

Board of Governors of the Federal Reserve System



Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

Date of Report (top-tier holding company's fiscal year-end):

March 31, 2020

Month / Day / Year

N/A

Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

I, **Katherine Coster**

Name of the Holding Company Director and Official

Chair of the Board

Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official

Date of Signature

Gorham Bancorp. MHC

Legal Title of Holding Company

10 Wentworth Drive

(Mailing Address of the Holding Company) Street / P.O. Box

Gorham

ME

04038

City

State

Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Jane Stack

Controller

Name

Title

207-839-5209 1634

Area Code / Phone Number / Extension

207-839-4233

Area Code / FAX Number

jstack@gorhamsavingsbank.com

E-mail Address

www.gorhamsavings.bank

Address (URL) for the Holding Company's web page

For holding companies not registered with the SEC—
 Indicate status of Annual Report to Shareholders:

- is included with the FR Y-6 report
 will be sent under separate cover
 is not prepared

For Federal Reserve Bank Use Only

RSSD ID _____

C.I. _____

Is confidential treatment requested for any portion of this report submission? 0=No 1=Yes **0**

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report
 2. a letter justifying this request has been provided separately ...

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Gorham Bancorp, Inc

Legal Title of Subsidiary Holding Company

10 Wentworth Drive

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

Gorham

ME

04038

City

State

Zip Code

Physical Location (if different from mailing address)

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Physical Location (if different from mailing address)

FORM FRY-6
Gorham Bancorp, MHC
Gorham, Maine
Fiscal Year Ending March 31, 2020

Report Item 1 - Annual Report to Shareholders

Enclosed.

Report Item 2a - Organization Chart

Enclosed.

Report Item 2b - Domestic Branch Listing

Enclosed.

Report Item 3 - N/A

Report Item 4 - Insiders

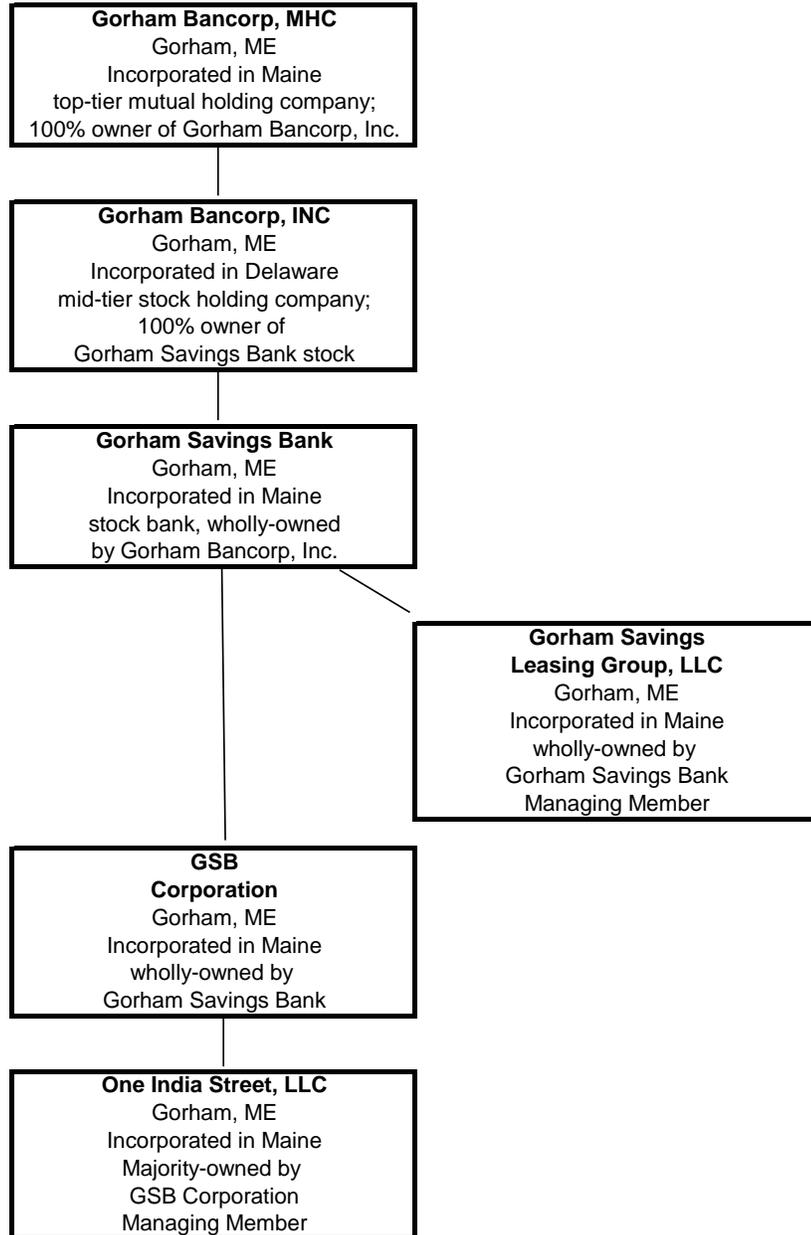
Enclosed.

FORM FRY-6
Gorham Bancorp, MHC
Gorham, Maine
Fiscal Year Ending March 31, 2020

Report Item 2a - Organization Chart

* No LEI unless otherwise noted.

LEI:
DZHW4H2BUS3DOGKT0727



Results: A list of branches for your holding company: **GORHAM BANCORP, MHC (3444717)** of **GORHAM, ME**.
 The data are as of 03/31/2020. Data reflects information that was received and processed through 04/05/2020.

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions

- OK:** If the branch information is correct, enter 'OK' in the **Data Action** column.
- Change:** If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
- Close:** If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
- Delete:** If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
- Add:** If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
 If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:

To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of **Change, Close, Delete, or Add**.
 The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - <https://y10online.federalreserve.gov>.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	241607	GORHAM SAVINGS BANK	64 MAIN STREET	GORHAM	ME	04038	CUMBERLAND	UNITED STATES	Not Required	Not Required	GORHAM SAVINGS BANK	241607	
OK		Full Service	4153034	WATERBORO BRANCH	11 SOKOKIS TRAIL	EAST WATERBORO	ME	04030	YORK	UNITED STATES	Not Required	Not Required	GORHAM SAVINGS BANK	241607	
OK		Full Service	4144162	FALMOUTH FORESIDE BRANCH	202 US ROUTE 1	FALMOUTH	ME	04105	CUMBERLAND	UNITED STATES	Not Required	Not Required	GORHAM SAVINGS BANK	241607	
OK		Full Service	4153025	WEST FALMOUTH BRANCH	65 GRAY ROAD	FALMOUTH	ME	04105	CUMBERLAND	UNITED STATES	Not Required	Not Required	GORHAM SAVINGS BANK	241607	
OK		Electronic Banking	4861339	CALL CENTER BRANCH	10 WENTWORTH DRIVE	GORHAM	ME	04038	CUMBERLAND	UNITED STATES	Not Required	Not Required	GORHAM SAVINGS BANK	241607	
OK		Full Service	4153007	LONG WHARF BRANCH	172 COMMERCIAL STREET	PORTLAND	ME	04101	CUMBERLAND	UNITED STATES	Not Required	Not Required	GORHAM SAVINGS BANK	241607	
OK		Full Service	4152989	MARGINAL WAY BRANCH	71 MARGINAL WAY	PORTLAND	ME	04101	CUMBERLAND	UNITED STATES	Not Required	Not Required	GORHAM SAVINGS BANK	241607	
OK		Full Service	4908300	MUNJOY HILL	118 CONGRESS STREET	PORTLAND	ME	04101	CUMBERLAND	UNITED STATES	Not Required	Not Required	GORHAM SAVINGS BANK	241607	
OK		Full Service	5278877	ONE INDIA STREET BRANCH	1 INDIA STREET	PORTLAND	ME	04101	CUMBERLAND	UNITED STATES	Not Required	Not Required	GORHAM SAVINGS BANK	241607	
OK		Full Service	2619367	SCARBOROUGH BRANCH	38 HANNAFORD DRIVE	SCARBOROUGH	ME	04074	CUMBERLAND	UNITED STATES	Not Required	Not Required	GORHAM SAVINGS BANK	241607	
OK		Full Service	4153052	SOUTH PORTLAND BRANCH	395 GORHAM ROAD	SOUTH PORTLAND	ME	04106	CUMBERLAND	UNITED STATES	Not Required	Not Required	GORHAM SAVINGS BANK	241607	
OK		Full Service	245100	STANDISH BRANCH	111 OSSISPEE TRAIL E, ROUTE 25	STANDISH	ME	04084	CUMBERLAND	UNITED STATES	Not Required	Not Required	GORHAM SAVINGS BANK	241607	
OK		Full Service	2009427	WINDHAM BRANCH	766 ROOSEVELT TRAIL, ROUTE 302	WINDHAM	ME	04062	CUMBERLAND	UNITED STATES	Not Required	Not Required	GORHAM SAVINGS BANK	241607	
OK		Full Service	5425822	YARMOUTH BRANCH	288 MAIN STREET	YARMOUTH	ME	04096	CUMBERLAND	UNITED STATES	Not Required	Not Required	GORHAM SAVINGS BANK	241607	

FORM FRY-6
Gorham Bancorp, MHC
Gorham, Maine
Fiscal Year Ending March 31, 2020

Report Item 4 - Officer Listing for Gorham Bancorp, MHC

Katherine B. Coster	Falmouth, Maine	Director and Chairman
Stephen DeCastro	Falmouth, Maine	Chief Executive Officer
Daniel P. Hunter	Freeport, Maine	Chief Financial Officer
Heather Connolly	Gorham, Maine	Clerk

Report Item 4 - Officer Listing for Gorham Bancorp, Inc.

Katherine B. Coster	Falmouth, Maine	Director and Chairman
Stephen DeCastro	Falmouth, Maine	Chief Executive Officer
Daniel P. Hunter	Freeport, Maine	Chief Financial Officer
Heather Connolly	Gorham, Maine	Clerk

GORHAM BANCORP, MHC AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020 and 2019

With Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Gorham Bancorp, MHC and Subsidiaries

We have audited the accompanying consolidated financial statements of Gorham Bancorp, MHC and Subsidiaries (the Company), which comprise the consolidated balance sheets as of March 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in net worth and cash flows for the years then ended, and the related notes to the financial statements. We have also audited the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions to the Parent Company Only Financial Statements for Small Holding Companies (Form FR Y-9SP) (call report instructions), as of March 31, 2020, based on criteria established in the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for the Financial Statements and Internal Control over Financial Reporting

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report Regarding Statement of Management's Responsibilities, Compliance with Designated Laws and Regulations, and Management's Assessment of Internal Control Over Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of consolidated financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of consolidated financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Board of Directors
Gorham Bancorp, MHC and Subsidiaries

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

Definition and Inherent Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act, our audit of the Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with U.S. generally accepted accounting principles and financial statements for regulatory purposes, i.e. call report instructions. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Gorham Bancorp, MHC and Subsidiaries as of March 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles. Also in our opinion, Gorham Bancorp, MHC and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2020 based on criteria established in the Internal Control—Integrated Framework issued by COSO.

Other Matter

We did not perform auditing procedures on Management's Assessment of Compliance with Designated Laws and Regulations, included in the accompanying Management Report Regarding Statement of Management's Responsibilities, Compliance with Designated Laws and Regulations, and Management's Assessment of Internal Control Over Financial Reporting, and accordingly, we do not express an opinion or provide any assurance on it.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
June 22, 2020

GORHAM BANCORP, MHC AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2020 and 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Cash and due from banks	\$ 32,043,237	\$ 21,856,054
Securities available-for-sale	168,465,097	155,109,869
Other bonds and notes	500,000	500,000
Federal Home Loan Bank stock, at cost	3,374,100	4,583,800
Loans held for sale	862,000	547,500
Loans and leases receivable, net of allowance for loan and lease losses of \$9,401,041 in 2020 and \$8,360,635 in 2019	977,977,560	969,724,291
Accrued interest receivable	2,551,471	2,948,983
Premises and equipment, net	20,095,871	19,101,801
Bank owned life insurance	27,141,189	21,477,967
Other assets	<u>17,298,929</u>	<u>16,751,726</u>
	<u>\$1,250,309,454</u>	<u>\$1,212,601,991</u>

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

LIABILITIES AND NET WORTH

	<u>2020</u>	<u>2019</u>
Deposits		
Regular savings	\$ 162,204,728	\$ 156,876,093
Money market deposits	199,467,544	188,398,017
Certificates of deposit	186,076,973	212,880,828
Interest bearing checking accounts	146,917,747	149,611,744
Demand deposits	<u>333,247,262</u>	<u>295,552,935</u>
Total deposits	1,027,914,254	1,003,319,617
Federal funds purchased	5,725,000	3,600,000
Securities sold under agreements to repurchase	2,810,858	3,001,198
Borrowed funds	71,412,577	77,815,730
Accrued expenses and other liabilities	<u>22,299,938</u>	<u>13,424,445</u>
Total liabilities	<u>1,130,162,626</u>	<u>1,101,160,990</u>
Net worth		
Reserves and undivided profits	125,032,610	117,217,548
Net unrealized gain (loss) on securities available-for-sale, net of deferred income taxes	6,307,439	(339,720)
Net unrealized loss on pension benefit costs, net of deferred income taxes	<u>(11,193,222)</u>	<u>(5,436,827)</u>
Total net worth	<u>120,146,827</u>	<u>111,441,001</u>
	<u>\$ 1,250,309,454</u>	<u>\$ 1,212,601,991</u>

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

GORHAM BANCORP, MHC AND SUBSIDIARIES

Consolidated Statements of Income

Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Interest and dividend income		
Loans and leases	\$44,198,094	\$42,877,666
Investment securities	4,692,323	4,375,766
Other interest-earning assets	<u>151,643</u>	<u>64,038</u>
Total interest and dividend income	<u>49,042,060</u>	<u>47,317,470</u>
Interest expense		
Deposits	9,079,764	7,884,130
Borrowed funds	<u>1,603,650</u>	<u>2,501,408</u>
Total interest expense	<u>10,683,414</u>	<u>10,385,538</u>
Net interest income	38,358,646	36,931,932
Provision for credit losses	<u>1,475,000</u>	<u>725,000</u>
Net interest income after provision for credit losses	<u>36,883,646</u>	<u>36,206,932</u>
Noninterest income		
Banking services income	3,246,529	3,065,829
Loan and lease related income	898,344	568,549
Investment advisory services	304,209	218,002
Net gain on sale of loans	236,350	86,301
Net gain on sale of securities available-for-sale	138,146	-
Other	<u>1,221,276</u>	<u>1,236,523</u>
Total noninterest income	<u>6,044,854</u>	<u>5,175,204</u>
Noninterest expenses		
Salaries and employee benefits	18,050,870	17,691,307
Occupancy and equipment	3,057,693	3,110,728
Other	<u>12,450,746</u>	<u>12,208,536</u>
Total noninterest expenses	<u>33,559,309</u>	<u>33,010,571</u>
Income before income taxes	9,369,191	8,371,565
Income tax expense	<u>1,554,129</u>	<u>1,320,267</u>
Net income	<u>\$ 7,815,062</u>	<u>\$ 7,051,298</u>

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

GORHAM BANCORP, MHC AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net income	\$ <u>7,815,062</u>	\$ <u>7,051,298</u>
Other comprehensive income, net of tax		
Unrealized gains on securities available-for-sale:		
Unrealized holding gains arising during the period	8,552,270	2,987,299
Tax effect	<u>(1,795,977)</u>	<u>(627,333)</u>
	<u>6,756,293</u>	<u>2,359,966</u>
Reclassification adjustment for net gain included		
in net income ^(a)	(138,146)	-
Tax effect ^(b)	<u>29,012</u>	<u>-</u>
	<u>(109,134)</u>	<u>-</u>
Net unrealized gains on securities available-for-sale	<u>6,647,159</u>	<u>2,359,966</u>
Retirement plan:		
Unrecognized actuarial loss on pension benefits ^(c)	(7,286,576)	(846,211)
Tax effect ^(b)	<u>1,530,181</u>	<u>177,704</u>
Net unrecognized loss on retirement plan	<u>(5,756,395)</u>	<u>(668,507)</u>
Total other comprehensive income	<u>890,764</u>	<u>1,691,459</u>
Total comprehensive income	<u>\$ 8,705,826</u>	<u>\$ 8,742,757</u>

(a) Reclassified into the consolidated statements of income in gain on sale of securities available-for-sale.

(b) Reclassified into the consolidated statements of income in income tax expense.

(c) Effect of reclassifications disclosed in Note 14.

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

GORHAM BANCORP, MHC AND SUBSIDIARIES
Consolidated Statements of Changes in Net Worth
Years Ended March 31, 2020 and 2019

	Reserves and Undivided Profits	Net Unrealized Gain (Loss) on Securities Available-for-Sale	Net Unrealized Loss on Pension Benefit Costs	Total Net Worth
Balance, March 31, 2018	\$ 110,166,250	\$ (2,699,686)	\$ (4,768,320)	\$102,698,244
Net income	7,051,298	-	-	7,051,298
Other comprehensive loss	<u>-</u>	<u>2,359,966</u>	<u>(668,507)</u>	<u>1,691,459</u>
Balance, March 31, 2019	117,217,548	(339,720)	(5,436,827)	111,441,001
Net income	7,815,062	-	-	7,815,062
Other comprehensive income	<u>-</u>	<u>6,647,159</u>	<u>(5,756,395)</u>	<u>890,764</u>
Balance, March 31, 2020	<u>\$ 125,032,610</u>	<u>\$ 6,307,439</u>	<u>\$(11,193,222)</u>	<u>\$120,146,827</u>

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

GORHAM BANCORP, MHC AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Net income	\$ 7,815,062	\$ 7,051,298
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,896,136	1,809,587
Net amortization of investment premiums and discounts	526,662	566,141
Provision for credit losses	1,475,000	725,000
(Accretion) amortization of investment in limited partnerships	(117,896)	402,604
Loss on sale of premises and equipment	130,163	8,196
Net gain on sale of securities available-for-sale	(138,146)	-
Loss on sale of other real estate owned	27,386	40,566
Net change in loans originated for resale	(314,500)	(307,500)
Decrease (increase) in net deferred loan fees	8,062	(1,537)
Deferred income tax benefit	(250,506)	(167,958)
Decrease in accrued income receivable and other assets	728,697	1,194,346
Increase in accrued expenses and other liabilities	777,953	2,106,061
Increase in cash surrender value of bank owned life insurance	<u>(663,222)</u>	<u>(536,011)</u>
Net cash provided by operating activities	<u>11,900,851</u>	<u>12,890,793</u>
Cash flows from investing activities		
Additions to premises and equipment	(3,020,369)	(1,717,914)
Loan and lease originations and principal collections, net	(9,345,841)	(79,211,472)
Purchase of securities held to maturity	-	(400,000)
Purchase of securities available-for-sale	(94,302,290)	(29,566,513)
Proceeds from principal paydowns, calls and maturities of securities available-for-sale	21,148,999	18,543,523
Proceeds from sale of securities available-for-sale	67,823,671	-
Redemption of Federal Home Loan Bank stock	1,209,700	3,246,300
Distributions from limited partnerships	288,344	29,461
Investment in limited partnerships	(642,026)	(464,960)
Purchase of bank owned life insurance	<u>(5,000,000)</u>	<u>-</u>
Net cash used by investing activities	<u>(21,839,812)</u>	<u>(89,541,575)</u>

(Continued next page)

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

GORHAM BANCORP, MHC AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Concluded)

Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from financing activities		
Net increase in deposits	\$ 24,594,637	\$ 141,635,888
Net decrease in securities sold under agreements to repurchase	(190,340)	(494,191)
Net increase in federal funds purchased	2,125,000	50,000
Net decrease in short-term advances	(39,000,000)	(28,000,000)
Proceeds from long-term Federal Home Loan Bank advances	35,771,980	1,615,860
Repayment of long-term Federal Home Loan Bank advances	<u>(3,175,133)</u>	<u>(34,168,825)</u>
Net cash provided by financing activities	<u>20,126,144</u>	<u>80,638,732</u>
Net increase in cash and cash equivalents	10,187,183	3,987,950
Cash and cash equivalents, beginning of year	<u>21,856,054</u>	<u>17,868,104</u>
Cash and cash equivalents, end of year	<u>\$ 32,043,237</u>	<u>\$ 21,856,054</u>
Supplemental cash flow information:		
Interest paid on deposits and borrowed funds	<u>\$ 10,900,187</u>	<u>\$ 10,213,821</u>
Income taxes paid	<u>\$ 1,438,000</u>	<u>\$ 1,026,000</u>
Noncash transaction:		
Unfunded commitment in Low Income Housing Tax Credit Partnership	<u>\$ 1,000,000</u>	<u>\$ -</u>

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

GORHAM BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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Nature of Business

Gorham Savings Bank (the Bank) was chartered in 1868 as a mutual savings bank. In December 2006, the Bank reorganized to become a Maine investor-owned universal bank, with its stock wholly-owned by Gorham Bancorp, Inc., a mid-tier stock holding company. The stock of Gorham Bancorp, Inc. is wholly-owned by Gorham Bancorp, MHC (the Company), a Maine mutual holding company.

Gorham Bancorp, Inc. and the Company are under the supervision of the Board of Governors of the Federal Reserve System and the Maine Bureau of Financial Institutions. The Bank is under the supervision of the Federal Deposit Insurance Corporation (FDIC) and the Maine Bureau of Financial Institutions.

The Bank provides mortgage, commercial, and consumer lending and depository services to customers in Southern Maine from its offices in Gorham, Standish, Windham, Scarborough, West Falmouth, Falmouth Foreside, Waterboro, South Portland, Yarmouth and Portland (Long Wharf, Marginal Way and India Street). Accordingly, the Bank is dependent on the health of the local economy for continued profitable operations.

Gorham Savings Leasing Group, LLC, a wholly-owned subsidiary of the Bank, leases business equipment and tangible and intangible personal property.

1. Summary of Significant Accounting Policies

The accounting and reporting policies conform to U.S. generally accepted accounting principles (GAAP) and to general practices within the banking industry. The following is a summary of significant accounting and reporting policies.

Basis of Presentation

The Company follows accounting standards as set by the Financial Accounting Standards Board (FASB). The FASB sets GAAP that management follows to help ensure they consistently report the Company's consolidated financial condition, results of operations and cash flows.

Principles of Consolidation

The financial statements include the accounts of the Company, Gorham Bancorp, Inc., the Bank and the Bank's wholly-owned subsidiary, Gorham Savings Leasing Group, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses and the valuation of other real estate owned.

GORHAM BANCORP, MHC AND SUBSIDIARIES

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In connection with the determination of the allowance for credit losses and the carrying value of other real estate owned, management obtains independent appraisals for significant properties.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located in Southern Maine. The Bank does not have any significant concentrations in any one industry or customer.

Cash and Cash Equivalents

For purposes of presentation in the statements of cash flows, cash and cash equivalents include cash and due from banks.

The Bank maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Bank has not experienced any losses in such accounts and believes it is not exposed to any significant risk with respect to these accounts.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Securities not classified as held-to-maturity, with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income or loss. Nonmarketable equity securities, which consist of stock in the Federal Home Loan Bank (FHLB), are carried at cost, subject to adjustments for any observable market transactions on the same or similar instruments of the investee.

Investments related to the funded supplemental executive retirement plan (SERP) are recorded at fair value and included in other assets.

Other investments are carried at cost, subject to adjustments for any observable market transactions on the same or similar instruments of the investee. Other investments are included in other assets.

Amortization of premiums and accretion of discounts are recorded as an adjustment to yield over the period to maturity or the earliest call date. For individual debt securities where the Bank does not intend to sell the security and it is not "more likely than not" that the Bank will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in the fair value of the debt security related to 1) credit loss is recognized in earnings, and 2) other factors are recognized in other comprehensive income or loss. Credit loss is deemed to exist if the present value of expected future cash flows discounted using the effective rate at acquisition is less than the amortized cost basis of the debt security. For individual debt securities where the Bank intends to sell the security or, more likely than not, will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the balance sheet date. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

GORHAM BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Derivative Financial Instruments

All derivatives are recognized on the consolidated balance sheets at fair value. Derivatives held by the Bank are not designated as hedges in accordance with GAAP.

Loans Held for Sale

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

Loans and Leases

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, reduced by deferred loan fees and an allowance for loan losses.

Loans past due 30 days or more are considered delinquent. Management is responsible to initiate immediate collection efforts to minimize delinquency and any eventual adverse impact on the Bank.

In general, consumer loans will be charged off if the loan is delinquent for 120 consecutive days. Residential real estate loans are generally written down to the collectible amount when the loan is delinquent for 180 consecutive days. Commercial and commercial real estate loans and leases are charged off in part or in full if they are considered uncollectible.

Loan interest income is accrued daily on the outstanding balances. For all classes of loans, accrual of interest is discontinued when a loan is specifically determined to be impaired or management believes, after considering collection efforts and other factors, that the borrower's financial condition is such that collection of interest is doubtful. Any unpaid interest previously accrued on those loans is reversed from income. For all classes of loans, interest income is generally not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are generally applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current for a period of six months and future payments are reasonably assured.

Loan origination and commitment fees and certain direct origination costs are being deferred and the net amount amortized as an adjustment of the related loan's yield. The Bank is generally amortizing these amounts over the estimated average life of the loan.

At lease inception, the present values of future rentals and of the residual values are recorded as net investment in direct financing leases. Unearned interest income is amortized to interest income over the lease term to produce a constant percentage return on the investment. Sales commissions and other direct costs incurred in direct financing leases are capitalized and recorded as part of the net investment in leases and are amortized over the lease term.

GORHAM BANCORP, MHC AND SUBSIDIARIES

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Allowance for Credit Losses

The allowance for credit losses, which includes the allowance for loan and lease losses and the reserve for contingent liabilities, represents management's estimate of probable losses inherent in the Bank's lending activities. The allowance for loan and lease losses is established as losses are estimated to have occurred through a provision for credit losses charged to earnings. Loan and lease losses are charged against the allowance when management believes the uncollectibility of a loan or lease balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan and lease 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. While the Bank seeks to use the best available information in determining the allowance for credit losses, future adjustments to the allowance for credit losses may be necessary based on changes in economic conditions, results of regulatory examinations, further information obtained regarding known problem loans, the identification of additional problem loans and other factors. The allowance consists of general, allocated and unallocated components, as further described below.

General Component

The general component of the allowance for credit losses is based on historical loss experience adjusted for qualitative factors stratified by the following portfolio segments: residential real estate, commercial real estate, commercial, consumer and leases. Management uses an average of historical losses based on a time frame appropriate to capture relevant loss data for each portfolio segment. Management deems 10 years to be an appropriate time frame on which to base historical losses for the consumer, residential and commercial loan segments. This historical loss factor is adjusted for the following qualitative factors for each portfolio segment: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and changes in lending policies, experience, ability, depth of lending management and staff; and national and local economic conditions. Management follows a similar process to estimate its reserve for contingent liabilities.

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 – Loans in this segment are generally 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, will have an effect on the credit quality of this segment.

Commercial real estate – Loans in this segment are primarily 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, will have an effect on the credit quality of this segment. Management obtains rent rolls and business financial statements on at least an annual basis and continually monitors the cash flows of these loans.

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Commercial loans and leases – Loans in this segment are made to businesses and are generally secured by assets of the business. Leases are made to businesses and municipalities, and are generally secured by the leased asset. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Consumer – Repayment of loans in this segment is generally dependent on the credit quality of the individual borrower.

Allocated Component

The allocated component relates to loans or leases that are classified as impaired. Impairment is measured on a loan-by-loan basis for residential real estate, commercial real estate, commercial loans and leases 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 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 Bank recognizes the change in present value attributable to the passage of time as provision for credit losses. Large groups of smaller balance homogenous loans are collectively evaluated for impairment, and the resulting allowance is reported as the general component described above.

A loan or lease 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. 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 or leases 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 Bank 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. All troubled debt restructurings are classified as impaired and measured using the present value of expected future cash flows or the fair value of the underlying collateral, if collateral-dependent.

Unallocated Component

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

There were no changes in the Bank's accounting policies or methodology pertaining to the allowance for credit losses during 2020 or 2019.

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Loan Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income over the period of the estimated average life of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Premises and Equipment

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

Bank Owned Life Insurance (BOLI)

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

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell the property at the time of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expenses. Other real estate owned included in other assets in the consolidated balance sheets totaled \$199,508 and \$345,108 at March 31, 2020 and 2019, respectively.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities.

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Income Taxes

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

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$927,572 and \$885,448 for the years ended March 31, 2020 and 2019, respectively.

Comprehensive Income

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

Recent Accounting Developments

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU was issued to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards. The core principle of the guidance requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Recognition of interest income is not within the scope of this ASU. Adoption of this ASU, which was effective for the Company on April 1, 2019, did not have a material impact on the Company's financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this ASU make targeted improvements to GAAP including requiring certain equity investments to be measured at fair value with changes in fair value recognized in net income. The Company early adopted a provision of the ASU that provided for the elimination of certain fair value disclosures for the year ended March 31, 2016 and it did not have a significant effect on the Company's financial statements. The Company adopted the remaining provisions of this ASU effective April 1, 2019, and it did not have a material impact on the Company's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. In June 2020, the FASB issued ASU No. 2020-5, which delays the effective date of this ASU to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Management is reviewing the guidance in the ASU to determine whether it will have a material effect on the Company's financial condition and results of operations.

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In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. The ASU requires entities to measure credit losses on loans receivable using a current expected credit losses model, instead of the incurred losses model used in current accounting principles. In November 2019, the FASB issued ASU No. 2019-10, which delays the effective date of this ASU to fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The ASU will be effective for the Company beginning on April 1, 2023. Management is currently reviewing ASU No. 2016-13 to assess its effect on the Company's financial position, which could be significant. Management has contracted with a third-party software provider to assist with its transition to the new methodology.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The ASU was issued to make certain specific improvements to hedge accounting to better align hedge accounting with risk management activities, eliminate the separate measurement and recording of hedge ineffectiveness, improve presentation and disclosure, and other simplifications. In November 2019, the FASB issued ASU No. 2019-10, which delays the effective date of this ASU to fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted, including adoption in an interim period. All transition requirements and elections are to be applied to existing hedging relationships upon adoption. Management is reviewing the guidance in the ASU to determine whether it will have a material effect on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. The standard is effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of adoption of this ASU on its consolidated financial statements but does not anticipate any material impact at this time.

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

The Company has adopted the troubled debt restructuring guidance issued by the federal banking agencies. As of March 31, 2020, the Bank had granted short term loan concessions and/or modifications within the terms of this guidance to 130 borrowers having an aggregate principal amount of approximately \$57,705,634. These loans may bear a higher risk of default in future periods.

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Subsequent Events

For the purposes of the presentation of these financial statements in conformity with GAAP, management has considered transactions or events occurring through June 22, 2020, which is the date that the financial statements were available to be issued. Management has not evaluated subsequent events after that date for inclusion in the financial statements.

As of June 22, 2020, the Bank had received approval from the U.S. Small Business Administration for over 1,009 applications for Paycheck Protection Program (PPP) loans under the Coronavirus Aid, Relief and Economic Security Act (CARES Act) with respect to approximately \$105,965,655 in loans.

Risks and Uncertainties

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic, and on March 13, 2020 President Trump declared the pandemic to be a national emergency. The COVID-19 pandemic has adversely affected, and may continue to adversely affect, economic activity globally, nationally and locally. Government actions taken to help mitigate the spread of COVID-19 include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. COVID-19 and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on financial markets and the economy, including the local economy in the Bank's southern Maine markets, with adverse effects on business and consumer confidence generally, and on the Bank's customers, and their employees, suppliers, vendors and processors. Forced closures of businesses have resulted in sharp increases in unemployment.

On March 27, 2020, the CARES Act was enacted to provide emergency assistance for individuals, families and businesses affected by the COVID-19 pandemic. It is unknown how long the adverse economic conditions associated with the COVID-19 pandemic will last and what the complete financial effect will be to the Company. Due to the inherent economic and other uncertainties related to the COVID-19 pandemic, it is reasonably possible that estimates made in the Company's consolidated financial statements could be materially and adversely impacted in the near term as a result of the pandemic, including expected credit losses on loan receivables.

2. Cash and Due from Banks

The Bank no longer has a required reserve with the Federal Reserve Bank of Boston (FRB).

At March 31, 2020 and 2019, the Bank had approximately \$1,062,000 and \$1,024,000, respectively, on deposit with the FRB. Interest on balances is paid at the current Federal Funds Target rate.

GORHAM BANCORP, MHC AND SUBSIDIARIES

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3. Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, follow:

	<u>2020</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>Securities Available-for-Sale</u>				
Mortgage-backed securities	<u>\$ 160,480,997</u>	<u>\$ 7,984,100</u>	<u>\$ -</u>	<u>\$ 168,465,097</u>
Total securities available-for-sale	<u>\$ 160,480,997</u>	<u>\$ 7,984,100</u>	<u>\$ -</u>	<u>\$ 168,465,097</u>
<u>Securities Held-to-Maturity</u>				
Other bonds and notes	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500,000</u>
Total securities held-to-maturity	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500,000</u>
	<u>2019</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>Securities Available-for-Sale</u>				
U.S. Government and federal agencies	\$ 6,022,418	\$ 9,724	\$ (3,831)	\$ 6,028,311
Mortgage-backed securities	<u>149,517,475</u>	<u>971,543</u>	<u>(1,407,460)</u>	<u>149,081,558</u>
Total securities available-for-sale	<u>\$ 155,539,893</u>	<u>\$ 981,267</u>	<u>\$ (1,411,291)</u>	<u>\$ 155,109,869</u>
<u>Securities Held-to-Maturity</u>				
Other bonds and notes	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500,000</u>
Total securities held-to-maturity	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500,000</u>

There were no securities with unrealized losses as of March 31, 2020. Securities with unrealized losses at March 31, 2019 are as follows:

	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
U.S. Government and federal agencies	\$ -	\$ -	\$ 2,988,747	\$ 3,831	\$ 2,988,747	\$ 3,831
Mortgage-backed securities	<u>-</u>	<u>-</u>	<u>91,487,137</u>	<u>1,407,460</u>	<u>91,487,137</u>	<u>1,407,460</u>
Total temporarily impaired securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 94,475,884</u>	<u>\$ 1,411,291</u>	<u>\$ 94,475,884</u>	<u>\$ 1,411,291</u>

GORHAM BANCORP, MHC AND SUBSIDIARIES

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Management has determined that the unrealized losses on these securities are consistent with recent changes in the overall bond market caused by an increase in market yields, and the securities are not other than temporarily impaired.

The number of investments with unrealized losses at March 31, 2019 is summarized below:

	<u>Less than 12 months</u>	<u>12 months or longer</u>
U.S. Government and federal agencies	-	1
Mortgage-backed securities	-	33

At March 31, 2020 and 2019, securities with a carrying value of \$168,465,097 and \$155,109,869, respectively, were pledged to secure advances from the FHLB, public deposits, interest rate swaps, repurchase agreements, and for other purposes required or permitted by law.

The amortized cost and fair value of debt securities by contractual maturity at March 31, 2020 follow:

	<u>Available-for-Sale</u>		<u>Held-to-Maturity</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Within 5 years	\$ -	\$ -	\$ 500,000	\$ 500,000
After 5 years through 10 years	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	-	-	500,000	500,000
Mortgage-backed securities	<u>160,480,997</u>	<u>168,465,097</u>	<u>-</u>	<u>-</u>
	<u>\$ 160,480,997</u>	<u>\$ 168,465,097</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>

Mortgage-backed securities are not due at a single maturity date and have not been allocated to maturity groupings for purposes of the maturity table.

For the year ended March 31, 2020, proceeds from sales of securities available-for-sale amounted to \$67,823,671 and gross realized gains and losses amounted to \$366,777 and \$228,631, respectively. For the year ended March 31, 2019, there were no security sales.

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4. Loans and Leases

The composition of net loans and leases at March 31 is as follows:

	<u>2020</u>	<u>2019</u>
Residential real estate	\$ 181,253,370	\$ 197,501,694
Commercial real estate	474,402,360	471,568,146
Other commercial	233,919,212	209,962,162
Consumer	74,736,406	76,903,759
Leases	<u>23,067,253</u>	<u>22,149,165</u>
	987,378,601	978,084,926
Less allowance for loan and lease losses	<u>9,401,041</u>	<u>8,360,635</u>
Loans and leases, net	<u>\$ 977,977,560</u>	<u>\$ 969,724,291</u>

An analysis of the allowance for credit losses for the years ended March 31, 2020 and 2019 follows:

	<u>Year Ended March 31, 2020</u>						
	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Other Commercial</u>	<u>Consumer</u>	<u>Leases</u>	<u>Unallocated</u>	<u>Total</u>
Balance, beginning of year	\$ 1,206,225	\$ 4,682,027	\$ 1,531,730	\$ 431,332	\$ 137,984	\$ 371,337	\$ 8,360,635
Provision for (reduction of) loan and lease losses	27,166	(475,002)	131,633	55,064	(4,327)	1,349,977	1,084,511
Loans charged-off	-	-	(14,295)	(106,078)	-	-	(120,373)
Recoveries	<u>10,229</u>	<u>-</u>	<u>-</u>	<u>66,039</u>	<u>-</u>	<u>-</u>	<u>76,268</u>
Balance, end of year	<u>\$ 1,243,620</u>	<u>\$ 4,207,025</u>	<u>\$ 1,649,068</u>	<u>\$ 446,357</u>	<u>\$ 133,657</u>	<u>\$ 1,721,314</u>	<u>\$ 9,401,041</u>
	<u>Year Ended March 31, 2019</u>						
	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Other Commercial</u>	<u>Consumer</u>	<u>Leases</u>	<u>Unallocated</u>	<u>Total</u>
Balance, beginning of year	\$ 1,160,133	\$ 4,260,845	\$ 1,199,480	\$ 460,375	\$ 125,948	\$ 654,422	\$ 7,861,203
Provision for (reduction of) loan and lease losses	34,678	421,182	332,250	93,948	12,036	(283,085)	611,009
Loans charged-off	-	-	-	(178,960)	-	-	(178,960)
Recoveries	<u>11,414</u>	<u>-</u>	<u>-</u>	<u>55,969</u>	<u>-</u>	<u>-</u>	<u>67,383</u>
Balance, end of year	<u>\$ 1,206,225</u>	<u>\$ 4,682,027</u>	<u>\$ 1,531,730</u>	<u>\$ 431,332</u>	<u>\$ 137,984</u>	<u>\$ 371,337</u>	<u>\$ 8,360,635</u>

GORHAM BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

The Bank established a reserve for unfunded loan commitments as a liability in the Bank's consolidated balance sheet. An analysis of the reserve for unfunded loan commitments follows:

	<u>Years Ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Balance at beginning of year	\$ 1,339,137	\$ 1,225,146
Provision for losses on unfunded commitments	<u>390,489</u>	<u>113,991</u>
Balance at end of year	<u>\$ 1,729,626</u>	<u>\$ 1,339,137</u>

The following table presents the allowance for loan and lease losses and select loan information as of March 31:

<u>2020</u>	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Other Commercial</u>	<u>Consumer</u>	<u>Leases</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for loan and lease losses							
Ending balance	\$ 1,243,620	\$ 4,207,025	\$ 1,649,068	\$ 446,357	\$ 133,657	\$ 1,721,314	\$ 9,401,041
Individually evaluated for impairment	74,968	151,817	56,556	60,127	-	-	343,468
Collectively evaluated for impairment	1,168,652	4,055,208	1,592,512	386,230	133,657	1,721,314	9,057,573
Loans							
Ending balance	181,253,370	474,402,360	233,919,212	74,736,406	23,067,253		987,378,601
Individually evaluated for impairment	4,184,893	5,422,652	1,141,241	1,318,396	-		12,067,182
Collectively evaluated for impairment	177,068,477	468,979,708	232,777,971	73,418,010	23,067,253		975,311,419
 <u>2019</u>							
Allowance for loan and lease losses							
Ending balance	\$ 1,206,225	\$ 4,682,027	\$ 1,531,730	\$ 431,332	\$ 137,984	\$ 371,337	\$ 8,360,635
Individually evaluated for impairment	88,923	11,938	-	86,152	-	-	187,013
Collectively evaluated for impairment	1,117,302	4,670,089	1,531,730	345,180	137,984	371,337	8,173,622
Loans							
Ending balance	197,501,694	471,568,146	209,962,162	76,903,759	22,149,165		978,084,926
Individually evaluated for impairment	4,863,429	2,386,570	-	1,464,622	-		8,714,621
Collectively evaluated for impairment	192,638,265	469,181,576	209,962,162	75,439,137	22,149,165		969,370,305

The Bank categorizes residential and consumer loans as performing and nonperforming loans. Any loan that has been 90 days or more past due and not had 6 months of on time payments are categorized as non-performing for both residential and consumer loans, all others are considered performing.

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Notes to Consolidated Financial Statements

March 31, 2020 and 2019

The Bank categorizes commercial loans and leases by credit risk exposure. The following tables present the credit risk profile by creditworthiness category as of March 31, 2020 and 2019.

Loans rated 1 – 5: Loans in these categories are considered “pass” rated loans with low to average risk.

Loans rated 6: Loans in this category are considered “special mention.” These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 7: Loans in this category are considered “substandard.” Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the borrowers and/or the collateral pledged. There is an increased possibility that the Bank will sustain some loss if the weakness is not corrected.

Loans rated 8: Loans in this category are considered “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.

On an annual basis, or more often if needed, the Bank formally reviews the ratings on all commercial real estate loans, other commercial loans, and leases. Semi-annually, the Bank engages an independent third party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process.

2020

	<u>Commercial Real Estate</u>	<u>Other Commercial</u>	<u>Leases</u>
By Risk Rating:			
1	\$ -	\$ 2,583,854	\$ -
2	586,796	1,566,005	17,528,303
3	33,763,010	16,845,247	3,252,955
4	108,639,883	48,767,062	1,414,070
5	324,033,321	136,330,443	415,132
6	1,350,871	10,574,237	456,793
7	6,028,479	17,252,364	-
8	-	-	-
	<u>\$ 474,402,360</u>	<u>\$ 233,919,212</u>	<u>\$ 23,067,253</u>
	<u>Residential Real Estate</u>	<u>Consumer</u>	
By Performance Status:			
Performing	\$ 178,026,250	\$ 73,418,010	
Nonperforming	<u>3,227,120</u>	<u>1,318,396</u>	
	<u>\$ 181,253,370</u>	<u>\$ 74,736,406</u>	

GORHAM BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

2019

	<u>Commercial Real Estate</u>	<u>Other Commercial</u>	<u>Leases</u>
By Risk Rating:			
1	\$ -	\$ 1,866,943	\$ -
2	1,127,898	3,497,622	15,766,455
3	32,492,222	13,739,324	3,862,606
4	109,164,307	47,043,907	1,841,665
5	320,021,650	123,512,929	678,439
6	574,506	19,613,060	-
7	8,187,563	688,377	-
8	-	-	-
	<u>\$ 471,568,146</u>	<u>\$ 209,962,162</u>	<u>\$ 22,149,165</u>
	<u>Residential Real Estate</u>	<u>Consumer</u>	
By Performance Status:			
Performing	\$ 193,635,177	\$ 75,566,749	
Nonperforming	<u>3,866,517</u>	<u>1,337,010</u>	
	<u>\$ 197,501,694</u>	<u>\$ 76,903,759</u>	

The following table presents an aging analysis of past due loans as of March 31:

<u>2020</u>	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90 Days and Greater Past Due</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>	<u>Loans on Non- Accrual</u>
Residential real estate	\$ 1,133,535	\$ 315,667	\$ 3,018,575	\$ 4,467,777	\$ 176,785,593	\$ 181,253,370	\$ 3,227,120
Commercial real estate	1,130,579	603,500	2,776,364	4,510,443	469,891,917	474,402,360	5,190,363
Other commercial	-	53,556	937,685	991,241	232,927,971	233,919,212	991,241
Consumer loans	221,489	59,777	1,061,337	1,342,603	73,393,803	74,736,406	1,318,396
Leases	-	-	-	-	23,067,253	23,067,253	-
	<u>\$ 2,485,603</u>	<u>\$ 1,032,500</u>	<u>\$ 7,793,961</u>	<u>\$ 11,312,064</u>	<u>\$ 976,066,537</u>	<u>\$ 987,378,601</u>	<u>\$ 10,727,120</u>
<u>2019</u>	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90 Days and Greater Past Due</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>	<u>Loans on Non- Accrual</u>
Residential real estate	\$ 481,516	\$ 349,136	\$ 3,118,475	\$ 3,949,127	\$ 193,552,567	\$ 197,501,694	\$ 3,866,517
Commercial real estate	-	-	-	-	471,568,146	471,568,146	-
Other commercial	-	-	-	-	209,962,162	209,962,162	-
Consumer loans	367,057	299,511	942,744	1,609,312	75,294,447	76,903,759	1,337,010
Leases	-	-	-	-	22,149,165	22,149,165	-
	<u>\$ 848,573</u>	<u>\$ 648,647</u>	<u>\$ 4,061,219</u>	<u>\$ 5,558,439</u>	<u>\$ 972,526,487</u>	<u>\$ 978,084,926</u>	<u>\$ 5,203,527</u>

There were no loans 90 days past due and still accruing interest at March 31, 2020 and 2019.

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Notes to Consolidated Financial Statements

March 31, 2020 and 2019

The following table presents a summary of information pertaining to impaired loans by loan segment as of or for the years ended March 31:

<u>2020</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Investment</u>	<u>Interest Income Recognized</u>	<u>Interest Income Recognized on a Cash Basis</u>
With no related allowance						
Residential real estate	\$ 3,183,394	\$ 3,927,932	\$ -	\$ 3,417,919	\$ 7,422	\$ 7,422
Commercial real estate	4,541,810	5,090,096	-	2,809,350	-	-
Other commercial	937,685	945,983	-	301,969	-	-
Consumer	1,128,612	1,361,807	-	953,527	615	615
With related allowance						
Residential real estate	1,001,499	1,082,185	74,968	1,021,086	25,264	25,264
Commercial real estate	880,842	969,331	151,817	871,271	29,696	29,696
Other commercial	203,556	205,005	56,556	103,476	-	-
Consumer	189,784	201,665	60,127	381,900	34,456	34,456
Total						
Residential real estate	4,184,893	5,010,117	74,968	4,439,005	32,686	32,686
Commercial real estate	5,422,652	6,059,427	151,817	3,680,621	29,696	29,696
Other commercial	1,141,241	1,150,988	56,556	405,445	-	-
Consumer	1,318,396	1,563,472	60,127	1,335,427	35,071	35,071
<u>2019</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Investment</u>	<u>Interest Income Recognized</u>	<u>Interest Income Recognized on a Cash Basis</u>
With no related allowance						
Residential real estate	\$ 3,789,175	\$ 4,373,933	\$ -	\$ 4,986,928	\$ 49,699	\$ 49,699
Commercial real estate	2,237,515	2,237,515	-	4,557,461	-	-
Other commercial	-	-	-	-	5,007	5,007
Consumer	982,505	1,212,879	-	969,110	12,903	12,903
With related allowance						
Residential real estate	1,074,254	3,377,021	88,923	847,285	-	-
Commercial real estate	149,055	149,055	11,938	149,055	-	-
Other commercial	-	-	-	-	4,198	4,198
Consumer	482,117	507,996	86,152	553,071	-	-
Total						
Residential real estate	4,863,429	7,750,954	88,923	5,834,213	49,699	49,699
Commercial real estate	2,386,570	2,386,570	11,938	4,706,516	-	-
Other commercial	-	-	-	-	9,205	9,205
Consumer	1,464,622	1,720,875	86,152	1,522,181	12,903	12,903

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

GORHAM BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Troubled Debt Restructurings

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

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

Troubled debt restructured loans are considered impaired. As of March 31, 2020, there were no commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ended March 31, 2020 and 2019, no loan modifications were executed which constituted troubled debt restructurings.

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 modified within the previous twelve months for which there was a subsequent payment default during the years ended March 31, 2020 and 2019.

Interest Rate Swap Agreements

The Bank enters into interest rate swap agreements (swaps) with commercial banking customers to facilitate customer risk management strategies. Under these agreements, customers receive a fixed rate loan with a prepayment provision. The Bank receives variable rate interest through corresponding swap agreements with third-party financial institutions; the general terms of these swaps mirror those of the customer agreements. Both the third-party swap and the customer loan prepayment provision are treated as individual derivatives carried at fair value based on observable market prices. Because the derivatives have mirror-image contractual terms, their fair values offset one another on the consolidated balance sheets and changes in fair value offset one another on the consolidated statements of income.

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Notes to Consolidated Financial Statements

March 31, 2020 and 2019

At March 31, the Bank has the following outstanding swaps:

	<u>2020</u>	<u>2019</u>
Number outstanding	47	45
Maturity	2022-2035	2019-2035
Notional amount	\$ 99,518,261	\$ 90,588,180
Fair value – bank swaps with financial institutions	\$(10,809,573)	\$ 361,952
Fair value – bank swaps with customers	10,809,573	(361,952)

5. Loan Servicing

Loans serviced for others are not included on the accompanying consolidated balance sheets. The unpaid principal balance of serviced mortgage loans at March 31, 2020 and 2019 was \$72,588,565 and \$73,722,127, respectively.

The balance of capitalized servicing rights included in other assets at March 31, 2020 was \$165,418. Mortgage servicing rights of \$71,244 were capitalized and mortgage servicing rights of \$91,088 were amortized during 2020. Mortgage servicing rights included in other assets at March 31, 2019 totaled \$185,262. Mortgage servicing rights of \$36,613 were capitalized and mortgage servicing rights of \$103,748 were amortized during 2019.

The Bank sells loans under a program with the FHLB, the Mortgage Partnership Finance (MPF) program. These loans meet specific underwriting standards of the FHLB. As of March 31, 2020, and 2019, loans serviced for the FHLB included approximately \$70,608,340 and \$71,533,005, respectively, in outstanding loans funded with the MPF program and the maximum contingent liability related to this program was approximately \$2,678,437 and \$2,393,737, respectively.

6. Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows:

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 1,733,598	\$ 1,733,598
Buildings and improvements	22,324,398	22,010,742
Equipment	16,611,192	15,527,022
Construction in progress	<u>546,401</u>	<u>257,276</u>
	41,215,589	39,528,638
Accumulated depreciation	<u>(21,119,718)</u>	<u>(20,426,837)</u>
	<u>\$ 20,095,871</u>	<u>\$ 19,101,801</u>

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Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Pursuant to the terms of noncancelable lease agreements expiring through June 2029, pertaining to premises and equipment and other real estate rental property, future minimum rent commitments under various operating leases by fiscal year are as follows:

2021	\$ 903,863
2022	892,931
2023	893,682
2024	838,473
2025	387,365
Thereafter	<u>1,213,057</u>
	<u>\$ 5,129,371</u>

Total rent expense for the years ended March 31, 2020 and 2019 was \$1,023,528 and \$1,072,656, respectively.

7. Qualified Affordable Housing Project Investments

The Bank had nine investments in qualified affordable housing projects as of March 31, 2020 and 2019, with remaining amounts in other assets within the consolidated balance sheets of \$3,365,437 and \$2,770,687, respectively. The tax credits received under these investments were \$439,040 and \$418,052 for the years ended March 31, 2020 and 2019, respectively.

The Bank has a commitment to advance funds for qualified affordable housing project investments in the amount of \$1,126,702 and \$706,228 as of March 31, 2020 and 2019, respectively, included in accrued expenses and other liabilities.

8. Deposits

The aggregate amount of certificates of deposit in denominations of \$250,000 or more at March 31, 2020 and 2019 was \$90,572,742 and \$94,440,793, respectively.

At March 31, 2020, the scheduled fiscal year maturities of certificates of deposit are as follows:

2021	\$ 149,972,563
2022	14,522,067
2023	12,662,120
2024	4,544,111
2025	<u>4,376,112</u>
	<u>\$ 186,076,973</u>

9. Advances from Federal Home Loan Bank

Pursuant to collateral agreements with the FHLB, advances are collateralized by all stock in the FHLB, qualifying first mortgages, home equity loans and lines of credit, commercial real estate loans, and securities available-for-sale.

GORHAM BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

At March 31, 2020 and 2019, fixed rate advances of \$46,412,577 and \$77,815,730, respectively, carried interest rates ranging from 0.00% to 5.65%. At March 31, 2020 and 2019 there were no variable rate advances. At March 31, 2020 and 2019, the weighted average interest rates on advances were 1.15% and 2.44%, respectively.

The Bank also has \$1,000,000 available under a line of credit with the FHLB. There were no amounts outstanding on this line at March 31, 2020 or 2019.

Advances at March 31, 2020 have fiscal year maturity or earliest call dates as follows:

2021	\$ 39,000,000
2022	651,286
2023	204,700
2024	249,000
2025	729,730
Thereafter	<u>5,577,861</u>
	<u>\$ 46,412,577</u>

10. Other Lines of Credit

The Bank has lines of credit with PNC Bank, National Association in the amount of \$20,000,000, and JP Morgan Chase in the amount of \$10,000,000. There were no amounts outstanding at March 31, 2020 or 2019. The Bank also has Federal Reserve Discount Window line availability of \$5,000,000, also with no amounts outstanding at March 31, 2020 and 2019.

The Bank 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 March 31, 2020 and 2019, the amounts of available borrowing were approximately \$80,000,000 and \$72,000,000, respectively. There was \$25,000,000 outstanding at March 31, 2020 and no funds outstanding for 2019.

11. Income Taxes

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

	<u>2020</u>	<u>2019</u>
Current tax provision		
Federal	\$ 1,626,460	\$ 1,320,704
State	<u>178,175</u>	<u>167,521</u>
	<u>1,804,635</u>	1,488,225
Deferred federal tax benefit	<u>(250,506)</u>	<u>(167,958)</u>
Total income tax expense	<u>\$ 1,554,129</u>	<u>\$ 1,320,267</u>

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Notes to Consolidated Financial Statements

March 31, 2020 and 2019

The income tax provision differs from the expense that would result from applying federal statutory rates to income before income taxes principally because of state income taxes, amortization of low income housing tax credits and other tax credits and tax exempt income.

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

	<u>2020</u>	<u>2019</u>
Deferred tax assets		
Deferred fees	\$ 117,308	\$ 104,587
Allowance for loan losses	2,337,440	2,036,952
Pension benefits	2,975,413	1,445,231
Accrued interest	1,272	1,272
Pension, postretirement benefits and deferred compensation	530,228	315,593
Net unrealized losses on securities available-for-sale	-	90,473
Investment in limited partnerships	29,362	90,242
Other	<u>17,134</u>	<u>22,304</u>
	<u>6,008,158</u>	<u>4,106,654</u>
Deferred tax liabilities		
Depreciation	1,062,564	765,649
Mortgage servicing rights	34,718	38,886
Net unrealized gains on securities available-for-sale	1,676,661	-
Prepaid expenses	184,561	163,707
Clark Insurance – installment sale	<u>610,616</u>	<u>685,653</u>
	<u>3,569,121</u>	<u>1,653,895</u>
Net deferred tax asset	<u>\$ 2,439,037</u>	<u>\$ 2,452,759</u>

Reserves and undivided profits include \$3,100,629 representing an allocation for income tax bad debt deductions prior to 1988, for which deferred income taxes of \$651,132 have not been provided.

GAAP prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement and classification of amounts relating to uncertain tax positions, accounting for and disclosure of interest and penalties, accounting in interim periods, and disclosures. The Company is currently open to audit under the statutes of limitations for the years ended March 31, 2017 through 2020 by the Internal Revenue Service. It is the Company's policy to record interest and penalties to other noninterest expense if incurred.

12. Legal Contingencies

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

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Notes to Consolidated Financial Statements

March 31, 2020 and 2019

13. Minimum Regulatory Capital Requirements

The Company and the Bank are 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 Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their 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 require the Company and 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 average assets (as defined). In addition to these requirements, banking organizations must maintain a 2.5% capital conservation buffer consisting of Common Tier I Equity, subject to a transition schedule with full phase in by 2020. Management believes, as of March 31, 2020 and 2019, that the Company and the Bank met all capital adequacy requirements to which they are subject.

Under the 2018 Regulatory Relief Act, these capital requirements have been simplified for qualifying community banks and bank holding companies. In September 2019, the FDIC and the other federal bank regulators approved a final joint rule that permits a qualifying community banking organization to opt in to a simplified regulatory capital framework. A qualifying institution that elects to utilize the simplified framework must maintain a community bank leverage ratio (CBLR) in excess of 9%, and will thereby be deemed to have satisfied the generally applicable risk-based and other leverage capital requirements and (if applicable) the FDIC's prompt corrective action framework. In order to utilize the CBLR framework, in addition to maintaining a CBLR of over 9%, a community banking organization must have less than \$10 billion in total consolidated assets and must meet certain other criteria such as limitations on the amount of off-balance sheet exposures and on trading assets and liabilities. The CBLR is calculated by dividing Tier 1 capital by average total consolidated assets. The final rule became effective on January 1, 2020. The Company and Bank qualify and have elected to utilize the CBLR framework as of March 31, 2020.

As of March 31, 2020, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework. There are no conditions or events since the notification that management believes have changed the Bank's category. The consolidated actual capital amounts and ratios for the Company and the Bank as of March 31, 2020 and 2019 are also presented in the table.

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	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
March 31, 2020	(dollars in thousands)					
Tier I Capital to Average Total Consolidated Assets						
Company	\$ 125,743	10.08%	\$ 112,315	9.00%	N/A	
Bank	\$ 125,643	10.07%	\$ 112,315	9.00%	N/A	
March 31, 2019						
Total Capital to Risk Weighted Assets						
Company	\$ 127,628	12.90%	\$ 79,149	8.00%	N/A	
Bank	\$ 127,528	12.89%	\$ 79,149	8.00%	\$ 98,936	10.00%
Tier I Capital to Risk Weighted Assets						
Company	\$ 117,928	11.92%	\$ 59,362	6.00%	N/A	
Bank	\$ 117,828	11.91%	\$ 59,362	6.00%	\$ 79,149	8.00%
Common Equity Tier I Capital to Risk Weighted Assets						
Company	\$ 117,928	11.92%	\$ 44,521	4.50%	N/A	
Bank	\$ 117,828	11.91%	\$ 44,521	4.50%	\$ 64,309	6.50%
Tier I Capital to Average Assets						
Company	\$ 117,928	9.77%	\$ 48,279	4.00%	N/A	
Bank	\$ 117,828	9.76%	\$ 48,271	4.00%	\$ 60,338	5.00%

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Notes to Consolidated Financial Statements

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14. Employee Benefit Plans

Pension Plan

The Bank has a noncontributory defined benefit pension plan covering all employees who meet the eligibility requirements. To be eligible, an employee must be 21 years of age and have completed one year of service. This plan provides benefits based on the average of the consecutive five years of compensation within the last ten years of employment that produces the highest average. Certain reductions apply to participants who retire before age 65. During the year ended March 31, 2016, the Bank implemented a “soft freeze” to the defined benefit pension plan, under which no new employees hired after September 30, 2015 are eligible to participate in the plan.

The following table sets forth this plan’s funded status at March 31:

	<u>2020</u>	<u>2019</u>
Benefit obligation at March 31	\$ 29,293,950	\$21,851,824
Fair value of plan assets at March 31	<u>18,108,180</u>	<u>19,203,467</u>
Funded status	<u>\$ (11,185,770)</u>	<u>\$ (2,648,357)</u>
Accumulated benefit obligation	<u>\$ 24,809,600</u>	<u>\$18,083,149</u>
Accrued pension cost included in the accompanying consolidated balance sheet	<u>\$ 11,185,770</u>	<u>\$ 2,648,357</u>

Assumptions used in determining the actuarial present value of the projected benefit obligation at March 31 and for years ended are as follows:

	<u>2020</u>	<u>2019</u>
Discount rate – funded status	3.09%	3.79%
Discount rate – benefit cost	3.79%	3.93%
Rate of increase in future compensation levels	3.75%	3.75%
Expected long-term rate of return on assets	7.00%	7.00%

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The following table discloses additional information regarding the pension plan for the years ended March 31:

	<u>2020</u>	<u>2019</u>
Benefits paid	\$ 303,085	\$ 367,555
Benefit cost		
Service cost	\$ 1,141,732	\$ 1,149,142
Interest cost	832,879	756,137
Actual gain (loss) on assets	792,203	(847,439)
Amortization of net (gain) loss	<u>(1,515,982)</u>	<u>65,140</u>
Net periodic benefit cost	<u>\$ 1,250,832</u>	<u>\$ 1,122,980</u>

The service cost component of net periodic benefit cost is included in salaries and employee benefits in the consolidated statements of income. The components of net periodic benefit cost other than the service cost component are included in the line item "other" within noninterest expenses in the consolidated statements of income.

The following amounts were recognized in other comprehensive income for the pension plan:

	<u>2020</u>	<u>2019</u>
Net actuarial loss	\$ 7,874,389	\$ 1,342,369
Reclassification adjustment for amortization of net unrecognized actuarial loss	<u>(587,813)</u>	<u>(496,158)</u>
Subtotal	7,286,576	846,211
Tax effect	<u>(1,530,181)</u>	<u>(177,704)</u>
	<u>\$ 5,756,395</u>	<u>\$ 668,507</u>

The reclassification adjustment above is reclassified into the line item "other" within noninterest expenses in the consolidated statements of income.

Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive loss at March 31 are as follows:

	<u>2020</u>	<u>2019</u>
Unamortized net actuarial loss	\$14,168,635	\$ 6,882,059
Tax effect	<u>(2,975,413)</u>	<u>(1,445,232)</u>
Accumulated other comprehensive loss	<u>\$11,193,222</u>	<u>\$ 5,436,827</u>

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Notes to Consolidated Financial Statements

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The following amount is expected to be reclassified from accumulated other comprehensive loss and recognized in net periodic benefit cost in 2021:

Amortization of net actuarial loss	\$ <u>1,261,419</u>
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Future benefit payments are expected to be paid as follows for the next ten years:

Years ending March 31:

2021	\$ 766,576
2022	985,282
2023	962,555
2024	1,417,813
2025	969,764
2026 - 2030	5,376,021

The expected contribution to the pension plan for the year ending March 31, 2021 is \$2,500,000.

The Bank's pension plan weighted-average asset allocations by asset category are as follows:

<u>Asset Category</u>	<u>Plan Assets</u>	
	<u>2020</u>	<u>2019</u>
Equity securities	40.1%	47.1%
Fixed income	42.2%	43.6%
Cash and cash equivalents	17.7%	9.3%
Total	<u>100.0%</u>	<u>100.0%</u>

The defined benefit plan assets are invested with the goal of providing sufficient total return in the form of capital appreciation and current income to meet current and future distributions due to defined benefit plan participants. The Bank has given the Trustee the discretion to determine the appropriate strategic asset allocation versus plan liabilities, as governed by the Trust's Statement of Investment Objectives and Guidelines.

The objective of the defined benefit plan's investment managers is to maintain a well-diversified portfolio. To meet the stated objective, a significant portion of the portfolio is dedicated to equities in order to produce long-term capital appreciation. Another portion is committed to fixed income investments in order to provide a consistent level of income to service periodic distributions and to reduce overall portfolio volatility. Operating within certain parameters, the defined benefit plan's investment managers have discretion to allocate funds to equity, fixed income and cash depending on current conditions.

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The long-term investment objective is to be invested 30-70% in equity securities (equity mutual funds), 30-60% in debt securities (bond mutual funds), and 0-20% in cash and cash equivalents.

The long-term rate of return on plan assets assumption was set based on historical returns earned by equities and fixed income securities, adjusted to reflect expectations of future returns as applied to the plan's target allocation of asset classes. Equities and fixed income securities were assumed to earn real rates of return in the ranges of 5-9% and 2-6%, respectively. The long-term inflation rate was estimated to be 3%. When these overall return expectations are applied to the plan's target allocation, the expected rate of return is determined to be 7%, which is roughly the midpoint of the range of expected return.

401(k) Plan

The Bank has a 401(k) plan whereby substantially all employees participate in the plan. The Bank matches 25% of employee contributions up to 6% of salary. The Bank also makes an annual Safe-Harbor Qualified Contribution of 3% of eligible employee compensation. For employees who are not eligible to participate in the pension plan, an additional contribution of 2% is made by the bank when eligible for the 401(k) plan. For the years ended March 31, 2020 and 2019, expense attributable to the plan amounted to \$537,800 and \$505,600, respectively.

Compensation Plans

The Bank sponsored a SERP for a retired officer, and a fully-funded annuity was purchased to fulfill this obligation. The accrued liability at March 31, 2020 and 2019 was \$99,127 and \$106,522, respectively.

The Bank also sponsors a funded retention plan for certain other executive officers. The investments and accrued liability at March 31, 2020 and 2019 were \$4,141,073 and \$4,276,690, respectively.

The Bank also sponsors a SERP for certain other officers. The accrued liability at March 31, 2020 and 2019 was \$1,541,948 and \$1,741,094, respectively.

GORHAM BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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15. Noninterest Income and Expenses

The components of noninterest income and expenses which are in excess of 1% of total revenues (total interest and dividend income and noninterest income) and not shown separately in the consolidated statements of income are as follows for the years ended March 31:

	<u>2020</u>	<u>2019</u>
<u>Noninterest Income</u>		
Bank-owned life insurance income	\$ 663,222	536,011
<u>Noninterest Expenses</u>		
Electronic data processing expenses	4,340,026	3,906,314
Advertising and marketing	927,572	885,448
Furniture and equipment depreciation	1,343,936	1,257,513
Supplies, telephone and postage	721,046	700,077
Bank premise depreciation	552,199	552,074
Exams and audits	628,283	652,675
FDIC assessments	NA	546,909

NA – not applicable disclosure for year presented.

16. Related Party Transactions

In the ordinary course of business, the Bank has granted loans to executive officers, directors, and their affiliates amounting to \$543,794 and \$267,565 at March 31, 2020 and 2019, respectively. During the years ended March 31, 2020 and 2019, total principal advances and additions for changes in related party classification were \$365,300 and \$169,154, respectively, and total principal payments and deletions for changes in related party classification were \$89,071 and \$568,199, respectively.

Deposits from executive officers, directors, and their affiliates held by the Bank at March 31, 2020 and 2019 amounted to \$6,675,694 and \$3,003,710, respectively.

17. Financial Instruments with Off-Balance-Sheet Risk

The Bank 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, standby letters of credit, commercial letters of credit, risk-sharing commitments on certain sold loans, and swap agreements entered into for the benefit of commercial customers. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheets.

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

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Notes to Consolidated Financial Statements

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At March 31, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>Contract Amount</u>	
	<u>2020</u>	<u>2019</u>
Commitments to grant loans	\$ 48,684,214	\$ 35,846,508
Undisbursed construction loans	51,890,660	29,167,557
Unfunded commitments under lines of credit	184,830,191	167,079,743
Commercial and standby letters of credit	7,825,836	5,510,243
MPF credit enhancement obligation	2,678,437	2,393,737

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 Bank, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized, usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Substantially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments, if deemed necessary.

To reduce credit risk related to the use of credit-related financial instruments, the Bank might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Bank's credit evaluation of the customer. Collateral held varies, but may include cash, securities, accounts receivable, inventory, property, plant and equipment, and real estate.

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18. Fair Value

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP 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 organization'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, using a market approach, are summarized below.

	Fair Value Measurements at March 31, 2020, Using			
<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (<u>Level 1</u>)	Significant Other Observable Inputs (<u>Level 2</u>)	Significant Unobservable Inputs (<u>Level 3</u>)	
Securities available-for-sale:				
Mortgage-backed securities	\$ 168,465,097	\$ -	\$ 168,465,097	\$ -
Pension plan assets:				
Cash and cash equivalents	3,210,039	3,210,039	-	-
U.S. Government and federal agencies	1,114,129	-	1,114,129	-
Corporate bonds	843,967	-	843,967	-
Marketable equity securities	1,997,259	1,997,259	-	-
Mutual funds	2,468,751	2,468,751	-	-
Unit investment trusts				
International stock funds	433,790	433,790	-	-
Domestic stock funds	3,584,498	3,584,498	-	-
Bond funds	4,455,747	4,455,747	-	-
Securities held for deferred compensation plan	4,141,073	4,141,073	-	-

GORHAM BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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	<u>Fair Value Measurements at March 31, 2019, Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Securities available-for-sale:				
U.S. Government and federal agencies	\$ 6,028,311	\$ -	\$ 6,028,311	\$ -
Mortgage-backed securities	149,081,558	-	149,081,558	-
Pension plan assets:				
Cash and cash equivalents	1,519,826	1,519,826	-	-
U.S. Government and federal agencies	1,202,233	-	1,202,233	-
Corporate bonds	817,585	-	817,585	-
Marketable equity securities	1,852,044	1,852,044	-	-
Mutual funds	4,457,290	4,457,290	-	-
Unit investment trusts				
International stock funds	290,408	290,408	-	-
Domestic stock funds	4,688,750	4,688,750	-	-
Bond funds	4,375,331	4,375,331	-	-
Securities held for deferred compensation plan	4,276,690	4,276,690	-	-

Assets measured at fair value on a nonrecurring basis, using the market approach, are summarized below.

	<u>Fair Value Measurements at March 31, 2020, Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Impaired loans	\$ 1,808,312	\$ -	\$ 1,808,312	\$ -
Other real estate owned	199,508	-	199,508	-

	<u>Fair Value Measurements at March 31, 2019, Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Impaired loans	\$ 1,381,296	\$ -	\$ 1,381,296	\$ -
Other real estate owned	345,108	-	345,108	-

GORHAM BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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Certain collateral-dependent impaired loans were written down to their fair value of \$1,808,312 and \$1,381,296 as of March 31, 2020 and 2019, respectively, resulting in an impairment charge through the allowance for loan and lease losses.

Real estate acquired through foreclosure is recorded at fair value. The fair value of other real estate owned is primarily based on property appraisals and an analysis of similar properties currently available.



MANAGEMENT REPORT REGARDING STATEMENT OF MANAGEMENT'S RESPONSIBILITIES, COMPLIANCE WITH DESIGNATED LAWS AND REGULATIONS, AND MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Statement of Management's Responsibilities

The management of Gorham Bancorp, MHC and Subsidiaries (the Company), is responsible for preparing the Company's annual financial statements in accordance with U.S. generally accepted accounting principles; for designing, implementing, and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions to the Parent Company Only Financial Statements for Small Holding Companies (Form FR Y-9SP) (call report instructions); and for complying with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance with Designated Laws and Regulations

The management of the Company has assessed the Company's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on March 31, 2020. Based upon its assessment, management has concluded that the Company complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on March 31, 2020.

Management's Assessment of Internal Control over Financial Reporting

The Company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles and financial statements for regulatory purposes, i.e., call report instructions. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject



to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the call report instructions, as of March 31, 2020, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the *Internal Control - Integrated Framework* (COSO). Based upon its assessment, management has concluded that, as of March 31, 2020, the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the call report instructions, is effective based on the criteria established in COSO.

The Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the call report instructions, as of March 31, 2020, has been audited by Berry Dunn McNeil & Parker, LLC, an independent public accounting firm, as stated in their report dated June 22, 2020.

A handwritten signature in blue ink that reads "Stephen deCastro".

Stephen deCastro, President and Chief Executive Officer

A handwritten signature in blue ink that reads "Daniel P. Hunter".

Daniel P. Hunter, Chief Operating Officer and Chief Financial Officer