



Auburn Bancorp, Inc. and Subsidiary

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

With Independent Auditor's Report





INDEPENDENT AUDITOR'S REPORT

Board of Directors
Auburn Bancorp, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Auburn Bancorp, Inc. and Subsidiary (the Company) as of June 30, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Auburn Bancorp, Inc. and Subsidiary as of June 30, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
September 21, 2021

AUBURN BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

June 30, 2021 and 2020

ASSETS

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------|----------------------|
| Cash and due from banks | \$ 9,833,219 | \$ 3,254,319 |
| Interest-earning deposits | <u>1,562,217</u> | <u>73,660</u> |
| Total cash and cash equivalents | 11,395,436 | 3,327,979 |
| Investment securities available for sale, at fair value | 9,230,325 | 5,925,541 |
| Federal Home Loan Bank stock, at cost | 431,400 | 431,400 |
| Loans receivable, net of allowance for loan losses of \$861,671 and \$831,953 as of June 30, 2021 and 2020, respectively | 76,171,091 | 75,793,871 |
| Property and equipment, net | 1,668,596 | 1,718,100 |
| Accrued interest receivable | | |
| Investments | 19,818 | 17,054 |
| Loans | 276,621 | 274,654 |
| Bank owned life insurance | 840,398 | 816,936 |
| Prepaid expenses and other assets | <u>358,230</u> | <u>397,302</u> |
| Total assets | <u>\$ 100,391,915</u> | <u>\$ 88,702,837</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|--|-----------------------|----------------------|
| Liabilities | | |
| Deposits | \$ 82,699,960 | \$ 67,224,520 |
| Borrowings | 9,372,785 | 13,358,236 |
| Accrued interest and other liabilities | <u>211,973</u> | <u>298,926</u> |
| Total liabilities | 92,284,718 | 80,881,682 |
| Stockholders' equity | | |
| Preferred stock, 1,000,000 shares authorized, no shares issued or outstanding | - | - |
| Common stock, \$.01 par value per share, 10,000,000 shares authorized, 503,284 shares issued and outstanding at June 30, 2021 and 2020 | 5,033 | 5,033 |
| Additional paid-in-capital | 1,455,580 | 1,454,388 |
| Retained earnings | 6,677,833 | 6,268,963 |
| Accumulated other comprehensive (loss) income | (13,917) | 121,661 |
| Unearned compensation (ESOP shares) | <u>(17,332)</u> | <u>(28,890)</u> |
| Total stockholders' equity | <u>8,107,197</u> | <u>7,821,155</u> |
| Total liabilities and stockholders' equity | <u>\$ 100,391,915</u> | <u>\$ 88,702,837</u> |

The accompanying notes are an integral part of these consolidated financial statements.

AUBURN BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Income

June 30, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|--------------------------|-------------------|
| Interest and dividend income: | | |
| Interest on loans | \$ 3,511,242 | \$ 3,524,065 |
| Interest on investments and other interest-earnings deposits | 109,747 | 154,444 |
| Dividends on Federal Home Loan Bank stock | 10,100 | <u>32,478</u> |
| Total interest and dividend income | <u>3,631,089</u> | <u>3,710,987</u> |
| Interest expense: | | |
| Interest on deposits and escrow accounts | 532,301 | 853,356 |
| Interest on Federal Home Loan Bank and Federal Reserve Bank advances | 82,337 | <u>190,988</u> |
| Total interest expense | <u>614,638</u> | <u>1,044,344</u> |
| Net interest income | 3,016,451 | 2,666,643 |
| Provision for loan losses | <u>67,500</u> | <u>30,000</u> |
| Net interest income after provision for loan losses | <u>2,948,951</u> | <u>2,636,643</u> |
| Non-interest income: | | |
| Net gain on sales of loans | 470,383 | 436,336 |
| Other non-interest income | 360,895 | <u>300,538</u> |
| Total non-interest income | <u>831,278</u> | <u>736,874</u> |
| Non-interest expenses: | | |
| Salaries and employee benefits | 1,830,379 | 1,705,841 |
| Occupancy expense | 125,104 | 131,497 |
| Depreciation | 150,189 | 137,097 |
| Federal deposit insurance premiums | 42,900 | 39,050 |
| Computer charges | 420,006 | 339,911 |
| Consulting expense | 52,800 | 61,275 |
| Other operating expenses | 629,061 | <u>582,423</u> |
| Total non-interest expenses | <u>3,250,439</u> | <u>2,997,094</u> |
| Income before income taxes | 529,790 | 376,423 |
| Income tax expense | <u>120,920</u> | <u>86,510</u> |
| Net income | <u>\$ 408,870</u> | <u>\$ 289,913</u> |
| Net income per common share | <u>\$ 0.82</u> | <u>\$ 0.58</u> |

The accompanying notes are an integral part of these consolidated financial statements.

AUBURN BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Comprehensive Income
Years Ended June 30, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|-------------------|-------------------|
| Net income | \$ 408,870 | \$ 289,913 |
| Other comprehensive (loss) income, net of tax | | |
| Unrealized (losses) gains on investment securities available for sale: | | |
| Unrealized holding (losses) gains arising during the period | (171,618) | 146,500 |
| Tax effect | <u>36,040</u> | <u>(30,765)</u> |
| Net unrealized (losses) gains on investment securities available for sale | <u>(135,578)</u> | <u>115,735</u> |
| Total comprehensive income | <u>\$ 273,292</u> | <u>\$ 405,648</u> |

The accompanying notes are an integral part of these consolidated financial statements.

AUBURN BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

Years Ended June 30, 2021 and 2020

| | <u>Preferred Stock</u> | <u>Common Stock</u> | <u>Additional Paid-in Capital</u> | <u>Retained Earnings</u> | <u>Accumulated Other Comprehensive Income (Loss)</u> | <u>Unearned Compensation (ESOP Shares)</u> | <u>Total</u> |
|---|----------------------------|-------------------------|---|------------------------------|--|--|---------------------|
| Balance, June 30, 2019 | \$ - | \$ 5,033 | \$ 1,451,967 | \$ 5,979,050 | \$ 5,926 | \$ (40,448) | \$ 7,401,528 |
| Net income | - | - | - | 289,913 | - | - | 289,913 |
| Other comprehensive income | - | - | - | - | 115,735 | - | 115,735 |
| Common stock held by ESOP committed to be released (1,156 shares) | <u>-</u> | <u>-</u> | <u>2,421</u> | <u>-</u> | <u>-</u> | <u>11,558</u> | <u>13,979</u> |
| Balance, June 30, 2020 | - | 5,033 | 1,454,388 | 6,268,963 | 121,661 | (28,890) | 7,821,155 |
| Net income | - | - | - | 408,870 | - | - | 408,870 |
| Other comprehensive loss | - | - | - | - | (135,578) | - | (135,578) |
| Common stock held by ESOP committed to be released (1,156 shares) | <u>-</u> | <u>-</u> | <u>1,192</u> | <u>-</u> | <u>-</u> | <u>11,558</u> | <u>12,750</u> |
| Balance, June 30, 2021 | <u>\$ -</u> | <u>\$ 5,033</u> | <u>\$ 1,455,580</u> | <u>\$ 6,677,833</u> | <u>\$ (13,917)</u> | <u>\$ (17,332)</u> | <u>\$ 8,107,197</u> |

The accompanying notes are an integral part of these consolidated financial statements.

AUBURN BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended June 30, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|---------------------|
| Cash flows from operating activities: | | |
| Net income | \$ 408,870 | \$ 289,913 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 150,189 | 137,097 |
| Net amortization of premiums on investment securities | 40,478 | 12,977 |
| Provision for loan losses | 67,500 | 30,000 |
| Change in net deferred loan fees and costs | 2,678 | 223,571 |
| Deferred income tax expense | 43,656 | 64,384 |
| Gain on sales of loans | (470,383) | (436,336) |
| Proceeds from sale of loans | 13,659,507 | 14,054,396 |
| Loans originated for sale | (13,189,124) | (13,618,060) |
| ESOP compensation expense | 12,750 | 13,979 |
| Increase in cash surrender value of bank owned life insurance | (23,462) | (25,110) |
| Net decrease (increase) in prepaid expenses and other assets | 39,072 | (293,732) |
| Net increase in accrued interest receivable | (4,731) | (18,757) |
| Net (decrease) increase in accrued interest payable and other liabilities | <u>(94,569)</u> | <u>53,945</u> |
| Net cash provided by operating activities | <u>642,431</u> | <u>488,267</u> |
| Cash flows from investing activities: | | |
| Purchase of investment securities available for sale | (5,964,605) | (2,091,732) |
| Proceeds from maturities, calls and principal paydowns on investment securities available for sale | 2,447,725 | 1,435,316 |
| Net increase in loans to customers | (447,398) | (6,897,337) |
| Net redemption of Federal Home Loan Bank stock | - | 122,300 |
| Capital expenditures | <u>(100,685)</u> | <u>(310,385)</u> |
| Net cash used by investing activities | <u>(4,064,963)</u> | <u>(7,741,838)</u> |
| Cash flows from financing activities: | | |
| Advances from Federal Home Loan Bank and Federal Reserve Bank | 4,226,145 | 10,788,236 |
| Repayment of advances from Federal Home Loan Bank and Federal Reserve Bank | (6,141,596) | (6,300,000) |
| Net change in short-term borrowings | (2,070,000) | (655,000) |
| Net increase in deposits | <u>15,475,440</u> | <u>3,855,248</u> |
| Net cash provided by financing activities | <u>11,489,989</u> | <u>7,688,484</u> |
| Net increase in cash and cash equivalents | 8,067,457 | 434,913 |
| Cash and cash equivalents, beginning of year | <u>3,327,979</u> | <u>2,893,066</u> |
| Cash and cash equivalents, end of year | \$ <u>11,395,436</u> | \$ <u>3,327,979</u> |
| Supplementary cash flow information: | | |
| Cash paid during the year for: | | |
| Interest | \$ 613,362 | \$ 1,053,774 |
| Income taxes | 7,500 | 49,299 |

The accompanying notes are an integral part of these consolidated financial statements.

AUBURN BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Nature of Business

Auburn Bancorp, Inc. (the Company), through its subsidiary, Auburn Savings Bank, FSB (the Bank), grants residential, consumer and commercial loans to customers primarily throughout the Lewiston/Auburn, Maine area. The Company is subject to competition from other financial institutions. The Company is subject to the regulations of certain federal agencies and undergoes periodic examinations by those regulatory authorities.

The Company is a majority-owned subsidiary of Auburn Bancorp, MHC (the MHC). In 2008, the Company conducted a minority stock offering pursuant to which the Company sold 226,478 shares, or 45% of its common stock, at a price of \$10.00 per share to eligible depositors and other members of the Company, an employee stock ownership plan (ESOP) and members of the general public in a subscription and community offering. In addition, the Company issued 276,806 shares, or 55% of its common stock, to the MHC.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. All significant intercompany transactions and balances have been eliminated.

1. Summary of Significant Accounting Policies

The accounting policies of the Company are in conformity with U.S generally accepted accounting principles (GAAP) and general practices within the banking industry. The following is a description of the significant accounting policies.

Use of Estimates

In preparing financial statements in conformity with 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 foreclosed real estate. In connection with the determination of the allowance for loan losses and foreclosed real estate, management obtains independent appraisals for significant properties.

Significant Group Concentrations of Credit Risk

A substantial portion of loans are secured by real estate in the Lewiston/Auburn, Maine area. Accordingly, the ultimate collectability of a substantial portion of the Company's loan portfolio is susceptible to changes in market conditions in the Lewiston/Auburn, Maine area.

The Company's policy for requiring collateral is to obtain security in excess of the amount borrowed. The amount of collateral obtained is based on management's credit evaluation of the borrower. The Company requires appraisals of real property held as collateral. For consumer loans, collateral varies depending on the purpose of the loan. Collateral held for commercial loans consists primarily of real estate.

AUBURN BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash and due from banks and interest-earning deposits.

The Company's due from bank accounts, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risk on cash and cash equivalents.

Securities

The Company classifies its debt securities as available for sale or held to maturity. Investment securities available for sale are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income or loss. Debt securities the Company has the positive intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. For individual debt securities where the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in the fair value of the debt security related to 1) credit loss is recognized in earnings, and 2) other factors are recognized in other comprehensive income or loss. Credit loss is deemed to exist if the present value of expected future cash flows is less than the amortized cost basis of the debt security. For individual debt securities where the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the balance sheet date.

In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Federal Home Loan Bank Stock

Federal Home Loan Bank (FHLB) stock is a non-marketable equity security carried at cost and evaluated for impairment.

AUBURN BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method over the contractual life of the loans.

Loans past due 30 days or more are considered delinquent. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Consumer loans are typically charged off no later than 180 days past due. In all cases, loans are placed on non-accrual 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 non-accrual or charged off is reversed against interest income. Cash payments on these loans are generally applied to principal balances until qualifying for return to accrual. Generally, loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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, 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.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired, whereby an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component relates to pools of non-impaired loans and is based on historical loss experience adjusted for qualitative factors.

AUBURN BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit. Such financial instruments are recorded in the financial statements when they are funded.

Loan Servicing

The Company capitalizes mortgage servicing rights at their fair value upon sale of the related loans. Capitalized servicing rights are reported in other assets and are amortized into other operating expenses in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost.

Property and Equipment

Land is carried at cost. Buildings, furniture and fixtures, and land improvements are carried at cost, less accumulated depreciation computed on the declining balance and straight-line methods over the estimated useful lives of the assets.

Bank Owned Life Insurance (BOLI)

The Bank purchased life insurance policies insuring the lives of certain officers of the Bank. Consent was obtained from the employees prior to the purchase. The income stream related to the BOLI assets is reported in other non-interest income.

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed real estate.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on investment securities available for sale, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

AUBURN BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

ESOP

Shares of the Company's common stock purchased by the ESOP are held in a suspense account until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each participant's compensation, as defined in the ESOP, to the total compensation of all eligible plan participants. As the unearned shares are released from suspense, the Company recognizes compensation expense equal to the fair value of the ESOP shares committed to be released during the period. To the extent that the fair value of the ESOP shares differs from the cost of such shares, the difference is charged or credited to equity as additional paid-in-capital. Allocated and committed-to-be-released ESOP shares are considered outstanding for earnings per share calculations based on debt service payments. Other ESOP shares are excluded from earnings per share. The cost of unearned shares to be allocated to ESOP participants for future services not yet performed is reflected as a reduction of stockholders' equity.

Advertising

Advertising costs are expensed as incurred.

Earnings Per Share

Basic earnings per share is determined by dividing net income available to common stockholders by the adjusted weighted average number of common shares outstanding during the period. The adjusted outstanding common shares equal the gross number of common shares issued less unallocated shares of the ESOP.

Earnings per share for the fiscal years ended June 30 is based on the following:

| | <u>2021</u> | <u>2020</u> |
|---|-------------------|-------------------|
| Net income | \$ <u>408,870</u> | \$ <u>289,913</u> |
| Weighted average common shares outstanding | 503,284 | 503,284 |
| Less: Average unallocated ESOP shares | <u>(2,264)</u> | <u>(3,429)</u> |
| Adjusted weighted average common shares outstanding | <u>501,020</u> | <u>499,855</u> |
| Earnings per common share | \$ <u>0.82</u> | \$ <u>0.58</u> |

The Company does not have any potential common shares, therefore diluted earnings per share is not applicable.

Impact of Recent Accounting Standards

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Under the new guidance, which will replace the existing incurred loss model for recognizing credit losses, banks and other lending institutions will be required to recognize the full amount of expected credit losses. The new guidance, which is referred to as the current expected credit loss model, requires that expected credit losses for financial assets held at the reporting date that are accounted for at amortized cost be measured and recognized based on

AUBURN BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

historical experience and current and reasonably supportable forecasted conditions to reflect the full amount of expected credit losses. A modified version of these requirements also applies to debt securities classified as available for sale. In November 2019, the FASB issued ASU No. 2019-10, which delays the effective date of this ASU to fiscal years beginning after December 31, 2022, and interim periods within those fiscal years. The Company is evaluating the potential impact of the ASU on its consolidated financial statements which could be material. Management has started to collect and evaluate data and review potential software.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. The Company adopted this ASU effective July 1, 2020 and it did not have a material impact on the Company's consolidated financial statements.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with GAAP, the Company has considered transactions or events occurring through September 21, 2021, which was the date the financial statements were available to be issued. Management has not evaluated subsequent events after that date for inclusion in the financial statements.

2. Securities

The amortized cost and fair value of investment securities available for sale, with gross unrealized gains and losses, are as follows:

| | June 30, 2021 | | | | June 30, 2020 | | | |
|--|---------------------|------------------------|-------------------------|---------------------|---------------------|------------------------|-------------------------|---------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| <u>Securities available for sale</u> | | | | | | | | |
| Agency mortgage-backed securities | \$ 8,398,176 | \$ 59,711 | \$(105,880) | \$ 8,352,007 | \$ 4,745,240 | \$127,210 | \$ (701) | \$ 4,871,749 |
| Small Business Administration securities | <u>849,763</u> | <u>28,555</u> | <u>-</u> | <u>878,318</u> | <u>1,026,299</u> | <u>27,493</u> | <u>-</u> | <u>1,053,792</u> |
| Total | <u>\$ 9,247,939</u> | <u>\$ 88,266</u> | <u>\$(105,880)</u> | <u>\$ 9,230,325</u> | <u>\$ 5,771,539</u> | <u>\$154,703</u> | <u>\$ (701)</u> | <u>\$ 5,925,541</u> |

Investments with a fair value of approximately \$2,221,000 and \$1,732,000 at June 30, 2021 and 2020, respectively, are held in a custody account to secure certain deposits.

The amortized cost and fair value of debt securities by contractual maturity are not presented because the individual securities are not due at a single maturity date. Actual maturities will differ from contractual maturities since borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

AUBURN BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Information pertaining to securities with gross unrealized losses at June 30, 2021 and 2020, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

| | <u>Less Than 12 Months</u> | | <u>12 Months or Greater</u> | | <u>Total</u> | |
|-----------------------------------|----------------------------|--------------------|-----------------------------|-------------------|---------------------|--------------------|
| | Fair | Gross | Fair | Gross | Fair | Gross |
| | <u>Value</u> | <u>Unrealized</u> | <u>Value</u> | <u>Unrealized</u> | <u>Value</u> | <u>Unrealized</u> |
| | | <u>Losses</u> | | <u>Losses</u> | | <u>Losses</u> |
| <u>June 30, 2021</u> | | | | | | |
| Agency mortgage-backed securities | <u>\$ 6,414,962</u> | <u>\$(105,880)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 6,414,962</u> | <u>\$(105,880)</u> |
| Total | <u>\$ 6,414,962</u> | <u>\$(105,880)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 6,414,962</u> | <u>\$(105,880)</u> |
| | | | | | | |
| | <u>Less Than 12 Months</u> | | <u>12 Months or Greater</u> | | <u>Total</u> | |
| | Fair | Gross | Fair | Gross | Fair | Gross |
| | <u>Value</u> | <u>Unrealized</u> | <u>Value</u> | <u>Unrealized</u> | <u>Value</u> | <u>Unrealized</u> |
| | | <u>Losses</u> | | <u>Losses</u> | | <u>Losses</u> |
| <u>June 30, 2020</u> | | | | | | |
| Agency mortgage-backed securities | <u>\$ 715,878</u> | <u>\$(701)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 715,878</u> | <u>\$(701)</u> |
| Total | <u>\$ 715,878</u> | <u>\$(701)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 715,878</u> | <u>\$(701)</u> |

At June 30, 2021, ten debt securities with unrealized losses declined 1.6% in total from the amortized cost basis. At June 30, 2020, one debt security with an unrealized loss declined 0.1% in total from the amortized cost basis. These unrealized losses related principally to current interest rates for similar types of securities compared to the underlying yields on these securities.

At June 30, 2021 and 2020, no unrealized losses were deemed by management to be other-than-temporary.

There were no sales of securities for the years ended June 30, 2021 and 2020.

3. Loans

A summary of the balances of loans follows:

| | <u>2021</u> | <u>2020</u> |
|----------------------------|----------------------|----------------------|
| Residential real estate | \$ 56,845,757 | \$ 52,475,714 |
| Commercial real estate | 11,427,941 | 12,874,248 |
| Commercial non-real estate | 8,168,414 | 10,533,342 |
| Consumer | <u>590,650</u> | <u>742,520</u> |
| Subtotal | 77,032,762 | 76,625,824 |
| Allowance for loan losses | <u>(861,671)</u> | <u>(831,953)</u> |
| Total loans, net | <u>\$ 76,171,091</u> | <u>\$ 75,793,871</u> |

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Net deferred loan origination fees included in loans receivable amounted to \$194,751 and \$192,073, respectively, at June 30, 2021 and 2020, respectively.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was enacted to provide emergency assistance for individuals, families and businesses affected by the coronavirus disease (COVID-19) pandemic. Amongst other programs, the CARES Act created the Paycheck Protection Program (PPP) designed to incentivize small businesses to keep their workers on the payroll. In January 2021, the PPP was reopened under the Consolidated Appropriations Act (CAA). During 2021 and 2020, the Bank had received approval from the U.S. Small Business Administration (SBA) for 44 and 91 applications, respectively, for PPP loans under the CARES Act and CAA with respect to \$4,271,092 and \$5,788,236 in loans, respectively. As of June 30, 2021, \$5,676,907 of the Bank's PPP loans had been forgiven by the SBA with \$4,382,421 in principal remaining outstanding. PPP loans are classified as commercial non-real estate loans.

The SBA paid the Bank a 1% to 5% origination fee on the principal balance of PPP loans depending on the size of the loan. As of June 30, 2021 and 2020, the Bank had PPP deferred loan origination fees of approximately \$187,000 and \$176,000, respectively, recorded in loans receivable on the consolidated balance sheets.

Credit Quality and Allowance for Loan Losses

Management uses various strategies to maintain a high level of asset quality including maintaining sound credit standards in loan originations, monitoring the loan portfolio through internal and third-party loan reviews, and employing active collection and workout processes for delinquent or problem loans.

Credit risk arises from the inability of a borrower to meet its obligations. The Bank attempts to manage the risk characteristics of the loan portfolio through various control processes defined in part through the Loan Policy, such as credit evaluation of borrowers, establishment of lending limits, and application of lending procedures, including the holding of adequate collateral and the maintenance of compensating balances. Loan origination processes include evaluation of the risk profile of the borrower, repayment sources, the nature of the underlying collateral, and other support given current events, conditions, and expectations. The Bank seeks to rely primarily on the cash flow of borrowers as the principal source of repayment.

Although credit policies and evaluation processes are designed to minimize risk, management recognizes that loan losses will occur and the amount of these losses will fluctuate depending on the risk characteristics of the loan portfolio, as well as general and regional economic conditions.

The Bank provides for loan losses through the establishment of an allowance for loan losses which represents an estimated reserve for existing losses in the loan portfolio. On an on-going basis, loans are monitored by loan officers and are subject to periodic independent outsourced loan reviews. Delinquency and watch lists are regularly reviewed to identify, track and monitor credit risk. At the end of each quarter, the Bank deploys a systematic methodology for determining credit quality that includes formalization and documentation of this review process. Management also classifies the

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loan portfolio specifically by loan type and monitors credit risk separately as discussed under *Credit Quality Indicators* below.

Management evaluates the adequacy of the allowance continually based on a review of all significant loans, via delinquency reports and a watch list, historical losses, and current economic conditions.

The allowance calculation includes general reserves as well as specific reserves and valuation allowances for individual credits. The specific component relates to loans that are classified as impaired, whereby an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component relates to pools of non-impaired loans. On a quarterly basis, management assesses the adequacy of the general reserve allowances based on 1) national, state and local economic factors; 2) interest rate environment and trends; 3) delinquency metrics, including the Bank's five-year historical loss experience; 4) Bank-specific factors such as changes in lending personnel; 5) changes in the loan review system and related ratings; 6) the Bank's current underwriting standards; 7) peer statistics; and 8) concentrations of commercial credits.

There were no changes in the allowance for loan losses methodology during the years ended June 30, 2021 and 2020.

The following tables provide information relative to credit quality and allowance for loan losses as of and for the years ended June 30, 2021 and 2020.

| | Commercial Non-Real Estate | Commercial Real Estate | Residential Real Estate | Consumer | Unallocated | Total |
|----------------------------|----------------------------------|---------------------------|----------------------------|-----------------|------------------|-------------------|
| Year Ended June 30, 2021 | | | | | | |
| Allowance for loan losses: | | | | | | |
| Beginning balance | \$ 56,924 | \$ 108,595 | \$ 550,246 | \$ 21,459 | \$ 94,729 | \$ 831,953 |
| Charge-offs | (45,704) | - | - | (1,966) | | (47,670) |
| Recoveries | 1,000 | 3,888 | 5,000 | - | | 9,888 |
| Provision (recovery) | <u>33,815</u> | <u>13,044</u> | <u>57,312</u> | <u>(9,969)</u> | <u>(26,702)</u> | <u>67,500</u> |
| Ending balance | <u>\$ 46,035</u> | <u>\$ 125,527</u> | <u>\$ 612,558</u> | <u>\$ 9,524</u> | <u>\$ 68,027</u> | <u>\$ 861,671</u> |

| | Commercial Non-Real Estate | Commercial Real Estate | Residential Real Estate | Consumer | Unallocated | Total |
|---------------------------------------|----------------------------------|---------------------------|----------------------------|------------|-------------|---------------|
| As of June 30, 2021 | | | | | | |
| Allowance for loan losses: | | | | | | |
| Ending balance | \$ 46,035 | \$ 125,527 | \$ 612,558 | \$ 9,524 | \$ 68,027 | \$ 861,671 |
| Individually evaluated for impairment | - | 1,011 | 61,978 | - | - | 62,989 |
| Collectively evaluated for impairment | 46,035 | 124,516 | 550,580 | 9,524 | 68,027 | 798,682 |
| Loans: | | | | | | |
| Ending balance | \$ 8,168,414 | \$ 11,427,941 | \$ 56,845,757 | \$ 590,650 | | \$ 77,032,762 |
| Individually evaluated for impairment | - | 194,757 | 1,094,135 | 20,630 | | 1,309,522 |
| Collectively evaluated for impairment | 8,168,414 | 11,233,184 | 55,751,622 | 570,020 | | 75,723,240 |

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| | Commercial Non-Real Estate | Commercial Real Estate | Residential Real Estate | Consumer | Unallocated | Total |
|----------------------------|----------------------------------|---------------------------|----------------------------|------------------|------------------|-------------------|
| Year Ended June 30, 2020 | | | | | | |
| Allowance for loan losses: | | | | | | |
| Beginning balance | \$ 60,083 | \$ 94,395 | \$ 531,495 | \$ 14,552 | \$ 112,074 | \$ 812,599 |
| Charge-offs | (15,013) | - | - | - | - | (15,013) |
| Recoveries | - | 3,247 | 1,120 | - | - | 4,367 |
| Provision (recovery) | <u>11,854</u> | <u>10,953</u> | <u>17,631</u> | <u>6,907</u> | <u>(17,345)</u> | <u>30,000</u> |
| Ending balance | <u>\$ 56,924</u> | <u>\$ 108,595</u> | <u>\$ 550,246</u> | <u>\$ 21,459</u> | <u>\$ 94,729</u> | <u>\$ 831,953</u> |

| | Commercial Non-Real Estate | Commercial Real Estate | Residential Real Estate | Consumer | Unallocated | Total |
|---------------------------------------|----------------------------------|---------------------------|----------------------------|------------|-------------|---------------|
| As of June 30, 2020 | | | | | | |
| Allowance for loan losses: | | | | | | |
| Ending balance | \$ 56,924 | \$ 108,595 | \$ 550,246 | \$ 21,459 | \$ 94,729 | \$ 831,953 |
| Individually evaluated for impairment | 2,573 | - | 69,441 | - | - | 72,014 |
| Collectively evaluated for impairment | 54,351 | 108,595 | 480,805 | 21,459 | 94,729 | 759,939 |
| Loans: | | | | | | |
| Ending balance | \$ 10,533,342 | \$ 12,874,248 | \$ 52,475,714 | \$ 742,520 | | \$ 76,625,824 |
| Individually evaluated for impairment | 256,713 | 440,188 | 1,231,664 | 24,078 | | 1,952,643 |
| Collectively evaluated for impairment | 10,276,629 | 12,434,060 | 51,244,050 | 718,442 | | 74,673,181 |

Risk by Portfolio Segment

Residential Real Estate

One- to Four-Family Residential Loans. The Bank's primary lending activity consists of the origination of one- to four-family residential mortgage loans, substantially all of which are secured by properties located in its primary market area. The Bank offers fixed-rate mortgage loans, which generally have terms of 15, 20 or 30 years. The Bank no longer originates adjustable-rate mortgage loans.

Home Equity Loans. Home equity lines of credit and loans are secured by a mixture of first and second mortgages on one- to four-family owner-occupied properties. The procedures for underwriting home equity lines of credit and loans include a determination of the applicant's credit history, an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan and the value of the collateral securing the loan. All properties securing second mortgage loans are generally required to be appraised by a Board-approved independent appraiser unless the first mortgage is also held by the Bank. Home equity lines of credit and loans are made in amounts such that the combined first and second mortgage balances generally do not exceed 85% of value.

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Construction Loans. The Bank offers construction loans for the development of one- to four-family residential properties located in the Bank's primary market area. Residential construction loans are generally offered to individuals for construction of their personal residences.

Residential construction loans can be made with a maximum loan-to-value ratio of 95%, provided that the borrower obtains private mortgage insurance on the loan if the loan balance exceeds 80% of the appraised value of the secured property.

Construction and development financing is generally considered to involve a higher degree of credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed in order to protect the value of the property. Additionally, if the estimate of value proves to be inaccurate, the Bank may be confronted with a project, when completed, having a value which is insufficient to assure full repayment.

Commercial Real Estate

The Bank offers commercial real estate loans, including commercial business, and multi-family real estate loans that are generally secured by five or more unit apartment buildings and properties used for business purposes such as small office buildings or retail facilities substantially all of which are located in its primary market area.

Commercial and multi-family real estate loan amounts generally do not exceed 80% of the lesser of the property's appraised value or sales price.

The Bank generally requires title insurance for commercial and multi-family real estate loans, an appraisal on all such loans if the total amount of loans with that borrower is in excess of \$250,000, and an evaluation of the property by an approved appraiser for loans between \$100,000 and \$250,000. The Bank may require a full appraisal on property securing any loan less than \$250,000.

Loans secured by commercial real estate, including multi-family properties, generally involve larger principal amounts and a greater degree of risk than one- to four-family residential mortgage loans. Because payments on loans secured by commercial real estate, including multi-family properties, are often dependent on successful operation or management of the properties, repayment of such loans may be affected by adverse conditions in the real estate market or the economy.

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Commercial Non-Real Estate

The Bank makes commercial business loans primarily in its market area to a variety of small businesses, professionals and sole proprietorships. Commercial lending products include term loans and revolving lines of credit. Commercial business loans are generally used for longer-term working capital purposes such as purchasing equipment or furniture. When making commercial loans, the Bank considers the financial statements of the borrower, its lending history with the borrower, the debt service capabilities of the borrower, the projected cash flows of the business and the value of the collateral. Commercial loans are generally secured by a variety of collateral, primarily accounts receivable, inventory and equipment, and the Bank also requires the business principals to execute such loans in their individual capacities. Depending on the amount of the loan and the collateral used to secure the loan, commercial loans are made in amounts of up to 50-80% of the value of the collateral securing the loan, or up to 100% of the value of the collateral securing the loan if the collateral consists of cash or cash equivalents. The Bank generally does not make unsecured commercial loans. The Bank requires adequate insurance coverage including, where applicable, title insurance, flood insurance, builder's risk insurance and environmental insurance.

Commercial loans generally have greater credit risk than residential mortgage loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial loans generally are made on the basis of the borrower's ability to repay the loan from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. Further, any collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value. The Bank seeks to minimize these risks through its underwriting standards.

Consumer

The Bank offers a limited range of consumer loans, primarily to customers residing in its primary market area. Consumer loans generally consist of loans on new and used automobiles, loans secured by deposit accounts and unsecured personal loans.

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

Credit Quality Indicators – Loan Rating Methodology

The Bank's Loan Review Policy contains a rating system for credit risk. Loans reviewed are graded based on both risk of default as well as risk of loss. The policy defines risk of default as the risk that

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the borrower will not be able to make timely payments. This risk is assessed based on the capacity to service debt as structured, repayment history, and current status. The policy defines risk of loss as the assessment of the probability that the Bank will incur a loss of capital on a loan due to repayment default. This risk is assessed based on collateral position and net worth of the borrowing and supporting entities. Credit quality indicators are subject to ongoing monitoring by lending and credit personnel with such ratings updated annually or more frequently, if warranted.

The rating system is based on the following categories:

1. Excellent – well established national company, industry in favorable condition, business compares favorably to its industry, capable management team with sufficient depth, loans secured by cash collateral and strong financial condition.
2. Good – well established local company, favorable industry conditions, company compares favorably to its industry, capable management team with sufficient depth, unqualified opinion on audited financial statements from a reputable CPA firm, loans secured by marketable securities, longstanding Bank customer, financial statement fully supported.
3. Pass/Watch – High – well to recently established business, industry conditions fair to good, above-average to average performance comparisons relative to industry, capable management team, and financial statement evidences ability to service debt.
- 3a. Pass/Watch – Marginal – well to recently established business, industry conditions fair to good, business or individuals in this category are generally local operations, average to marginal performance comparisons relative to industry, company's financial condition may not be fully detailed; however, performance to loan terms has and continues to be achieved; loans in this group are typically well secured when financial capacity is not documented with current and comprehensive financial data.
4. Special Mention – loan is currently protected, but is potentially weak, borrower is affected by unfavorable economic conditions, adverse operating trends or an unbalanced financial position in the balance sheet which has not yet reached a point of jeopardizing loan payment.
5. Substandard – loan is inadequately protected by sound worth and paying capacity of the borrower, repayment has become increasingly reliant on collateral or other secondary sources of repayment, credit weaknesses are well defined; orderly debt liquidation from primary repayment sources is in jeopardy, distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
6. Doubtful – A loan classified in this category has all the weaknesses inherent in a substandard rated loan 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.
7. Loss – Asset that is considered uncollectible and is not warranted as a Bank asset.

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Credit Quality Indicators

Commercial Credit Risk Exposure

Credit Risk Profile by Internally Assigned Grade

| Grade: | As of June 30, 2021 | | As of June 30, 2020 | |
|-----------------------|----------------------------------|---------------------------|----------------------------------|---------------------------|
| | Commercial Non-Real Estate | Commercial Real Estate | Commercial Non-Real Estate | Commercial Real Estate |
| Acceptable | \$ 8,168,414 | \$ 9,575,534 | \$ 10,457,612 | \$ 11,581,723 |
| Pass/Watch – Marginal | - | 1,357,650 | 28,075 | 532,268 |
| Special mention | - | 300,000 | - | 426,483 |
| Substandard | - | 194,757 | 47,655 | 333,774 |
| Doubtful | - | - | - | - |
| Loss | - | - | - | - |
| Total | <u>\$ 8,168,414</u> | <u>\$ 11,427,941</u> | <u>\$ 10,533,342</u> | <u>\$ 12,874,248</u> |

Residential/Consumer Credit Exposure

Credit Risk Profile by Internally Assigned Grade

| Grade: | As of June 30, 2021 | | As of June 30, 2020 | |
|-----------------------|----------------------------|-------------------|----------------------------|-------------------|
| | Residential Real Estate | Consumer | Residential Real Estate | Consumer |
| Acceptable | \$ 55,427,583 | \$ 585,455 | \$ 51,786,243 | \$ 736,030 |
| Pass/Watch – Marginal | 878,367 | 5,195 | 629,604 | 6,490 |
| Special mention | 379,815 | - | - | - |
| Substandard | 159,992 | - | 59,867 | - |
| Doubtful | - | - | - | - |
| Loss | - | - | - | - |
| Total | <u>\$ 56,845,757</u> | <u>\$ 590,650</u> | <u>\$ 52,475,714</u> | <u>\$ 742,520</u> |

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Management considers factors including payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due when determining impairment. 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 present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

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The following tables provide information pertaining to impaired loans by class:

| | <u>As of and for the Year Ended June 30, 2021</u> | | | | |
|-------------------------------------|---|---|------------------------------|--|---|
| | <u>Recorded Investment</u> | <u>Unpaid Principal Balance</u> | <u>Related Allowance</u> | <u>Average Recorded Investment</u> | <u>Interest Income Recognized</u> |
| With no related allowance recorded: | | | | | |
| Commercial non-real estate | \$ - | \$ - | \$ - | \$ - | \$ - |
| Commercial real estate | - | - | - | - | - |
| Residential real estate | 527,738 | 530,530 | - | 529,529 | 16,142 |
| Consumer | 20,630 | 22,639 | - | 21,784 | 2,137 |
| With related allowance recorded: | | | | | |
| Commercial non-real estate | \$ - | \$ - | \$ - | \$ - | \$ 8,174 |
| Commercial real estate | 194,757 | 194,757 | 1,011 | 187,702 | - |
| Residential real estate | 566,397 | 566,397 | 61,978 | 650,206 | 22,460 |
| Consumer | - | - | - | - | - |
| Total: | | | | | |
| Commercial non-real estate | \$ - | \$ - | \$ - | \$ - | \$ 8,174 |
| Commercial real estate | 194,757 | 194,757 | 1,011 | 187,702 | - |
| Residential real estate | 1,094,135 | 1,096,927 | 61,978 | 1,179,735 | 38,602 |
| Consumer | 20,630 | 22,639 | - | 21,784 | 2,137 |
| | <u>\$ 1,309,522</u> | <u>\$ 1,314,323</u> | <u>\$ 62,989</u> | <u>\$ 1,389,221</u> | <u>\$ 48,913</u> |

| | <u>As of and for the Year Ended June 30, 2020</u> | | | | |
|-------------------------------------|---|---|------------------------------|--|---|
| | <u>Recorded Investment</u> | <u>Unpaid Principal Balance</u> | <u>Related Allowance</u> | <u>Average Recorded Investment</u> | <u>Interest Income Recognized</u> |
| With no related allowance recorded: | | | | | |
| Commercial non-real estate | \$ 47,655 | \$ 47,655 | \$ - | \$ 15,667 | \$ 258 |
| Commercial real estate | 440,188 | 440,188 | - | 254,030 | 25,606 |
| Residential real estate | 515,833 | 518,625 | - | 640,933 | 10,127 |
| Consumer | 24,078 | 26,087 | - | 24,500 | 1,189 |
| With related allowance recorded: | | | | | |
| Commercial non-real estate | \$ 209,058 | \$ 209,058 | \$ 2,573 | \$ 67,211 | \$ 5,544 |
| Commercial real estate | - | - | - | - | - |
| Residential real estate | 715,831 | 715,831 | 69,441 | 719,040 | 17,588 |
| Consumer | - | - | - | - | - |
| Total: | | | | | |
| Commercial non-real estate | \$ 256,713 | \$ 256,713 | \$ 2,573 | \$ 82,878 | \$ 5,802 |
| Commercial real estate | 440,188 | 440,188 | - | 254,030 | 25,606 |
| Residential real estate | 1,231,664 | 1,234,456 | 69,441 | 1,359,973 | 27,715 |
| Consumer | 24,078 | 26,087 | - | 24,500 | 1,189 |
| | <u>\$ 1,952,643</u> | <u>\$ 1,957,444</u> | <u>\$ 72,014</u> | <u>\$ 1,721,381</u> | <u>\$ 60,312</u> |

Interest income on performing impaired loans is recognized on the accrual basis. Cash payments on non-performing impaired loans are generally applied to principal balances until qualifying for return to accrual. No additional funds are committed to be advanced in connection with impaired loans.

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Non-Performing Loans

Loans are placed on non-accrual status when reasonable doubt exists as to the full timely collection of interest and principal or when a loan becomes 90 days past due, unless an evaluation clearly indicates that the loan is well-secured and in the process of collection. When a loan is placed on non-accrual status, unpaid interest credited to income is reversed. Interest received on non-accrual loans generally is applied against principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. These policies apply to all classes of loans, including commercial and residential/consumer.

Real estate acquired as a result of foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until it is sold. When property is acquired, it is recorded at fair value at the date of foreclosure. Holding costs and declines in fair value after acquisition of the property result in charges against income. The Bank held no other real estate owned at June 30, 2021 and 2020. The Bank had no consumer mortgage loans secured by residential real estate properties where formal foreclosure procedures were in process as of June 30, 2021 and 2020.

Age Analysis of Past Due Loans

As of June 30, 2021

| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days and Greater | Total Past Due | Current | Total Loans | Recorded Investment Loans > 90 Days and Accruing | Recorded Investment Loans on Non-Accrual Status |
|----------------------------|------------------------|------------------------|------------------------|-------------------|----------------------|----------------------|---|--|
| Commercial non-real estate | \$ - | \$ - | \$ - | \$ - | \$ 8,168,414 | \$ 8,168,414 | \$ - | \$ - |
| Commercial real estate | 50,223 | - | - | 50,223 | 11,377,718 | 11,427,941 | - | 50,223 |
| Residential real estate | 360,518 | 153,408 | 106,296 | 620,222 | 56,225,535 | 56,845,757 | - | 824,310 |
| Consumer | 4,676 | - | - | 4,676 | 585,974 | 590,650 | - | - |
| | <u>\$ 415,417</u> | <u>\$ 153,408</u> | <u>\$ 106,296</u> | <u>\$ 675,121</u> | <u>\$ 76,357,641</u> | <u>\$ 77,032,762</u> | <u>\$ -</u> | <u>\$ 874,533</u> |

Age Analysis of Past Due Loans

As of June 30, 2020

| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days and Greater | Total Past Due | Current | Total Loans | Recorded Investment Loans > 90 Days and Accruing | Recorded Investment Loans on Non-Accrual Status |
|----------------------------|------------------------|------------------------|------------------------|---------------------|----------------------|----------------------|---|--|
| Commercial non-real estate | \$ - | \$ 47,655 | \$ - | \$ 47,655 | \$ 10,485,687 | \$ 10,533,342 | \$ - | \$ - |
| Commercial real estate | - | - | - | - | 12,874,248 | 12,874,248 | - | 57,610 |
| Residential real estate | 481,683 | 320,402 | 424,044 | 1,226,129 | 51,249,585 | 52,475,714 | - | 760,150 |
| Consumer | 981 | - | - | 981 | 741,539 | 742,520 | - | 182 |
| | <u>\$ 482,664</u> | <u>\$ 368,057</u> | <u>\$ 424,044</u> | <u>\$ 1,274,765</u> | <u>\$ 75,351,059</u> | <u>\$ 76,625,824</u> | <u>\$ -</u> | <u>\$ 817,942</u> |

Interest income on non-accrual loans of \$20,570 and \$9,029 would have been recognized on these loans if interest had been accrued at June 30, 2021 and 2020, respectively.

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Troubled Debt Restructurings

A loan modification constitutes a troubled debt restructuring if the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. To determine whether or not a loan should be classified as a troubled debt restructuring, management evaluates a loan based upon the following criteria:

- The borrower demonstrates financial difficulty; common indicators include past due status with bank obligations; substandard credit bureau reports; or an inability to refinance with another lender; and
- The Bank has granted a concession; common concessions include maturity date extension, interest rate adjustments to below market pricing, reduction of principal and deferment of payments.

Troubled debt restructured loans are considered impaired. As of June 30, 2021 and 2020, there were no commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the year ended June 30, 2020, certain loan modifications were executed which constituted troubled debt restructurings. There were no troubled debt restructurings that occurred during the year ended June 30, 2021. Loans are classified as troubled debt restructurings due to payment deferrals, extensions of maturity, or capitalization of past due interest.

The following table summarizes troubled debt restructurings that occurred during the year ended June 30, 2020:

| | <u>Number of Loans</u> | <u>Pre- Modification Outstanding Recorded Investment</u> | <u>Post- Modification Outstanding Recorded Investment</u> |
|----------------------------|----------------------------|--|---|
| Commercial non-real estate | <u>1</u> | <u>\$ 60,637</u> | <u>\$ 60,637</u> |
| Total | <u>1</u> | <u>\$ 60,637</u> | <u>\$ 60,637</u> |

The troubled debt restructuring described above required a net allocation of the allowance for loan losses of \$2,352 as of June 30, 2020. The impairment carried as a specific reserve in the allowance for loan losses is calculated by discounting the total expected future cash flows on the loan, or, for collateral-dependent loans, using the fair value of the collateral less costs to sell. There were no charge-offs on the troubled debt restructuring that occurred during the year ended June 30, 2020.

A loan is considered to be in payment default once it is greater than 30 days contractually past due under the modified terms. The troubled debt restructuring described above, with a recorded investment of \$60,637, subsequently experienced a payment default during the year ended June 30, 2020.

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On March 22, 2020, federal banking regulators issued an interagency statement providing guidance on accounting for loan modifications in light of the economic impact of the COVID-19 pandemic. The guidance interprets current accounting standards and indicates that a lender can conclude that a borrower is not experiencing financial difficulty if short-term (that is, six months or less) modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant, provided that the loan is less than 30 days past due at the time a modification program is implemented. The banking agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not troubled debt restructurings under GAAP.

Additionally, a provision of the CARES Act enacted in March 2020 provides that COVID-19 related loan modifications (including modifications that are not short-term) made to a loan between March 1, 2020 and the earlier of December 31, 2020 or the sixtieth day after the end of the COVID-19 emergency declared by the President will not require the loan to be treated as a troubled debt restructuring under GAAP, so long as the modified loan was not past due as of December 31, 2019. On December 27, 2020, the CAA amended section 4013 of the CARES Act to extend the date for loan modifications from December 31, 2020 to January 1, 2022.

The Company has adopted the troubled debt restructuring guidance issued by the federal banking agencies and section 4013 of the CARES Act. During 2021 and 2020, the Bank had granted loan concessions and/or modifications within the terms of this guidance on 6 and 53 loans having an aggregate principal amount of \$363,637 and \$5,991,853, respectively. As of June 30, 2021, all of these loans had returned to making scheduled payments. These loans may bear a higher risk of default in future periods.

The Bank was servicing for others, mortgage loans of approximately \$31,138,000 and \$25,950,000 at June 30, 2021 and 2020, respectively.

The balance of mortgage servicing rights included in other assets at June 30, 2021 was \$249,355. Mortgage servicing rights of \$149,941 were capitalized and mortgage servicing rights of \$76,773 were amortized during 2021. Mortgage servicing rights included in other assets at June 30, 2020 was \$176,187. Mortgage servicing rights of \$158,078 were capitalized and mortgage servicing rights of \$36,188 were amortized during 2020.

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4. Property and Equipment

A summary of the cost and accumulated depreciation of property and equipment is as follows:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------|---------------------|---------------------|
| Land and land improvements | \$ 424,963 | \$ 432,774 |
| Buildings | 2,153,518 | 2,146,670 |
| Furniture and fixtures | <u>597,605</u> | <u>770,234</u> |
| | 3,176,086 | 3,349,678 |
| Less accumulated depreciation | <u>1,507,490</u> | <u>1,631,578</u> |
| Net property and equipment | \$ <u>1,668,596</u> | \$ <u>1,718,100</u> |

Following is a summary of estimated useful lives by asset category:

Estimated Useful Lives (Years)

| | |
|------------------------|--------|
| Land improvements | 15 |
| Buildings | 5 - 40 |
| Furniture and fixtures | 1 - 10 |

5. Deposits

A summary of deposit balances, by type, follows:

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Demand accounts | \$ 12,573,209 | \$ 9,594,965 |
| Money market accounts | 13,578,312 | 8,012,752 |
| NOW accounts | 8,161,657 | 6,159,837 |
| Savings accounts | 10,599,327 | 8,476,030 |
| Certificates of deposit | 25,273,735 | 28,161,756 |
| Certificates of deposit, \$250,000 and over | 8,536,647 | 6,819,180 |
| Brokered certificates of deposit | <u>3,977,073</u> | <u>-</u> |
| Total deposits | \$ <u>82,699,960</u> | \$ <u>67,224,520</u> |

The scheduled maturities of time deposits are as follows:

| | <u>2021</u> | <u>2020</u> |
|------|----------------------|----------------------|
| 2021 | \$ - | \$ 26,016,015 |
| 2022 | 30,234,692 | 7,743,344 |
| 2023 | 1,830,525 | 449,909 |
| 2024 | 2,909,900 | 443,768 |
| 2025 | 324,315 | 327,900 |
| 2026 | <u>2,488,023</u> | <u>-</u> |
| | \$ <u>37,787,455</u> | \$ <u>34,980,936</u> |

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A summary of interest expense on deposits is as follows:

| | <u>2021</u> | <u>2020</u> |
|------------------------------------|-------------------|-------------------|
| Demand accounts | \$ 16,315 | \$ 21,776 |
| Money market accounts | 40,499 | 53,154 |
| NOW accounts | 5,144 | 4,802 |
| Savings accounts | 11,695 | 9,192 |
| Certificates of deposit | <u>458,648</u> | <u>764,432</u> |
| Total interest expense on deposits | <u>\$ 532,301</u> | <u>\$ 853,356</u> |

The Bank maintains collateralization agreements with certain depositors whose aggregate deposits exceed the federally insured limit. Excess amounts are secured under these agreements by an interest in the Bank's investment instruments, as well as certain guaranteed loans, maintained in a separate third-party custodial account. As part of the collateralization agreement, the Bank agrees to maintain annually the value of the collateral in the custodial account at a minimum level at least equal to 100% of the uninsured portion of these deposits. At June 30, 2021 and 2020, the value of the collateral in the custodial account was approximately \$2,221,000 and \$1,732,000, respectively, and the portion of these certain deposits in excess of the federal insured limit was approximately \$2,111,000 and \$1,957,000, respectively.

6. Borrowings

Pursuant to collateral agreements with the FHLB, advances are collateralized by all stock in the FHLB and qualifying first mortgages.

The Bank's fixed rate FHLB advances of \$3,000,000 and \$5,570,000 at June 30, 2021 and 2020, respectively, mature through 2025. At June 30, 2021 and 2020, the interest rates on fixed rate FHLB advances ranged from 0.61% to 0.99% and 0.46% to 2.15%, respectively. The Bank's variable rate FHLB advance of \$2,000,000 at June 30, 2021 and 2020 matures in 2025. At June 30, 2021 and 2020, the interest rate on the variable rate FHLB advance was 0.98%.

In April 2020, the Company qualified to obtain loan advances through the Federal Reserve Board's PPP Liquidity Facility to fund its PPP lending activities. The Bank's fixed rate Federal Reserve Bank (FRB) advances of \$4,372,785 and \$5,788,236 at June 30, 2021 and 2020, respectively, mature through 2026. At June 30, 2021 and 2020, the interest rate on fixed rate FRB advances was 0.35%. FRB advances are collateralized by PPP loans.

At June 30, 2021 and 2020, the Bank also had \$2,000,000 available under a long-term line of credit from the FHLB. There were no amounts drawn under this line at June 30, 2021 and 2020.

In March 2020, the Bank established a line of credit with the FRB Borrower-in-Custody Program (the Program). The Program offers overnight collateralized advances secured by certain loan assets. At June 30, 2021 and 2020, the amount of available borrowing was approximately \$3,057,000 and \$3,200,000, respectively. There were no amounts drawn under this line at June 30, 2021 and 2020.

AUBURN BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

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The contractual maturities of advances are as follows:

| | <u>2021</u> | <u>2020</u> |
|------|---------------------|----------------------|
| 2021 | \$ - | \$ 2,570,000 |
| 2022 | 146,640 | 5,767,457 |
| 2023 | 1,000,000 | 1,000,000 |
| 2024 | - | - |
| 2025 | 4,000,000 | 4,020,779 |
| 2026 | <u>4,226,145</u> | <u>-</u> |
| | <u>\$ 9,372,785</u> | <u>\$ 13,358,236</u> |

7. Income Taxes

Allocation of federal and state income taxes between current and deferred portions is as follows:

| | <u>2021</u> | <u>2020</u> |
|------------------------------|-------------------|------------------|
| Current tax expense | | |
| Federal | \$ 65,140 | \$ 12,125 |
| State | <u>12,124</u> | <u>10,001</u> |
| Deferred federal tax expense | <u>77,264</u> | 22,126 |
| | <u>43,656</u> | <u>64,384</u> |
| Income tax expense | <u>\$ 120,920</u> | <u>\$ 86,510</u> |

The income tax expense differs from the expense that would result from applying federal statutory rates to income before income taxes, as follows:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|------------------|
| Expected income tax expense at federal tax rate | \$ 111,256 | \$ 79,049 |
| Increase (reduction) in income taxes resulting from: | | |
| State tax, net of federal tax benefit | 9,578 | 7,901 |
| Bank owned life insurance | (4,927) | (5,273) |
| Other | <u>5,013</u> | <u>4,833</u> |
| Income tax expense | <u>\$ 120,920</u> | <u>\$ 86,510</u> |
| Effective income tax rate | <u>22.8%</u> | <u>23.0%</u> |

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Notes to Consolidated Financial Statements

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The components of the net deferred tax liability, included in accrued interest and other liabilities, are as follows:

| | <u>2021</u> | <u>2020</u> |
|--|---------------------------|---------------------------|
| Deferred tax assets: | | |
| Allowance for loan losses | \$ 180,951 | \$ 174,710 |
| Impairment loss on investments | 18,912 | 18,912 |
| Expense accruals | 483 | 6,055 |
| Unrealized loss on investment securities available for sale | 3,699 | - |
| Other | <u>2,310</u> | <u>4,112</u> |
| Total deferred tax assets | 206,355 | 203,789 |
| Valuation reserve against capital losses | <u>(18,912)</u> | <u>(18,912)</u> |
| Total deferred tax assets, net of valuation reserve | <u>187,443</u> | <u>184,877</u> |
| Deferred tax liabilities: | | |
| Difference between tax and book bases of property and equipment | (135,792) | (106,704) |
| Deferred loan fees | (49,489) | (53,780) |
| Unrealized gain on investment securities available for sale | - | (32,340) |
| Mortgage servicing rights | <u>(52,365)</u> | <u>(34,639)</u> |
| Total deferred tax liabilities | <u>(237,646)</u> | <u>(227,463)</u> |
| Net deferred tax liability | <u>\$ (50,203)</u> | <u>\$ (42,586)</u> |

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit the use of the existing deferred tax assets. On the basis of this evaluation, as of June 30, 2021 and 2020, a valuation allowance of \$18,912 was recorded for capital losses.

The Bank used the percentage of taxable income bad debt deduction to calculate its bad debt expense for tax purposes as was permitted by the Internal Revenue Code. The cumulative effect of this deduction of approximately \$421,000 is subject to recapture, if used for purposes other than to absorb loan losses. Deferred taxes of \$88,000 have not been provided on this amount because the Bank does not intend to use the tax reserve other than to absorb loan losses.

FASB Accounting Standards Codification Topic 740, *Income Taxes*, defines the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. Topic 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements.

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The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended June 30, 2018 through 2021. If the Company, as a result of an audit, was assessed interest and penalties, the amounts would be recorded through income tax expense.

8. Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to credit related 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 lines of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At June 30, 2021 and 2020, the following financial instruments were outstanding whose contract amounts represent credit risk:

| | <u>2021</u> | <u>2020</u> |
|---|--------------|--------------|
| Commitments to originate loans | \$ 2,641,000 | \$ 2,472,000 |
| Unadvanced portions of construction loans | 1,078,000 | 1,046,000 |
| Unadvanced portions of home equity loans | 6,939,000 | 6,522,000 |
| Unadvanced portions of commercial lines of credit | 3,119,000 | 3,308,000 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Unfunded commitments under commercial lines of credit are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Included in the above commitments to extend credit at June 30, 2021 were fixed and variable rate commitments to grant loans of approximately \$2,476,000 and \$165,000, respectively, which generally expire in 30 days. Interest rates on the fixed rate commitments range from 2.50% to 4.00%. The interest rate on the variable rate commitments was the prime rate.

Included in the above commitments to extend credit at June 30, 2020 were fixed and variable rate commitments to grant loans of approximately \$2,150,000 and \$322,000, respectively, which generally expire in 30 days. Interest rates on the fixed rate commitments range from 2.75% to 5.00%. The interest rate on the variable rate commitments was the prime rate.

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The Bank has sold mortgage loans to the FHLB with a total outstanding balance of approximately \$31,138,000 and \$25,950,000 at June 30, 2021 and 2020, respectively. Under the terms of the agreement with the FHLB, the Bank has a limited recourse obligation to the FHLB in the event the borrower defaults. The maximum recourse obligation totaled approximately \$262,000 and \$395,000 at June 30, 2021 and 2020, respectively.

9. Legal Contingencies

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

10. Other Non-Interest Income and Other Operating Expenses

Other non-interest income and other operating expenses include the following items greater than 1% of revenues.

| | <u>2021</u> | <u>2020</u> |
|---|-------------|-------------|
| Other non-interest income: | | |
| Servicing fees collected on sold loans | \$ 66,000 | \$ 48,000 |
| Interchange income | 102,000 | 82,000 |
| Deposit fee income | 46,000 | * |
| Loan fee income | 96,000 | 68,000 |
| Other operating expenses: | | |
| Audit and examinations | \$ 129,000 | \$ 141,000 |
| ATM and debit card costs | 78,000 | 59,000 |
| Marketing | 122,000 | 118,000 |
| Amortization of mortgage servicing rights | 77,000 | * |

* Amount did not exceed 1% of total revenues.

11. Minimum Regulatory Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy requires the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1 and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to total assets (as defined).

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Regulatory capital rules limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% above its minimum risk-based capital requirements. As of June 30, 2021, the Bank had a capital conservation buffer of 6.79% of risk-weighted assets, which was in excess of the regulatory requirement of 2.5%.

The actual and minimum capital amounts and ratios for the Bank are presented in the following table:

| | <u>Actual</u> | | <u>Standard Minimum Capital Requirement</u> | | <u>Minimum to be Adequately Capitalized under Prompt Corrective Action Provisions</u> | |
|--|---------------|--------------|---|--------------|---|--------------|
| | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> |
| <u>June 30, 2021</u> | | | | | | |
| Total capital to risk weighted assets | \$ 8,600,000 | 14.79% | \$ 4,651,000 | 8.00% | \$ 5,813,000 | 10.00% |
| Tier 1 capital to risk weighted assets | \$ 7,872,000 | 13.54% | \$ 3,488,000 | 6.00% | \$ 4,651,000 | 8.00% |
| Common equity Tier 1 capital to risk weighted assets | \$ 7,872,000 | 13.54% | \$ 2,616,000 | 4.50% | \$ 3,779,000 | 6.50% |
| Tier 1 capital to total assets | \$ 7,872,000 | 8.24% | \$ 3,822,000 | 4.00% | \$ 4,778,000 | 5.00% |

| | <u>Actual</u> | | <u>Standard Minimum Capital Requirement</u> | | <u>Minimum to be Adequately Capitalized under Prompt Corrective Action Provisions</u> | |
|--|---------------|--------------|---|--------------|---|--------------|
| | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> |
| <u>June 30, 2020</u> | | | | | | |
| Total capital to risk weighted assets | \$ 8,162,000 | 14.62% | \$ 4,465,000 | 8.00% | \$ 5,582,000 | 10.00% |
| Tier 1 capital to risk weighted assets | \$ 7,463,000 | 13.37% | \$ 3,349,000 | 6.00% | \$ 4,465,000 | 8.00% |
| Common equity Tier 1 capital to risk weighted assets | \$ 7,463,000 | 13.37% | \$ 2,512,000 | 4.50% | \$ 3,628,000 | 6.50% |
| Tier 1 capital to total assets | \$ 7,463,000 | 9.11% | \$ 3,278,000 | 4.00% | \$ 4,097,000 | 5.00% |

The actual and minimum capital amounts and ratios for the Company do not materially differ from those presented for the Bank in the table above.

The following table presents a reconciliation of Bank capital determined using GAAP and regulatory capital amounts:

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| GAAP and Tier 1 capital | \$ 7,872,000 | \$ 7,463,000 |
| Allowance for loan losses includable in Tier 2 capital using the direct reduction method | <u>728,000</u> | <u>699,000</u> |
| Total Risk-Based Capital | \$ <u>8,600,000</u> | \$ <u>8,162,000</u> |

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12. Employee Benefit Plans

401(k) Plan

The Bank has a 401(k) Plan whereby substantially all employees participate in the Plan. Prior to January 1, 2020, employees could contribute up to 15% of their compensation subject to certain limits based on federal tax laws. The Bank made matching contributions equal to 50% of the employee's contribution, up to a maximum of 3% of an employee's compensation contributed to the Plan. Matching contributions vested to the employee equally over a five-year period. Effective January 1, 2020, employees may contribute up to 100% of their compensation subject to certain limits based on federal tax laws, and the Bank makes matching contributions equal to 100% of the employee's contribution up to 1%, and 50% on the next 5% of the employee's contribution. Matching contributions are 100% vested. For the years ended June 30, 2021 and 2020, expense attributable to the Plan amounted to \$41,179 and \$34,783, respectively.

Employee Stock Ownership Plan

All Bank employees meeting certain age and service requirements are eligible to participate in the ESOP. In August 2008, the Bank's ESOP purchased 17,262 shares of common stock for \$172,620. The Auburn Savings Bank ESOP Trust (the ESOP Trust) borrowed the loan amount of \$172,620 from the Company, and the loan is repayable annually with a fixed interest rate of 5% for the term of fifteen years. The loan is secured by the shares purchased by the ESOP Trust. Participants' benefits become fully vested after five years of service. The Bank's contributions are the primary source of funds for the ESOP's repayment of the loan. Principal and interest payments for the years ended June 30, 2021 and 2020 totaled \$16,631 for each year.

As of June 30, 2021, the remaining principal balance is payable as follows:

| | |
|------|------------------|
| 2022 | \$ 15,085 |
| 2023 | <u>15,837</u> |
| | <u>\$ 30,922</u> |

Shares held by the ESOP include the following at June 30:

| | <u>2021</u> | <u>2020</u> |
|-------------|----------------------|---------------|
| Allocated | 14,951 | 13,795 |
| Unallocated | <u>2,311</u> | <u>3,467</u> |
| | <u>17,262</u> | <u>17,262</u> |

The fair value of the unallocated shares as of June 30, 2021 and 2020 was approximately \$29,000 and \$32,000, respectively.

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13. Related Party Transactions

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates amounting to \$90,000 and \$331,000 at June 30, 2021 and 2020, respectively. During the year ended June 30, 2021, total principal additions were \$11,000. There were no principal additions during the year ended June 30, 2020. During the years ended June 30, 2021 and 2020, total principal payments and loans removed from related party status were \$252,000 and \$58,000, respectively.

Deposits from related parties held by the Bank at June 30, 2021 and 2020 amounted to \$1,393,000 and \$939,000, respectively.

14. Fair Value

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The balances of assets measured at fair value on a recurring basis are as follows:

| | Fair Value Measurements Using | | | |
|--|-------------------------------|--|---|--|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <u>June 30, 2021</u> | | | | |
| Investment securities available for sale | | | | |
| Agency mortgage-backed securities | \$8,352,007 | \$ | \$ 8,352,007 | \$ |
| Small Business Administration securities | 878,318 | | 878,318 | |

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| | <u>Fair Value Measurements Using</u> | | | |
|--|--------------------------------------|---|--|--|
| | <u>Total</u> | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
| <u>June 30, 2020</u> | | | | |
| Investment securities available for sale | | | | |
| Agency mortgage-backed securities | \$4,871,749 | \$ - | \$ 4,871,749 | \$ - |
| Small Business Administration securities | 1,053,792 | - | 1,053,792 | - |

The fair values of investment securities available for sale are determined using observable inputs by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.

GAAP requires disclosure of assets measured at fair value on a nonrecurring basis that have had a fair value adjustment since their initial recognition. There were no assets measured at fair value on a nonrecurring basis at June 30, 2021 and 2020.

GAAP also requires disclosure of estimated fair values of all financial instruments where it is practicable to estimate such values. 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. Accordingly, 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 instrument. The disclosure requirements exclude certain financial instruments and all nonfinancial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

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The estimated fair values, and related carrying or notional amounts, of the Company's financial instruments are as follows at June 30, 2021 and 2020:

| | Carrying Amount | Fair Value | Fair Value Measurements at June 30, 2021 Using | | |
|---|--------------------|---------------|---|---|--|
| | | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | | | (dollars in thousands) | | |
| Financial assets | | | | | |
| Cash and cash equivalents | \$ 11,395 | \$ 11,395 | \$ 11,395 | \$ - | \$ - |
| Investment securities available for sale | 9,230 | 9,230 | - | 9,230 | - |
| Federal Home Loan Bank stock | 431 | 431 | - | 431 | - |
| Loans, net | | | | | |
| Residential | 56,166 | 57,193 | - | - | 57,193 |
| Commercial real estate | 11,302 | 11,625 | - | - | 11,625 |
| Commercial non-real estate | 8,122 | 8,140 | - | - | 8,140 |
| Consumer | 581 | 563 | - | - | 563 |
| Accrued interest receivable | 296 | 296 | 296 | - | - |
| Financial liabilities | | | | | |
| Deposits | 82,700 | 82,817 | - | 82,817 | - |
| Federal Home Loan Bank and Federal Reserve Bank advances | 9,373 | 9,484 | - | 9,484 | - |

| | Carrying Amount | Fair Value | Fair Value Measurements at June 30, 2020 Using | | |
|---|--------------------|---------------|---|---|--|
| | | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | | | (dollars in thousands) | | |
| Financial assets | | | | | |
| Cash and cash equivalents | \$ 3,328 | \$ 3,328 | \$ 3,328 | \$ - | \$ - |
| Investment securities available for sale | 5,926 | 5,926 | - | 5,926 | - |
| Federal Home Loan Bank stock | 431 | 431 | - | 431 | - |
| Loans, net | | | | | |
| Residential | 51,831 | 52,512 | - | - | 52,512 |
| Commercial real estate | 12,765 | 13,050 | - | - | 13,050 |
| Commercial non-real estate | 10,476 | 10,447 | - | - | 10,447 |
| Consumer | 722 | 694 | - | - | 694 |
| Accrued interest receivable | 292 | 292 | 292 | - | - |
| Financial liabilities | | | | | |
| Deposits | 67,225 | 67,568 | - | 67,568 | - |
| Federal Home Loan Bank and Federal Reserve Bank advances | 13,358 | 13,534 | - | 13,534 | - |

The Company's off-balance-sheet instruments consist of loan commitments. Fair values for loan commitments have not been presented as the future revenue derived from such financial instruments is not significant.