing checking	116,700	0.91	122,675	0.13
Money market accounts	208,020	2.77	171,316	0.30
Savings and club accounts	90,291	0.05	105,507	0.05
Certificates of deposit	159,377	2.30	131,361	0.89
	<u>\$ 635,260</u>	1.66 %	<u>\$ 606,617</u>	0.31 %



Time deposit accounts outstanding as of June 30, 2023 mature as follows:

(In thousands)	June 30, 2023
Twelve months ending:	
2024	\$ 121,678
2025	20,810
2026	6,642
2027	5,654
2028	4,117
Thereafter	476
	<u>\$ 159,377</u>

The aggregate amount of certificates of deposit accounts in denominations of \$250 thousand or more totaled \$17.8 million and \$8.9 million at June 30, 2023 and 2022, respectively.

## Note 10 – Borrowings

The Bank is a member of the FHLB system, which consists of 11 regional Federal Home Loan Banks. The FHLB provides a central credit facility primarily for member institutions. The Bank has a maximum borrowing capacity with the FHLB of Pittsburgh of approximately \$295.0 million at June 30, 2023. Advances from the FHLB of Pittsburgh consisted of \$34.0 million and \$65.0 million of fixed rate short-term borrowings at June 30, 2023 and 2022, respectively. FHLB advances are secured by qualifying assets of the Bank, which include Federal Home Loan Bank stock and loans. The Bank had \$427.2 million and \$423.1 million of loans pledged as collateral as of June 30, 2023 and 2022, respectively. The Bank, as a member of the FHLB of Pittsburgh, is required to acquire and hold shares of capital stock in that FHLB. The Bank was in compliance with the requirements for the FHLB of Pittsburgh with an investment of \$2.3 million and \$3.5 million at June 30, 2023 and 2022, respectively.

Contractual maturities and the associated weighted average interest rate of FHLB advances at June 30, 2023 are presented in the table below. As of June 30, 2023, the interest rates on the \$34.0 million of FHLB advances ranged from 5.33% to 5.39%.

(Dollars in thousands)	June 30, 2023	
	Amount	Weighted Average Rate
Twelve months ending:		
2024	\$ 34,000	5.35 %
Total FHLB advances	<u>\$ 34,000</u>	5.35 %

As of June 30, 2023, the Bank had \$10.2 million of loans pledged as collateral to secure a \$3.7 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 June 30, 2023 and 2022. In addition, as of June 30, 2023 and 2022, the Bank had \$10.0 million of available credit from the Atlantic Community Bankers Bank to purchase federal funds.

## Note 11 — Income Taxes

The components of income tax expense for the years ended June 30, 2023 and 2022 are as follows:

(Dollars in thousands)	Year end June 30,	
	2023	2022
Federal:		
Current	\$ (430)	\$ (215)
Deferred	570	683
	140	468
State, current	60	100
	<u>\$ 200</u>	<u>\$ 568</u>

A reconciliation of the statutory federal income tax at a rate of 21.0% in 2023 and 2022 to the income tax expense included in the consolidated statements of income is as follows:

(Dollars in thousands)	Year ended June 30,			
	2023		2022	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Federal income tax at statutory rate	\$ 630	21.0 %	\$ 1,009	21.0 %
State tax, net of federal benefit	47	1.6	79	1.6
Bank owned-life insurance	(232)	(7.7)	(218)	(4.5)
Income tax benefit	(211)	(7.1)	(288)	(6.0)
Other	(34)	(1.1)	(14)	(0.3)
	<u>\$ 200</u>	<u>6.7 %</u>	<u>\$ 568</u>	<u>11.8 %</u>

Income tax expense for the years ended June 30, 2023 and 2022 included \$211 thousand and \$288 thousand one-time income tax benefits related to refunds received associated with the carryback of net operating losses under the CARES Act.

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

(Dollars in thousands)	June 30,	
	2023	2022
Deferred tax assets:		
Loan origination fees	\$ 150	\$ 172
Allowance for loan losses	762	784
Deferred director's fees	261	271
Deferred compensation	357	478
Purchase accounting adjustments	499	593
NOL carry forward	231	631
Net unrealized loss on securities	6,983	4,587
Stock based compensation	234	—
Other	344	227
<b>Total deferred tax assets</b>	<u>9,821</u>	<u>7,743</u>
Deferred tax liabilities:		
Premises and equipment	(336)	(284)
<b>Total deferred tax liabilities</b>	<u>(336)</u>	<u>(284)</u>
<b>Net deferred tax asset</b>	<u>\$ 9,485</u>	<u>\$ 7,459</u>

Deferred income taxes reflect temporary differences in the recognition of revenue and expenses for tax reporting and financial statement purposes, principally because certain items, such as the allowance for loan losses and loan fees are recognized in different periods for financial reporting and tax return purposes. As of June 30, 2023, the Company has a \$1.1 million net operating loss carryforward that will begin to expire by December 31, 2033. A valuation allowance has not been established for deferred tax assets. Realization of the deferred tax assets is dependent on generating sufficient taxable income. Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset will be realized.

GAAP prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Accounting literature also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest, and penalties. In accordance with GAAP, interest or penalties incurred for income taxes will be recorded as a component of other expenses. There are no material uncertain tax positions at June 30, 2023 or 2022. With few exceptions, the Company is no longer subject to U.S. Federal income tax examinations by taxing authorities for years before 2019.

Retained earnings included \$2.8 million at June 30, 2023 and 2022, respectively, for which no provision for federal income tax has been made. These amounts represent deductions for bad debt reserves for tax purposes which were only allowed to savings institutions which met certain definitional tests prescribed by the Internal Revenue Code of 1986, as amended. The Small Business Job Protection Act of 1996 eliminated the special bad debt deduction granted solely to thrifts. Under the terms of the Act, there would be no recapture of the pre-1988 (base year) reserves. However, these pre-1988 reserves would be subject to recapture under the rules of the Internal Revenue Code if the Bank itself pays a cash dividend in excess of earnings and profits, or liquidates. The Act also provides for the recapture of deductions arising from “applicable excess reserve” defined as the total amount of reserve over the base year reserve. The Bank’s total reserve exceeds the base year reserve and deferred taxes have been provided for this excess.

## Note 12 – 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 William Penn Bancorporation 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 years ended June 30, 2023 and 2022 was \$1.1 million and \$147 thousand, respectively. The expected future compensation expense related to the 383,258 non-vested restricted shares outstanding at June 30, 2023 was \$4.3 million over a weighted average period of 3.88 years. The expected future compensation expense related to the 492,960 non-vested restricted shares outstanding at June 30, 2022 was \$5.6 million over a weighted average period of 4.88 years.

The following is a summary of the Company's restricted stock activity during the year ended June 30, 2023:

<b>Summary of Non-vested Restricted Stock Award Activity</b>	<b>Number of Shares</b>	<b>Average Grant Price</b>
Non-vested Restricted Stock Awards outstanding July 1, 2022	492,960	\$ 11.67
Issued	—	—
Vested	(95,798)	11.66
Forfeited	(13,904)	11.82
Non-vested Restricted Stock Awards outstanding June 30, 2023	<u>383,258</u>	<u>\$ 11.66</u>

The following is a summary of the Company's restricted stock activity during the year ended June 30, 2022:

<b>Summary of Non-vested Restricted Stock Award Activity</b>	<b>Number of Shares</b>	<b>Average Grant Price</b>
Non-vested Restricted Stock Awards outstanding July 1, 2021	—	\$ —
Issued	492,960	11.67
Vested	—	—
Forfeited	—	—
Non-vested Restricted Stock Awards outstanding June 30, 2022	<u>492,960</u>	<u>\$ 11.67</u>

The fair value of the 95,798 shares that vested during the year ended June 30, 2023 was \$914 thousand.

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 years ended June 30, 2023 and 2022 was \$771 thousand and \$102 thousand, respectively. The expected future compensation expense related to the 1,197,640 stock options outstanding at June 30, 2023 was \$3.0 million over a weighted average period of 3.88 years. The expected future compensation expense related to the 1,232,400 stock options outstanding at June 30, 2022 was \$3.9 million over a weighted average period of 4.88 years.

The following is a summary of the Company's stock option activity during the year ended June 30, 2023:

<b>Summary of Stock Option Activity</b>	<b>Number of Options</b>	<b>Exercise Price per Shares</b>
Beginning balance July 1, 2022	1,232,400	\$ 11.67
Granted	—	—
Exercised	—	—
Forfeited	(34,760)	11.82
Expired	—	—
Ending balance June 30, 2023	<u>1,197,640</u>	\$ 11.66

The following is a summary of the Company's stock option activity during the year ended June 30, 2022:

<b>Summary of Stock Option Activity</b>	<b>Number of Options</b>	<b>Exercise Price per Shares</b>
Beginning balance July 1, 2021	—	\$ —
Granted	1,232,400	11.67
Exercised	—	—
Forfeited	—	—
Expired	—	—
Ending balance June 30, 2022	<u>1,232,400</u>	\$ 11.67

The weighted average remaining contractual term was approximately 8.88 years and there was no aggregate intrinsic value for options outstanding as of June 30, 2023. As of June 30, 2023, exercisable options totaled 239,528 with an average weighted exercise of price of \$11.66 per share, a weighted average remaining contractual term of approximately 8.88 years, and no aggregate intrinsic value. The weighted average remaining contractual term was approximately 9.88 years and the aggregate intrinsic value was \$80 thousand for options outstanding as of June 30, 2022. There were no exercisable options as of June 30, 2022.

### **Note 13 – Employee and Director Benefit Plans**

#### **401(k) Plan**

The Bank has a savings plan qualified under Section 401(k) of the Internal Revenue Code which covers substantially all of its employees. Employees can contribute up to 50% of gross pay and the Bank matches 100% of such contributions up to 6%. The Company recorded \$421 thousand, and \$393 thousand of expense associated with the 401(k) plan during the years ended June 30, 2023 and 2022, respectively.

#### **Employee Stock Ownership Plan (“ESOP”)**

The Company offers ESOP benefits to employees who meet certain eligibility requirements. In connection with the second-step conversion offering, and as previously disclosed, the William Penn Bank 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 previously disclosed, 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.

In connection with the purchase of the shares, the ESOP borrowed \$10.1 million from the Company at a fixed interest rate of 3.25% with a twenty-five-year term to fund the purchase of 881,130 shares. The Company makes annual contributions to the ESOP equal to the ESOP's debt service or equal to the debt service less the dividends received by the ESOP on unallocated shares. Shares purchased

with the loan proceeds were initially pledged as collateral for the term loan and are held in a suspense account for future allocation among participants. Contributions to the ESOP and shares released from the suspense account are allocated among the participants on the basis of compensation, as described by the ESOP, in the year of allocation. The ESOP shares pledged as collateral are reported as unearned ESOP shares in the Company's consolidated statements of financial condition. As shares are committed to be released from collateral, the Bank reports compensation expense equal to the current market price of the shares, and the shares become outstanding for earnings-per-share computations. The Company recognized \$395 thousand and \$430 thousand of ESOP expense associated with the release of shares from collateral during the years ended June 30, 2023 and 2022, respectively.

	June 30,	
	2023	2022
Allocated shares	219,141	213,937
Shares committed to be released	17,479	17,479
Unreleased shares	801,272	836,517
Total ESOP shares	1,037,892	1,067,933
Fair value of unrealized shares	\$ 8,132,911	\$ 9,787,249

### Directors Retirement Plan

The Bank has a retirement plan for the directors of the Bank. Upon retirement, a director who agrees to serve as a consulting director to the Bank will receive a monthly benefit amount for a period of up to 120 months. The plan was amended in October 2017 to allow credit for service as a director while also serving as an employee. As of June 30, 2023, the Company performed a discounted cash flow analysis for this plan to evaluate the balance of the liability and determined that the liability balance was overaccrued. The Company recognized a credit of \$45 thousand, and expense of \$30 thousand, respectively, for these benefits in its Consolidated Statements of Income for the years ended June 30, 2023 and 2022. At both June 30, 2023 and 2022, approximately \$1.6 million had been accrued under this plan.

### Director Deferred Compensation Plan

The Bank has deferred compensation plans for certain directors of the Bank whereby they can elect to defer their directors' fees. Under the plans' provisions, benefits which accrue at the Bank's highest certificate of deposit rate will be payable upon retirement, death, or permanent disability. The Company recognized \$21 thousand and \$9 thousand, respectively, of interest expense for these benefits in its Consolidated Statements of Income for the years ended June 30, 2023 and 2022. At June 30, 2023 and 2022, approximately \$1.1 million and \$1.2 million, respectively, had been accrued for this benefit plan.

### Note 14 – Commitments and Contingencies

The Company leases several offices as part of its regular business operations. Please refer to note 17 to these consolidated financial statements for further detail regarding the Company's operating lease commitments. In addition, 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 June 30, 2023 and 2022:

(Dollars in thousands)	June 30,	
	2023	2022
Commitments to extend credit	\$ 6,877	\$ 16,894
Unfunded commitments under lines of credit	75,372	71,999
Standby letters of credit	86	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 15 - 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 June 30, 2023, 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 June 30, 2023 (Dollars in thousands except for ratios)	Actual		CBLR Framework Requirement	
	Amount	Ratio	Amount	Ratio
<b>William Penn Bank:</b>				
Tier 1 leverage	\$ 161,774	18.67 %	\$ 77,989	9.00 %

  

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

## Note 16 – 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 includes 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 June 30, 2023 and 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)	June 30, 2023			
	Level I	Level II	Level III	Total
<b>Assets:</b>				
Investments available for sale:				
Mortgage-backed securities	\$ —	\$ 106,756	\$ —	\$ 106,756
U.S. agency collateralized mortgage obligations	—	8,292	—	8,292
U.S. government agency securities	—	3,932	—	3,932
Municipal bonds	—	14,979	—	14,979
Corporate bonds	—	31,168	—	31,168
Equity securities	1,629	—	—	1,629
<b>Total Assets</b>	<b>\$ 1,629</b>	<b>\$ 165,127</b>	<b>\$ —</b>	<b>\$ 166,756</b>

(Dollars in thousands)	June 30, 2022			
	Level I	Level II	Level III	Total
<b>Assets:</b>				
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
<b>Total Assets</b>	<b>\$ 2,258</b>	<b>\$ 182,745</b>	<b>\$ —</b>	<b>\$ 185,003</b>

#### 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 June 30, 2023 and 2022, the Company charged-off the collateral deficiency on impaired loans. As a result, there were no specific reserves on impaired loans as of June 30, 2023 and 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 June 30, 2023, 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
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,286</u>	<u>\$ 3,286</u>

Quantitative information regarding assets measured at fair value on a non-recurring basis 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 <sup>(1)(3)</sup>	Appraisal adjustments <sup>(2)</sup>	0-7 %
Premises transferred to held for sale	1,596	Appraisal of premises <sup>(1)(3)</sup>	Appraisal adjustments <sup>(2)</sup>	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 table below excludes financial instruments for which the carrying amount approximates fair value.

(Dollars in thousands)	Fair Value Measurements at June 30, 2023				
	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	\$ 477,543	\$ 436,636	\$ —	\$ —	\$ 436,636
Securities held to maturity	99,690	82,313	—	82,313	—
Financial instruments - liabilities:					
Certificates of deposit	159,377	155,426	—	—	155,426
Advances from Federal Home Loan Bank	34,000	34,000	—	—	34,000
Off-balance sheet financial instruments	—	—	—	—	—

(Dollars in thousands)	Fair Value Measurements at June 30, 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	\$ 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 17 — 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 \$8.9 million and \$6.8 million as of June 30, 2023 and 2022, respectively, and the operating lease liability was \$9.1 million and \$6.9 million as of June 30, 2023 and 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 year ended June 30, 2023, the Company’s lease agreements for the Levittown and Morrisville branch office locations commenced, which resulted in an increase of the ROU asset and lease liability of \$1.7 million and \$970 thousand, respectively.

	<u>June 30, 2023</u>
<b>Weighted average remaining lease term</b>	
Operating leases	16.4 years
<b>Weighted average discount rate</b>	
Operating leases	2.89 %
	<u>June 30, 2022</u>
<b>Weighted average remaining lease term</b>	
Operating leases	17.6 years
<b>Weighted average discount rate</b>	
Operating leases	2.01 %

The Company recorded \$798 thousand and \$590 thousand of net lease costs during the years ended June 30, 2023 and 2022, respectively. During the year ended June 30, 2022, the Company recognized a \$117 thousand gain on lease abandonment associated with the closure of the Frankford branch effective June 30, 2022 as part of the Company's branch consolidation efforts. Future minimum payments for operating leases with initial or remaining terms of one year or more as of June 30, 2023 were as follows:

(in thousands)	<u>June 30, 2023</u>	<u>Operating Leases</u>
<b>Twelve months ended June 30,</b>		
2024	\$	811
2025		825
2026		620
2027		636
2028		649
Thereafter		8,037
<b>Total future minimum lease payments</b>	\$	11,578
Amounts representing interest		(2,471)
<b>Present value of net future minimum lease payments</b>	\$	<u>9,107</u>

#### Note 18 — Related Party Transactions

At June 30, 2023 and 2022 certain directors, executive officers, principal holders of the Company's common stock, associates of such persons, and affiliated companies of such persons were indebted, including undrawn commitments to lend, to the Bank in the aggregate amount of \$4.0 million and \$1.5 million, respectively. These total commitments to lend include \$1.3 million and \$376 thousand of undrawn commitments at June 30, 2023 and 2022, respectively. The commitments are in the form of loans and guarantees for various business and personal interests. This indebtedness was incurred in the ordinary course of business on substantially the same terms, including interest rate and collateral, as those prevailing at the time of comparable transactions with unrelated parties. This indebtedness does not involve more than the normal risk of repayment or present other unfavorable features.

The following table shows the loan activity for related parties for the years ended June 30, 2023 and 2022:

(Dollars in thousands)	<u>June 30,</u>	<u>2023</u>	<u>2022</u>
<b>Beginning Balance</b>	\$	1,121	\$ 1,190
New loans and funding of existing lines of credit		1,745	—
Loans to newly appointed directors		—	—
Repayments		(186)	(69)
<b>Ending balance</b>	\$	<u>2,680</u>	<u>\$ 1,121</u>

None of the Company's affiliates, officers, directors, or employees have an interest in or receive remuneration from any special purpose entities or qualified special purpose entities which the Company transacts business.

During the years ended June 30, 2023 and 2022, the Bank purchased certain insurance policies through a related party insurance agency and paid insurance commissions of \$31 thousand and \$41 thousand, respectively. These insurance commissions are included in other expense on the Company's Consolidated Statements of Income.

At June 30, 2023 and 2022, certain directors, executive officers, principal holders of the Company's common stock, associates of such persons, and affiliated companies of such persons had deposits with the Bank in the aggregate amount of \$1.5 million and \$1.3 million, respectively.

## Note 19 — Parent Company Financial Information

### WILLIAM PENN BANCORPORATION

#### CONDENSED STATEMENTS OF FINANCIAL CONDITION — PARENT COMPANY ONLY

(Dollars in thousands)

*As of June 30, 2023 and 2022*

	June 30,	
	2023	2022
<b>ASSETS</b>		
Cash on deposit at the Bank	\$ 14,119	\$ 41,301
Investment in the Bank	144,004	148,364
Equity securities	1,629	2,258
Other assets	1,190	551
<b>TOTAL ASSETS</b>	<u>\$ 160,942</u>	<u>\$ 192,474</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Accrued and other liabilities	\$ 197	\$ 148
<b>TOTAL LIABILITIES</b>	<u>197</u>	<u>148</u>
Commitments and contingencies	—	—
<b>STOCKHOLDERS' EQUITY</b>	<u>160,745</u>	<u>192,326</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 160,942</u>	<u>\$ 192,474</u>

### WILLIAM PENN BANCORPORATION

#### CONDENSED STATEMENTS OF OPERATIONS — PARENT COMPANY ONLY

(Dollars in thousands)

*For the Years Ended June 30, 2023 and 2022*

	Year Ended June 30,	
	2023	2022
<b>INCOME</b>		
Interest on interest-bearing deposits with the Bank	\$ 79	\$ 142
Interest income on securities	131	114
Unrealized loss on equity securities	(629)	(242)
<b>Total (loss) income</b>	<u>(419)</u>	<u>14</u>
<b>EXPENSES</b>		
Professional fees	495	570
Other expenses	202	175
<b>Total expenses</b>	<u>697</u>	<u>745</u>
Loss before income tax benefit and equity in undistributed net income of affiliates	<u>(1,116)</u>	<u>(731)</u>
<b>Income tax benefit</b>	<u>(257)</u>	<u>(168)</u>
Equity in undistributed net income of the Bank	<u>3,661</u>	<u>4,800</u>
<b>NET INCOME</b>	<u>\$ 2,802</u>	<u>\$ 4,237</u>
Comprehensive loss	\$ (5,219)	\$ (11,056)

**WILLIAM PENN BANCORPORATION**  
**CONDENSED STATEMENTS OF CASH FLOW — PARENT COMPANY ONLY**

(Dollars in thousands)

For the Years Ended June 30, 2023 and 2022

	Year Ended June 30,	
	2023	2022
<b>Cash flows from operating activities</b>		
Net income	\$ 2,802	\$ 4,237
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Equity in undistributed net earnings of subsidiaries	(3,661)	(4,800)
Unrealized loss on equity securities	629	242
Net intercompany transactions	1,483	—
Other	205	350
<b>Net cash provided by operating activities</b>	<b>1,458</b>	<b>29</b>
<b>Cash flows from investing activities</b>		
Purchases of equity securities	—	(2,500)
<b>Net cash used in investing activities</b>	<b>—</b>	<b>(2,500)</b>
<b>Cash flows from financing activities</b>		
Cash dividends	(1,584)	(5,143)
Stock purchased and retired	(27,056)	(9,080)
<b>Net cash used in financing activities</b>	<b>(28,640)</b>	<b>(14,223)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(27,182)</b>	<b>(16,694)</b>
<b>Cash and cash equivalents – beginning</b>	<b>41,301</b>	<b>57,995</b>
<b>Cash and cash equivalents – ending</b>	<b>\$ 14,119</b>	<b>\$ 41,301</b>
<b>Supplementary cash flows information</b>		
Income tax payments	\$ —	\$ —

**Note 20 — Subsequent Events**

On July 19, 2023, the Company declared a cash dividend of \$0.03 per share, that was paid on August 10, 2023, to common shareholders of record at the close of business on July 31, 2023.

On August 29, 2023, the Company issued a press release announcing that the Company's Board of Directors has authorized a sixth stock repurchase program to acquire up to 1,138,470 shares, or approximately 10.0%, of the Company's currently issued and outstanding common stock. The sixth stock repurchase program was authorized following the completion of the Company's fifth stock repurchase program on August 28, 2023. As of September 7, 2023, there were 891,170 shares remaining to be repurchased under the Company's sixth repurchase program.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### WILLIAM PENN BANCORPORATION

Date: September 7, 2023

By: /s/ Kenneth J. Stephon

Kenneth J. Stephon  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
<u>/s/ Kenneth J. Stephon</u> Kenneth J. Stephon	Chairman, President and Chief Executive Officer (Principal Executive Officer)	September 7, 2023
<u>/s/ Jonathan T. Logan</u> Jonathan T. Logan	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	September 7, 2023
<u>/s/ William J. Feeney</u> William J. Feeney	Director	September 7, 2023
<u>/s/ Craig Burton</u> Craig Burton	Director	September 7, 2023
<u>/s/ D. Michael Carmody, Jr</u> D. Michael Carmody, Jr	Director	September 7, 2023
<u>/s/ Glenn Davis</u> Glenn Davis	Director	September 7, 2023
<u>/s/ Christopher M. Molden</u> Christopher M. Molden	Director	September 7, 2023
<u>/s/ William C. Niemczura</u> William C. Niemczura	Director	September 7, 2023
<u>/s/ William B.K. Parry, Jr.</u> William B.K. Parry, Jr.	Director	September 7, 2023
<u>/s/ Terry L. Sager</u> Terry L. Sager	Director	September 7, 2023
<u>/s/ Vincent P. Sarubbi</u> Vincent P. Sarubbi	Director	September 7, 2023