2023 ANNUAL REPORT

AUBURN
Bancorp

PRESIDENT'S LETTER TO SHAREHOLDERS

The failure of four financial institutions nationwide combined and associated with accelerated interest rate increases created market challenges for all banks over the past year. Interest rate shopping made a return to banking after being mostly absent since 2003-2004, wholesale funding costs increased at a quick pace just ahead of scheduled meetings of the Federal Reserve Board and the evaporation of on hand deposits of governmental programs related to COVID proved to be impactful changes in how banking business is conducted. Also, the chronically slow pace of mortgage sales has continued and is exacerbated by the increase in housing prices and lack of housing stock in Maine. This has been a very difficult financial year for the Bank.

Relatively early into the fiscal year the Bank recognized that, if rates continued to increase, pressure on net margins would be a problem. Staff began forecasting forward with a focus on liquidity and capital as well as income resulting in the development of a four-part plan. It was determined that most marketing activity could be conducted internally with the hiring of a specialist reducing program costs by over 40%. Four positions (two full time and two part time) were eliminated. To supplement production, loan pools of over two million dollars were purchased providing a yield on funds to purchase of greater than 3.37%. The Bank also investigated and began to use options offered by the Federal Home Loan Bank in lieu of classic "bullet" rate funds. The steps allowed the Bank to remain profitable through the end of the fiscal year and demonstrated the capacity of the staff and Board to be nimble when facing adverse conditions.

The good news from the past fiscal year was that the Bank continued to grow its balance sheet to over $103 million (5.9% increase). The roll off of assets related to COVID were replaced with organic loan originations and loan pool purchases. Typically, the Bank would utilize securities as a method to augment income and bolster the balance sheet. Unrealized losses on securities led the Bank to strategically look at loan purchases as an alternative. As indicated above, earnings were not as robust as preferred, providing net income of $.07 per share.

While the environment remains challenging, the Bank continues to move forward in its 136th year of operations determined to grow and realize greater profitability.

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

Respectfully submitted,

William C. Tracy
President and Chief Executive Officer

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AUBURN Savings

AUBURN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

With Independent Auditors' Report

JUNE 30, 2023 AND 2022

Albin Randall & Bennett

AUBURN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Audit Committee
Auburn Bancorp, Inc. and Subsidiary:

Opinion

We have audited the accompanying consolidated financial statements of Auburn Bancorp, Inc. and Subsidiary (the Bank), which comprise the consolidated statement of financial condition as of June 30, 2023, and the related statements of income and comprehensive loss, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Auburn Bancorp, Inc. and Subsidiary as of June 30, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Prior Period Consolidated Financial Statements

The consolidated financial statements of Auburn Bancorp, Inc. and Subsidiary as of June 30, 2022, were audited by other auditors whose report dated September 21, 2022, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with U.S. generally accepted auditing standards, we:

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

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

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

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

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

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

Albin, Randall, & Bennett

September 19, 2023

AUBURN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

JUNE 30, 2023 AND 2022

ASSETS

	2023	2022
Cash and cash equivalents	$ 4,074,922	2,391,494
Investments - available for sale	15,128,161	15,378,186
Investments - other	795,900	499,400
Loans, net of allowance for loan losses	80,183,774	76,217,487
Accrued interest receivable	307,702	268,260
Income taxes receivable	30,437	12,028
Property and equipment, net of accumulated depreciation	1,431,455	1,552,598
Bank owned life insurance	884,195	862,382
Deferred income taxes	567,790	363,918
Prepaid expenses and other assets	315,901	394,396
	$103,720,237	97,940,149

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	2023	2022
LIABILITIES:		
Deposits	$ 78,982,611	80,908,461
Borrowed funds	18,330,000	10,000,000
Accrued expenses and other liabilities	200,326	207,255
Total liabilities	97,512,937	91,115,716
STOCKHOLDERS' EQUITY:		
Preferred stock, 1,000,000 shares authorized, no shares issued or outstanding	-	-
Common stock, $.01 par value, 10,000,000 shares authorized, 503,284 shares issued and outstanding	5,033	5,033
Additional paid-in capital	1,459,226	1,458,334
Retained earnings	6,864,605	6,829,850
Accumulated other comprehensive loss	(2,121,564)	(1,463,010)
Unearned compensation (ESOP shares)	-	(5,774)
Total stockholders' equity	6,207,300	6,824,433
	$ 103,720,237	97,940,149

AUBURN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE LOSS

YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
INTEREST AND DIVIDEND INCOME:		
Loans	$ 3,531,121	3,277,784
Investments	485,099	227,144
Dividends on Federal Home Loan Bank Stock	46,375	6,713
Total interest and dividend income	4,062,595	3,511,641
INTEREST EXPENSE:		
Interest on deposits and escrow accounts	689,932	299,093
Interest on borrowed funds	465,554	74,376
Total interest expense	1,155,486	373,469
Net interest income	2,907,109	3,138,172
PROVISION FOR LOAN LOSSES	-	61,000
Net interest income after provision for loan losses	2,907,109	3,077,172
NON-INTEREST INCOME:		
Net gain on sale of loans	10,139	86,062
Interchange income	112,471	110,561
Loan fee income	43,902	52,578
Deposit fee income	45,887	37,229
Servicing fees on sold loans	72,183	75,501
Other non-interest income	65,756	120,810
Total non-interest income	350,338	482,741
NON-INTEREST EXPENSES:		
Salaries and employee benefits	1,867,431	2,033,781
Office occupancy	141,230	134,689
Depreciation	145,294	160,019
Federal deposit insurance premiums	60,200	51,800
Computer expenses	398,391	251,527
Consulting fees	69,772	51,814
Marketing	109,104	118,468
ATM and debit card costs	88,006	78,776
Amortization of mortgage servicing rights	49,366	65,467
Audit and examinations	69,163	135,407
Other operating expenses	211,335	280,303
Total non-interest expenses	3,209,292	3,362,051
Income before income taxes	48,155	197,862
Income tax expense	13,400	45,845
Net income	34,755	152,017

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE LOSS, CONTINUED

	2023	2022
OTHER COMPREHENSIVE LOSS:		
Unrealized losses on investments available-for-sale:		
Unrealized holding losses arising during the period	(833,613)	(1,834,296)
Tax effect	175,059	385,203
Net unrealized loss on investments available-for-sale	(658,554)	(1,449,093)
Total comprehensive loss	$ (623,799)	(1,297,076)
NET INCOME PER SHARE OF COMMON STOCK	$ 0.07	0.30

See accompanying notes to consolidated financial statements.

AUBURN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED JUNE 30, 2023 AND 2022

	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Unearned compensation (ESOP shares)	Total
Balance at June 30, 2021	$ -	5,033	1,455,580	6,677,833	(13,917)	(17,332)	8,107,197
Net income	-	-	-	152,017	-	-	152,017
Net change in unrealized loss on available-for-sale securities	-	-	-	-	(1,449,093)	-	(1,449,093)
Common stock held by ESOP committed to be released (1156 shares)	-	-	2,754	-	-	11,558	14,312
Balance at June 30, 2022	-	5,033	1,458,334	6,829,850	(1,463,010)	(5,774)	6,824,433
Net income	-	-	-	34,755	-	-	34,755
Net change in unrealized loss on available-for-sale securities	-	-	-	-	(658,554)	-	(658,554)
Common stock held by ESOP committed to be released (578 shares)	-	-	892	-	-	5,774	6,666
Balance at June 30, 2023	$ -	5,033	1,459,226	6,864,605	(2,121,564)	-	6,207,300

See accompanying notes to consolidated financial statements.

AUBURN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
OPERATING ACTIVITIES:		
Net income	$ 34,755	152,017
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	145,294	160,019
Amortization of investment premiums and discounts, net	(11,531)	9,861
Provision for loan losses	-	61,000
Deferred income tax benefit	(28,814)	4,895
Gain on sale of loans	(10,139)	(90,372)
Proceeds from sale of loans, net of originations	10,139	90,372
ESOP compensation expense	6,666	14,312
Bank owned life insurance-change in cash surrender value	(21,813)	(21,984)
Change in operating assets and liabilities:		
Accrued interest receivable	(39,442)	28,179
Income taxes receivable	(18,409)	(44,855)
Prepaid expenses and other assets	78,496	(36,169)
Accrued expenses and other liabilities	(6,929)	44,499
Net cash provided by operating activities	138,273	371,774
INVESTING ACTIVITIES:		
Purchases of investments available-for-sale	(1,964,990)	(9,940,162)
Proceeds from maturities, calls and principal paydowns on investments available-for-sale	1,392,933	1,948,144
Loans, net of principal collections	(3,966,287)	(107,396)
Increase in Federal Home Loan Bank (FHLB) stock	(296,500)	(68,000)
Purchases of property and equipment	(24,151)	(44,021)
Net cash used by investing activities	(4,858,995)	(8,211,435)
FINANCING ACTIVITIES:		
Advances from FHLB	16,330,000	7,000,000
Repayment of advances from FHLB and Federal Reserve Bank	(8,000,000)	(6,372,785)
Net decrease in deposits	(1,925,850)	(1,577,269)
Net cash provided (used) by financing activities	6,404,150	(950,054)
Increase (decrease) in cash	1,683,428	(8,789,715)
Cash and cash equivalents at beginning of year	2,391,494	11,181,209
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,074,922	2,391,494

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Bank is a majority-owned subsidiary of Auburn Bancorp, MHC (the MHC). In 2008, the Bank conducted a minority stock offering pursuant to which it 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 Bank, an employee stock ownership plan (ESOP) and members of the general public in a subscription and community offering. In addition, the Bank issued 276,806 shares, or 55% of its common stock, to the MHC.

Principles of consolidation - The consolidated financial statements include the accounts of Auburn Bancorp, Inc. and its wholly owned subsidiary, Auburn Savings Bank, FSB. All significant intercompany accounts and transactions have been eliminated.

Use of estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents include cash on hand and balances in various accounts at other institutions.

Investments - Investments classified as available-for-sale securities consist of mortgage-backed securities and Small Business Administration securities. Investments available-for-sale are recorded at fair value, adjusted for amortization of premiums and accretion of discounts. Unrealized gains and losses are excluded from earnings and reported in other comprehensive income (loss) until realized. Gains and losses on available-for-sale securities are recorded on trade date and are determined using the specific-identification method. Premiums and discounts are recognized in interest income using the interest method.

Other investments consist of Federal Home Loan Bank (FHLB) stock. FHLB stock is a non-marketable equity security and is subject to adjustments for any observable market transactions on the same or similar instruments of the investee. The investment in FHLB stock is required for membership.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Loans and allowance for loan losses - Loans are stated at unpaid principal balances adjusted for chargeoffs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method over the contractual life of the loans.

Loans past due 30 days or more are considered delinquent. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Consumer loans are typically charged off no later than 180 days past due. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. Cash payments on these loans are generally applied to principal balances until qualifying for return to accrual. Generally, loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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 uncollectibility 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 collectibility 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.

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. Due to the short period of time loans held for sale are maintained by the Bank, cost approximates market value. All sales are made without recourse. Gains on the sale of loans held for sale totaled approximately $10,100 and $86,000 for the years ended June 30, 2023 and 2022, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

Property and equipment - Property and equipment is stated at cost. Depreciation is computed by a combination of straight-line and accelerated 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 purchase. BOLI is reported at the cash surrender values of the policies. Income related to BOLI assets is included in other non-interest income.

Other real estate owned (OREO) - Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at book value not to exceed fair value at the date of foreclosure. Costs relating to development and improvement of property are capitalized, whereas costs relating to holding property are expensed. Management periodically performs valuations, and an allowance for losses is established by means of a charge to operations if the carrying value of a property exceeds the lower of its fair value less estimated costs to sell or cost.

Fair values of financial instruments - The following methods and assumptions were used by the Bank in estimating fair values of financial instruments as disclosed herein:

Cash and cash equivalents - The carrying amounts of cash and cash equivalents approximate fair value.

Investment securities - Fair values for available-for-sale securities have been estimated using quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Other investments are carried at cost, which approximates fair value.

Loans - For variable rate loans and loans with relatively near-term maturities (such as consumer installment loans) carrying values approximate fair values. The fair value of long-term fixed rate loans has been estimated using present value cash flows, discounted at a rate approximating current market rates.

Accrued interest receivable - The carrying amount approximates fair value.

Deposit liabilities - The fair values of checking, savings, and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable rate, fixed term certificates approximate their fair values at the reporting date. Fair values for fixed-rate certificates are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregate expected monthly maturities on certificates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fair values of financial instruments, continued

Long-term borrowings - The carrying amounts of long-term borrowings are estimated using discounted cash flow analysis based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

Off-balance sheet items - Fair value for off-balance sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counter-parties' credit standings. The carrying value and fair value of commitments to extend credit are not considered material for disclosure.

Revenue recognition - The majority of the Bank's revenues come from interest income and other sources, including loans and investments, that are excluded from the revenue recognition guidance. The Bank's income that is included in the revenue recognition guidance is presented within non-interest income on the accompanying statements of income and comprehensive loss and recognized as revenue as the Bank satisfies its performance obligations to the customers. The following revenue falls under the guidance: service charges on deposits, interchange income, and the gain/loss on the sale of other real estate owned.

Interest income - The largest source of revenue for the Bank is interest income. Interest income is primarily recognized on an accrual basis according to loan agreements or investment contracts.

Non-interest income - The Bank earns non-interest income through a variety of financial and transaction services provided to customers. Revenue is recorded as non-interest income based on contractual terms, as transactions occur, or as services are provided and collectibility is reasonably assured.

Service charges on deposit accounts - The Bank earns fees from its deposit customers for transaction-based items, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Bank fulfills the customer's request. Account maintenance fees are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance at the time the transaction occurs.

Interchange income - The Bank earns interchange fees from consumer credit and debit card transactions processed through the Mastercard and other payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Loan origination fees - Loan origination fees and certain direct origination costs are deferred and recognized in interest income over the lives of the related loans.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Revenue recognition, continued

Gains/losses on sales of OREO - The Bank records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Bank finances the sale of OREO to the customer, the Bank assesses whether the customer is committed to perform their obligations under the contract and whether collectibility of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on the sale is recorded upon the transfer of control of the property to the customer. In determining the gain or loss on the sale, the Bank adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

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:

	2023	2022
Net income	$ 34,755	152,017
Weighted average common shares outstanding	503,284	503,284
Less: Average unallocated ESOP shares	(289)	(1,156)
Adjusted weighted average common shares outstanding	502,995	502,128
Earnings per common share	$ 0.07	0.30

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

Income taxes - Applicable income taxes for the Bank are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due and deferred taxes. Deferred taxes are computed annually for differences between the financial and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted state and federal laws and rates applicable to the periods in which the differences are expected to affect taxable income.

Advertising - The Bank recognizes advertising and promotional expenses as incurred. Advertising and promotional expenses totaled approximately $109,000 and $118,000 for the years ended June 30, 2023 and 2022, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Subsequent events - The Bank has evaluated events, if any, that have occurred subsequent to June 30, 2023 through September 19, 2023, the date the consolidated financial statements were available to be issued, and included information in the notes to the consolidated financial statements related to any identifiable events, if necessary.

Reclassifications - The consolidated financial statement presentation for 2022 has been changed to conform with the 2023 presentation. Total stockholders' equity and net income are unchanged as a result of the reclassifications.

2. INVESTMENTS

Investments consist of the following:

	2023	2022
Available-for-sale investments:		
Mortgage-backed securities	$ 14,667,058	14,762,371
Small Business Administration securities	461,103	615,815
Total available-for-sale investments	$ 15,128,161	15,378,186
Other investments - FHLB stock	$ 795,900	499,400

Investments have been classified in the consolidated financial statements based on management's intent. The amortized cost and fair value of available-for-sale investments at June 30, is as follows:

	2023			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale investments:				
Mortgage-backed securities	$ 17,299,754	2,183	(2,634,879)	14,667,058
Small Business Administration securities	513,932	-	(52,829)	461,103
Total available-for-sale investments	$ 17,813,686	2,183	(2,687,708)	15,128,161

2. INVESTMENTS, CONTINUED

	2022			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale investments:				
Mortgage-backed securities	$ 16,578,749	-	(1,816,378)	14,762,371
Small Business Administration securities	651,347	-	(35,532)	615,815
Total available-for-sale investments	$ 17,230,096	-	(1,851,910)	15,378,186

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

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

	Less than 12 months		12 months or greater	
2023	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Available-for-sale investments:				
Mortgage-backed securities	$ 1,758,040	(73,770)	12,909,018	(2,561,109)
Small Business Administration securities	-	-	461,103	(52,829)
Total	$ 1,758,040	(73,770)	13,370,121	(2,613,938)
2022				
Available-for-sale investments:				
Mortgage-backed securities	$ 10,266,546	(869,809)	4,495,825	(946,569)
Small Business Administration securities	615,815	(35,532)	-	-
Total	$ 10,882,361	(905,341)	4,495,825	(946,569)

2. INVESTMENTS, CONTINUED

Management evaluates securities for other-than-temporary impairment on a monthly basis and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, and (2) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Market changes in interest rates will cause normal fluctuations in the market price of securities and the possibility of temporarily unrealized losses. At June 30, 2023, 38 debt securities with unrealized losses have depreciated approximately 16.4% from the Bank's amortized cost basis. At June 30, 2022, 35 debt securities with unrealized losses had depreciated approximately 13.7% from the Bank's amortized cost basis. The reason for the temporary losses is the market interest rates are higher than when the securities were originally purchased. The Bank has determined, based on market analysis and the ability to hold the securities for the foreseeable future, that the entire amortized cost basis of these securities will be recoverable. At June 30, 2023 and 2022, no unrealized losses were deemed by management to be other-than-temporary.

3. LOANS

The composition of loans is as follows:

	2023	2022
Residential real estate	$ 62,591,448	60,051,561
Commercial real estate	12,901,774	13,374,743
Commercial non-real estate	4,980,258	3,132,877
Consumer	579,930	518,628
	81,053,410	77,077,809
Less allowance for loan losses	869,636	860,322
	$ 80,183,774	76,217,487

Net deferred loan origination fees included in loans receivable totaled to $51,376 and $46,914, for the years ended June 30, 2023 and 2022, respectively.

3. LOANS, CONTINUED

Credit Quality and Allowance for Loan Losses

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

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

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

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

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

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

There were no changes in the allowance for loan losses methodology during the years ended June 30, 2023 and 2022, respectively.

3. LOANS, CONTINUED

A summary of the activity in the allowance for loan losses for the years ended June 30, is as follows:

2023	Commercial non-real estate	Commercial real estate	Residential real estate	Consumer	Unallocated	Total
Balance at beginning of year:	$ 44,896	128,043	614,584	7,631	65,168	860,322
Loans charged off	-	-	-	-	-	-
Recoveries	-	9,314	-	-	-	9,314
Provision	42,153	(10,320)	22,786	1,230	(55,849)	-
Balance at end of year	$ 87,049	127,037	637,370	8,861	9,319	869,636
Loans individually evaluated for impairment:						
Loan balance	$ -	-	1,068,669	18,542	-	1,087,211
Allowance allocated	-	-	74,932	-	-	74,932
Collectively evaluated for impairment:						
Loan balance	$ 4,980,258	12,901,774	61,522,779	561,388	-	79,966,199
Allowance allocated	87,049	127,037	562,438	8,861	9,319	794,704

2022	Commercial non-real estate	Commercial real estate	Residential real estate	Consumer	Unallocated	Total
Balance at beginning of year:	$ 46,035	125,527	612,558	9,524	68,027	861,671
Loans charged off	(84,800)	-	-	-	-	(84,800)
Recoveries	18,137	4,314	-	-	-	22,451
Provision	65,524	(1,798)	2,026	(1,893)	(2,859)	61,000
Balance at end of year	$ 44,896	128,043	614,584	7,631	65,168	860,322
Loans individually evaluated for impairment:						
Loan balance	$ -	-	1,102,622	18,679	-	1,121,301
Allowance allocated	-	-	82,115	-	-	82,115
Collectively evaluated for impairment:						
Loan balance	$ 3,472,882	13,034,416	58,949,261	499,949	-	75,956,508
Allowance allocated	44,896	128,043	532,469	7,631	65,168	778,207

3. LOANS, CONTINUED

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 adjustable-rate and fixed-rate mortgage loans, which generally have terms of 15, 20 or 30 years.

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. 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.

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.

3. LOANS, CONTINUED

The Bank generally requires title insurance for commercial and multi-family real estate loans, an appraisal on all such loans in excess of $400,000, and an evaluation consisting of a broker price opinion and one other value on all properties with a loan amount under $400,000. The Bank may require a full appraisal on property securing any loan less than $400,000.

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 50-100% of the value of the collateral securing the loan. 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.

3. LOANS, CONTINUED

Consumer

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

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

Credit Quality Indicators – Loan Rating Methodology

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

3. LOANS, CONTINUED

Credit Quality Indicators – Loan Rating Methodology, continued

3A. Pass/Watch – Marginal – Well to recently established business, industry conditions fair to good, business or individuals in this category are generally local operations, average to marginal performance comparisons relative to industry, company's financial condition may not be fully detailed; however, performance to loan terms has and continues to be achieved; loans in this group are typically well secured when financial capacity is not documented with current and comprehensive financial data.

4. Special Mention – Loan is currently protected, but is potentially weak, borrower is affected by unfavorable economic conditions, adverse operating trends or an unbalanced financial position in the balance sheet which has not yet reached a point of jeopardizing loan payment.

5. Substandard – Loan is inadequately protected by sound worth and paying capacity of the borrower, repayment has become increasingly reliant on collateral or other secondary sources of repayment, credit weaknesses are well defined; orderly debt liquidation from primary repayment sources is in jeopardy, distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

6. Doubtful – A loan classified in this category has all the weaknesses inherent in a substandard rated loan with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

7. Loss – Asset that is considered uncollectible and is not warranted as a Bank asset.

Commercial Credit Risk Exposure

Credit risk profile by internally assigned grade at June 30, is as follows:

	2023		2022	
	Commercial non-real estate	Commercial real estate	Commercial non-real estate	Commercial real estate
Acceptable	$ 4,980,258	12,228,507	3,104,085	11,943,626
Pass/Watch - Marginal	-	552,045	28,792	1,163,500
Special mention	-	-	-	131,743
Substandard	-	121,222	-	135,874
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	$ 4,980,258	12,901,774	3,132,877	13,374,743

3. LOANS, CONTINUED

Residential/Consumer Credit Risk Exposure

Credit risk profile by internally assigned grade at June 30, is as follows:

	2023		2022	
	Residential	Consumer	Residential	Consumer
Acceptable	$ 62,327,360	579,930	59,030,756	518,628
Pass/Watch - Marginal	157,792	-	457,734	-
Special mention	-	-	91,087	-
Substandard	106,296	-	471,984	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	$ 62,591,448	579,930	60,051,561	518,628

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.

3. LOANS, CONTINUED

Impaired loans for the years ended June 30, are as follows:

2023	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
Impaired loans without a valuation allowance:					
Residential real estate	$ 376,775	376,775	-	336,824	12,099
Consumer	18,542	20,551	-	19,110	1,759
	395,317	397,326	-	355,934	13,858
Impaired loans with a valuation allowance:					
Residential real estate	691,894	691,894	74,932	702,479	33,139
Consumer	-	-	-	-	-
	691,894	691,894	74,932	702,479	33,139
Total:					
Residential real estate	1,068,669	1,068,669	74,932	1,039,303	45,238
Consumer	18,542	20,551	-	19,110	1,759
	$1,087,211	1,089,220	74,932	1,058,413	46,997

3. LOANS, CONTINUED

2022	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
Impaired loans without a valuation allowance:					
Residential real estate	$ 389,716	392,508	-	483,309	12,051
Consumer	18,679	20,688	-	19,419	1,971
	408,395	413,196	-	502,728	14,022
Impaired loans with a valuation allowance:					
Commercial real-estate	-	-	-	117,251	-
Residential real estate	712,906	712,906	82,115	589,579	28,629
Consumer	-	-	-	-	-
	712,906	712,906	82,115	706,830	28,629
Total:					
Commercial real estate	-	-	-	117,251	-
Residential real estate	1,102,622	1,105,414	82,115	1,072,888	40,680
Consumer	18,679	20,688	-	19,419	1,971
	$1,121,301	1,126,102	82,115	1,209,558	42,651

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

Non-Performing Loans

Loans are placed on non-accrual status when reasonable doubt exists as to the full timely collection of interest and principal or when a loan becomes 90 days past due, unless an evaluation clearly indicates that the loan is well-secured and in the process of collection. When a loan is placed on non-accrual status, unpaid interest credited to income is reversed. Interest received on non-accrual loans generally is applied against principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectibility 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.

3. LOANS, CONTINUED

Real estate acquired as a result of foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until it is sold. When property is acquired, it is recorded at fair value at the date of foreclosure. Holding costs and declines in fair value after acquisition of the property result in charges against income. The Bank held no other real estate owned at June 30, 2023 and 2022. The Bank had two consumer mortgage loans secured by residential real estate properties totaling $106,296, for which formal foreclosure procedures were in process as of June 30, 2023.

An age analysis of loans for the years ended June 30, is as follows:

2023	Current	31-59 days past due	60-89 days past due	> 90 days past due	Total loans	Total loans on nonaccrual status	Loans > 90 days past due and accruing interest
Commercial non-real estate	$ 4,980,258	-	-	-	4,980,258	-	-
Commercial real estate	12,186,011	715,763	-	-	12,901,774	-	-
Residential real estate	61,638,695	739,887	106,570	106,296	62,591,448	266,202	-
Consumer	579,930	-	-	-	579,930	-	-
Total	$ 79,384,894	1,455,650	106,570	106,296	81,053,410	266,202	-
2022							
Commercial non-real estate	$ 3,472,882	-	-	-	3,472,882	-	-
Commercial real estate	13,034,416	-	-	-	13,034,416	-	-
Residential real estate	59,781,557	19,260	144,770	106,296	60,051,883	407,902	-
Consumer	518,628	-	-	-	518,628	-	-
Total	$ 76,807,483	19,260	144,770	106,296	77,077,809	407,902	-

Interest income on non-accrual loans of $29,560 and $20,570 would have been recognized on these loans if interest had been accrued at June 30, 2023 and 2022, 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

3. LOANS, CONTINUED

- The Bank has granted a concession; common concessions include maturity date extension, interest rate adjustments to below market pricing, reduction of principal and deferment of payments.

Troubled debt restructured loans are considered impaired. As of June 30, 2023 and 2022, there were no commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ended June 30, 2023 and 2022, certain loan modifications were executed which constituted a troubled debt restructuring. Loans are classified as troubled debt restructurings due to payment deferrals, extensions of maturity, or capitalization of past due interest.

The following table summarizes troubled debt restructurings that occurred during the years ended June 30:

2023	Number of loans	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
Residential real estate	1	$97,943	111,036
2022			
Residential real estate	1	$201,980	214,974

The troubled debt restructurings described above required a net allocation of the allowance for loan losses of $29,152 and $31,753 as of June 30, 2023 and 2022, respectively. The impairment carried as a specific reserve in the allowance for loan losses is calculated by discounting the total expected future cash flows on the loan, or, for collateral-dependent loans, using the fair value of the collateral less costs to sell. There were no charge-offs on the troubled debt restructuring that occurred during the years ended June 30, 2023 and 2022, respectively.

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, 2023 and 2022, that were modified within the previous twelve months.

The Bank services loan for others. These loans consisted of mortgage loans of approximately $28,286,000 and $30,195,000 at June 30, 2023 and 2022, respectively.

The balance of mortgage servicing rights included in other assets at June 30, 2023, was $185,895. Mortgage servicing rights of $7,075 were capitalized, and mortgage servicing rights of $48,366 were amortized during 2023. Mortgage servicing rights included in other assets at June 30, 2022 was $228,186. Mortgage servicing rights of $44,298 were capitalized and mortgage servicing rights of $65,467 were amortized during 2022.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2023	2022
Land and land improvements	$ 449,113	424,963
Buildings	2,153,520	2,153,520
Furniture and equipment	641,625	641,625
	3,244,258	3,220,108
Less accumulated depreciation	(1,812,803)	(1,667,510)
Net property and equipment	$ 1,431,455	1,552,598

5. DEPOSITS

Deposit accounts are summarized as follows:

	2023	2022
Checking accounts	$ 18,641,982	19,515,017
Money market accounts	12,394,008	19,447,951
Savings accounts	11,085,538	14,836,596
Certificates of deposit	32,871,699	23,125,668
Brokered certificates of deposit	3,989,384	3,983,229
	$ 78,982,611	80,908,461

The aggregate amount of time deposits with balances over $250,000 approximated $6,946,000 and $3,548,000 for the years ended June 30, 2023 and 2022, respectively.

Scheduled maturities of time deposits for the years ending June 30, are as follows:

2024	$ 32,753,896
2025	1,477,923
2026	2,600,364
2027	11,053
2028	17,847
	$ 36,861,083

5. DEPOSITS, CONTINUED

The Bank maintains collateralization agreements with certain depositors whose aggregate deposits exceed the federally insured limit. Excess amounts are secured under these agreements by an interest in the Bank's investment instruments, as well as certain guaranteed loans, maintained in a separate third-party custodial account. As part of the collateralization agreement, the Bank agrees to maintain annually the value of the collateral in the custodial account at a minimum level at least equal to 100% of the uninsured portion of these deposits. At June 30, 2023 and 2022, the value of the collateral in the custodial account was approximately $4,157,000 and $829,000, respectively, and the portion of these certain deposits in excess of the federal insured limit was approximately $1,697,000 and $2,099,000, respectively.

6. BORROWINGS

The Bank has fixed rate FHLB advances of $18,330,000 and $10,000,000 at June 30, 2023 and 2022, respectively. Interest rates on FHLB advances ranged from 0.99% to 5.27% at June 30, 2023. Pursuant to collateral agreements with the FHLB, advances are collateralized by all stock in the FHLB and qualifying first mortgages. The Bank had excess borrowing capacity of approximately $6,201,000 at June 30, 2023, $2,000,000 of which was available to be used as overdraft coverage on the Ideal Way account. There were no amounts drawn under this line at June 30, 2023 and 2022.

The Bank also has a line of credit with the FRB Borrower-in-Custody Program (the Program). The Program offers overnight collateralized advances secured by certain loan assets. At June 30, 2023 and 2022, the amount of available borrowings was approximately $3,059,000 and $2,909,000, respectively. There were no amounts drawn under this line at June 30, 2023 and 2022.

Scheduled maturities of borrowed funds for the years ending June 30, are as follows:

2024	$ 6,330,000
2025	5,000,000
2026	3,000,000
2027	-
2028	2,000,000
Thereafter	2,000,000
Total	$ 18,330,000

7. INCOME TAXES

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

	2023	2022
Current tax expense:		
Federal	$ 33,573	65,348
State	8,640	9,414
	42,213	74,762
Deferred federal tax benefit	(28,813)	(28,917)
Income tax expense	$ 13,400	45,845

The tax effects of temporary differences that give rise to deferred income tax assets and liabilities are as follows:

	2023	2022
Allowance for loan losses	$ 182,623	180,668
Impairment loss on investments	18,912	18,912
Expense accruals	8,555	2,757
Unrealized loss on investments available-for-sale	563,960	388,902
Other	(544)	1,569
Depreciation	(99,613)	(118,350)
Deferred loan fees	(48,153)	(43,709)
Mortgage servicing rights	(39,038)	(47,919)
	586,702	382,830
Valuation reserve for capital losses	(18,912)	(18,912)
Net deferred tax assets	$ 567,790	363,918

Management assesses the available evidence to estimate whether sufficient future taxable income will be generated to permit the use of the existing deferred tax assets. On the basis of this evaluation, as of June 30, 2023 and 2022, a valuation allowance of $18,912 was recorded for capital losses.

The Bank uses the experience method 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.

8. COMMITMENTS

Financial instruments with off-balance sheet risk - The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments are commitments to extend credit. They involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated financial statements. The contractual amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for these commitments is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments as it does for on-balance sheet instruments. 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. Certain commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include real estate and personal property.

Loan commitments - At June 30, 2023, the Bank had outstanding commitments for loans and unused lines of credit that are not reflected in the accompanying consolidated financial statements as follows:

	Fixed rate	Variable rate	Total
Commitments to originate loans	$ 1,113,000	696,000	1,809,000
Unadvanced portions of construction loans	1,403,000	-	1,403,000
Unadvanced portions of home equity loans	-	7,266,000	7,266,000
Unadvanced portions of commercial lines of credit	-	1,948,000	1,948,000
	$ 2,516,000	9,910,000	12,426,000

The Bank has sold mortgage loans to the FHLB with a total outstanding balance of approximately $28,286,000 and $30,195,000 at June 30, 2023 and 2022, 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 $66,000 and $127,000 at June 30, 2023 and 2022, respectively.

9. LEGAL CONTINGENCIES

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

10. MINIMUM REGULATORY CAPITAL REQUIREMENTS

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

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

Regulatory capital rules limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” consisting of 2.5% above its minimum risk-based capital requirements. As of June 30, 2023, the Bank had a capital conservation buffer of 5.43% of risk-weighted assets, which was in excess of the regulatory requirement of 2.5%.

The Bank's actual and minimum capital amounts and ratios at June 30, are as follows:

	Actual		Standard minimum capital requirement		Minimum to be adequately capitalized under prompt corrective action provisions	
2023	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk weighted assets	$ 8,886,000	13.43%	5,292,000	8.00%	6,615,000	10.00%
Tier 1 capital to risk weighted assets	8,059,000	12.18%	3,969,000	6.00%	5,292,000	8.00%
Common equity Tier 1 capital to risk weighted assets	8,059,000	12.18%	2,977,000	4.50%	4,300,000	6.50%
Tier 1 capital to total assets	8,059,000	7.91%	4,076,000	4.00%	5,095,000	5.00%

10. MINIMUM REGULATORY CAPITAL REQUIREMENTS, CONTINUED

2022	Actual Amount	Actual Ratio	Standard minimum capital requirement Amount	Standard minimum capital requirement Ratio	Minimum to be adequately capitalized under prompt corrective action provisions Amount	Minimum to be adequately capitalized under prompt corrective action provisions Ratio
Total capital to risk weighted assets	$ 8,847,000	13.44%	5,267,000	8.00%	6,584,000	10.00%
Tier 1 capital to risk weighted assets	8,024,000	12.19%	3,951,000	6.00%	5,267,000	8.00%
Common equity Tier 1 capital to risk weighted assets	8,024,000	12.19%	2,963,000	4.50%	4,280,000	6.50%
Tier 1 capital to total assets	8,024,000	8.68%	3,699,000	4.00%	4,623,000	5.00%

11. CONCENTRATIONS OF CREDIT RISK

Financial instruments which could subject the Bank to concentrations of credit risk consist primarily of cash and investments. At times, the Bank maintains cash and investment balances with financial institutions in excess of federally insured amounts.

12. EMPLOYEE BENEFIT PLANS

401(k) Plan - The Bank has a 401(k) Plan whereby substantially all employees are eligible to participate in the Plan. Employees may contribute up to 100% of their compensation subject to certain limits set by the Internal Revenue Service. The Bank makes matching contributions equal to 100% of the employee's contribution up to 1%, plus 50% on the next 5% of the employee's contribution. Matching contributions are 100% vested. For the years ended June 30, 2023 and 2022, expense attributable to the Plan totaled $40,967 and $39,918, respectively.

12. EMPLOYEE BENEFIT PLANS, CONTINUED

Employee Stock Ownership Plan (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) financed the purchase with a loan from the Bank. The loan was repaid in annual installments, including interest at 5%, for the fifteen year term ended in 2023. The loan was secured by the shares purchased by the ESOP Trust. The Bank’s contributions were the primary source of funds for the ESOP's repayment of the loan. Principal and interest payments for the years ended June 30, 2023 and 2022, totaled $16,301 and $16,631, respectively.

Effective March 15, 2023, the ESOP was frozen. No further employer contributions will be made, nor will any employees become participants after this date. Prior to March 15, 2023, all Bank employees meeting certain age and service requirements were eligible to participate in the ESOP. Participants’ benefits became fully vested after five years of service.

Shares not allocated to participants and held in suspense are reported as a reduction of equity in the accompanying consolidated statements of financial condition. As shares are committed to be released to participants, the Bank reports compensation expense equal to the most recent fair value of the shares. The excess or deficit in price from the original cost of shares committed to be released for allocation during the year compared to the estimated fair value is recorded as additional paid-in capital or a reduction of retained earnings, respectively. Compensation expense with respect to shares committed to be released was $6,666 and $14,312 for the years ended June 30, 2023 and 2022, respectively.

Total shares held by the ESOP as of June 30, consist of the following:

	2023	2022
Allocated	17,262	16,684
Unallocated	-	578
Total shares held by the ESOP	17,262	17,262

The fair value of the unallocated shares as of June 30, 2022, was approximately $6,000.

13. RELATED PARTY TRANSACTIONS

Related party transactions consist of loan and deposit accounts by the board of directors and senior management. The terms of transactions involving these accounts (i.e. rates charged and paid) are comparable to those of accounts for other customers. Loans to these related parties were approximately $752,000 and $206,000 at June 30, 2023 and 2022, respectively. Deposit accounts held by these related parties were approximately $1,201,000 and $1,446,000 at June 30, 2023 and 2022, respectively.

14. FAIR VALUE

Fair value is defined as the price at which an asset could be exchanged or a liability transferred (an exit price) in an orderly transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset or liability. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied.

Financial assets recorded at fair value in the accompanying consolidated financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by U.S. GAAP, and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 - Inputs are unadjusted, quoted prices in active markets for identical assets at the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Inputs are other than quoted prices included in Level 1, which are either directly or indirectly observable for the asset or liability through correlation with market data at the reporting date and for the duration of the instrument's anticipated life.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and which reflect management's best estimate of what market participants would use in pricing the asset or liability at the reporting date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Assets and liabilities measured at fair value on a recurring basis at June 30, are summarized below:

		Fair value measurements at reporting date using:		
2023	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments available-for-sale	$ 15,128,161	-	15,128,161	-
2022				
Investments available-for-sale	$ 15,378,186	-	15,378,186	-

14. FAIR VALUE, CONTINUED

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

U.S. 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 Bank.

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

			Fair value measurements (in thousands) using:		
2023	Carrying amount	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 4,075	4,075	4,075	-	-
Investments available-for-sale	15,128	15,158	-	15,128	-
Federal Home Loan Bank stock	796	796	-	796	-
Loans, net	80,184	74,547	-	-	74,547
Accrued interest receivable	308	308	308	-	-
Financial liabilities:					
Deposits	78,983	-	-	78,098	-
Federal Home Loan Bank advances	18,330	-	-	18,161	-

14. FAIR VALUE, CONTINUED

2022	Carrying amount	Fair value	Fair value measurements (in thousands) using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 2,391	2,391	2,391	-	-
Investments available-for-sale	15,378	15,378	-	15,378	-
Federal Home Loan Bank stock	499	499	-	499	-
Loans, net	76,217	74,362	-	-	74,362
Accrued interest receivable	268	268	268	-	-
Financial liabilities:					
Deposits	80,908	80,532	-	80,532	-
Federal Home Loan Bank advances	10,000	9,901	-	9,901	-

The Bank'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.

15. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2023	2022
Cash paid for interest	$ 1,125,332	375,668
Cash paid for income taxes	$ 40,623	70,805

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

Directors

Heather A. Hunter, Chair
City Administrator, City of Lewiston

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

D. Wesley Haire
Owner, CyberSOLUTIONS

Jordan P. Hay
Associate General Counsel, Global Employment Law, American Express Global Business Travel

Claire D. Thompson
CPA and Partner, Austin Associates, PA

Debra Morin-Ouellette
Associate Real Estate Broker, Berkshire Hathaway HomeServices

William C. Tracy
President and Chief Executive Officer

Officers

William C. Tracy, *President & Chief Executive Officer*
Michelle L. Rouleau, *Executive Vice President & Chief Financial Officer*
Robert A. Michaud, *Senior Vice President & Senior Loan Officer*
Melissa M. Record, *Vice President & BSA/Compliance Officer*
Cara J. Dyer, *Vice President & Retail Banking Officer*
Brian N. Casey, *Vice President & Credit Analyst*
Jonathan O. Svor, *Vice President & IT/Security Officer*

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Corporate Website and Internet Banking
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Annual Meeting
The Annual Meeting of Shareholders will be held Tuesday, November 28, 2023 at 3:45 p.m., local time, at the Hilton Garden Inn at 14 Great Falls Plaza in Auburn, Maine.