Westbury Bancorp, Inc.

AUDITED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

Contents

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Westbury Bancorp, Inc. and Subsidiary
West Bend, Wisconsin

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Westbury Bancorp, Inc. and Subsidiary (Westbury Bancorp, Inc.), which comprise the consolidated balance sheets as of September 30, 2022 and 2021, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Westbury Bancorp, Inc. and Subsidiary as of September 30, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Westbury Bancorp, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Westbury Bancorp, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Milwaukee, Wisconsin
December 5, 2022

Westbury Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets
September 30, 2022 and 2021
(Dollars in Thousands, except per share data)

	September 30, 2022	September 30, 2021
Assets		
Cash and due from banks	$ 14,135	$ 10,630
Interest-earning deposits	23,641	17,527
Cash and cash equivalents	37,776	28,157
Securities available-for-sale	153,769	179,547
Securities held to maturity, at amortized cost ($1,759 and $1,973 fair value at September 30, 2022 and 2021, respectively)	1,763	1,950
Loans held for sale, at lower of cost or fair value	335	2,486
Loans, net of allowance for loan losses of $9,270 and $8,995 at September 30, 2022 and 2021, respectively)	713,389	665,166
Federal Home Loan Bank stock, at cost	1,534	1,491
Office properties and equipment, net	19,474	19,799
Cash surrender value of life insurance	16,470	16,046
Mortgage servicing rights	134	151
Net income taxes receivable	7,899	1,914
Other assets	5,384	5,084
Total assets	$ 957,927	$ 921,791
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 872,668	$ 812,316
Short-term advances from Federal Home Loan Bank	—	10,000
Bank debt	4,571	5,000
Advance payments by borrowers for property taxes and insurance	3,321	3,492
Other liabilities	6,061	5,960
Total liabilities	886,621	836,768
Commitments and Contingencies (Notes 7, 9, 14, 16 and 17)		
Stockholders' Equity		
Preferred stock $0.01 par value, 50,000,000 shares authorized; none issued or outstanding	—	—
Common stock $0.01 par value, 100,000,000 shares authorized; 5,575,618 and 5,500,526 shares issued at September 30, 2022 and 2021, respectively	55	55
Additional paid-in capital	62,847	60,378
Retained earnings	90,998	83,006
Unearned Employee Stock Ownership Plan (ESOP) shares	(45)	(535)
Accumulated other comprehensive income (loss)	(16,242)	172
Less common stock repurchased, 3,117,597 and 2,838,537 shares at cost, at September 30, 2022 and 2021, respectively	(66,307)	(58,053)
Total stockholders' equity	71,306	85,023
Total liabilities and stockholders' equity	$ 957,927	$ 921,791

See Notes to Consolidated Financial Statements.

Westbury Bancorp, Inc. and Subsidiary

Consolidated Statements of Operations
Years Ended September 30, 2022 and 2021
(Dollars in Thousands, except per share data)

	2022	2021
Interest and dividend income:		
Loans	$ 25,205	$ 26,647
Investments - nontaxable	450	454
Investments - taxable	2,177	1,613
Interest bearing deposits	202	85
Total interest and dividend income	28,034	28,799
Interest expense:		
Deposits	852	1,377
Short-term advances from the Federal Home Loan Bank	2	—
Long-term advances from the Federal Home Loan Bank	—	1
Bank debt	175	182
Total interest expense	1,029	1,560
Net interest income before provision for loan losses	27,005	27,239
Provision for loan losses	375	1,050
Net interest income after provision for loan losses	26,630	26,189
Non-interest income:		
Service fees on deposit accounts	3,817	3,598
Gain on sales of loans, net	961	3,797
Servicing fee income (expense), net of amortization and impairment	42	(68)
Insurance and securities sales commissions	1	—
Gain on sales of securities	101	300
Gain on sales of other assets	38	594
Increase in cash surrender value of life insurance	424	415
Rental income from real estate operations	510	858
Other income	480	488
Total non-interest income	6,374	9,982
Non-interest expense:		
Compensation and employee benefits	12,501	12,311
Occupancy, furniture and equipment	2,372	2,594
Data processing	3,172	3,178
Accounting, legal and other professional fees	603	786
FDIC insurance premiums	340	326
Other expenses	2,912	3,691
Total non-interest expense	21,900	22,886
Income before income tax expense	11,104	13,285
Income tax expense	3,112	3,756
Net income	$ 7,992	$ 9,529
Earnings per share:		
Basic	$ 3.19	$ 3.70
Diluted	$ 2.98	$ 3.52

See Notes to Consolidated Financial Statements.

Westbury Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income (Loss)
Years Ended September 30, 2022 and 2021
(Dollars in Thousands)

	2022	2021
Net income	$ 7,992	$ 9,529
Other comprehensive loss, before tax:		
Unrealized losses on available-for-sale securities	(22,458)	(2,179)
Reclassification adjustment for realized gains included in net income	(101)	(300)
Other comprehensive loss, before tax	(22,559)	(2,479)
Income tax benefit related to items of other comprehensive loss	6,145	894
Other comprehensive loss, net of tax	(16,414)	(1,585)
Comprehensive income (loss)	$ (8,422)	$ 7,944

See Notes to Consolidated Financial Statements.

Westbury Bancorp, Inc. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity
Years Ended September 30, 2022 and 2021
(Dollars in Thousands, except per share data)

	Preferred Stock	Common Stock	Additional Paid In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Common Stock Repurchased	Total
Balance, September 30, 2020	$ —	$ 55	$ 58,686	$ 73,477	$ (1,138)	$ 1,757	$ (53,981)	$78,856
Net income	—	—	—	9,529	—	—	—	9,529
Other comprehensive loss, net of tax	—	—	—	—	—	(1,585)	—	(1,585)
Repurchase of 146,842 shares of common stock	—	—	—	—	—	—	(4,072)	(4,072)
Exercise of 9,725 stock options	—	—	185	—	—	—	—	185
Stock based compensation expense	—	—	480	—	—	—	—	480
Allocation, or commitment to be allocated, of 60,310 shares by ESOP	—	—	1,027	—	603	—	—	1,630
Balance, September 30, 2021	$ —	$ 55	$ 60,378	$ 83,006	$ (535)	$ 172	$ (58,053)	$85,023
Net income				7,992				7,992
Other comprehensive loss, net of tax						(16,414)		(16,414)
Repurchase of 279,060 shares of common stock							(8,254)	(8,254)
Exercise of 51,742 stock options			957					957
Stock based compensation expense			498					498
Allocation, or commitment to be allocated, of 49,000 shares by ESOP			1,014		490			1,504
Balance, September 30, 2022	$ —	$ 55	$ 62,847	$ 90,998	$ (45)	$ (16,242)	$ (66,307)	$71,306

See Notes to Consolidated Financial Statements.

Westbury Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended September 30, 2022 and 2021
(Dollars in Thousands)

	2022	2021
Cash Flows From Operating Activities		
Net income	$ 7,992	$ 9,529
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	375	1,050
Depreciation and amortization	1,242	1,363
Proceeds from insurance claim on fixed assets	—	1,037
Net amortization of securities premiums and discounts	1,518	1,266
Amortization and impairment of mortgage servicing rights	17	168
Gain on sales of available-for-sale securities	(101)	(300)
Gain on sales of other assets	(38)	(42)
Gain on sale of foreclosed real estate	—	(552)
Loans originated for sale	(37,968)	(115,082)
Proceeds from sale of loans	41,080	120,680
Gain on sale of loans, net	(961)	(3,797)
ESOP compensation expense	1,504	1,630
Stock based compensation expense	498	480
Deferred income taxes	60	(388)
Increase in cash surrender value of life insurance	(424)	(415)
Net change in:		
Other assets	(262)	135
Other liabilities and advance payments by borrowers for property taxes and insurance	(70)	(1,023)
Net cash provided by operating activities	14,462	15,739
Cash Flows From Investing Activities		
Purchases of securities available-for-sale	(33,957)	(120,022)
Purchases of securities held-to-maturity	—	(528)
Proceeds from sales of securities available-for-sale	12,141	5,592
Proceeds from maturities, prepayments, and calls of securities available-for-sale	23,718	26,608
Proceeds from maturities, prepayments, and calls of securities held-to-maturity	187	181
Net (increase) decrease in loans	(48,598)	25,762
Proceeds from sales of office properties and equipment	—	23
Purchases of office properties and equipment	(917)	(300)
Proceeds from sales of foreclosed real estate	—	3,916
Net cash used in investing activities	(47,469)	(58,768)

Westbury Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended September 30, 2022 and 2021
(Dollars in Thousands)
Continued

	2022	2021
Cash Flows From Financing Activities		
Net increase in deposits	60,352	35,904
Payment of long-term Federal Home Loan Bank advances	—	(13,000)
Net advances (payments) on short-term Federal Home Loan Bank advances	(10,000)	10,000
Net advances (payments) on bank line of credit	—	(6,540)
Payment on bank term debt	(429)	—
Proceeds from bank term debt	—	3,000
Proceeds from exercise of stock options	957	184
Repurchase of common stock	(8,254)	(4,072)
Net cash provided by financing activities	42,626	25,476
Net increase (decrease) in cash and cash equivalents	9,619	(17,553)
Cash and cash equivalents at beginning of period	28,157	45,710
Cash and cash equivalents at end of period	$ 37,776	$ 28,157
Supplemental Disclosures of Cash Flow Information		
Interest paid (including amounts credited to deposits)	$ 993	$ 1,562
Supplemental Schedules of Non-cash Operating and Investing Activities		
Loans receivable transferred to foreclosed real estate	$ —	$ 413

See Notes to Consolidated Financial Statements.

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations: Westbury Bancorp, Inc. (the "Company") is a Maryland bank holding company headquartered in Pewaukee, Wisconsin and provides a variety of financial services to individuals and small businesses throughout Southeastern Wisconsin. The Company owns 100% of the stock of Westbury Bank (the "Bank"). The Bank's primary deposit products are checking, savings, money market and term certificate accounts and its primary lending products are consumer, commercial and residential mortgage loans. The Bank is subject to competition from other financial institutions and non-financial institutions providing financial products. Additionally, the Company and the Bank are subject to the regulations of certain regulatory agencies and undergo periodic examination by those regulatory agencies.

Organization and principles of consolidation: The consolidated financial statements include the accounts of the Company and the Bank. The financial statements of the Bank include the accounts of one wholly-owned limited liability company (LLC) formed to own certain of the Bank's foreclosed properties. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates: In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Cash and cash equivalents: For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, due from banks, and interest-bearing deposits.

The Company maintains amounts due from banks that, at times, may exceed federally insured limits. Management monitors these correspondent relationships and has historically experienced no losses. Accordingly, in the opinion of management, no material risk of loss exists.

Securities: Unless classified as "held-to-maturity", all securities are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income, net of the related deferred tax effect. Securities are classified as "held-to-maturity" and recorded at amortized cost when management has the ability and intent to hold the securities to maturity.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of individual available-for-sale securities below their amortized cost basis that are deemed to be other-than-temporary impairment losses are reflected as realized losses. In determining whether an other-than-temporary impairment exists, management considers many factors including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent or requirement of the Company to sell its investment in the issuer prior to any anticipated recovery in fair value.

If the Company intends to sell an impaired security, it records an other-than-temporary loss in an amount equal to the entire difference between the fair value and amortized cost of the security. If a security is determined to be other-than-temporarily impaired, but the Company does not intend to sell the security, only the credit portion of the estimated loss is recognized in earnings, with the other portion of the loss recognized in other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as estimated based on cash flow projections discounted at the applicable original yield of the security.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans held for sale: Loans held for sale are recorded at the lower of cost or fair value as determined on an aggregate basis. Fees received from the borrower and the direct costs of loan originations are deferred and recorded as an adjustment to the sales price, when such loans are sold.

Loans: The Company grants commercial, mortgage and consumer loans to customers principally located in Southeastern Wisconsin. The ability of the Company's loan customers to meet the terms of their loans is dependent upon the general economic conditions in this area and real estate values.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and deferred loan fees or costs on an originated basis. Interest income is accrued on the unpaid principal balance. Loan origination and commitment fees and certain direct loan origination costs on loans receivable are deferred, and the net amounts amortized as an adjustment of the related loan's yield. These amounts are amortized, using the level-yield method, over the contractual life of the related loans. Unamortized deferred amounts are included in interest income upon repayment or sale of the related loan.

The accrual of interest on loans is discontinued at the time the loan is ninety days delinquent, unless the loan is well-secured and in the process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual status or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for loan losses: For all portfolio segments, the allowance for loan losses is maintained at the level considered adequate by management of the Company to provide for losses that are probable. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. In determining the adequacy of the allowance balance, the Company makes continuous evaluations of the loan portfolio and related off-balance sheet commitments, considers current economic conditions and historical loss experience, and reviews specific problem loans and other factors.

When establishing the allowance for loan losses, management categorizes loans into risk categories generally based on the nature of the collateral and the basis of repayment. These risk categories and their relevant risk characteristics are as follows:

Single family: Single family loans are real estate loans generally smaller in size and are homogeneous because they exhibit similar characteristics. Single family loans are underwritten by evaluating the credit history of the borrower, the ability of the borrower to meet the debt service requirements of the loan and total debt obligations, as well as the underlying collateral and the loan to collateral value. Also included in this category are junior liens on 1-4 family residential properties. These loans consist of closed-end loans secured by junior liens on 1-4 family residential properties. Underwriting standards for single family loans are heavily influenced by statutory requirements, which include, but are not limited to, loan-to-value and affordability ratios, risk-based pricing strategies, and documentation requirements.

Construction and land development: These loans are secured by vacant land and/or property that are in the process of improvement, including (a) land development preparatory to erecting vertical improvements or (b) the on-site construction of industrial, commercial, residential, or farm buildings. Repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. For purposes of this classification, "construction" includes not only construction of new structures, but any loans originated to finance additions or alterations to existing structures and the demolition of existing structures to make way for new structures. Until a permanent loan originates, or payoff occurs, all construction loans secured by real estate are reported in this loan pool. Loans to finance construction and land development that are not secured by real estate are segmented and reported separate from this pool. In the event a loan is made on property that is not yet improved for the planned development, there is the risk that necessary approvals will not be granted or will be delayed. Construction loans also run the risk that improvements will not be completed on time or in accordance with specifications and projected costs.

Commercial business: Commercial business loans are extended primarily to middle market customers. Such credits typically comprise working capital loans, loans for physical asset expansion, asset acquisition loans and other business loans. Loans to closely held businesses will generally be guaranteed in full or for a meaningful amount by the owners of the business. Commercial business loans are made based primarily on the historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecast and collateral securing loans may fluctuate in value due to economic or individual performance factors. Minimum standards and underwriting guidelines have been established for all commercial and industrial loan types.

Multifamily: Multifamily loans include loans to finance non-farm properties with five or more units in structures primarily to accommodate households on a temporary or permanent basis. Such credits are typically originated to finance the acquisition of an apartment or condo building/complex. Multifamily loans are made based primarily on the historical and projected cash flow of the subject multifamily property, with assumptions made for vacancy rates. Cash flows and ultimate loan performance rely on the receipt of rental income from the tenants of the property who are themselves subject to fluctuations in national and local economic and unemployment trends.

Commercial real estate: These loans are primarily secured by office and industrial buildings, warehouses, small retail shopping facilities and various special purpose properties, including hotels and restaurants. These loans are subject to underwriting standards and processes similar to commercial business loans. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and/or property type.

Consumer and other: These loans may take the form of installment loans, demand loans, or single payment loans, and are extended to individuals for household, family, and other personal expenditures. These loans generally include direct consumer automobile loans extended by the Company for the purpose of purchasing a new or used vehicle for personal use. Consumer and installment loans are underwritten by evaluating the credit history of the borrower and the ability of the borrower to meet the debt service requirements of the loan and total debt obligations. Also included in this category are home equity lines of credit. These loans consist of revolving open-end lines of credit secured by 1-4 family residential properties extended to individuals for household, family or other personal expenditures. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include, but are not limited to, loan-to-value and affordability ratios, risk-based pricing strategies, and documentation requirements.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory agencies, as an integral part of their examination processes, periodically review the Company's allowance for loan losses, and may require the Company to recognize adjustments to its allowance based on their judgments of information available to them at the time of their examinations.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired, and an allowance is established when the collateral value, discounted cash flows or observable market price of the impaired loan are lower than the carrying value of that loan. The general component covers non-impaired loans and is based on the Company's own loss experience over the most recent twenty quarters, adjusted for qualitative factors. These qualitative factors consider local economic trends, concentrations, management experience and other elements of the Company's lending operations.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining the impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the fair value of collateral, if the loan is collateral dependent, the present value of expected future cash flows discounted at the loan's effective interest rate, or the loan's obtainable market price.

Single family and consumer and other loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual homogeneous loans for impairment disclosures, unless such loans are the subject of a restructuring agreement due to the financial difficulties of the borrower, the loans are related with another commercial type loan or the loans experience significant payment delinquencies and are not insured.

Federal Home Loan Bank stock: Federal Home Loan Bank (FHLB) stock consists of the Company's required investment in the capital stock of the FHLB. No ready market exists for these securities and they have no quoted market value; as such the stock is carried at cost. Management reviews FHLB stock for impairment based on the ultimate recoverability of the cost basis in the FHLB stock, and no impairment has been identified as a result of these reviews.

Foreclosed real estate: Real estate acquired by foreclosure or by deed in lieu of foreclosure is initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Costs relating to the development and improvement of property are capitalized; holding costs are charged to expense. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of their carrying amount or fair value less cost to sell. Revenues and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed real estate.

Real estate held for investment/sale: Real estate held for investment consists of rental properties. Rental properties are carried at the lower of cost less provisions for depreciation computed by the straight-line method over the estimated life of the property, or fair value less costs to sell. Rental revenue is recognized on a straight-line basis over the term of the lease unless another systemic and rational basis is more representative of the time pattern in which the use benefit is derived from the leased property. The difference between rental income earned on a straight-line basis and the cash rent due under provisions of the lease agreements is recorded as deferred rent receivable and is included as a component of other assets in the accompanying consolidated balance sheets.

A property is considered held for sale when a contract for sale is entered into or when management has committed to a plan to sell an asset, the asset is actively marketed, and sale is expected to occur within one year. Property reported as held for sale is reported at the lower of the carrying amount or fair value less costs to sell and is not depreciated.

The Company evaluates the carrying value of all real estate held when an indicator of impairment is deemed to exist. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount which the carrying amount of the asset exceeds the fair value of the asset.

Office properties and equipment: Office properties including equipment are stated at cost less accumulated depreciation, and include expenditures for new facilities and items that substantially increase the useful lives of existing buildings and equipment. Expenditures for normal repairs and maintenance are charged to expense as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded.

Cash surrender value of life insurance: The Company has purchased bank-owned life insurance policies on certain executives. Bank-owned life insurance is recorded at its cash surrender value. Changes in the cash surrender values are included in non-interest income.

Mortgage servicing rights: Mortgage servicing rights (MSRs) are initially recognized at fair value when loans have been sold to investors and are amortized over the lives of the loans. Upon sale of loans with servicing retained, the servicing rights are recorded at fair value and remaining proceeds received are allocated to the loan. Amortization of MSRs is based on the ratio of net servicing income received in the current period, to total remaining net servicing income projected to be realized from the MSRs. MSRs are periodically assessed for impairment, which is calculated using estimated net cash flow analysis on a discounted basis. Impairment is recognized in the statement of income, during the period in which it occurs, as an adjustment to the corresponding valuation allowance. For purposes of performing an impairment evaluation, the serviced loan portfolio is stratified on the basis of certain risk characteristics including loan type (i.e., fixed or adjustable interest rates).

Transfers of financial assets: Transfers of financial assets are accounted for as sales only when the control over the financial 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 the right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of the transfer, it must represent a proportionate (pro rata) ownership in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Employee stock ownership plan: The Company has an employee stock ownership plan (ESOP) covering substantially all employees. The cost of shares issued to the ESOP but not yet allocated to participants is presented in the consolidated balance sheets as a reduction of stockholders' equity. Compensation expense is recorded based on the market price of the shares as they are committed to be released for allocation to participant accounts.

Stock-based compensation: The Company accounts for its equity awards in accordance with ASC Topic 718. ASC Topic 718 requires public companies to recognize compensation expense related to stock-based equity awards in their income statements. See Note 12 below for more information.

Income taxes: The Company, the Bank, and its subsidiaries file consolidated federal income tax returns and combined state income tax returns. Accordingly, amounts equal to tax benefits of those companies having taxable federal losses or credits are reimbursed by the other companies that incur tax liabilities.

Deferred income taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards 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 bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates as of the date of enactment.

The Company accounts for uncertainty in income taxes to determine whether tax benefits claimed or expected to be claimed on a tax return, should be recorded in the consolidated financial statements. The Company may recognize the tax benefit for an uncertain tax position if it is more-likely-than-not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being utilized upon ultimate settlement.

It is the Company's policy that interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of operations.

Derivative financial instruments and hedging activities: All derivatives are recognized in the consolidated balance sheets at their fair value. Derivative contracts are maintained related to commitments to fund residential mortgages (interest rate locks) in connection with residential mortgages intended for sale. Such commitments are recorded at fair value in other assets or liabilities, with changes in fair value recorded in net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements and, for fixed rate commitments, also considers the committed rates and current levels of interest rates.

Comprehensive income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale, which are also recognized as separate components of equity.

Reclassification: Certain amounts in the 2021consolidated financial statements have been reclassified to conform to the 2022 presentation. These reclassifications had no effect on net income or stockholders' equity.

Segment reporting: The Company views the Bank as one operating segment, therefore, separate reporting of financial segment information is not considered necessary. The Company approaches the Bank and its other subsidiaries as one business enterprise, which operates in a single economic environment, since the products and services, types of customers and regulatory environment all have similar characteristics.

Recent accounting pronouncements: In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). ASU 2016-13 is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity. ASU 2016-13 replaces the "incurred loss impairment methodology" with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13, as amended by ASU 2019-10, is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. The Company is evaluating the potential impact of ASU 2016-13 on the consolidated financial statements and related disclosures.

Note 2. Cash and Due from Banks

The Bank may be required to maintain average balances on hand or with the Federal Reserve Bank, based upon a percentage of certain deposits. These required reserve balances totaled approximately zero at both September 30, 2022 and 2021.

Dollars in Thousands

Note 3. Investment Securities

The amortized costs and fair values of investment securities are summarized as follows:

	September 30, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
U.S. Government and agency securities	$ 5,934	$ —	$ (790)	$ 5,144
U.S. Government agency residential mortgage-backed securities	35,045	—	(5,439)	29,606
U.S. Government agency collateralized mortgage obligations	8,678	—	(1,411)	7,267
U.S. Government agency commercial mortgage-backed securities	58,208	—	(6,718)	51,490
U.S. Government agency commercial mortgage-backed securities - tax exempt	2,823	2	—	2,825
U.S. Government agency asset backed securities	22,832	—	(3,455)	19,377
Municipal securities-tax exempt	28,772	—	(3,473)	25,299
Municipal securities-taxable	7,681	—	(535)	7,146
Corporate securities	6,121	—	(506)	5,615
Total Available for Sale	$ 176,094	$ 2	$ (22,327)	$ 153,769
Held to Maturity				
Municipal securities-tax exempt	1,237	—	(7)	1,230
Corporate securities	526	3	—	529
Total Investment Securities	$ 177,857	$ 5	$ (22,334)	$ 155,528

	September 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
U.S. Government agency residential mortgage-backed securities	$ 39,166	$ 333	$ (278)	$ 39,221
U.S. Government agency collateralized mortgage obligations	7,025	20	(66)	6,979
U.S. Government agency commercial mortgage-backed securities	54,424	711	(533)	54,602
U.S. Government agency commercial mortgage-backed securities - tax exempt	2,871	—	—	2,871
U.S. Government agency asset backed securities	23,650	20	(398)	23,272
Municipal securities-tax exempt	34,876	400	(139)	35,137
Municipal securities-taxable	8,939	111	(11)	9,039
Corporate bonds	4,359	106	(43)	4,422
Total Available for Sale	$ 179,310	$ 1,705	$ (1,468)	$ 179,547
Held to Maturity				
Municipal securities	1,422	23	—	1,445
Corporate bonds	528	—	—	528
Total Investment Securities	$ 181,260	$ 1,728	$ (1,468)	$ 181,520

Dollars in Thousands

The amortized cost and fair value of investment securities, by contractual maturity at September 30, 2022, are shown in the following table. Actual maturities differ from contractual maturities for mortgage-backed securities and collateralized mortgage obligations because the mortgages underlying the securities may be called or repaid without penalty. Therefore, these securities are not presented in the maturity categories in the table below.

	Amortized Cost	Fair Value
Available for sale:		
Due in one year or less	$ 4,179	$ 4,155
Due after one year through five years	13,868	12,886
Due after five years through ten years	15,605	13,664
Due after ten years	14,856	12,499
U.S. Government agency collateralized mortgage obligations	8,678	7,267
U.S. Government agency residential mortgage-backed securities	35,045	29,606
U.S. Government agency commercial mortgage-backed securities	61,031	54,315
U.S. Government agency asset backed securities	22,832	19,377
	$ 176,094	$ 153,769
Held to maturity:		
Due in one year or less	190	189
Due after one year through five years	823	817
Due after five years through ten years	750	753
	1,763	1,759
Total	$ 177,857	$ 155,528

Proceeds from sales of securities available-for-sale during the years ended September 30, 2022 and 2021 were $12,141 and $5,592, respectively. Gross realized gains, during the years ended September 30, 2022 and 2021, on these sales amounted to $162 and $300, respectively. Gross realized losses on these sales were $61 and $0 during the years ended September 30, 2022 and 2021, respectively.

Securities with carrying values of $11,589 and $12,008 at September 30, 2022 and 2021, respectively, were pledged for purposes required or permitted by law.

Dollars in Thousands

Information pertaining to securities with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are summarized as follows:

	September 30, 2022					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government and agency securities	$ 5,144	$ (790)	$ —	$ —	$ 5,144	$ (790)
U.S. Government agency residential mortgage-backed securities	17,877	(2,787)	11,729	(2,652)	29,606	(5,439)
U.S. Government agency collateralized mortgage obligations	5,005	(986)	2,262	(425)	7,267	(1,411)
U.S. Government agency commercial mortgage-backed securities	23,358	(2,415)	28,132	(4,303)	51,490	(6,718)
U.S. Government agency asset-backed securities	6,610	(1,110)	12,767	(2,345)	19,377	(3,455)
Municipal securities-tax exempt	20,456	(2,457)	5,545	(1,023)	26,001	(3,480)
Municipal securities-taxable	7,146	(535)	—	—	7,146	(535)
Corporate securities	3,369	(194)	2,246	(312)	5,615	(506)
	$ 88,965	$ (11,274)	$ 62,681	$ (11,060)	$ 151,646	$ (22,334)

	September 30, 2021					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government agency residential mortgage-backed securities	$ 19,101	$ (278)	$ —	$ —	$ 19,101	$ (278)
U.S. Government agency collateralized mortgage obligations	5,563	(66)	—	—	5,563	(66)
U.S. Government agency commercial mortgage-backed securities	35,913	(428)	5,496	(105)	41,409	(533)
U.S. Government agency asset-backed securities	19,307	(398)	—	—	19,307	(398)
Municipal securities-tax exempt	12,325	(124)	1,562	(15)	13,887	(139)
Municipal securities-taxable	1,900	(11)	—	—	1,900	(11)
Corporate securities	2,533	(43)	—	—	2,533	(43)
	$ 96,642	$ (1,348)	$ 7,058	$ (120)	$ 103,700	$ (1,468)

At September 30, 2022, the investment portfolio included 68 securities available-for-sale which had been in unrealized loss positions for greater than twelve months and 132 securities which had been in unrealized loss positions for less than twelve months. At September 30, 2021, the investment portfolio included 9 securities available-for-sale which had been in unrealized loss positions for greater than twelve months and 84 securities which had been in unrealized loss positions for less than twelve months. These securities are considered to be acceptable credit risks. Based upon an evaluation of the available evidence, including recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the decline in fair value for these securities is temporary. In addition, the Company does not intend to sell these investment securities for a period of time sufficient to allow for anticipated recovery in fair value. The Company does not have any current requirement to sell these investment securities prior to any anticipated recovery in fair value.

Dollars in Thousands

Note 4. Loans

A summary of the balances of loans follows:

	September 30, 2022	September 30, 2021
Real Estate:		
Single family	$ 115,879	$ 104,235
Multifamily	236,347	214,592
Commercial real estate non-owner occupied	120,606	133,123
Commercial real estate owner occupied	91,347	83,072
Construction and land development	16,624	22,431
Total Real Estate	580,803	557,453
Commercial Business	118,906	86,084
Commercial Business - Payroll Protection Program	—	11,222
Consumer and Other:		
Home equity lines of credit	16,232	13,612
Life insurance cash value loans	6,385	5,435
Other	501	1,106
Total Consumer	23,118	20,153
Total Loans	722,827	674,912
Less:		
Net deferred loan fees	168	751
Allowance for loan losses	9,270	8,995
Net Loans	$ 713,389	$ 665,166

Dollars in Thousands

The following tables present the contractual aging of the recorded investment in past due loans by class of loans as of September 30, 2022 and September 30, 2021:

September 30, 2022	Current	30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total
Single family	$ 115,879	$ —	$ —	$ —	$ 115,879
Multifamily	236,347	—	—	—	236,347
Commercial real estate non-owner occupied	112,253	—	—	8,353	120,606
Commercial real estate owner occupied	91,347	—	—	—	91,347
Construction and land development	16,624	—	—	—	16,624
Commercial business	118,906	—	—	—	118,906
Consumer and other:					
Home equity lines of credit	16,231	1	—	—	16,232
Life insurance cash value loans	6,385	—	—	—	6,385
Other	501	—	—	—	501
	$ 714,473	$ 1	$ —	$ 8,353	$ 722,827

September 30, 2021	Current	30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total
Single family	$ 104,235	$ —	$ —	$ —	$ 104,235
Multifamily	214,592	—	—	—	214,592
Commercial real estate non-owner occupied	124,770	—	—	8,353	133,123
Commercial real estate owner occupied	83,072	—	—	—	83,072
Construction and land development	22,431	—	—	—	22,431
Commercial business	86,084	—	—	—	86,084
Commercial business - Payroll Protection Program	11,222	—	—	—	11,222
Consumer and other:					
Home equity lines of credit	13,531	70	—	11	13,612
Life insurance cash value loans	5,435	—	—	—	5,435
Other	1,106	—	—	—	1,106
	$ 666,478	$ 70	$ —	$ 8,364	$ 674,912

There were no loans past due ninety days or more still accruing interest as of September 30, 2022 and September 30, 2021.

The following table presents the recorded investment in nonaccrual loans by class of loans as of September 30, 2022 and September 30, 2021:

	September 30, 2022	September 30, 2021
Single family	$ —	$ —
Multifamily	—	—
Commercial real estate non-owner occupied	9,078	8,722
Commercial real estate owner occupied	—	—
Construction and land development	—	—
Commercial business	—	—
Consumer and other:		
Home equity lines of credit	—	11
Life insurance cash value loans	—	—
Other	—	—
	$ 9,078	$ 8,733

As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management categorizes loans into risk categories based on relevant information about the ability of the borrowers to service their debt and comply with various terms of their loan agreements. The Company considers current financial information, historical payment experience, credit documentation, public information and current economic trends when categorizing loans into risk categories. Generally, all sizable credits receive a financial review no less than annually to monitor and adjust, if necessary, the credit's risk profile. Credits classified as watch, special mention, substandard and doubtful generally receive a review quarterly.

The Company categorizes loans into the following risk categories based on relevant information about the ability of borrowers to service their debt:

Pass - A pass asset is well protected by the current worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less costs to acquire and sell in a timely manner, of any underlying collateral.

Watch - A watch asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Watch assets are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Special Mention - A special mention asset has characteristics of deterioration in quality exhibited by any number of well-defined weaknesses requiring significant corrective action. The repayment ability of the borrower has not been validated, or has become marginal or weak and the loan may have exhibited some overdue payments or payment extensions and/or renewals.

Substandard - A substandard asset is an asset with a well-defined weakness that jeopardizes repayment in whole, or in part, of the debt. These credits are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. These assets are characterized by the distinct possibility that the Company will or has sustained some loss of principal and/or interest if the deficiencies are not corrected.

Doubtful - A doubtful asset is an asset that has all the weaknesses inherent in the substandard classification with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. These credits have a high probability for loss, yet because certain important and reasonably specific pending factors may work toward the strengthening of the asset, its classification of loss is deferred until its more exact status can be determined.

Homogeneous loan types are assessed for credit quality based on the contractual aging status of the loan and payment activity. In certain cases, based upon payment performance, the loan being related with another commercial type loan or for other reasons, a loan may be categorized into one of the risk categories noted above. Such assessment is completed at the end of each reporting period.

Dollars in Thousands

The following tables present the risk category of loans evaluated by internal asset classification based on the most recent analysis performed and the contractual aging as of September 30, 2022 and 2021:

September 30, 2022	**Pass**	**Watch**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Single family	$ 115,879	$ —	$ —	$ —	$ —	$ 115,879
Multifamily	236,347	—	—	—	—	236,347
Commercial real estate non-owner occupied	111,448	80	—	9,078	—	120,606
Commercial real estate owner occupied	89,788	1,559	—	—	—	91,347
Construction and land development	16,624	—	—	—	—	16,624
Commercial business	102,309	5,515	—	11,082	—	118,906
Consumer and other:						—
Home equity lines of credit	16,232	—	—	—	—	16,232
Life insurance cash value loans	6,385	—	—	—	—	6,385
Other	501	—	—	—	—	501
Total	$ 695,513	$ 7,154	$ —	$ 20,160	$ —	$ 722,827

September 30, 2021	**Pass**	**Watch**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Single family	$ 103,925	$ —	$ —	$ 310	$ —	$ 104,235
Multifamily	214,592	—	—	—	—	$ 214,592
Commercial real estate non-owner occupied	124,401	—	—	8,722	—	$ 133,123
Commercial real estate owner occupied	83,072	—	—	—	—	$ 83,072
Construction and land development	22,431	—	—	—	—	22,431
Commercial business	86,084	—	—	—	—	86,084
Commercial business - Payroll Protection Program	11,222	—	—	—	—	11,222
Consumer and other:						
Home equity lines of credit	13,601	—	—	11	—	13,612
Life insurance cash value loans	5,435	—	—	—	—	5,435
Other	1,106	—	—	—	—	1,106
	$ 665,869	$ —	$ —	$ 9,043	$ —	$ 674,912

Dollars in Thousands

The following tables provide additional detail of the activity in the allowance for loan losses, by portfolio segment, for the years ended September 30, 2022 and 2021:

Year Ended September 30, 2022	Single Family	Multifamily	Commercial Real Estate - Non-owner Occupied	Commercial Real Estate - Owner-Occupied	Construction and Land Development	Commercial Business	Consumer and Other	Total
Allowance for loan losses:								
Beginning balance	$ 411	$ 2,220	$ 3,556	$ 1,075	$ 379	$ 1,269	$ 85	$ 8,995
Provision for loan losses	10	45	52	50	(71)	296	(7)	375
Loans charged-off	—	—	(125)	—	—	—	—	(125)
Recoveries	22	—	—	—	—	3	—	25
Ending balance	$ 443	$ 2,265	$ 3,483	$ 1,125	$ 308	$ 1,568	$ 78	$ 9,270
Period-ended amount allocated for:								
Individually evaluated for impairment	$ —	$ —	$ 1,641	$ —	$ —	$ —	$ —	$ 1,641
Collectively evaluated for impairment	443	2,265	1,842	1,125	308	1,568	78	7,629
Ending Balance	$ 443	$ 2,265	$ 3,483	$ 1,125	$ 308	$ 1,568	$ 78	$ 9,270
Loans:								
Individually evaluated for impairment	$ —	$ —	$ 9,078	$ —	$ —	$ 11,082	$ —	$ 20,160
Collectively evaluated for impairment	115,879	236,347	111,528	91,347	16,624	107,824	23,118	702,667
Ending Balance	$ 115,879	$ 236,347	$ 120,606	$ 91,347	$ 16,624	$ 118,906	$ 23,118	$ 722,827

Year Ended September 30, 2021	Single Family	Multifamily	Commercial Real Estate - Non-owner Occupied	Commercial Real Estate - Owner-Occupied	Construction and Land Development	Commercial Business	Consumer and Other	Total
Allowance for loan losses:								
Beginning balance	$ 530	$ 1,589	$ 3,447	$ 1,028	$ 347	$ 834	$ 133	$ 7,908
Provision for loan losses	(146)	631	109	47	32	425	(48)	1,050
Loans charged-off	—	—	—	—	—	—	—	—
Recoveries	27	—	—	—	—	10	—	37
Ending balance	$ 411	$ 2,220	$ 3,556	$ 1,075	$ 379	$ 1,269	$ 85	$ 8,995
Period-ended amount allocated for:								
Individually evaluated for impairment	$ —	$ —	$ 1,627	$ —	$ —	$ —	$ —	$ 1,627
Collectively evaluated for impairment	411	2,220	1,929	1,075	379	1,269	85	7,368
Ending Balance	$ 411	$ 2,220	$ 3,556	$ 1,075	$ 379	$ 1,269	$ 85	$ 8,995
Loans:								
Individually evaluated for impairment	$ —	$ —	$ 8,722	$ —	$ —	$ —	$ —	$ 8,722
Collectively evaluated for impairment	104,235	214,592	124,401	83,072	22,431	97,306	20,153	666,190
Ending Balance	$ 104,235	$ 214,592	$ 133,123	$ 83,072	$ 22,431	$ 97,306	$ 20,153	$ 674,912

Dollars in Thousands

The following tables present additional detail of impaired loans, segregated by segment, as of and for the years ended September 30, 2022 and 2021. The unpaid principal balance represents the recorded balance prior to any partial charge-offs. The recorded investment represents customer balances net of any partial charge-offs recognized on the loans by loan category. The interest income recognized column represents all interest income reported on either a cash or accrual basis after the loan became impaired.

September 30, 2022	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Single family	$ 35	$ —	$ —	$ —	$ —
Multifamily	—	—	—	—	—
Commercial real estate non-owner occupied	—	—	—	—	—
Commercial real estate owner occupied	—	—	—	—	—
Construction and land development	4	—	—	—	—
Commercial business	11,082	11,082	—	4,083	382
Consumer and other	—	—	—	—	—
With an allowance recorded:					
Single family	—	—	—	—	—
Multifamily	—	—	—	—	—
Commercial real estate non-owner occupied	9,078	9,078	1,641	8,944	—
Commercial real estate owner occupied	—	—	—	—	—
Construction and land development	—	—	—	—	—
Commercial business	—	—	—	—	—
Consumer and other	—	—	—	—	—
	$ 20,199	$ 20,160	$ 1,641	$ 13,027	$ 382

September 30, 2021	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Single family	$ 36	$ —	$ —	$ 2	$ —
Multifamily	—	—	—	—	—
Commercial real estate non-owner occupied	—	—	—	—	—
Commercial real estate owner occupied	—	—	—	—	—
Construction and land development	4	—	—	—	—
Commercial business	—	—	—	1,769	38
Consumer and other	—	—	—	—	—
With an allowance recorded:					
Single family	—	—	—	—	—
Multifamily	—	—	—	—	—
Commercial real estate non-owner occupied	8,722	8,722	1,627	8,729	—
Commercial real estate owner occupied	—	—	—	—	—
Construction and land development	—	—	—	—	—
Commercial business	—	—	—	—	—
Consumer and other	—	—	—	—	—
	$ 8,762	$ 8,722	$ 1,627	$ 10,500	$ 38

Dollars in Thousands

The following is a summary of troubled debt restructured loans (TDRs) at September 30, 2022 and 2021:

	September 30, 2022	September 30, 2021
Troubled debt restructurings - accrual	$ —	$ —
Troubled debt restructurings - nonaccrual	—	—
	$ —	$ —

Modifications of loan terms in a TDR are generally in the form of an extension of payment terms or lowering of the interest rate, although occasionally the Bank has reduced the outstanding principal balance.

There were no loans modified in a TDR during the years ended September 30, 2022 and 2021. There were no re-defaults of TDR loans that occurred during the years ended September 30, 2022 and 2021.

Certain of the Bank's directors and executive officers are loan customers of the Bank. As of September 30, 2022 and 2021, loans of approximately $13,097 and $12,842, respectively, were outstanding to such parties. These loans were made on substantially the same terms as those prevailing for comparable transactions with other persons and do not involve more than the normal risk of collectability.

An analysis of such loans is as follows:

	Years Ended September 30, 2022	2021
Balance, beginning	$ 12,842	$ 9,320
New loans originated	803	4,276
Draws on lines of credit	6,369	4,490
Principal repayments	(6,917)	(5,244)
Balance, ending	$ 13,097	$ 12,842

Note 5. Foreclosed Real Estate

An analysis of foreclosed real estate for the years ended September 30, 2022 and 2021 is as follows:

	Years Ended September 30, 2022	2021
Balance, beginning	$ —	$ 3,025
Transfer of loans	—	413
Payments	—	(74)
Proceeds on sale	—	(3,916)
Gain (loss) on sale	—	552
Balance, ending	$ —	$ —

Note 6. Mortgage Servicing Rights

Loans serviced for others approximated $19,543 and $28,865 at September 30, 2022 and 2021, respectively. These loans are not reflected in the accompanying consolidated financial statements and were sold without recourse.

Dollars in Thousands

	Years Ended September 30,	
	2022	**2021**
Mortgage servicing rights:		
Balance at beginning of year	$ 201	$ 369
Additions	—	—
Disposals	—	—
Amortization	(67)	(168)
Balance at end of year	134	201
Valuation allowances:		
Balance at beginning of year	50	50
Additions	—	—
Reductions	(50)	—
Write-downs	—	—
Balance at end of year	—	50
Mortgage servicing rights, net	$ 134	$ 151

The fair value of mortgage servicing rights was $134 and $151 as of September 30, 2022 and 2021, respectively. The fair value of servicing rights was determined using the following assumptions as of:

	September 30, 2022	**September 30, 2021**
Discount rates	10.5 to 11.0%	10.5 to 11.0%
Prepayment speed range	19.3 to 21.8	19.3 to 21.8
Weighted average default rate	0.77%	0.77%

Note 7. Office Properties and Equipment

The components of office properties and equipment were as follows:

	September 30, 2022	**September 30, 2021**
Land and land improvements	$ 6,176	$ 6,176
Office buildings and improvements	21,959	21,719
Furniture and equipment	5,672	6,102
Leasehold improvements	—	—
Future expansion sites	400	—
	34,207	33,997
Less accumulated depreciation and amortization	(14,733)	(14,198)
	$ 19,474	$ 19,799

Depreciation and amortization expense of approximately $1,242 and $1,363 on office properties and equipment is included in furniture and equipment and occupancy expenses for the years ended September 30, 2022 and 2021, respectively.

Dollars in Thousands

The Company leases, to various tenants, space in certain of its office properties under noncancelable operating leases. Gross rental income was $510 and $515 for the years ended September 30, 2022 and 2021, respectively. Minimum future rental income under the terms of noncancelable leases is as follows:

Years Ending September 30,		
2023	$	364
2024		334
2025		344
2026		314
2027		279
Thereafter		337
	$	1,972

The Company is obligated under noncancelable operating leases for facilities and equipment, certain of which provide for increased rentals based upon increases in cost of living adjustments and other operating costs. Total rent expense was approximately $0 and $80 for the years ended September 30, 2022 and 2021, respectively.

There are no approximate minimum annual rentals and commitments under noncancelable agreements and leases with remaining terms in excess of one year as of September 30, 2022.

Dollars in Thousands

Note 8. Deposits

The following table presents the composition of deposits as of:

	September 30, 2022		September 30, 2021	
	Amount	Percent	Amount	Percent
Negotiable order for withdrawal accounts:				
Non-interest bearing	$ 275,017	31.52 %	$ 241,133	29.69 %
Interest bearing	180,912	20.73 %	163,795	20.16 %
	455,929	52.25 %	404,928	49.85 %
Passbook and statement savings	223,859	25.65 %	207,499	25.54 %
Variable rate money market accounts	123,999	14.21 %	111,537	13.73 %
Certificates of deposit	68,881	7.89 %	88,352	10.88 %
	$ 872,668	100.00 %	$ 812,316	100.00 %

Certificate accounts equal to or greater than one hundred thousand dollars totaled $22,894 and $32,916 as of September 30, 2022 and 2021, respectively. Of these amounts, $6,835 and $9,906 were equal to or greater than two hundred fifty thousand dollars as of September 30, 2022 and 2021, respectively.

A summary of certificate accounts by scheduled maturity as of September 30, 2022 is as follows:

	September 30, 2022
2023	$ 52,152
2024	9,860
2025	4,233
2026	1,447
2027	1,189
	$ 68,881

Certain of the Bank's directors and executive officers are deposit customers of the Bank. As of September 30, 2022 and 2021, deposits of approximately $18,997 and $2,322, respectively, were held by such parties.

Note 9. Borrowings

The Bank maintains a master contract agreement with the Federal Home Loan Bank of Chicago (FHLB) that provides for borrowing up to the maximum of 75 percent of the book value of the Bank's first lien 1-4 family and multifamily real estate loans. The FHLB provides both fixed and floating rate advances. Floating rate advances are tied to short-term market rates of interest, such as LIBOR, Federal Funds or Treasury Bill rates. Fixed rate advances are priced in reference to market rates of interest at the time of the advance, namely the rates that the FHLB pays to borrowers at various maturities. In either case, interest is payable monthly with principal payable at maturity.

Advances are generally secured by a security agreement pledging a portion of the Bank's residential real estate loans. Pledged real estate mortgages and home equity lines of credit had a carrying value of $225,838 and $288,816 as of September 30, 2022, and September 30, 2021, respectively.

The Company had FHLB term advances of $0 at September 30, 2022 and September 30, 2021.

On September 30, 2021, the Company entered into a $5,000 three year term note with its correspondent bank. Interest is payable at a fixed rate of 3.25%. The note will amortize on a ten year schedule. The note matures on September 30, 2024.

Dollars in Thousands

On September 30, 2021, the Company renewed its line of credit with its correspondent bank for $10,000. Interest is payable at the prime rate minus 0.50% with a floor rate of 3.00%. The line matures on September 30, 2023.

Both the note and the line of credit with the correspondent bank are secured by the stock of the Bank which is 100% owned by the Company.

Outstanding borrowings were as follows as of September 30, 2022 and 2021:

	September 30,			
	2022		2021	
	Amount	Weighted Average Cost	Amount	Weighted Average Cost
Overnight advances from FHLB	$ —	— %	$ 10,000	0.20 %
Term advances from FHLB	—	— %	—	— %
Term note with correspondent bank	4,571	3.25 %	5,000	3.25 %
Line of credit with correspondent bank	—	5.75 %	—	3.00 %

Note 10. Regulatory Capital

The Company is exempt from consolidated capital requirements as those requirements do not apply to certain small bank holding companies with assets under $1 billion.

The federal banking agencies maintain capital regulations applicable to the Bank.

Under these regulatory capital regulations, the minimum capital ratios are: (1) CET1 capital ratio of 4.5% of risk-weighted assets; (2) a Tier 1 capital ratio of 6.0% of risk-weighted assets: (3) a total capital ratio of 8.0% of risk-weighted assets; and (4) a leverage ratio of 4.0%. CET1 generally consists of common stock and retained earnings, subject to applicable regulatory adjustments and deductions.

The Bank has elected to permanently opt-out of the inclusion of accumulated other comprehensive income in our capital calculations, as permitted by the regulations. This opt-out reduces the impact of market volatility on our regulatory capital levels.

In addition to the minimum CET1, Tier 1 and total capital ratios, the Bank is required to maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions.

Under the FDIC's prompt corrective action standards, in order to be considered well-capitalized, the Bank must have a CET1 ratio of 6.5%, a Tier 1 ratio of 8.0%, a total risk-based capital ratio of 10.0% and a leverage ratio of 5.0%. The Bank meets all these new requirements, including the full capital conservation buffer.

Dollars in Thousands

The Bank’s actual capital amounts and ratios and those required by the above regulatory standards are presented in the following tables. For September 30, 2022 and 2021, we have included the capital conservation buffer in our minimum capital adequacy ratios in the table below:

At September 30, 2022

	Actual		For Capital Adequacy Purposes		For Capital Adequacy Purposes with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
CET1 capital (to risk-weighted assets)								
Westbury Bank	$ 87,431	11.72 %	$ 33,560	4.50 %	$ 52,204	7.00 %	$ 48,475	6.50 %
Tier 1 capital (to risk-weighted assets)								
Westbury Bank	87,431	11.72 %	44,746	6.00 %	63,391	8.50 %	59,662	8.00 %
Total capital (to risk-weighted assets)								
Westbury Bank	96,701	12.97 %	59,662	8.00 %	$ 78,306	10.50 %	74,577	10.00 %
Leverage (to adjusted total assets)								
Westbury Bank	87,431	9.04 %	38,674	4.00 %	N/A	N/A	48,343	5.00 %

At September 30, 2021

	Actual		For Capital Adequacy Purposes		For Capital Adequacy Purposes with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
CET1 capital (to risk-weighted assets)								
Westbury Bank	$ 84,073	12.15 %	$ 31,144	4.50 %	$ 48,446	7.00 %	$ 44,986	6.50 %
Tier 1 capital (to risk-weighted assets)								
Westbury Bank	84,073	12.15 %	41,525	6.00 %	58,827	8.50 %	55,367	8.00 %
Total capital (to risk-weighted assets)								
Westbury Bank	92,724	13.40 %	55,367	8.00 %	$ 72,669	10.50 %	69,209	10.00 %
Leverage (to adjusted total assets)								
Westbury Bank	84,073	9.22 %	36,473	4.00 %	N/A	N/A	45,591	5.00 %

Dollars in Thousands

The following table reconciles the Bank's stockholders' equity to regulatory capital as of September 30, 2022 and September 30, 2021:

	September 30, 2022	September 30, 2021
Stockholder's equity of the Bank	$ 71,190	$ 84,245
Unrealized (gain) loss on securities	16,241	(172)
Tier 1, CET1 and leverage capital	87,431	84,073
Allowable general valuation allowances	9,270	8,651
Total capital	$ 96,701	$ 92,724

Note 11. Employee Benefit Plans

The Bank maintains a contributory, defined-contribution profit-sharing plan (the "Plan") for all employees meeting certain minimum age and service requirements. The Plan qualifies under Section 401(k) of the Internal Revenue Code. Participants may elect to defer a portion of their compensation and contribute this amount to the Plan. The Bank makes a matching contribution based on the amount contributed by a participant. In addition, a discretionary contribution may be made each year as determined annually by the Board of Directors. This discretionary Bank contribution is allocated to each participant based on his or her compensation. The aggregate benefit payable to any employee is dependent upon his or her rate of contribution, the earnings of the Plan assets, and the length of time such employee has been a participant in the Plan. The expense related to this Plan was $225 and $230 for the years ended September 30, 2022 and 2021, respectively.

The Bank maintains a leveraged ESOP that covers all employees meeting certain minimum age and service requirements. The ESOP was established in conjunction with the Company's stock offering completed in April 2013 and operates on a plan year ending December 31. The ESOP initially borrowed $4.1 million and used those funds to acquire 411,403 shares, or 8.0% of the total number of shares issued by the Company in its initial public offering. The shares were acquired at a price of $10.00 per share. The Bank makes annual contributions to the ESOP equal to the ESOP's debt service. The ESOP shares were pledged as collateral for its debt. Additional principal payments, which serve to pay down the debt and accelerate the release of ESOP shares, may be made by the Bank at the discretion of its Board of Directors. As the debt is repaid, shares are released from collateral and allocated to active participants, based on the proportion of debt service paid in the year. The Company accounts for its ESOP in accordance with ASC 718-40. Accordingly, because the debt is intercompany, it is eliminated in consolidation for presentation in these financial statements. The shares pledged as collateral are reported as unearned ESOP shares in the balance sheet. Total ESOP shares may be reduced as a result of employees leaving the Company as shares that have previously been released to those exiting employees may be removed from the ESOP and transferred to that employee. As shares are committed to be released from collateral, the Company reports compensation expense equal to the current market price of the shares, and the shares become outstanding for EPS computations. During each of 2022 and 2021, 49,000 and 60,310 shares were committed to be released, respectively, 4,000 and 10,310 of which were released and available for allocation at December 31, 2021 and 2020, respectively, concurrent with the payment of the annual debt service on the ESOP loan. Total ESOP compensation expense of $1,450 and $1,632 was incurred for the years ended September 30, 2022 and 2021, respectively.

Dollars in Thousands

The ESOP shares as of September 30, 2022 and 2021 were as follows:

	September 30, 2022	September 30, 2021
Shares allocated to active participants	272,258	257,614
Shares committed to be released	45,000	50,000
Unallocated shares	4,518	53,518
Total ESOP shares	321,776	361,132
Fair value of unallocated shares	$ 127	$ 1,549

Note 12. Compensation Equity Plans

The following table summarizes the impact of the Company's share-based payment plans in the financial statements for the periods shown:

	Years Ended September 30,	
	2022	2021
Total cost of stock grant plan during the year	$ 234	$ 162
Total cost of stock option plan during the year	264	318
Total cost of share-based payment plans during the year	$ 498	$ 480
Amount of related income tax benefit recognized in income	$ 136	$ 131

The Company adopted the Westbury Bancorp Inc 2014 Equity Incentive Plan (the "Incentive Plan") in 2014. In June 2014, the Company's stockholders approved the Incentive Plan which authorized the issuance of up to 203,665 restricted stock awards and up to 509,162 stock options. At the Company's annual meeting of stockholders, held on February 15, 2017, the stockholders of the Company approved an amendment to the Plan authorizing 20,000 additional restricted stock awards and an additional 200,000 stock options available for issuance as awards under the Plan. In June 2022, the Company's board of directors approved a new Restricted Stock Plan which authorized the issuance of up to 100,000 restricted stock awards. As of September 30, 2022 there were 91,247 restricted stock awards and 3,200 options available for future grants.

Annual equity-based incentive awards are typically granted to selected officers and employees mid-year. Options are granted with an exercise price equal to no less than the market price of the Company's shares at the date of grant: those option awards generally vest pro-rata over five years of service and have 10-year contractual terms. Restricted shares typically vest pro-rata over a five year period. Equity awards may also be granted at other times throughout the year in connection with the recruitment and retention of officers and employees.

The following table summarizes stock options activity for the year ended September 30, 2022:

	Number of Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)		Aggregate Intrinsic Value (in thousands)
Options outstanding as of September 30, 2021	560,508	$	19.69			
Granted	7,023	$	29.50			
Exercised	(51,742)	$	18.43			
Expired or canceled	—	$	—			
Forfeited	(6,450)	$	21.76			
Options outstanding as of September 30, 2022	509,339	$	19.93	4.62	$	4,242
Options exercisable as of September 30, 2022	408,620	$	18.98	3.92	$	3,772

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model based on certain assumptions. Expected volatility is based on the average volatility of Company shares and the expectations of future volatility of Company shares. The risk free interest rate for periods within the contractual term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. Since options were first awarded in June 2014 and the Company has had a minimal number of options exercised by participants in the Incentive Plan, the expected life of options is estimated based on the Company's actual experience.

The following assumptions were used for options granted during the years ended September 30, 2022 and 2021:

	For the Years Ended September 30,			
		2022		2021
Risk-free interest rate		3.16 %		1.17 %
Expected volatility		19.31 %		20.48 %
Expected dividend yield		— %		— %
Expected life of options (years)		6.5		6.5
Weighted average fair value per option of options granted during the year	$	8.38	$	6.78

The total intrinsic value of options exercised during the years ended September 30, 2022 and 2021 was $559 and $54, respectively.

Dollars in Thousands Except Per Share Data

The following is a summary of changes in restricted shares for the year ended September 30, 2022:

	Number of Shares	Weighted Average Grant Date Fair Value
Shares Outstanding at September 30, 2021	29,100	$ 24.85
Granted	24,150	29.70
Vested	(7,850)	24.04
Forfeited	(2,050)	25.46
Shares Outstanding at September 30, 2022	43,350	$ 27.68

The total intrinsic value of restricted shares that vested during the years ended September 30, 2022 and 2021 was $241 and $111, respectively.

As of September 30, 2022, there was $1,503 of total unrecognized compensation cost related to nonvested share-based compensation arrangements (including share option and nonvested share awards) granted under the Incentive Plan. At September 30, 2022, the weighted-average period over which the unrecognized compensation expense is expected to be recognized was approximately 2.06 years.

Note 13. Deferred Compensation

Certain key employees of Westbury Bank have entered into non-qualified salary continuation plans with the Bank. These plans provide for payments of specific amounts over 10 to 20 year periods subsequent to each participant's retirement. The related deferred compensation liabilities of the Company are being accrued ratably to the respective normal retirement dates of each participant. As of September 30, 2022 and 2021, approximately $1,450 and $1,540 are accrued related to these plans. The expense for compensation under these plans was approximately $77 and $79 for the years ended September 30, 2022 and 2021, respectively.

Although not part of the plans, the Company has purchased life insurance on the lives of certain employees electing to participate in the plans, which could provide funding for the payment of benefits under the plans. At September 30, 2022 and 2021, the cash surrender value of such life insurance policies totaled $16,470 and $16,046, respectively.

Note 14. Guarantees

The Bank had executed commitments under the Mortgage Partnership Finance (MPF) program with the FHLB to guarantee the payment of any realized losses that exceed the FHLB's first loss account for mortgages delivered under the commitments. The Bank received credit enhancement fees from the FHLB for providing this guarantee and continuing to manage the credit risk of the MPF program mortgage loans. In June 2021, the Bank repurchased the remaining MPF loans that it had been servicing for the FHLB and has no ongoing guarantee or related liability to the FHLB.

Note 15. Income Taxes

The following table presents the provision for income taxes for the:

	Years Ended September 30, 2022	2021
Current expense	$ 3,063	$ 4,115
Deferred expense (benefit)	49	(359)
	$ 3,112	$ 3,756

Dollars in Thousands

A reconciliation of expected income tax expense to the income tax expense included in the consolidated statements of operations is as follows:

	Years Ended September 30,			
	2022		2021	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Computed "expected" tax expense	$ 2,332	21.00 %	$ 2,790	21.00 %
Net increase in cash surrender of life insurance	(89)	(0.80)%	(87)	(0.65)%
Tax-exempt interest, net	(137)	(1.23)%	(111)	(0.83)%
Increase from state income tax expense, net	735	6.62 %	863	6.69 %
Equity incentive plans	17	0.15 %	170	0.29 %
Other, net	254	2.29 %	131	1.77 %
	$ 3,112	28.03 %	$ 3,756	28.27 %

The net deferred tax asset includes the following amounts of deferred tax assets and liabilities as of:

	September 30,	
	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 2,525	$ 2,450
Non-qualified option expense	208	167
Restricted stock expense	91	76
Deferred compensation	395	419
Wisconsin fixed assets	179	228
Non accrual interest	5	10
Deferred loan fees	46	205
Charitable contribution	44	44
Unrealized loss on securities available-for-sale	6,081	—
Other	47	53
Total deferred tax assets	9,621	3,652
Deferred tax liabilities:		
Prepaid expenses	(114)	(115)
Mortgage servicing rights	(36)	(41)
Office properties and equipment basis difference	(1,563)	(1,622)
Federal Home Loan Bank stock basis difference	(65)	(65)
Unrealized gain on securities available-for-sale	—	(64)
Other	—	—
Total deferred tax liabilities	(1,778)	(1,907)
Net deferred tax asset	$ 7,843	$ 1,745

In assessing the reliability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Management performed an evaluation of the Company's deferred tax assets as of September 30, 2022 and 2021. In making the determination whether a deferred tax asset is more likely than not to be realized, we seek to evaluate all available positive and negative evidence. Based on our analysis at September 30, 2022 and September 30, 2021 we concluded that there is more positive evidence than negative regarding the utilization of our deferred tax asset and that the recorded deferred tax asset, with no valuation reserve required at September 30, 2022 and 2021, is realizable.

Under the Internal Revenue Code and Wisconsin Statutes, the Bank was permitted to deduct, for tax years beginning before 1997, an annual addition to a reserve for bad debts. The amount differed from the provision for loan losses recorded for financial accounting purposes. Under prior law, bad debt deductions for income tax purposes were included in taxable income of later years only if the bad debt reserves were used for purposes other than to absorb bad debt losses. Because the Company did not intend to use the reserve for purposes other than to absorb losses, no deferred income taxes were provided. Retained earnings as of September 30, 2022 and 2021, include approximately $3,227 for which no deferred federal or state income taxes were provided. If in the future the Company no longer qualifies as a bank for tax purposes, an income tax expense of $879 would be incurred.

The Company files income tax returns in the U.S. federal jurisdiction and the state of Wisconsin. With few exceptions, the Company is no longer subject to U.S. federal tax examinations by tax authorities for years before 2017 and state tax examinations by tax authorities for years before 2016.

Dollars in Thousands

Note 16. Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the accompanying consolidated balance sheets. The contractual amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The following off-balance sheet instruments were outstanding whose contract amounts represent credit risk:

	September 30, 2022	September 30, 2021
Commitments to extend mortgage credit:		
Fixed rate	$ 1,608	$ 3,012
Adjustable rate	1,249	2,670
Unused commercial loan lines of credit	115,830	104,925
Unused home equity line of credit	45,021	39,442
Standby letters of credit	1,323,547	1,679
Commitment to sell loans	335	2,486

Commitments to extend credit are agreements to lend funds to a customer as long as there is no violation of any condition established in the underlying contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. As some such commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The Company generally extends credit only on a secured basis. Collateral obtained varies but consists primarily of one-to-four family residences.

Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. These lines of credit may be uncollateralized and ultimately may not be drawn upon to the total extent to which the Company is committed.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements, and, generally, have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the summary above. If the commitment is funded, the Company would be entitled to seek recovery from the customer. At September 30, 2022 and 2021, no amounts have been recorded as liabilities for the Company's potential obligations under these guarantees.

Litigation

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Company's consolidated financial statements.

Note 17. Derivative Activities

Commitments to originate residential mortgage loans held for sale and forward commitments to sell residential mortgage loans are defined as derivatives. The fair value related to these commitments was not material as of September 30, 2022 and 2021.

Note 18. Fair Value Measurements

ASC Topic 820, Fair Value Measurements and Disclosures, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC Topic 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities available-for-sale: The fair value of the Company's securities available-for-sale is determined using Level 2 inputs, which are derived from readily available pricing sources and third-party pricing services for comparable instruments. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, treasury yield curves, trading levels, credit information and credit terms, among other factors. In certain cases where Level 1 or Level 2 are not available, securities are classified within Level 3 of the hierarchy.

Dollars in Thousands

Assets and liabilities recorded at fair value on a recurring basis: The following table summarizes assets measured at fair value on a recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value as of:

		Fair Value Measurements		
September 30, 2022	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Securities available-for-sale				
U.S. Government and agency securities	$ 5,144	$ —	$ 5,144	$ —
U.S. Government agency residential mortgage-backed securities	29,606	—	29,606	—
U.S. Government agency collateralized mortgage obligations	7,267	—	7,267	—
U.S. Government agency commercial mortgage-backed securities	51,490	—	51,490	—
U.S. Government agency commercial mortgage-backed securities - tax exempt	2,825	—	2,825	—
U.S. Government agency asset backed securities	19,377	—	19,377	—
Municipal securities-tax exempt	25,299	—	25,299	—
Municipal securities-taxable	7,146	—	7,146	—
Corporate Bonds	5,615	—	5,615	—
Total securities available-for-sale	153,769	—	153,769	—
Derivatives	$ —	$ —	$ —	$ —
Liabilities				
Derivatives	$ —	$ —	$ —	$ —

		Fair Value Measurements		
September 30, 2021	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Securities available-for-sale				
U.S. Government and agency securities	$ 4,004	$ —	$ 4,004	$ —
U.S. Government agency residential mortgage-backed securities	39,221	—	39,221	—
U.S. Government agency collateralized mortgage obligations	6,979	—	6,979	—
U.S. Government agency commercial mortgage-backed securities	54,602	—	54,602	—
U.S. Government agency commercial mortgage-backed securities - tax exempt	2,871	—	2,871	—
U.S. Government agency asset backed securities	23,272	—	23,272	—
Municipal securities-tax exempt	35,137	—	35,137	—
Municipal securities-taxable	9,039	—	9,039	—
Corporate Bonds	4,422	—	4,422	—
Total securities available-for-sale	179,547	—	179,547	—
Corporate securities	1,828	—	1,828	—
Total securities available-for-sale	$ 94,875	$ —	$ 94,875	$ —
Derivatives	$ —	$ —	$ —	$ —
Liabilities				
Derivatives	$ —	$ —	$ —	$ —

The Company did not have any transfers between Level 1, Level 2, and Level 3 of the fair value hierarchy during the years ended September 30, 2022 and 2021. The Company's policy for determining transfers between levels occurs at the end of the reporting period when circumstances in the underlying valuation criteria change and result in a transfer between levels.

Assets recorded at fair value on a nonrecurring basis: The Company may be required, from time to time, to measure certain instruments at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles.

Impaired loans: The Company does not record loans at fair value on a recurring basis. The specific reserves for collateral-dependent impaired loans are based on the fair value of the collateral less estimated costs to sell. The fair value of collateral is determined based on appraisals. In some cases, adjustments were made to the appraised values due to various factors including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. When significant adjustments were based on unobservable inputs, the resulting fair value measurement has been categorized as a Level 3 measurement. Impaired loans with a carrying amount of $9,078 and $8,722 have a valuation allowance of $1,647 and $1,627 included in the allowance for loan losses as of September 30, 2022 and 2021, respectively.

Foreclosed real estate: The Company does not record foreclosed real estate owned at a fair value on a recurring basis. The fair value of foreclosed real estate was determined using Level 3 inputs based on appraisals or broker pricing opinions. In some cases, adjustments were made to these values due to various factors including the age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in collateral. Foreclosed real estate is measured at fair value less estimated costs to sell at the date of foreclosure. Subsequent to foreclosure, additional writedowns may be recorded based on changes to the fair value of the assets.

Mortgage servicing rights: Mortgage servicing rights (MSRs) do not trade in an active, open market with readily observable prices. While sales of MSRs do occur, the precise terms and conditions typically are not readily available. Accordingly, the Company estimates the fair value of MSRs using discounted cash flow models incorporating numerous assumptions from the perspective of market participants including servicing income, servicing costs, market discount rates, prepayment speeds, and default rates. Due to the nature of the valuation inputs, MSRs are classified within Level 3 of the valuation hierarchy. As of September 30, 2022, mortgage servicing rights with a carrying amount of $134 have a valuation allowance of $0 to reflect their fair value of $134. As of September 30, 2021, mortgage servicing rights with a carrying amount of $201 have a valuation allowance of $50 to reflect their fair value of $151.

Real estate held for sale: The Company does not record real estate held for sale at a fair value on a recurring basis. The fair value of real estate held for sale was determined using Level 3 inputs based on appraisals or broker pricing opinions. In some cases, adjustments were made to these values due to various factors including the age of the appraisal, age of comparables included in the appraisal, and known changes in the market. Real estate held for sale is measured at fair value less estimated costs to sell at the time of transfer. Subsequent to transfer, additional writedowns may be recorded based on changes to the fair value of the assets.

Dollars in Thousands

	Total	Fair Value Measurements Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
September 30, 2022				
Assets				
Impaired loans	$ 9,078	$ —	$ —	$ 8,722
Foreclosed real estate	—	—	—	—
Mortgage servicing rights	134	—	—	151

	Total	Fair Value Measurements Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
September 30, 2021				
Assets				
Impaired loans	$ 8,722	$ —	$ —	$ 8,722
Foreclosed real estate	—	—	—	—
Mortgage servicing rights	151	—	—	151

Disclosure of fair value information about financial instruments, for which it is practicable to estimate that value, is required whether or not recognized in the accompanying consolidated balance sheets. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Certain financial instruments with a fair value that is not practicable to estimate and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not necessarily represent the underlying value of the Company for assets and liabilities not previously described. The Company, in estimating its fair value disclosures for financial instruments not described above, used the following methods and assumptions:

Cash and cash equivalents: The carrying amounts of cash and cash equivalents reported in the accompanying consolidated balance sheets approximated those assets' fair values.

Securities held to maturity: The fair values of securities held to maturity are based on quoted market prices for similar securities, adjusted for differences in security characteristics.

Loans: For variable-rate mortgage loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for fixed rate residential mortgage loans are based on quoted market prices for similar loans sold in conjunction with sale transactions, adjusted for differences in loan characteristics. The fair values for commercial real estate loans, rental property mortgage loans, and consumer and other loans are estimated using discounted cash flow analyses and using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Loans held for sale: Fair value of loans held for sale are based on commitments on hand from investors or prevailing market prices.

Federal Home Loan Bank stock: The carrying amount of FHLB stock approximates its fair value based on the redemption provisions of the FHLB.

Accrued interest receivable and payable: The carrying amounts of accrued interest receivable and payable approximate their fair values.

Deposits: The fair value disclosed for interest-bearing and non-interest-bearing checking accounts, savings accounts, and money market accounts are equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The fair values of fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities of the outstanding certificates of deposit.

Advances from the Federal Home Loan Bank and bank term debt: The fair values of long term FHLB advances and bank term debt are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The carrying amounts of short term FHLB advances reported in the accompanying consolidated balance sheets approximated those liabilities' fair values.

Advance payments by borrowers for property taxes and insurance: The carrying amounts of the advance payments by borrowers for property taxes and insurance approximate their fair values.

Mortgage banking derivatives: The fair value of commitments to originate mortgage loans held for sale is estimated by comparing the Company's cost to acquire mortgages and the current price for similar mortgage loans, taking into account the terms of the commitments and the credit worthiness of the counterparties. The fair value of forward commitments to sell residential mortgage loans is the estimated amount that the Bank would receive or pay to terminate the forward delivery contract at the reporting date based on market prices for similar financial instruments. The fair value of these derivative financial instruments was not material at September 30, 2022 or 2021.

Dollars in Thousands

The estimated fair values and related carrying amounts of the Company's financial instruments as of September 30, 2022 and 2021, are as follows:

	September 30, 2022				
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 37,778	$ 37,776	$ 37,776	$ —	$ —
Securities available for sale	153,769	153,769	—	153,769	—
Securities held to maturity	1,763	1,759	—	1,759	—
Loans, net	713,389	679,504	—	—	679,504
Loans held for sale, net	335	335	—	335	—
Federal Home Loan Bank stock	1,534	1,534	—	—	1,534
Mortgage servicing rights	134	134	—	—	134
Accrued interest receivable	2,798	2,798	2,798	—	—
Financial liabilities:					
Deposits	872,668	864,096	275,017	—	589,079
Short-term advances from Federal Home Loan Bank	—	—	—	—	—
Long-term advances from Federal Home Loan Bank	—	—	—	—	—
Bank term debt	4,571	4,571	—	—	4,571
Advance payments by borrowers for property taxes and insurance	3,321	3,321	3,321	—	—
Accrued interest payable	14	16	16	—	—

	September 30, 2021				
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 28,157	$ 28,157	$ 28,157	$ —	$ —
Securities available for sale	179,547	179,547	—	179,547	—
Securities held to maturity	1,950	1,973	—	1,973	—
Loans, net	665,166	661,633	—	—	661,633
Loans held for sale, net	2,486	2,486	—	2,486	—
Federal Home Loan Bank stock	1,491	1,491	—	—	1,491
Mortgage servicing rights	151	151	—	—	151
Accrued interest receivable	2,578	2,578	2,578	—	—
Financial liabilities:					
Deposits	812,316	804,161	241,133	—	563,028
Short-term advances from Federal Home Loan Bank	10,000	10,000	—	10,000	—
Long-term advances from Federal Home Loan Bank	—	—	—	—	—
Bank term debt	5,000	5,000	—	—	5,000
Advance payments by borrowers for property taxes and insurance	3,492	3,492	3,492	—	—
Accrued interest payable	14	14	14	—	—

Note 19. Earnings per Share

Earnings per common share is computed using the two-class method. Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding, adjusted for weighted average unallocated ESOP shares, during the applicable period, excluding outstanding participating securities. Participating securities include non-vested restricted stock awards and restricted stock units, though no actual shares of common stock related to restricted stock units are issued until the settlement of such units, to the extent holders of these securities receive non-forfeitable dividends or dividend equivalents at the same rate as holders of the Company's common stock. Diluted earnings per share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of stock compensation using the treasury stock method.

The following table presents a reconciliation of the number of shares used in the calculation of basic and diluted earnings per common share (in thousands, except share and per share data).

	Years Ended September 30,	
	2022	2021
Net income	$ 7,992	$ 9,529
Basic potential common shares:		
Weighted average shares outstanding	2,536,510	2,658,144
Weighted average unallocated Employee Stock Ownership Plan shares	(31,002)	(84,545)
Basic weighted average shares outstanding	2,505,508	2,573,599
Dilutive effect of equity awards	174,352	133,471
Diluted weighted average shares outstanding	2,679,860	2,707,070
Basic earnings per share	$ 3.19	$ 3.70
Diluted earnings per share	$ 2.98	$ 3.52

Dollars in Thousands

Note 20. Condensed Parent Company Financial Information

The condensed financial statements of Westbury Bancorp, Inc. (parent company only) as of, and for, the years ended September 30, 2022 and 2021, are presented below:

Balance Sheets

	September 30,	
	2022	2021
Assets		
Cash and interest bearing deposits	$ 442	$ 1,204
Loan to ESOP	129	650
Investment in subsidiary	66,000	80,560
Other assets	4,133	3,928
Total assets	$ 70,704	$ 86,342
Liabilities and Stockholders' Equity		
Bank term debt	$ 4,571	$ 5,000
Bank line of credit	—	—
Other liabilities	16	4
Stockholders' equity	66,117	81,338
Total liabilities and stockholders' equity	$ 70,704	$ 86,342

Statements of Operations

	Years Ended September 30,	
	2022	2021
Interest and other income	$ 15	$ 37
Interest and other expense	442	403
Loss before income tax benefit and equity in undistributed net income of subsidiary	(427)	(366)
Income tax benefit	(105)	(89)
Loss before equity in undistributed net income of subsidiary	(322)	(277)
Equity in undistributed net income of subsidiary	8,314	9,806
Net income	$ 7,992	$ 9,529

Dollars in Thousands

Statements of Cash Flows

	Years Ended September 30,	
	2022	2021
Cash Flows From Operating Activities		
Net income	$ 7,992	$ 9,529
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in income of subsidiary	(8,314)	(9,806)
Net change in other liabilities	12	(35)
Net change in other assets	(205)	(547)
Net cash used in operating activities	(515)	(859)
Cash Flows From Investing Activities		
Principal payments received on ESOP loan	521	551
Dividend received from bank subsidiary	6,460	8,450
Net cash provided by investing activities	6,981	9,001
Cash Flows From Financing Activities		
Advances from (principal paid on) bank term debt	(429)	3,000
Proceeds from (payments on) bank line of credit	—	(6,540)
Proceeds from exercise of stock options	1,455	665
Repurchase of common stock	(8,254)	(4,072)
Net cash used in financing activities	(7,228)	(6,947)
Net increase (decrease) in cash	(762)	1,195
Cash		
Beginning of year	1,204	9
End of year	$ 442	$ 1,204