BerryDunn

Bar Harbor Savings and Loan Association

FINANCIAL STATEMENTS

December 31, 2021 and 2020

With Independent Auditor's Report

BerryDunn

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bar Harbor Savings and Loan Association

Opinion

We have audited the accompanying financial statements of Bar Harbor Savings and Loan Association, which comprise the statements of financial condition as of December 31, 2021 and 2020, and the related statements of income, comprehensive income, retained income, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bar Harbor Savings and Loan Association as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with U.S. generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Bar Harbor Savings and Loan Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 financial statements.

Board of Directors
Bar Harbor Savings and Loan Association

In performing an audit in accordance with 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 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 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 Bar Harbor Savings and Loan Association'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Bar Harbor Savings and Loan Association'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.

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
February 14, 2022

BAR HARBOR SAVINGS AND LOAN ASSOCIATION

Statements of Financial Condition

December 31, 2021 and 2020

ASSETS

	2021	2020
Cash and due from banks	**$ 288,280**	$ 225,919
Interest-bearing deposits in other banks	**20,181,179**	20,444,575
Total cash and cash equivalents	**20,469,459**	20,670,494
Certificates of deposit in other banks	**3,230,000**	7,451,000
Securities available-for-sale	**5,991,103**	4,455,518
Federal Home Loan Bank stock, at cost	**452,200**	540,700
Loans receivable, net of allowance for loan losses of $784,100 in 2021 and $791,950 in 2020	**68,042,586**	68,098,935
Premises and equipment, net	**1,712,530**	1,685,492
Accrued interest receivable	**216,040**	234,963
Other assets	**284,570**	335,723
Total assets	**$100,398,488**	$103,472,825

LIABILITIES AND RETAINED INCOME

	2021	2020
Liabilities		
Savings and demand deposits	**$ 25,934,054**	$ 22,929,621
Time deposits	**53,362,736**	59,197,946
Total deposits	**79,296,790**	82,127,567
Borrowed funds	**8,500,000**	9,000,000
Accrued expenses and other liabilities	**55,385**	57,875
Total liabilities	**87,852,175**	91,185,442
Retained income		
Appropriated to general reserves	**3,726,205**	3,726,205
Unappropriated	**8,773,772**	8,479,812
Accumulated other comprehensive income		
Net unrealized appreciation on securities available-for-sale, net of deferred income taxes	**46,336**	81,366
Total retained income	**12,546,313**	12,287,383
Total liabilities and retained income	**$100,398,488**	$103,472,825

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

BAR HARBOR SAVINGS AND LOAN ASSOCIATION

Statements of Income

Years Ended December 31, 2021 and 2020

	2021	2020
Interest income		
Loans receivable	**$ 2,758,733**	$ 3,148,561
Securities available-for-sale	**216,025**	436,411
Other interest-earning assets	**9,568**	32,578
Total interest income	**2,984,326**	3,617,550
Interest expense		
Deposits	**869,990**	1,308,663
Borrowed funds	**144,808**	197,229
Total interest expense	**1,014,798**	1,505,892
Net interest income	**1,969,528**	2,111,658
Reduction in allowance for loan losses	**(7,850)**	(8,050)
Net interest income after reduction in allowance for loan losses	**1,977,378**	2,119,708
Noninterest income		
Rental income	**37,800**	24,483
Net gain on sale of loans	**32,491**	188,558
Mortgage servicing income	**29,616**	63,212
Other	**16,787**	19,126
Total noninterest income	**116,694**	295,379
Noninterest expenses		
Salaries and benefits	**1,012,515**	1,201,838
Occupancy and equipment	**161,298**	157,624
Computer services	**181,098**	178,056
Deposit insurance	**26,767**	22,965
Regulatory assessment	**58,250**	6,744
Consulting fees	**60,054**	82,289
Professional fees	**85,330**	76,811
Advertising	**48,055**	54,975
Dues and subscriptions	**14,614**	13,311
Donations	**8,262**	9,510
Office supplies and postage	**23,175**	18,870
Other	**50,470**	50,328
Total noninterest expenses	**1,729,888**	1,873,321
Income before income taxes	**364,184**	541,766
Income tax expense	**70,224**	102,322
Net income	**$ 293,960**	$ 439,444

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

BAR HARBOR SAVINGS AND LOAN ASSOCIATION

Statements of Comprehensive Income

Years Ended December 31, 2021 and 2020

	2021	2020
Net income	**$ 293,960**	$ 439,444
Other comprehensive (loss) income, net of tax		
Net unrealized (loss) gain on available-for-sale securities arising during the period	**(44,342)**	56,913
Deferred income taxes	**(9,312)**	11,929
Other comprehensive (loss) income	**(35,030)**	44,984
Comprehensive income	**$ 258,930**	$ 484,428

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

BAR HARBOR SAVINGS AND LOAN ASSOCIATION

Statements of Retained Income

Years Ended December 31, 2021 and 2020

	Appropriated to General Reserves	Unappropriated	Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale	Total
Balance, December 31, 2019	$ 3,726,205	$ 8,040,368	$ 36,382	$ 11,802,955
Net income	-	439,444	-	439,444
Other comprehensive income	-	-	44,984	44,984
Balance, December 31, 2020	3,726,205	8,479,812	81,366	12,287,383
Net income	**-**	**293,960**	**-**	**293,960**
Other comprehensive loss	**-**	**-**	**(35,030)**	**(35,030)**
Balance, December 31, 2021	**$ 3,726,205**	**$ 8,773,772**	**$ 46,336**	**$ 12,546,313**

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

BAR HARBOR SAVINGS AND LOAN ASSOCIATION

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Net income	$ 293,960	$ 439,444
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	64,157	70,723
(Accretion) amortization of premiums and discounts on securities available-for-sale	(85,662)	36,707
Amortization of mortgage servicing rights	45,141	47,202
Reduction in allowance for loan losses	(7,850)	(8,050)
Loans originated for resale	(2,468,350)	(8,340,595)
Proceeds from loans sold	2,500,841	8,529,153
Net gain on sale of loans	(32,491)	(188,558)
Deferred income taxes	19,800	4,841
Decrease (increase) in accrued income receivable and other assets	50,276	(70,938)
(Decrease) increase in accrued expenses and other liabilities	(2,490)	19,887
Net cash provided by operating activities	377,332	539,816
Cash flows from investing activities		
Net decrease in loans to customers	19,058	6,909,373
Proceeds from maturities and principal repayments of securities available-for-sale	1,005,735	1,812,391
Purchase of securities available-for-sale	(2,490,688)	(639,161)
Redemption of Federal Home Loan Bank stock	88,500	219,900
Net decrease in certificates of deposit in other banks	4,221,000	8,375,000
Additions to premises and equipment	(91,195)	(29,267)
Net cash provided by investing activities	2,752,410	16,648,236
Cash flows from financing activities		
Net (decrease) increase in deposits	(2,830,777)	1,619,876
Repayment of long-term borrowings	(500,000)	(2,124,321)
Net cash used by financing activities	(3,330,777)	(504,445)
Net (decrease) increase in cash and cash equivalents	(201,035)	16,683,607
Cash and cash equivalents, beginning of year	20,670,494	3,986,887
Cash and cash equivalents, end of year	$ 20,469,459	$ 20,670,494
Supplementary cash flow information		
Interest paid on deposits and borrowed funds	$ 1,019,500	$ 1,485,380
Income taxes paid, net of refunds received	46,112	93,416

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

Nature of Operations

Bar Harbor Savings and Loan Association (the Association) was chartered in 1902 and provides mortgage, commercial and consumer loans, various deposit products, and related banking services to customers in the greater Mount Desert Island, Maine area. The Association is subject to regulation by the Federal Deposit Insurance Corporation (FDIC).

1. Summary of Significant Accounting Policies

Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of financial condition 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. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties.

Cash and Cash Equivalents and Interest-Bearing Deposits in Other Banks

For purposes of the statements of cash flows, cash and cash equivalents include cash and due from banks and interest-bearing deposits in other banks with an initial maturity when purchased of three months or less.

The Association's due from bank accounts and interest-bearing deposits in other banks, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts. The Association believes it is not exposed to any significant risk on these accounts.

Securities Available-for-Sale

Securities are classified as "available-for-sale" and recorded at fair value, with unrealized gains and temporary unrealized losses excluded from net income and reported in other comprehensive income (loss).

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 securities available-for-sale below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. 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 Association 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 (FHLB) Stock

The Association is required to own shares of capital stock in the FHLB in order to borrow from the FHLB. The stock is carried at its cost subject to adjustments for any observable market transactions on the same or similar instruments of the investee.

Loans

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or pay off, are stated at the amount of unpaid principal, adjusted by deferred loan costs and an allowance for loan losses. Direct loan origination costs are deferred and recognized as an adjustment of the related loan yield. The Association is generally amortizing these amounts over the contractual life of the loan using the interest method.

Interest income is accrued daily on the outstanding balances. Loans 30 days or more past due are considered delinquent. Management is responsible to initiate immediate collection efforts to minimize delinquency and any eventual adverse impact on the Association. Loans are placed on nonaccrual or charged off when the loan is 90 days delinquent, or collection of principal or interest is otherwise considered doubtful. All interest accrued, but not collected, for loans that are placed on nonaccrual or charged off is reversed against interest income. Interest income on these loans is only recognized as payments are received. Loans are returned to accrual status when the loans are no longer delinquent and future payments are reasonably assured.

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 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. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated components, as further described below. The consumer portfolio segment is 100% secured by deposit balances and, accordingly, no allowance for loan losses is deemed necessary for this segment.

General Component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following portfolio segments: residential real estate and commercial. Management uses an average of historical losses based on a timeframe appropriate to capture relevant loss data for each portfolio segment. Management deems a two-year or seven-year average, whichever is viewed as more reflective of current conditions, to be an appropriate timeframe on which to base historical losses for each portfolio segment. This historical loss factor is adjusted for the following qualitative factors for each portfolio segment: local economic factors including unemployment rates, the housing market, loan concentrations, industry concentration, the commercial real estate market and asset quality. Management follows a similar process to estimate its liability for off-balance-sheet commitments to extend credit by loan class.

The qualitative factors are determined based on the various risk characteristics of each portfolio segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate – All loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, has an effect on the credit quality of this segment.

Commercial – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, has an effect on the credit quality in this segment. Commercial real estate loans are primarily secured by income-producing properties or properties occupied by businesses. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates or a general slowdown in business which, in turn, has an effect on the credit quality of this segment. Management continually monitors the cash flows of these loans.

Allocated Component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan-by-loan basis for residential real estate and commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral using a market approach if the loan is collateral dependent. An allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. The Association recognizes the change in present value attributable to the passage of time as provision for loan losses. Large groups of smaller balance homogenous loans are collectively evaluated for impairment, and the allowance resulting therefrom is reported in the general component, as described above.

A loan is considered impaired when, based on current information and events, it is probable that the Association will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Association periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring (TDR). All TDRs are classified as impaired and measured using the present value of expected future cash flows.

Unallocated Component

An unallocated portion of the total allowance is maintained to allow for shifts in portfolio composition and to account for uncertainty in the economic environment.

Loan Servicing

Mortgage servicing rights are capitalized and amortized by the straight-line method over the period of estimated net servicing revenues. Mortgage servicing rights are not material to the financial statements.

Premises and Equipment

Land is carried at cost. Buildings, furniture, and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Advertising

Advertising costs are expensed as incurred.

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 assets and liabilities and gives current recognition to changes in tax rates and laws.

Off-Balance-Sheet Instruments

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

Risks and Uncertainties

As of December 31, 2021, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating the temporary shut-down of business in many sectors and imposing limitations on travel and size and duration of group meetings. These conditions have continued to exist subsequent to December 31, 2021. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management expects this matter may have a financial impact on the Association's financial condition and results of future operations, such potential impact cannot be reasonably estimated.

2. Securities Available-for-Sale

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
U.S. government agency securities	**$ 98,653**	**$ 971**	**$ -**	**$ 99,624**
Residential mortgage-backed securities	**47,459**	**-**	**4,448**	**43,011**
Municipal bonds	**3,170,134**	**76,479**	**-**	**3,246,613**
U.S. Treasury securities	**2,616,237**	**-**	**14,382**	**2,601,855**
	$ 5,932,483	**$ 77,450**	**$ 18,830**	**$ 5,991,103**
December 31, 2020				
U.S. government agency securities	$ 96,791	$ 2,759	$ -	$ 99,550
Residential mortgage-backed securities	64,534	-	4,057	60,477
Municipal bonds	4,191,231	104,260	-	4,295,491
	$ 4,352,556	$ 107,019	$ 4,057	$ 4,455,518

There were no gross realized gains or losses on sales of securities available-for-sale for the year ended December 31, 2021 or 2020.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2021 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due within one year	$ 99,063	$ 99,624
Due after one year through five years	1,896,725	1,931,306
Due after five years through ten years	3,889,236	3,917,162
Residential mortgage-backed securities	47,459	43,011
	$ 5,932,483	$ 5,991,103

The following is a summary of gross unrealized losses and fair value of those investments with unrealized losses, aggregated by investment category and length of time the individual securities have been in an unrealized loss position, at December 31, 2021 and 2020.

	2021					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury securities	**$2,601,855**	**$ 14,382**	**$ -**	**$ -**	**$ 2,601,855**	**$ 14,382**
Residential mortgage-backed securities	**-**	**-**	**43,011**	**4,448**	**43,011**	**4,448**
	$2,601,855	**$ 14,382**	**$ 43,011**	**$ 4,448**	**$ 2,644,866**	**$ 18,830**

	2020					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Residential mortgage-backed securities	$ -	$ -	$ 60,477	$ 4,057	$ 60,477	$ 4,057
	$ -	$ -	$ 60,477	$ 4,057	$ 60,477	$ 4,057

Unrealized losses are attributable to changes in market interest rates, and are all considered to be temporary.

3. Loans Receivable and Allowance for Loan Losses

The components of net loans receivable at December 31 are as follows:

	2021	2020
Residential real estate	**$ 58,651,531**	$ 59,039,057
Commercial	**9,869,378**	9,406,721
Consumer	**124,333**	264,125
Subtotal	**68,645,242**	68,709,903
Allowance for loan losses	**(784,100)**	(791,950)
Net deferred loan costs	**181,444**	180,982
Loans receivable, net	**$ 68,042,586**	$ 68,098,935

The following table presents the allowance for loan losses and select loan information for the year ended December 31, 2021:

	Residential Real Estate	Commercial	Consumer	Unallocated	2021 Total
Allowance for loan losses					
Beginning balance	**$ 548,949**	**$ 140,160**	**$ -**	**$ 102,841**	**$ 791,950**
Provision for (reduction in) loan losses	**(8,202)**	**6,894**	**-**	**(6,542)**	**(7,850)**
Ending balance	**$ 540,747**	**$ 147,054**	**$ -**	**$ 96,299**	**$ 784,100**
Individually evaluated for impairment	**$ 30,594**	**$ -**	**$ -**	**$ -**	**$ 30,594**
Collectively evaluated for impairment	**$ 510,153**	**$ 147,054**	**$ -**	**$ 96,299**	**$ 753,506**
Loans					
Ending balance	**$ 58,651,531**	**$9,869,378**	**$ 124,333**		**$68,645,242**
Individually evaluated for impairment	**$ 726,622**	**$ -**	**$ -**		**$ 726,622**
Collectively evaluated for impairment	**$ 57,924,909**	**$9,869,378**	**$ 124,333**		**$67,918,620**

The following table presents the change in the allowance for loan losses for the year ended December 31, 2020:

	Residential Real Estate	Commercial	Consumer	Unallocated	2020 Total
Allowance for loan losses					
Beginning balance	$ 585,382	$ 118,813	$ -	$ 95,805	$ 800,000
Provision for (reduction in) loan losses	(36,433)	21,347	-	7,036	(8,050)
Ending balance	$ 548,949	$ 140,160	$ -	$ 102,841	$ 791,950
Individually evaluated for impairment	$ 40,881	$ -	$ -	$ -	$ 40,881
Collectively evaluated for impairment	$ 508,068	$ 140,160	$ -	$ 102,841	$ 751,069
Loans					
Ending balance	$ 59,039,057	$ 9,406,721	$ 264,125		$ 68,709,903
Individually evaluated for impairment	$ 1,264,285	$ -	$ -		$ 1,264,285
Collectively evaluated for impairment	$ 57,774,772	$ 9,406,721	$ 264,125		$ 67,445,618

There were no loan chargeoffs or recoveries in 2021 or 2020.

The Association classifies loans in each loan category by credit risk exposure. The following tables present the credit risk profile by creditworthiness category as of December 31, 2021 and 2020. The categories are as follows:

Satisfactory (pass): Loans qualified in this category are generally not delinquent, have sufficient value in the asset or underlying collateral and have an unqualified likelihood of repayment.

Satisfactory - Watch (low pass): Loans in this category are generally not delinquent, have sufficient value in the asset or underlying collateral and have an unqualified likelihood of repayment. However, there might be some issue that the Association has identified that could potentially affect the value of the asset, or underlying collateral, and may impact the repayment of the loan.

Special Mention: Loans in this category are starting to show signs of potential weakness and are being closely monitored by management.

Substandard: Loans in this category are inadequately protected by the current net worth and paying capacity of the borrowers and/or the collateral pledged. Assets so classified must have a well-defined weakness or weaknesses. They are characterized by the distinct possibility that the Association will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable, and improbable.

Loss: Loans in this category are considered uncollectible and of such little value that their continuance as loans is not warranted.

On an annual basis, or more often if needed, the Association reviews the ratings on all commercial and residential loans.

The following tables present loans by risk rating as of December 31, 2021 and 2020:

	Residential Real Estate	Commercial	Consumer
2021			
Satisfactory	**$ 57,924,909**	**$ 9,869,378**	**$ 124,333**
Satisfactory - watch	**559,127**	**-**	**-**
Substandard	**167,495**	**-**	**-**
Total	**$ 58,651,531**	**$ 9,869,378**	**$ 124,333**
2020			
Satisfactory	$ 57,774,772	$ 9,406,721	$ 264,125
Satisfactory - watch	1,008,578	-	-
Substandard	255,707	-	-
Total	$ 59,039,057	$ 9,406,721	$ 264,125

The following tables present an aging analysis of loans as of December 31, 2021 and 2020:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Loans on Nonaccrual
2021							
Residential real estate	**$ 527,232**	**$ -**	**$ -**	**$ 527,232**	**$ 58,124,299**	**$ 58,651,531**	**$ 541,102**
Commercial	**-**	**-**	**-**	**-**	**9,869,378**	**9,869,378**	**-**
Consumer	**-**	**-**	**-**	**-**	**124,333**	**124,333**	**-**
Total	**$ 527,232**	**$ -**	**$ -**	**$ 527,232**	**$ 68,118,010**	**$ 68,645,242**	**$ 541,102**
2020							
Residential real estate	$ 253,910	$ -	$ 69,886	$ 323,796	$ 58,715,261	$ 59,039,057	$ 1,111,256
Commercial	-	-	-	-	9,406,721	9,406,721	-
Consumer	-	-	-	-	264,125	264,125	-
Total	$ 253,910	$ -	$ 69,886	$ 323,796	$ 68,386,107	$ 68,709,903	$ 1,111,256

There were no loans 90 days or more past due and still accruing at December 31, 2021.

The following tables present a summary of information pertaining to impaired loans by loan category as of December 31, 2021 and 2020:

	Recorded Investment	Unpaid Principal Balance	Related Allowance
2021			
With no related allowance			
Residential real estate	**$ 422,963**	**$ 422,963**	**$ -**
With an allowance recorded			
Residential real estate	**303,659**	**303,659**	**30,594**
Total			
Residential real estate	**726,622**	**726,622**	**30,594**
2020			
With no related allowance			
Residential real estate	$ 931,408	$ 931,408	$ -
With an allowance recorded			
Residential real estate	332,877	332,877	40,881
Total			
Residential real estate	1,264,285	1,264,285	40,881

No additional funds are committed to be advanced in connection with impaired loans.

Additionally, the Association is working with borrowers impacted by COVID-19 and providing modifications to include interest only deferral or principal and interest deferral. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act or under applicable interagency guidance of the federal banking regulators. As of December 31, 2021 and 2020, the Association had 16 and 34 modified loans remaining with outstanding balances of $3,176,231 and $6,349,026, respectively.

The Association services residential mortgage loans amounting to $16,708,791 and $17,826,842 at December 31, 2021 and 2020. Loans with unpaid principal balances totaling $2,468,350 and $8,340,595 at time of sale were sold under the FHLB Mortgage Partnership Finance program in 2021 and 2020, respectively. These loans were sold with recourse and are disclosed in Note 8. Proceeds from the sale of loans totaled $2,500,841 in 2021 and $8,529,153 in 2020.

4. Premises and Equipment

Components of premises and equipment included in the statements of financial condition at December 31, 2021 and 2020 were as follows:

	2021	2020
Cost		
Land and improvements	**$ 533,640**	$ 576,906
Buildings and improvements	**1,965,599**	1,831,823
Furniture, fixtures, and equipment	**209,121**	208,436
	2,708,360	2,617,165
Less accumulated depreciation	**995,830**	931,673
Net book value	**$ 1,712,530**	$ 1,685,492

5. Deposits

The aggregate amount of certificates of deposit, each with a minimum denomination of $250,000, was $6,977,550 and $8,511,225 at December 31, 2021 and 2020, respectively.

At December 31, 2021, scheduled maturities of certificates of deposit are as follows:

2022	$ 33,424,756
2023	14,453,440
2024	3,540,562
2025	1,480,069
2026	463,909
Total	$ 53,362,736

6. Borrowed Funds

Pursuant to collateral agreements with the FHLB, borrowed funds are collateralized by all stock in the FHLB, qualifying first mortgages, and securities available-for-sale.

Contractual maturities and interest rates on borrowed funds for the next five years and thereafter are as follows:

As of December 31, 2021

	Amount	**Interest Rate**
2022	**$ 1,500,000**	**0.37%-0.39%**
2024	**500,000**	**3.00%**
2025	**2,000,000**	**0.89%-1.75%**
2026	**3,000,000**	**1.49%**
Thereafter	**1,500,000**	**3.55%-3.61%**
Total	**$ 8,500,000**	

As of December 31, 2020

	Amount	Interest Rate
2021	$ 2,000,000	0.80%-1.85%
2024	500,000	3.00%
2025	2,000,000	0.89-1.75%
Thereafter	4,500,000	1.49-3.61%
Total	$ 9,000,000	

The Association has a federal funds liquidity line of credit with Atlantic Community Bankers Bank, of $2,000,000 at December 31, 2021 and 2020. No advances were outstanding at December 31, 2021 and 2020.

7. Income Taxes

Allocation of federal and state income taxes is as follows:

	2021	2020
Current tax provision		
Federal	**$ 39,424**	$ 84,781
State	**11,000**	12,700
	50,424	97,481
Deferred federal tax expense	**19,800**	4,841
	$ 70,224	$ 102,322

The income tax provision differs from the expense that would result from applying federal statutory rates to income before income taxes in 2021 and 2020 principally because of state income taxes and tax-exempt interest.

The components of the net deferred tax asset, included in other assets, are as follows for December 31:

	2021	2020
Deferred tax assets		
Allowance for loan losses	**$ 164,700**	$ 166,300
Deferred tax liabilities		
Accelerated tax depreciation	**(27,700)**	(7,200)
Deferred loan costs	**(33,900)**	(31,100)
Mortgage servicing rights	**(21,200)**	(26,300)
Allowance for unrealized gains on securities available-for-sale	**(12,300)**	(21,600)
Total deferred tax liabilities	**(95,100)**	(86,200)
Net deferred tax asset	**$ 69,600**	$ 80,100

Appropriated retained income includes $233,793, representing an allocation for income tax bad debt deductions prior to 1988, for which a deferred income tax liability of $51,000 has not been provided as it will not be payable as long as the Association remains a qualified financial institution.

8. Financial Instruments with Off-Balance-Sheet Risk

The Association 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 statements of financial condition.

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

At December 31, 2021 and 2020, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2021	2020
Commitments to extend credit	**$ 1,471,950**	$ 810,000
Unadvanced commitments under lines of credit	**5,155,612**	2,785,846
Portion of loans sold to FHLB subject to recourse	**11,292,045**	9,979,163

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. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Association, is based on management's credit evaluation of the customer.

9. Significant Group Concentrations of Credit Risk

Most of the Association's business activity is in the Mount Desert Island, Maine area. Accordingly, the Association is dependent on the economic health of this region for continued profitable operations.

The Association'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 Association requires appraisals of real property held as collateral. For consumer loans, collateral is for an equal deposit balance held by the Association. Collateral held for commercial loans consists primarily of real estate.

10. Retirement Plan

The Association has established a 401(k) plan in which employees meeting eligibility requirements can participate. The plan allows employees to contribute, subject to certain limits based on federal tax laws. The Association also makes a 10% of compensation profit sharing contribution to the plan for eligible participants. There was $77,283 and $80,662 of expense attributable to the plan in 2021 and 2020, respectively.

11. Related Party Transactions

The Association has entered into transactions with its employees, directors, and officers. The aggregate amount of loans to, and deposits from, such related parties at December 31, 2021 and 2020 was as follows:

	2021	2020
Loans	**$ 3,509,665**	$ 4,077,928
Deposits	**1,991,618**	2,314,573

12. Regulatory Matters

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

As of December 31, 2021, the most recent notification from the FDIC categorized the Association as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Association's category.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Association as of March 31, 2021. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the CARES Act, and a second interim final rule that provides graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules, the community bank leverage ratio minimum requirement was 8% as of December 31, 2020, 8.5% for calendar year 2021, and is 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7% as of December 31, 2020, 7.5% for calendar year 2021, and 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2021, the Association was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

The Association's actual and required capital amounts and ratios are also presented in the tables.

	Actual		To be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)			
	Ratio	Amount	Ratio	Amount		
2021						
Tier 1 (Core) capital to average total assets	**12.5%**	**$ 12,499,000**	**8.5%**	**$ 8,516,405**		

	Actual		Minimum for capital adequacy purposes		Minimum to be well capitalized for prompt corrective action provisions	
	Ratio	Amount	Ratio	Amount	Ratio	Amount
2020						
Tangible capital, and ratio to adjusted total assets	11.9%	$ 12,199,000	1.5%	$1,542,480		
Tier I (core) capital, and ratio to adjusted total assets	11.9%	$ 12,199,000	4.0%	$4,113,280	5.0%	$ 5,141,600
Common equity Tier I capital, and ratio to risk-weighted assets	26.2%	$ 12,199,000	4.5%	$2,094,975	6.5%	$ 3,026,075
Tier I capital, and ratio to risk-weighted assets	26.2%	$ 12,199,000	6.0%	$2,793,300	8.0%	$ 3,724,400
Total risk-based capital, and ratio to risk-weighted assets	27.5%	$ 12,784,000	8.0%	$3,724,400	10.0%	$ 4,655,500

13. Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, "*Fair Value Measurement*," 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. ASC 820 also 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 an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets measured at fair value on a recurring basis are as follows:

Assets at Fair Value as of December 31, 2021

	Level 2	Total
U.S. government agency securities	$ 99,624	$ 99,624
Residential mortgage-backed securities	43,011	43,011
Municipal bonds	3,246,613	3,246,613
U.S. Treasury securities	2,601,855	2,601,855
Total assets at fair value	$ 5,991,103	$ 5,991,103

Assets at Fair Value as of December 31, 2020

	Level 2	Total
U.S. government agency securities	$ 99,550	$ 99,550
Residential mortgage-backed securities	60,477	60,477
Municipal bonds	4,295,491	4,295,491
Total assets at fair value	$ 4,455,518	$ 4,455,518

Assets measured at fair value on a nonrecurring basis are as follows:

	Level 2	Total
2021		
Impaired loans	**$ 273,065**	**$ 273,065**
2020		
Impaired loans	$ 291,996	$ 291,996

Collateral-dependent impaired loans were written down to their fair value through a specific allowance for loan losses, as disclosed in Note 1. To estimate the fair value of impaired loans, the Association used the methods and significant assumptions disclosed in Note 1. Any such measurements that are based on collateral valuations are considered Level 2 inputs measured on a nonrecurring basis. Fair values were primarily determined using a market approach. Fair values for Level 2 securities were determined based on quoted market prices of similar securities.

14. Subsequent Events

Subsequent events are events or transactions that occur after the date of the statement of financial condition but before financial statements are available to be issued. Recognized subsequent events are events or transactions that provide additional evidence about the conditions that existed at the date of the statement of financial condition, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the statement of financial condition, but arose after that date. Management has evaluated subsequent events occurring through the date the financial statements were available to be issued.

In June 2016, FASB issued Accounting Standards Update (ASU) No. 2016-13, "*Measurement of Credit Losses on Financial Instruments*." The ASU was issued to require timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU is effective for interim and annual periods beginning after December 15, 2022. The Association is evaluating the potential impact of the ASU, and anticipates that it may have a material impact on the financial statements. The Association has chosen a third-party vendor who provides software solutions for ASU No. 2016-13 modeling and calculation. The Association has implemented this software and plans to run incurred loss and current expected loss credit models in parallel until adoption of the ASU.