



# AUBURN Bancorp

20  
18 ANNUAL REPORT



## PRESIDENT'S LETTER TO SHAREHOLDERS

There's a lag at the beginning of the new fiscal year where management awaits the finance staff's accounting of "how we did" over the preceding year. While there's an idea of how things went, there is no substitute for firm numbers and the knowledge that we did well. Strategically, we focused our efforts on providing great customer service, serving as careful stewards of a 131 year old company, and reaffirming our position as a thoughtful member of our community. The focus has proven effective as the Bank made money, grew, and remained compliant in the administration of its programs and products.

From a financial perspective, earnings were \$304,730, providing a net income per share of \$0.61. While down 6% from last year, this represents a third consecutive year of acceptable earnings. The modest decline is attributed to the building of the balance sheet at over 11%, the biggest annual gain in over a decade. The ongoing trend of declining criticized (and impaired) assets and stronger underwriting allowed more energy to be placed on new loans and provided savings in regards to the Bank's reserves. This represents a part of the culture change the Board and Senior Staff have sought over the past five years.

Other changes include: a stronger market presence, customer service/sales training of staff, as well as a stepped up position in community and trade organizations. Notably, the Bank's partnership with the Brand Collective (a local marketing company) has led to social media with a clearer message of who we are and how we can help families and small businesses succeed. Sales training has helped staff develop keen listening skills to better match customer needs with specific products and services. Managers are actively participating in the Chamber of Commerce, local non-profits and all officers have taken seats on the various committees of the Maine Banker's Association.

With positive change and stability comes recognition that it's time to plan again. Over the winter months, Senior Staff and the Board of Directors will form new strategic plans outlining the Bank's goals for the next five years. Some of the questions we will ask ourselves include:

1. What are the next steps in regards to the expansion of the brand of the Bank? Which products are the most important, and how do we deepen the bond with our customers and prospects?
2. What additional skill sets are required that will be most relevant to our customers and prospects, and what additional resources will be needed for implementation?
3. How do we improve our infrastructure while we undertake new programming? How do we prioritize programs and needed improvements?
4. How do we retain and add to the great team we have given the challenges of the labor shortage in Maine? What steps do we need to take to be considered an employer of choice?
5. As we grow, what is the Bank's responsibility to the communities it serves? What are our expectations in regards to time, talent, and funding of community based groups?

It is the intent of the Bank to continue down the path of growth and increased earnings. While we plan for the future over the coming months, your input is encouraged. Please feel free to contact me, a member of senior staff, or one of the Board of Directors if you'd like to provide direct input.

On behalf of the Board of Directors and staff, thank you for your patronage and support.

Respectfully submitted,



William C. Tracy  
President and Chief Executive Officer

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## 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, 2018 and 2017, 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, 2018 and 2017, 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 10, 2018

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**AUBURN BANCORP, INC. AND SUBSIDIARY**

**Consolidated Balance Sheets**

**June 30, 2018 and 2017**

**ASSETS**

	<u>2018</u>	<u>2017</u>
Cash and due from banks	\$ 4,068,613	\$ 3,660,020
Interest-earning deposits	<u>7,648</u>	<u>18,511</u>
Total cash and cash equivalents	4,076,261	3,678,531
Investment securities available for sale, at fair value	5,038,382	4,170,366
Federal Home Loan Bank stock, at cost	862,000	790,000
Loans receivable, net of allowance for loan losses of \$795,332 and \$789,841 as of June 30, 2018 and 2017, respectively	65,206,706	60,141,535
Property and equipment, net	1,627,360	1,621,189
Foreclosed real estate, net of allowance	48,000	-
Accrued interest receivable		
Investments	8,712	9,215
Loans	234,171	209,094
Prepaid expenses and other assets	735,604	89,813
Bank owned life insurance	<u>764,758</u>	<u>-</u>
Total assets	\$ <u>78,601,954</u>	\$ <u>70,709,743</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Liabilities		
Deposits	\$ 54,719,064	\$ 53,655,958
Federal Home Loan Bank advances	16,680,000	10,100,000
Accrued interest and other liabilities	<u>227,273</u>	<u>209,582</u>
Total liabilities	71,626,337	63,965,540
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, 2018 and 2017	5,033	5,033
Additional paid-in-capital	1,449,862	1,447,571
Retained earnings	5,733,507	5,415,876
Accumulated other comprehensive loss	(160,779)	(60,712)
Unearned compensation (ESOP shares)	<u>(52,006)</u>	<u>(63,565)</u>
Total stockholders' equity	<u>6,975,617</u>	<u>6,744,203</u>
Total liabilities and stockholders' equity	\$ <u>78,601,954</u>	\$ <u>70,709,743</u>

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

**AUBURN BANCORP, INC. AND SUBSIDIARY**

**Consolidated Statements of Income**

**June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Interest and dividend income:		
Interest on loans	\$ <b>2,958,332</b>	\$ 2,864,459
Interest on investments and other interest-earnings deposits	<b>116,443</b>	79,380
Dividends on Federal Home Loan Bank stock	<b>35,786</b>	31,801
Total interest and dividend income	<u><b>3,110,561</b></u>	<u>2,975,640</u>
Interest expense:		
Interest on deposits and escrow accounts	<b>353,968</b>	271,056
Interest on Federal Home Loan Bank advances	<b>192,603</b>	126,953
Total interest expense	<u><b>546,571</b></u>	<u>398,009</u>
Net interest income	<b>2,563,990</b>	2,577,631
Provision for loan losses	<u><b>25,000</b></u>	<u>80,000</u>
Net interest income after provision for loan losses	<u><b>2,538,990</b></u>	<u>2,497,631</u>
Non-interest income:		
Net gain on sales of loans	<b>16,964</b>	31,868
Net loss on sale of foreclosed real estate	-	(434)
Other non-interest income	<b>330,455</b>	306,536
Total non-interest income	<u><b>347,419</b></u>	<u>337,970</u>
Non-interest expenses:		
Salaries and employee benefits	<b>1,372,089</b>	1,256,173
Occupancy expense	<b>132,588</b>	141,434
Depreciation	<b>118,829</b>	106,181
Federal deposit insurance premiums	<b>33,000</b>	34,500
Computer charges	<b>216,546</b>	202,019
Consulting expense	<b>50,935</b>	44,282
Other operating expenses	<b>510,188</b>	548,856
Total non-interest expenses	<u><b>2,434,175</b></u>	<u>2,333,445</u>
Income before income taxes	<b>452,234</b>	502,156
Income tax expense	<u><b>147,504</b></u>	<u>177,500</u>
Net income	<u><b>\$ 304,730</b></u>	<u>\$ 324,656</u>
Net income per common share	<u><b>\$ 0.61</b></u>	<u>\$ 0.65</u>

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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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Net income	\$ <b>304,730</b>	\$ 324,656
Other comprehensive income, net of tax		
Unrealized losses on investment securities available for sale:		
Unrealized holding losses arising during the period	(111,529)	(159,805)
Tax effect	<u>24,363</u>	<u>51,621</u>
Net unrealized losses on investment securities available for sale	<u>(87,166)</u>	<u>(108,184)</u>
Total comprehensive income	<u>\$ 217,564</u>	<u>\$ 216,472</u>

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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, 2018 and 2017**

	Preferred <u>Stock</u>	Common <u>Stock</u>	Additional Paid-in <u>Capital</u>	Retained <u>Earnings</u>	Accumulated Other Comprehensive <u>Income (Loss)</u>	Unearned ESOP <u>Shares</u>	<u>Total</u>
Balance, June 30, 2016	\$ -	\$ 5,033	\$ 1,446,711	\$ 5,091,220	\$ 47,472	\$ (75,123)	\$ 6,515,313
Net income	-	-	-	324,656	-	-	324,656
Other comprehensive loss	-	-	-	-	(108,184)	-	(108,184)
Common stock held by ESOP committed to be released (1,156 shares)	<u>-</u>	<u>-</u>	<u>860</u>	<u>-</u>	<u>-</u>	<u>11,558</u>	<u>12,418</u>
Balance, June 30, 2017	-	5,033	1,447,571	5,415,876	(60,712)	(63,565)	6,744,203
Net income	-	-	-	<b>304,730</b>	-	-	<b>304,730</b>
Other comprehensive loss	-	-	-	-	<b>(87,166)</b>	-	<b>(87,166)</b>
Common stock held by ESOP committed to be released (1,156 shares)	-	-	<b>2,291</b>	-	-	<b>11,559</b>	<b>13,850</b>
Reclassification due to the adoption of ASU 2018-02	<u>-</u>	<u>-</u>	<u>-</u>	<u><b>12,901</b></u>	<u><b>(12,901)</b></u>	<u>-</u>	<u>-</u>
Balance, June 30, 2018	<u>\$ -</u>	<u>\$ <b>5,033</b></u>	<u>\$ <b>1,449,862</b></u>	<u>\$ <b>5,733,507</b></u>	<u>\$ <b>(160,779)</b></u>	<u>\$ <b>(52,006)</b></u>	<u>\$ <b>6,975,617</b></u>

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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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Net income	\$ 304,730	\$ 324,656
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Depreciation	118,829	106,181
Net amortization of premiums on investment securities	19,587	17,071
Provision for loan losses	25,000	80,000
Net change in net deferred loan costs and premiums	16,514	(15,270)
Deferred income tax expense	37,143	3,280
Gain on sales of loans	(16,964)	(31,868)
Proceeds from sale of loans	-	666,068
Loans originated for sale	(534,535)	(634,200)
Writedown of foreclosed real estate	-	33,960
Loss on foreclosed real estate	-	434
ESOP compensation expense	13,850	12,418
Increase in cash surrender value of bank owned life insurance	(14,758)	-
Net (increase) decrease in prepaid expenses and other assets	(117,970)	55,781
Net (increase) decrease in accrued interest receivable	(24,574)	8,335
Net decrease in accrued interest payable and other liabilities	<u>(190,755)</u>	<u>(19,266)</u>
Net cash (used) provided by operating activities	<b>(363,903)</b>	607,580
Cash flows from investing activities:		
Purchase of investment securities available for sale	<b>(1,607,414)</b>	(1,480,520)
Proceeds from maturities, calls and principal paydowns on investment securities available for sale	608,281	439,957
Proceeds from sale of foreclosed real estate	38,415	171,276
Net (increase) decrease in loans to customers	<b>(5,182,201)</b>	1,392,121
Purchase of Federal Home Loan Bank stock	<b>(72,000)</b>	(33,700)
Purchase of bank owned life insurance	<b>(750,000)</b>	-
Capital expenditures	<u><b>(124,999)</b></u>	<u>(149,574)</u>
Net cash (used) provided by investing activities	<b>(7,089,918)</b>	339,560
Cash flows from financing activities:		
Advances from Federal Home Loan Bank	-	1,000,000
Repayment of advances from Federal Home Loan Bank	<b>(3,000,000)</b>	(5,400,000)
Net change in short-term borrowings	9,580,000	1,550,000
Net increase in deposits	<u>1,271,551</u>	<u>2,874,524</u>
Net cash provided by financing activities	<u><b>7,851,551</b></u>	<u>24,524</u>
Net increase in cash and cash equivalents	<b>397,730</b>	971,664
Cash and cash equivalents, beginning of year	<u>3,678,531</u>	<u>2,706,867</u>
Cash and cash equivalents, end of year	\$ <u><b>4,076,261</b></u>	\$ <u>3,678,531</u>
Supplementary cash flow information:		
Cash paid during the year for:		
Interest	\$ 522,636	\$ 380,161
Income taxes	151,533	47,870
Transfer of loans to foreclosed real estate	86,415	133,170
Receivable for loans sold	540,600	-

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

# **AUBURN BANCORP, INC. AND SUBSIDIARY**

## **Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

### **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, 2018 and 2017

### **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 investments 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. Declines in the fair value of individual equity securities that are deemed to be other-than-temporary are reflected in earnings when identified. 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, 2018 and 2017

### 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 nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. Cash payments on these loans are 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, 2018 and 2017

### **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 non-interest income 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, 2018 and 2017

### 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>2018</u>	<u>2017</u>
Net income	\$ <u>304,730</u>	\$ <u>324,656</u>
Weighted average common shares outstanding	503,284	503,284
Less: Average unallocated ESOP shares	<u>(5,732)</u>	<u>(6,888)</u>
Adjusted weighted average common shares outstanding	<u>497,552</u>	<u>496,396</u>
Earnings per common share	\$ <u>0.61</u>	\$ <u>0.65</u>

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

### Impact of Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU was issued to clarify the principles for recognizing revenue and to develop a common revenue standard. The ASU was initially effective for annual reporting periods beginning after December 15, 2016. The FASB later issued ASU No. 2015-14, which defers the effective date to annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the potential impact of the ASU on its consolidated financial statements.



## AUBURN BANCORP, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU was issued to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. This ASU changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. The ASU also changes certain disclosure requirements and other aspects of GAAP, including a requirement for public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The ASU will not have a material effect on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the potential impact of the ASU on its consolidated financial statements.

In June 2016, the FASB issued 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 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. The ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within such years. The Company is evaluating the potential impact of the ASU on its consolidated financial statements. Management has started to collect and evaluate data and review potential software.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This ASU was issued to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. The ASU is effective for fiscal years beginning after December 15, 2018, with early adoption permitted for financial statements which have not yet been issued. The Company adopted the ASU for the June 30, 2018 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 10, 2018, 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.

**AUBURN BANCORP, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

**2. Securities**

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

	June 30, 2018				June 30, 2017			
	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	\$ 3,798,617	\$ 130	\$ (155,326)	\$ 3,643,421	\$ 2,553,839	\$ 5,109	\$ (51,544)	\$ 2,507,404
Small Business Administration securities	1,433,281	-	(51,330)	1,381,951	1,698,513	-	(50,111)	1,648,402
U.S. Government sponsored enterprise securities	2	3,008	-	3,010	2	4,558	-	4,560
Corporate common stock	10,000	-	-	10,000	10,000	-	-	10,000
<b>Total</b>	<b>\$ 5,241,900</b>	<b>\$ 3,138</b>	<b>\$ (206,656)</b>	<b>\$ 5,038,382</b>	<b>\$ 4,262,354</b>	<b>\$ 9,667</b>	<b>\$ (101,655)</b>	<b>\$ 4,170,366</b>

Investments with a fair value of approximately \$880,000 and \$935,000 at June 30, 2018 and 2017, 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 below because 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.

	June 30, 2018		June 30, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Agency mortgage-backed securities	\$ 3,798,617	\$ 3,643,421	\$ 2,553,839	\$ 2,507,404
Small Business Administration securities	1,433,281	1,381,951	1,698,513	1,648,402
<b>Total debt securities</b>	<b>\$ 5,231,898</b>	<b>\$ 5,025,372</b>	<b>\$ 4,252,352</b>	<b>\$ 4,155,806</b>

Information pertaining to securities with gross unrealized losses at June 30, 2018 and 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>June 30, 2018</u>						
Agency mortgage-backed securities	\$ 1,908,525	\$ (59,910)	\$ 1,734,576	\$ (95,416)	\$ 3,643,101	\$ (155,326)
Small Business Administration securities	-	-	1,381,951	(51,330)	1,381,951	(51,330)
<b>Total</b>	<b>\$ 1,908,525</b>	<b>\$ (59,910)</b>	<b>\$ 3,116,527</b>	<b>\$ (146,746)</b>	<b>\$ 5,025,052</b>	<b>\$ (206,656)</b>
<u>June 30, 2017</u>						
Agency mortgage-backed securities	\$ 2,026,758	\$ 51,503	\$ 2,678	\$ 41	\$ 2,029,436	\$ 51,544
Small Business Administration securities	1,323,769	40,317	324,633	9,794	1,648,402	50,111
<b>Total</b>	<b>\$ 3,350,527</b>	<b>\$ 91,820</b>	<b>\$ 327,311</b>	<b>\$ 9,835</b>	<b>\$ 3,677,838</b>	<b>\$ 101,655</b>

# AUBURN BANCORP, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

At June 30, 2018, thirteen debt securities with unrealized losses have declined 4.0% in total from the amortized cost basis. At June 30, 2017, ten debt securities with unrealized losses have declined 2.7% 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, 2018 and 2017, no unrealized losses were deemed by management to be other-than-temporary.

There were no sales of securities for the years ended June 30, 2018 and 2017.

### 3. Loans

A summary of the balances of loans follows:

	<u>2018</u>	<u>2017</u>
Residential real estate	\$ 50,836,662	\$ 47,972,134
Commercial real estate	10,046,396	8,504,013
Commercial non-real estate	4,601,847	4,090,814
Consumer	<u>517,133</u>	<u>364,415</u>
Subtotal	66,002,038	60,931,376
Allowance for loan losses	<u>(795,332)</u>	<u>(789,841)</u>
Total loans, net	\$ <u>65,206,706</u>	\$ <u>60,141,535</u>

Net deferred loan costs included in total loans receivable amounted to \$65,640 and \$74,597 at June 30, 2018 and 2017, respectively.

#### *Credit Quality and Allowance for Loan Losses*

Management uses a number of 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.

## AUBURN BANCORP, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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, and delinquency and watch lists are regularly reviewed. 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 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 that strives to identify, track and monitor credit risk, 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, 2018 and 2017.

# AUBURN BANCORP, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

**June 30, 2018 and 2017**

The following tables provide information relative to credit quality and allowance for loan losses as of and for the years ended June 30, 2018 and 2017.

	Commercial		Residential	Consumer	Unallocated	Total
	Non-Real Estate	Commercial Real Estate	Real Estate			
<b>Year Ended June 30, 2018</b>						
Allowance for loan losses:						
Beginning balance	\$ 19,379	\$ 129,528	\$ 471,758	\$ 51,834	\$ 117,342	\$ 789,841
Charge-offs	-	(44,959)	(17,389)	-	-	(62,348)
Recoveries	-	21,057	20,696	1,086	-	42,839
Provision (recovery)	<u>26,133</u>	<u>21,427</u>	<u>(25,519)</u>	<u>(1,968)</u>	<u>4,927</u>	<u>25,000</u>
Ending balance	<u>\$ 45,512</u>	<u>\$ 127,053</u>	<u>\$ 449,546</u>	<u>\$ 50,952</u>	<u>\$ 122,269</u>	<u>\$ 795,332</u>
<b>As of June 30, 2018</b>						
Allowance for loan losses:						
Ending balance	\$ 45,512	\$ 127,053	\$ 449,546	\$ 50,952	\$ 122,269	\$ 795,332
Individually evaluated for impairment	-	-	79,394	48,235	-	127,629
Collectively evaluated for impairment	45,512	127,053	370,152	2,717	122,269	667,703
Loans:						
Ending balance	\$ 4,601,847	\$ 10,046,396	\$ 50,836,662	\$ 517,133		\$ 66,002,038
Individually evaluated for impairment	150,140	18,429	1,508,864	77,141		1,754,574
Collectively evaluated for impairment	4,451,707	10,027,967	49,327,798	439,992		64,247,464
<b>Year Ended June 30, 2017</b>						
Allowance for loan losses:						
Beginning balance	\$ 48,861	\$ 165,009	\$ 433,822	\$ 49,074	\$ 13,241	\$ 710,007
Charge-offs	-	-	(70,891)	(3,311)	-	(74,202)
Recoveries	13,785	2,817	57,134	300	-	74,036
Provision (recovery)	<u>(43,267)</u>	<u>(38,298)</u>	<u>51,693</u>	<u>5,771</u>	<u>104,101</u>	<u>80,000</u>
Ending balance	<u>\$ 19,379</u>	<u>\$ 129,528</u>	<u>\$ 471,758</u>	<u>\$ 51,834</u>	<u>\$ 117,342</u>	<u>\$ 789,841</u>
<b>As of June 30, 2017</b>						
Allowance for loan losses:						
Ending balance	\$ 19,379	\$ 129,528	\$ 471,758	\$ 51,834	\$ 117,342	\$ 789,841
Individually evaluated for impairment	-	-	88,318	46,486	-	134,804
Collectively evaluated for impairment	19,379	129,528	383,440	5,348	117,342	655,037
Loans:						
Ending balance	\$ 4,090,814	\$ 8,504,013	\$ 47,972,134	\$ 364,415		\$ 60,931,376
Individually evaluated for impairment	-	156,068	1,657,667	94,349		1,908,084
Collectively evaluated for impairment	4,090,814	8,347,945	46,314,467	270,066		59,023,292

# AUBURN BANCORP, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### *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 offers 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.

*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.

## **AUBURN BANCORP, INC. AND SUBSIDIARY**

### **Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

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.

#### ***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.

## AUBURN BANCORP, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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 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.



**AUBURN BANCORP, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

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.

Credit Quality Indicators

Commercial Credit Risk Exposure  
Credit Risk Profile by Internally Assigned Grade

Grade:	As of June 30, 2018		As of June 30, 2017	
	Commercial	Commercial	Commercial	Commercial
	Non-Real Estate	Real Estate	Non-Real Estate	Real Estate
Acceptable	\$ 4,583,418	\$ 8,620,466	\$ 4,070,867	\$ 7,056,976
Pass/Watch – Marginal	-	1,126,999	-	1,208,202
Special mention	-	148,791	-	-
Substandard	18,429	150,140	19,947	238,835
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	<u>\$ 4,601,847</u>	<u>\$ 10,046,396</u>	<u>\$ 4,090,814</u>	<u>\$ 8,504,013</u>

Residential/Consumer Credit Exposure  
Credit Risk Profile by Internally Assigned Grade

Grade:	As of June 30, 2018		As of June 30, 2017	
	Residential	Consumer	Residential	Consumer
	Real Estate		Real Estate	
Acceptable	\$ 49,694,152	\$ 455,985	\$ 47,133,445	\$ 263,940
Pass/Watch – Marginal	834,176	10,281	334,463	20,393
Special mention	-	-	-	-
Substandard	308,334	50,867	504,226	80,082
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	<u>\$ 50,836,662</u>	<u>\$ 517,133</u>	<u>\$ 47,972,134</u>	<u>\$ 364,415</u>

**AUBURN BANCORP, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

*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.

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

	<u>As of and for the Year Ended June 30, 2018</u>				
	<u>Recorded</u>	<u>Unpaid</u>	<u>Related</u>	<u>Average</u>	<u>Interest</u>
	<u>Investment</u>	<u>Principal</u>	<u>Allowance</u>	<u>Recorded</u>	<u>Income</u>
		<u>Balance</u>		<u>Investment</u>	<u>Recognized</u>
With no related allowance recorded:					
Commercial non-real estate	\$ 150,140	\$ 150,140	\$ -	\$ 37,535	\$ 3,776
Commercial real estate	18,429	18,429	-	119,575	2,241
Residential real estate	760,221	798,393	-	698,269	18,773
Consumer	26,275	28,284	-	35,404	1,498
With related allowance recorded:					
Commercial non-real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	-	-	-	-	-
Residential real estate	748,643	748,643	79,394	813,522	20,004
Consumer	50,866	50,866	48,235	50,871	1,280
Total:					
Commercial non-real estate	\$ 150,140	\$ 150,140	\$ -	\$ 37,535	\$ 3,776
Commercial real estate	18,429	18,429	-	119,575	2,241
Residential real estate	1,508,864	1,547,036	79,394	1,511,791	38,777
Consumer	<u>77,141</u>	<u>79,150</u>	<u>48,235</u>	<u>86,275</u>	<u>2,778</u>
	<u>\$ 1,754,574</u>	<u>\$ 1,794,755</u>	<u>\$ 127,629</u>	<u>\$ 1,755,176</u>	<u>\$ 47,572</u>

**AUBURN BANCORP, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

	<u>As of and for the Year Ended June 30, 2017</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	156,068	156,068	-	158,362	3,980
Residential real estate	739,096	837,352	-	752,057	15,768
Consumer	43,473	46,568	-	47,155	1,850
With related allowance recorded:					
Commercial non-real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	-	-	-	78,055	-
Residential real estate	918,571	918,571	88,318	1,086,533	24,667
Consumer	50,876	50,876	46,486	50,894	1,091
Total:					
Commercial non-real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	156,068	156,068	-	236,417	3,980
Residential real estate	1,657,667	1,755,923	88,318	1,838,590	40,435
Consumer	<u>94,349</u>	<u>97,444</u>	<u>46,486</u>	<u>98,049</u>	<u>2,941</u>
	<u>\$ 1,908,084</u>	<u>\$ 2,009,435</u>	<u>\$ 134,804</u>	<u>\$ 2,173,056</u>	<u>\$ 47,356</u>

All interest income recognized on impaired loans is on the cash basis.

*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 nonaccrual 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 had \$48,000 of other real estate owned at June 30, 2018 and no foreclosed residential real estate properties held at June 30, 2017 where physical possession had been obtained. The Bank had no consumer mortgage loans secured by residential real estate properties where formal foreclosure procedures were in process as of June 30, 2018 and 2017.

# AUBURN BANCORP, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### Age Analysis of Past Due Loans

As of June 30, 2018

	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	\$ -	\$ -	\$ -	\$ -	\$ 4,601,847	\$ 4,601,847	\$ -	\$ 18,429
Commercial real estate	-	251,725	-	251,725	9,794,671	10,046,396	-	-
Residential real estate	152,663	292,556	14,669	459,888	50,376,774	50,836,662	-	362,596
Consumer	-	-	-	-	517,133	517,133	-	77,235
	<u>\$ 152,663</u>	<u>\$ 544,281</u>	<u>\$ 14,669</u>	<u>\$ 711,613</u>	<u>\$ 65,290,425</u>	<u>\$ 66,002,038</u>	<u>\$ -</u>	<u>\$ 458,259</u>

### Age Analysis of Past Due Loans

As of June 30, 2017

	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	\$ -	\$ -	\$ -	\$ -	\$ 4,090,814	\$ 4,090,814	\$ -	\$ -
Commercial real estate	-	63,914	-	63,914	8,440,099	8,504,013	-	-
Residential real estate	399,253	-	25,250	425,503	47,547,631	47,972,134	-	562,069
Consumer	-	-	-	-	364,415	364,415	-	80,051
	<u>\$ 399,253</u>	<u>\$ 63,914</u>	<u>\$ 25,250</u>	<u>\$ 488,417</u>	<u>\$ 60,442,959</u>	<u>\$ 60,931,376</u>	<u>\$ -</u>	<u>\$ 642,120</u>

Interest income on non-accrual loans of \$3,800 and \$27,893 would have been recognized on these loans if interest had been accrued at June 30, 2018 and 2017, respectively.

### *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.

# AUBURN BANCORP, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Troubled debt restructured loans are considered impaired. As of June 30, 2018 and 2017, there were no commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

There were no troubled debt restructurings that occurred during the year ended June 30, 2018. During the year ended June 30, 2017, certain loan modifications were executed which constituted troubled debt restructurings. Loans were 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, 2017:

	<u>Number of Loans</u>	<u>Pre- Modification Outstanding Recorded Investment</u>	<u>Post- Modification Outstanding Recorded Investment</u>
Residential real estate	<u>2</u>	<u>\$ 130,005</u>	<u>\$ 139,152</u>
Total	<u>2</u>	<u>\$ 130,005</u>	<u>\$ 139,152</u>

There were no charge-offs on the troubled debt restructurings that occurred during the year ended June 30, 2017.

A loan is considered to be in payment default once it is greater than 30 days contractually past due under the modified terms. There were no troubled debt restructurings with payment defaults during the years ended June 30, 2018 and 2017 that were modified within the previous twelve months.

The Bank was servicing for others, mortgage loans of approximately \$15,520,000 and \$18,218,000 at June 30, 2018 and 2017, respectively.

The balance of mortgage servicing rights was \$22,166 and \$44,626 at June 30, 2018 and 2017, respectively.

**AUBURN BANCORP, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

**4. Property and Equipment**

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

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 413,130	\$ 413,167
Buildings	1,988,831	1,953,916
Furniture and fixtures	<u>990,328</u>	<u>900,244</u>
	<b>3,392,289</b>	<b>3,267,327</b>
Less accumulated depreciation	<u>1,764,929</u>	<u>1,646,138</u>
Net property and equipment	<u>\$ 1,627,360</u>	<u>\$ 1,621,189</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>2018</u>	<u>2017</u>
Demand accounts	\$ 6,315,550	\$ 5,873,401
Money market accounts	8,683,272	8,743,334
NOW accounts	4,768,432	6,370,835
Savings accounts	7,624,363	7,984,677
Certificates of deposit	22,520,789	22,585,077
Certificates of deposit, \$250,000 and over	2,810,658	2,098,634
Brokered certificates of deposit	<u>1,996,000</u>	<u>-</u>
Total deposits	<u>\$ 54,719,064</u>	<u>\$ 53,655,958</u>

The scheduled maturities of time deposits are as follows:

	<u>2018</u>	<u>2017</u>
2018	\$ -	\$ 12,602,980
2019	17,987,238	8,677,786
2020	8,217,461	2,560,947
2021	692,370	591,204
2022	353,787	250,794
2023	<u>76,591</u>	<u>-</u>
	<u>\$ 27,327,447</u>	<u>\$ 24,683,711</u>

**AUBURN BANCORP, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

A summary of interest expense on deposits is as follows:

	<u>2018</u>	<u>2017</u>
Demand accounts	\$ 4,316	\$ 2,499
Money market accounts	30,093	26,496
NOW accounts	6,384	7,311
Savings accounts	8,635	8,126
Certificates of deposit	<u>304,540</u>	<u>226,624</u>
Total interest expense on deposits	<u>\$ 353,968</u>	<u>\$ 271,056</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 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, 2018 and 2017, the value of the collateral in the custodial account was approximately \$880,000 and \$935,000, respectively, and the portion of these certain deposits in excess of the federal insured limit was approximately \$1,005,000 and \$943,000, respectively.

**6. Federal Home Loan Bank Advances**

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 advances of \$16,680,000 and \$10,100,000 at June 30, 2018 and 2017, respectively, mature through 2019. At June 30, 2018 and 2017, the interest rates on fixed-rate advances ranged from 1.35% to 2.18% and 0.59% to 1.83%, respectively.

At June 30, 2018 and 2017, 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, 2018 and 2017.

The contractual maturities of advances are as follows:

	<u>2018</u>	<u>2017</u>
2018	\$ -	\$ 6,600,000
2019	16,680,000	2,500,000
2026	<u>-</u>	<u>1,000,000</u>
	<u>\$16,680,000</u>	<u>\$ 10,100,000</u>

**AUBURN BANCORP, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

**7. Income Taxes**

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

	<u>2018</u>	<u>2017</u>
Current tax expense		
Federal	\$ 101,233	\$ 165,297
State	<u>9,128</u>	<u>8,923</u>
	<u>110,361</u>	<u>174,220</u>
Deferred federal tax expense	4,622	3,280
Effect of enacted change in federal tax rates	<u>32,521</u>	<u>-</u>
	<u>37,143</u>	<u>3,280</u>
Income tax expense	<u>\$ 147,504</u>	<u>\$ 177,500</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>2018</u>	<u>2017</u>
Expected income tax expense at federal tax rate	\$ 124,364	\$ 170,733
Increase (reduction) in income taxes resulting from:		
State tax, net of federal tax benefit	6,618	5,889
Effect of enacted change in federal tax rates	32,521	-
Other	<u>(15,999)</u>	<u>878</u>
Income tax expense	<u>\$ 147,504</u>	<u>\$ 177,500</u>
Effective income tax rate	<u>32.6%</u>	<u>35.4%</u>



**AUBURN BANCORP, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

The components of the net deferred tax asset, included in other assets, are as follows:

	<u>2018</u>	<u>2017</u>
Deferred tax assets:		
Allowance for loan losses	\$ 167,020	\$ 236,952
Impairment loss on investments	27,917	27,917
Expense accruals	4,219	4,943
Unrealized losses on investment securities available for sale	42,739	31,276
Other	<u>4,868</u>	<u>7,210</u>
Total deferred tax assets	<b>246,763</b>	308,298
Valuation reserve against capital losses	<u>(27,917)</u>	<u>(27,917)</u>
Total deferred tax assets, net of valuation reserve	<u><b>218,846</b></u>	<u>280,381</u>
Deferred tax liabilities:		
Difference between tax and book bases of property and equipment	(95,988)	(128,431)
Deferred loan fees	(34,304)	(41,886)
Mortgage servicing rights	<u>(4,657)</u>	<u>(13,388)</u>
Total deferred tax liabilities	<u>(134,949)</u>	<u>(183,705)</u>
Net deferred tax asset	<u><b>\$ 83,897</b></u>	<u>\$ 96,676</u>

Deferred tax assets and liabilities are recognized at the expected future tax rate. On December 22, 2017, upon enactment of the Tax Cuts and Jobs Act, the federal tax rate decreased from 34% to 21% effective January 1, 2018. Accordingly, deferred tax assets and liabilities were revalued at December 31, 2017 to reflect the 21% enacted tax rate. The Bank has sufficient refundable taxes paid in available carryback years to fully realize its recorded deferred tax assets, net of valuation reserve 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.

# AUBURN BANCORP, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended June 30, 2015 through 2018. 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, 2018 and 2017, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>2018</u>	<u>2017</u>
Commitments to originate loans	\$ 1,336,000	\$ 1,044,000
Unadvanced portions of construction loans	335,000	444,000
Unadvanced portions of home equity loans	5,393,000	4,674,000
Unadvanced portions of commercial lines of credit	1,995,000	759,000

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, 2018 were fixed rate commitments to grant loans of approximately \$1,336,000 which generally expire in 30 days. Interest rates on these commitments range from 3.875% to 6.00%.

Included in the above commitments to extend credit at June 30, 2017 were fixed rate commitments to grant loans of approximately \$1,044,000 which generally expire in 30 days. Interest rates on these fixed rate commitments range from 2.875% to 5.00%.

# AUBURN BANCORP, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

The Bank has sold mortgage loans to the FHLB with a total outstanding balance of approximately \$15,520,000 and \$18,218,000 at June 30, 2018 and 2017, 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 \$524,000 at June 30, 2018 and 2017.

### 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>2018</u>	<u>2017</u>
Other non-interest income:		
Servicing fees collected on sold loans	\$ 41,000	\$ 50,000
Interchange income	61,000	57,000
Deposit fee income	43,000	53,000
Loan fee income	93,000	102,000
Miscellaneous income	39,000	*
Other operating expenses:		
Audit and examinations	\$ 123,000	\$ 117,000
Loans in foreclosure and REO expense	*	57,000
ATM and debit card costs	60,000	75,000
Marketing	104,000	97,000

\* 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 and 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).

**AUBURN BANCORP, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule that revised their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain “available for sale” securities holdings to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. The rule limits 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. The final rule became effective for the Bank on January 1, 2015. The capital conservation buffer requirement is being phased in from January 1, 2016 through January 1, 2019, when the full capital conservation buffer requirement will be effective. As of June 30, 2018, the Bank had a capital conservation buffer of 6.60% of risk-weighted assets, which was in excess of the phased-in regulatory requirement of 1.875%.

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, 2018</u>						
Total capital to risk weighted assets	\$ 7,579,000	14.60%	\$ 4,153,000	8.00%	\$ 5,191,000	10.00%
Tier 1 capital to risk weighted assets	\$ 6,928,000	13.35%	\$ 3,114,000	6.00%	\$ 4,153,000	8.00%
Common equity tier 1 capital to risk weighted assets	\$ 6,928,000	13.35%	\$ 2,336,000	4.50%	\$ 3,374,000	6.50%
Tier 1 capital to total assets	\$ 6,928,000	9.24%	\$ 3,000,000	4.00%	\$ 3,750,000	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, 2017</u>						
Total capital to risk weighted assets	\$ 7,149,000	16.72%	\$ 3,240,000	8.00%	\$ 4,275,000	10.00%
Tier 1 capital to risk weighted assets	\$ 6,610,000	15.46%	\$ 2,565,000	6.00%	\$ 3,420,000	8.00%
Common equity tier 1 capital to risk weighted assets	\$ 6,610,000	15.46%	\$ 1,924,000	4.50%	\$ 2,779,000	6.50%
Tier 1 capital to total assets	\$ 6,610,000	9.46%	\$ 2,772,000	4.00%	\$ 3,495,000	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.

# AUBURN BANCORP, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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

	<u>2018</u>	<u>2017</u>
GAAP and Tier 1 capital	\$ 6,928,000	\$ 6,610,000
Unrealized gains on certain available for sale securities includable in Tier 2 capital	1,000	2,000
Allowance for loan losses includable in Tier 2 capital using the direct reduction method	<u>650,000</u>	<u>537,000</u>
Total Risk-Based Capital	<u>\$ 7,579,000</u>	<u>\$ 7,149,000</u>

### 12. Employee Benefit Plans

#### *401(k) Plan*

The Bank has a 401(k) Plan whereby substantially all employees participate in the Plan. Employees may contribute up to 15% of their compensation subject to certain limits based on federal tax laws. The Bank makes 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 vest to the employee equally over a five-year period. For the years ended June 30, 2018 and 2017, expense attributable to the Plan amounted to \$24,454 and \$24,376, 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, 2018 and 2017 totaled \$16,631 for each year.

As of June 30, 2018, the remaining principal balance is payable as follows:

2019	\$ 13,031
2020	13,682
2021	14,367
2022	15,085
2023	<u>15,837</u>
	<u>\$ 72,002</u>

# AUBURN BANCORP, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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

	<u>2018</u>	<u>2017</u>
Allocated	11,483	10,327
Unallocated	<u>5,779</u>	<u>6,935</u>
	<u>17,262</u>	<u>17,262</u>

The fair value of the unallocated shares as of June 30, 2018 and 2017 was approximately \$72,000 and \$78,000, respectively.

### 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 \$427,000 and \$346,000 at June 30, 2018 and 2017, respectively. During the years ended June 30, 2018 and 2017, total principal additions were \$103,000 and \$2,000, respectively, and total principal payments and loans removed from related party status were \$22,000 and \$19,000, respectively.

Deposits from related parties held by the Bank at June 30, 2018 and 2017 amounted to \$1,597,000 and \$1,656,000, 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.

**AUBURN BANCORP, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

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, 2018</u>				
Investment securities available for sale				
Agency mortgage-backed securities	\$3,643,421	\$ -	\$ 3,643,421	\$ -
Small Business Administration securities	1,381,951	-	1,381,951	-
U.S. Government sponsored enterprise securities	3,010	-	3,010	-
Corporate common stock	10,000	-	10,000	-

	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, 2017</u>				
Investment securities available for sale				
Agency mortgage-backed securities	\$2,507,404	\$ -	\$ 2,507,404	\$ -
Small Business Administration securities	1,648,402	-	1,648,402	-
U.S. Government sponsored enterprise securities	4,560	-	4,560	-
Corporate common stock	10,000	-	10,000	-

The following table includes assets measured at fair value on a nonrecurring basis that have had a fair value adjustment since their initial recognition. Impaired loans measured at fair value include those impaired loans that have either been charged down, or for which a specific reserve has been established, using collateral value which is a fair value measure under GAAP.

	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, 2017</u>				
Assets:				
Impaired loans	\$ 293,374	\$ -	\$ 293,374	\$ -

Certain impaired loans were reduced from their initial carrying amount of \$350,200 to their fair value of \$293,374 at June 30, 2017, resulting in an impairment reserve through the allowance for loan losses.

There were no collateral dependent impaired loans at June 30, 2018.

## AUBURN BANCORP, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

GAAP 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.

The following methods and assumptions were used by the Company in estimating fair value for financial instruments and for other assets measured at fair value:

*Cash and cash equivalents:* The carrying amounts of cash, due from banks, deposits with the FHLB, and federal funds sold approximate fair values as these financial instruments have short maturities.

*Securities:* The fair value of securities, excluding FHLB stock, 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. The carrying value of FHLB stock approximates fair value based on the redemption provisions of the FHLB.

*Loans receivable:* Fair values for impaired loans are estimated using discounted cash flow analyses or, if collateral dependent, the appraised value of the collateral, less costs to sell. For other variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other fixed-rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. As such, the Company classifies collateral dependent impaired loans as Level 2 and all other loans as Level 3.

*Deposit liabilities:* The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates of similar remaining maturity.

*Federal Home Loan Bank advances:* The fair values of these borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

*Accrued interest:* The carrying amounts of accrued interest approximate fair value.



**AUBURN BANCORP, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

*Off-balance-sheet instruments:* 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.

The estimated fair values, and related carrying or notional amounts, of the Company's financial instruments are as follows at June 30, 2018 and 2017:

		<u>Fair Value Measurements at June 30, 2018 Using</u>			
		Quoted Prices			
		in Active	Significant	Significant	
		Markets for	Other	Unobservable	
		Identical	Observable	Inputs	
		Assets	Inputs	(Level 3)	
		(Level 1)	(Level 2)	(Level 3)	
Carrying	Fair				
<u>Amount</u>	<u>Value</u>				
(dollars in thousands)					
<b>Financial assets</b>					
Cash and cash equivalents	\$ 4,076	\$ 4,076	\$ 4,076	\$ -	\$ -
Investment securities available for sale	5,038	5,038	-	5,038	-
Federal Home Loan Bank stock	862	862	-	862	-
Loans, net					
Residential	50,266	49,554	-	-	49,554
Commercial real estate	9,919	9,927	-	-	9,927
Commercial non-real estate	4,556	4,464	-	-	4,464
Consumer	466	459	-	-	459
Accrued interest receivable	243	243	-	243	-
<b>Financial liabilities</b>					
Deposits	54,719	54,491	-	54,491	-
Federal Home Loan Bank advances	16,680	16,668	-	16,668	-
		<u>Fair Value Measurements at June 30, 2017 Using</u>			
		Quoted Prices			
		in Active	Significant	Significant	
		Markets for	Other	Unobservable	
		Identical	Observable	Inputs	
		Assets	Inputs	(Level 3)	
		(Level 1)	(Level 2)	(Level 3)	
Carrying	Fair				
<u>Amount</u>	<u>Value</u>				
(dollars in thousands)					
<b>Financial assets</b>					
Cash and cash equivalents	\$ 3,679	\$ 3,679	\$ 3,679	\$ -	\$ -
Investment securities available for sale	4,170	4,170	-	4,170	-
Federal Home Loan Bank stock	790	790	-	790	-
Loans, net					
Residential	47,383	48,026	-	289	47,737
Commercial real estate	8,374	8,427	-	-	8,427
Commercial non-real estate	4,072	3,794	-	-	3,794
Consumer	313	314	-	4	310
Accrued interest receivable	218	218	-	218	-
<b>Financial liabilities</b>					
Deposits	53,656	53,584	-	53,584	-
Federal Home Loan Bank advances	10,100	10,100	-	10,094	-

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**DIRECTORS OF AUBURN BANCORP, INC.  
AND  
OFFICERS OF AUBURN SAVINGS BANK,  
FSB**

**Directors**

Philip R. St. Pierre, Chair  
*Owner, Victor News Company Inc.*

Heather A. Hunter, Vice Chair  
*Finance Director, City of Lewiston*

Claire D. Thompson  
*CPA and shareholder, Austin Associates, PA*

Thomas J. Dean  
*Chief Financial Officer, Futureguard  
Building Products, Inc.*

Anne M. Torregrossa  
*Associate Corporate Counsel, City of Portland*

**Officers**

William C. Tracy, *President, Chief Executive Officer*  
Martha L. Adams, *Executive Vice President & Chief Operating Officer*  
David J. Krause, *Senior Vice President, Chief Financial Officer*  
Melissa M. Record, *Vice President & BSA/Compliance Officer*  
Brian M. Judkins, *Assistant Vice President & Retail Development Officer*

**BANKING LOCATIONS**

**Main Office**  
256 Court Street  
Auburn, ME 04210  
Phone (207) 782-6871  
Fax (207) 782-7055

**Lewiston Branch**  
325 Sabattus Street  
Lewiston, ME 04240  
Phone (207) 782-0400  
Fax (207) 782-5444

## CORPORATE INFORMATION

### Corporate Headquarters

256 Court Street  
Auburn, ME 04210  
Phone (207) 782-6871  
Fax (207) 782-7055

### Independent Auditors

BerryDunn  
100 Middle Street, P.O. Box 1100  
Portland, ME 04104-1100  
Phone (207) 775-2387  
Fax (207) 774-2375

### General Counsel

Luse Gorman  
5335 Wisconsin Ave N.W. Suite 780  
Washington, DC 20015-2054  
Phone (202) 274-2000  
Fax (202) 362-2902

### Transfer Agent/Registrar

Computershare, Inc.  
P.O. Box 30170  
College Station, TX 77842  
Phone (800) 368-5948  
Fax (908) 497-2314

### Investor and Shareholder Information

Requests for information by shareholders and investors interested in Auburn Bancorp may contact:

William C Tracy, President & CEO  
Investor Relations  
325 Sabattus Street  
Lewiston, ME 04240  
Phone (207) 782-0400  
Fax (207) 782-5444  
Email: [billtracy@auburnsavings.com](mailto:billtracy@auburnsavings.com)

### Corporate Website and Internet Banking

[www.auburnsavings.com](http://www.auburnsavings.com)

### Annual Meeting

The Annual Meeting of Shareholders will be held Tuesday, November 28, 2017 at 3:45 p.m., local time, at the Auburn Public Library at 49 Spring Street in Auburn, Maine.