

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.

I, Edward J Sargood

Name of the Holding Company Director and Official

CFO, SVP of Finance

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]*

Signature of Holding Company Director and Official

9/27/21

Date of Signature

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. \_\_\_\_\_

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

**June 30, 2021**

Month / Day / Year

n/a

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

Reporter's Name, Street, and Mailing Address

Community Financial Mutual Holding Company

Legal Title of Holding Company

155 North Street

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

Bennington

VT

05201

City

State

Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Edward J Sargood

CFO, SVP of Finance

Name

Title

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Area Code / Phone Number / Extension

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Area Code / FAX Number

esargood@bennbank.com

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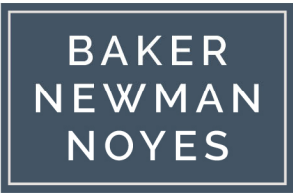
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .....	0=No 1=Yes	<input type="checkbox"/> <input checked="" type="checkbox"/>
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 .....	<input type="checkbox"/>	
2. a letter justifying this request has been provided separately ...	<input type="checkbox"/>	
NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."		

# **Community Financial, MHC and Subsidiary**

Consolidated Financial Statements

*Years Ended June 30, 2021 and 2020  
With Independent Auditors' Report*



**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Community Financial, MHC

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Community Financial, MHC and Subsidiary (the Company), which comprise the consolidated balance sheets as of June 30, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements, collectively, the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Financial, MHC and Subsidiary, as of June 30, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Baker Newman & Noyes LLC*

Manchester, New Hampshire  
September 21, 2021

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY****CONSOLIDATED BALANCE SHEETS**

June 30, 2021 and 2020

(In Thousands)

	<u>2021</u>	<u>2020</u>
<b><u>ASSETS</u></b>		
Cash and due from banks	\$ 4,153	\$ 3,806
Interest-bearing demand deposits with other banks	<u>34,597</u>	<u>20,296</u>
Cash and cash equivalents	38,750	24,102
Investments in available-for-sale securities	95,235	56,220
Federal Home Loan Bank stock, at cost	2,138	2,706
Loans, net	368,878	367,757
Premises and equipment	6,043	6,337
Accrued interest receivable	1,203	1,270
Deferred income tax asset, net	1,942	1,282
Cash surrender value of life insurance	9,634	9,020
Other assets	<u>5,307</u>	<u>6,344</u>
Total assets	<u>\$529,130</u>	<u>\$475,038</u>
<b><u>LIABILITIES AND EQUITY</u></b>		
Deposits:		
Noninterest-bearing	\$ 33,856	\$ 29,237
Interest-bearing	<u>398,161</u>	<u>339,167</u>
Total deposits	432,017	368,404
Federal Home Loan Bank advances	34,000	48,000
Other liabilities	<u>8,891</u>	<u>8,470</u>
Total liabilities	474,908	424,874
Equity:		
Retained earnings	54,326	49,685
Accumulated other comprehensive (loss) income	<u>(104)</u>	<u>479</u>
Total equity	<u>54,222</u>	<u>50,164</u>
Total liabilities and equity	<u>\$529,130</u>	<u>\$475,038</u>

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

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF INCOME

Years Ended June 30, 2021 and 2020

(In Thousands)

	<u>2021</u>	<u>2020</u>
Interest and dividend income:		
Interest and fees on loans	\$ 15,350	\$ 15,474
Interest on debt securities:		
Taxable	628	942
Tax-exempt	35	45
Dividends	73	166
Other interest	<u>34</u>	<u>82</u>
Total interest and dividend income	16,120	16,709
Interest expense:		
Interest on deposits	1,628	2,822
Interest on Federal Home Loan Bank advances	<u>857</u>	<u>1,045</u>
Total interest expense	<u>2,485</u>	<u>3,867</u>
Net interest and dividend income	13,635	12,842
Provision for loan losses	<u>—</u>	<u>1,559</u>
Net interest and dividend income after provision for loan losses	13,635	11,283
Noninterest income:		
Customer service fees	1,525	1,344
Mortgage banking activities	259	107
Increase in cash surrender value of life insurance	194	198
Other income	<u>190</u>	<u>486</u>
Total noninterest income	2,168	2,135
Noninterest expense:		
Salaries and employee benefits	5,003	5,276
Occupancy and equipment expense	1,560	1,401
Data processing expense	1,040	898
FDIC insurance expense	64	164
Other expense	<u>2,402</u>	<u>2,878</u>
Total noninterest expense	<u>10,069</u>	<u>10,617</u>
Income before income tax expense	5,734	2,801
Income tax expense	<u>1,093</u>	<u>506</u>
Net income	\$ <u>4,641</u>	\$ <u>2,295</u>

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

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Years Ended June 30, 2021 and 2020

(In Thousands)

	<u>2021</u>	<u>2020</u>
Net income	\$ 4,641	\$ 2,295
Other comprehensive (loss) income, net of tax:		
Net change in unrealized holding gains/losses on available-for-sale securities	<u>(583)</u>	<u>512</u>
Other comprehensive (loss) income, net of tax	<u>(583)</u>	<u>512</u>
Comprehensive income	<u>\$ 4,058</u>	<u>\$ 2,807</u>

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

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

Years Ended June 30, 2021 and 2020

(In Thousands)

	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive (Loss) Income</u>	<u>Total</u>
Balance, June 30, 2019	\$ 47,390	\$ (33)	\$ 47,357
Net income	2,295	—	2,295
Other comprehensive income, net of tax	<u>—</u>	<u>512</u>	<u>512</u>
Balance, June 30, 2020	49,685	479	50,164
Net income	4,641	—	4,641
Other comprehensive loss, net of tax	<u>—</u>	<u>(583)</u>	<u>(583)</u>
Balance, June 30, 2021	\$ <u>54,326</u>	\$ <u>(104)</u>	\$ <u>54,222</u>

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

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2021 and 2020

(In Thousands)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net income	\$ 4,641	\$ 2,295
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	893	574
Gain on sales and calls of available-for-sale securities	(144)	(1)
Change in deferred loan fees, net	1,343	(37)
Provision for loan losses	-	1,559
Depreciation and amortization of premises and equipment	444	421
Writedown of other real estate owned	-	50
Loans originated for sale	(4,113)	(2,523)
Proceeds from sales of loans	4,327	2,605
Net gain on loans sold	(214)	(82)
Decrease (increase) in accrued interest receivable	140	(29)
Increase in cash surrender value of life insurance	(194)	(198)
Increase (decrease) in other assets	(176)	589
Deferred income tax benefit	(505)	(342)
Increase in other liabilities	<u>421</u>	<u>1,555</u>
Net cash provided by operating activities	6,863	6,436
Cash flows from investing activities:		
Principal payments and maturities on available-for-sale securities	27,621	14,527
Purchases of available-for-sale securities	(81,492)	(23,193)
Proceeds from sale of available-for-sale securities	14,670	501
Redemptions of Federal Home Loan Bank stock	568	428
Purchase of other investments	(837)	(181)
Loan originations and principal collections, net	(3,177)	(37,768)
Recoveries of loans previously charged off	713	108
Capital expenditures of premises and equipment	(150)	(284)
Purchase of bank owned life insurance	(420)	(544)
Proceeds from sales of other real estate owned	<u>676</u>	<u>31</u>
Net cash used in investing activities	(41,828)	(46,375)
Cash flows from financing activities:		
Net increase in demand deposits, NOW, and savings accounts	67,001	57,113
Net (decrease) increase in time deposits	(3,388)	6,755
Proceeds from long-term Federal Home Loan Bank advances	-	6,000
Repayment of long-term Federal Home Loan Bank advances	<u>(14,000)</u>	<u>(12,900)</u>
Net cash provided by financing activities	49,613	56,968
Net increase in cash and cash equivalents	14,648	17,029
Cash and cash equivalents at beginning of year	<u>24,102</u>	<u>7,073</u>
Cash and cash equivalents at end of year	\$ <u>38,750</u>	\$ <u>24,102</u>



**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

Years Ended June 30, 2021 and 2020

(In Thousands)

	<u>2021</u>	<u>2020</u>
Supplemental disclosures:		
Interest paid	\$ 2,509	\$ 3,889
Income taxes paid	2,543	—
Loans transferred to other real estate owned	—	581
Due from broker	(1,374)	1,374

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

## COMMUNITY FINANCIAL, MHC AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2021 and 2020

#### 1. Nature of Operations

Community Financial, MHC (the Company) is a mutual holding company. The Bank of Bennington (the Bank), a federally chartered bank and the Company's wholly-owned subsidiary, is headquartered in Bennington, Vermont. The Bank provides a variety of financial services to individuals and businesses. Its primary deposit products are demand, savings and other time accounts and its primary lending products are real estate mortgage, consumer and commercial loans.

#### 2. Accounting Policies

The accounting and reporting policies of the Company and its subsidiary conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and predominant practices within the banking industry. The consolidated financial statements were prepared using the accrual basis of accounting. The significant accounting policies are summarized below to assist the reader in better understanding the consolidated financial statements and other data contained herein.

##### Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

##### Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. The Bank's financial statements include State Pine Investment Corporation and Monument Financial Planning, Inc., the Bank's wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

##### Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks and interest-bearing demand deposits with other banks.

##### Securities

Investments in debt securities are adjusted for amortization of premiums and accretion of discounts computed so as to approximate the interest method. Gains or losses on sales of investment securities are computed on a specific identification basis.

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**2. Accounting Policies (Continued)**

*Federal Home Loan Bank Stock*

Federal Home Loan Bank of Boston (FHLB) stock is carried at cost and can only be sold to the FHLB based on its current redemption policies. The Company reviews its investment in FHLB stock for impairment based on the ultimate recoverability of the Company's cost basis in the FHLB stock. Based on its most recent analysis of the FHLB as of June 30, 2021, management determined its investment was not impaired.

*Limited Partnership Investments*

The Company invests in qualified low-income housing developments through limited liability entities that generate low-income housing and rehabilitation tax credits. The Company has elected to account for these investments using the cost method whereby the initial cost of the investment in the limited liability entity is amortized in proportion to the tax credits allocated to the Company. The Company expects that this method of amortization produces a measurement that reasonably approximates the proportional amortization method. These investments are reported in other assets in the consolidated balance sheets in the amounts of \$484,000 and \$591,000 at June 30, 2021 and 2020, respectively. There were no outstanding commitments to these projects as of June 30, 2021 and 2020.

*Loans*

Loans receivable that management has the intent and ability to hold until maturity or payoff, are reported at their outstanding principal balances adjusted for amounts due to borrowers on unadvanced loans, any charge-offs, the allowance for loan losses and any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

Interest on loans is recognized on a simple interest basis.

Loan origination and commitment fees and certain direct origination costs are deferred, and the net amount amortized as an adjustment of the related loan's yield. The Company is amortizing these amounts over the contractual lives of the related loans.

Residential real estate loans are generally placed on nonaccrual when reaching 90 days past due or in process of foreclosure. All closed-end consumer loans 90 days or more past due and any equity line in the process of foreclosure are placed on nonaccrual status. Secured consumer loans are written down to realizable value and unsecured consumer loans are charged off upon reaching 120 or 180 days past due depending on the type of loan. Commercial real estate loans and commercial business loans and leases which are 90 days or more past due are generally placed on nonaccrual status, unless secured by sufficient cash or other assets immediately convertible to cash. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. A loan can be returned to accrual status when collectability of principal is reasonably assured and the loan has performed for a period of time, generally six months.

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**2. Accounting Policies (Continued)**

Cash receipts of interest income on impaired loans are credited to principal to the extent necessary to eliminate doubt as to the collectability of the net carrying amount of the loan. Some or all of the cash receipts of interest income on impaired loans is recognized as interest income if the remaining net carrying amount of the loan is deemed to be fully collectible. When recognition of interest income on an impaired loan on a cash basis is appropriate, the amount of income that is recognized is limited to that which would have been accrued on the net carrying amount of the loan at the contractual interest rate. Any cash interest payments received in excess of the limit and not applied to reduce the net carrying amount of the loan are recorded as recoveries of charge-offs until the charge-offs are fully recovered.

*Allowance for Loan Losses*

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

*General Component*

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, commercial real estate, commercial and consumer. Management uses rolling historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: historical loss experience related to economic cycle; levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions.

During the year ended June 30, 2021 the Company extended its look back period for its historical loss factor calculation for commercial real estate and commercial loans to capture historical loss data from 2011 to 2013 in order to adjust for the cyclical nature of losses. During the year ended June 30, 2020, the Company implemented a new qualitative factor within its allowance for loan losses calculation to capture risks related to the outbreak of the COVID-19 pandemic. In addition, to better represent the current trends, the Company removed one qualitative factor which was created to adjust for the cyclical nature of losses. There were no other changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during the years ended June 30, 2021 and 2020.

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

## COMMUNITY FINANCIAL, MHC AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2021 and 2020

#### 2. Accounting Policies (Continued)

*Residential real estate:* Loans in this segment include first lien mortgages and home equity loans, which can be either first or second lien mortgages, primarily collateralized by owner-occupied residential real estate. The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant subprime loans. 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 in this segment.

*Commercial real estate:* Loans in this segment are primarily income-producing properties throughout the southwestern part of Vermont and the Albany, New York area. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which, in turn, will have an effect on the credit quality in this segment. Management periodically obtains rent rolls and continually monitors the cash flows of these loans.

*Commercial:* Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment. Also included within this segment are PPP loans, which are 100% guaranteed by the SBA

*Consumer:* Loans in this segment are generally unsecured and repayment is dependent on the credit quality of the individual borrower.

#### *Allocated Component*

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for commercial, commercial real estate and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan are lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential real estate loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring (TDR) agreement.

The Company 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 TDR. All TDRs are initially classified as impaired. The Company has granted requests for payment deferrals to borrowers affected by the COVID-19 pandemic which are not classified as TDRs in accordance with Section 4013 of the CARES Act and regulatory guidelines for working with borrowers affected by COVID-19. The Company did not accrue interest on deferred payments. Deferred interest was recognized on a cash basis. Such loans are not considered delinquent if they are being paid in accordance with the modified terms.

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**2. Accounting Policies (Continued)**

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

*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.

*Other Real Estate Owned and In-Substance Foreclosure*

Other real estate owned includes properties acquired through foreclosure and properties classified as in-substance foreclosures. These properties are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure or transfer, establishing a new cost basis. Subsequent to foreclosure or transfer, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Any write-down from cost to estimated fair value required at the time of foreclosure or classification as in-substance foreclosure is charged to the allowance for loan losses. Expenses incurred in connection with maintaining these assets are included in other expenses, and subsequent write-downs and gains or losses recognized upon sale are included in other income.

The Company classifies commercial loans as in-substance repossessed or foreclosed if the Company receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place. An in-substance repossession or foreclosure occurs, and the Company is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan upon either: (1) obtaining legal title to the residential real estate property upon completion of a foreclosure; or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**2. Accounting Policies (Continued)**

*Premises and Equipment*

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Cost and related allowances for depreciation and amortization of premises and equipment retired or otherwise disposed of are removed from the respective accounts with any gain or loss included in income or expense. Depreciation and amortization are calculated principally on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the life of the lease or the estimated lives of the improvements.

*Loan Servicing*

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The Company recognizes a loan servicing fee for the difference between the principal and interest payment collected on the loan and the payment remitted to the investor. The capitalized mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing revenue.

*Advertising*

The Company directly expenses costs associated with advertising as they are incurred. Advertising expense amounted to \$132,000 and \$146,000 for the years ended June 30, 2021 and 2020, respectively.

*Income Taxes*

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled.

*Risk and Uncertainties*

The outbreak of the COVID-19 pandemic (virus or COVID-19) has adversely impacted a broad range of industries in which the Company's customers operate and could impair their ability to fulfill their financial obligations to the Company. The spread of the outbreak has caused significant disruptions in the U.S. economy and has disrupted banking and other financial activity in the areas in which the Company operates. The Company proactively implemented many operational changes to protect its employees and customers, which included the closing of the lobbies of its branches to customers, implementing banking by appointment and requiring employees to work remotely or from different locations. Through June 30, 2021, the Company has experienced neither a significant interruption in service provided to its customers nor a material decline in business activity as a result of the virus. The Company has accounted for the estimated impact of the COVID-19 pandemic on its loan portfolio through adjustments to certain qualitative factors utilized in determining the allowance for loan losses.

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**2. Accounting Policies (Continued)**

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and the Consolidated Appropriations Act (CAA) were signed into law on March 27, 2020 and December 27, 2020, respectively, as legislative economic stimulus packages. The goal of the CARES Act and the CAA was to prevent a severe economic downturn through various measures, including direct financial aid to American families, and economic stimulus to small businesses. While the states in and around the Company's market area are open fully, economic conditions have not returned to pre-COVID-19 levels, and many businesses remain closed or are operating at a reduced capacity. While management has taken measures to mitigate the impact of the pandemic, the long-term impact to the Company remains uncertain at the date of these consolidated financial statements. We are now seeing a resurgence of the virus in most, if not all states across the country as well as in our market areas. This resurgence may cause the states in the Company's market area to close businesses again. If this were to happen, the Company could experience a material adverse effect on its business, financial condition, results of operations and cash flows. While it is not possible to know the full extent of the impact that the virus and an economic shutdown will have on the Company's operations, the Company is disclosing the material items of which it is currently aware.

**Recent Accounting Pronouncements**

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU was issued to increase transparency and comparability among organizations by requiring reporting entities to recognize all leases, including operating, as lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2021, and for interim periods within fiscal years beginning after December 15, 2022. Early application is permitted. The Company anticipates that the adoption of this ASU will not have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of a reporting entity's portfolio. Additionally, this ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update will take effect for fiscal years beginning after December 15, 2022, and interim periods within these fiscal years. All entities may adopt the amendments in this ASU earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Company does not intend to early adopt. The Company is currently reviewing the amendments in this ASU to determine the impact on its consolidated financial statements.



## COMMUNITY FINANCIAL, MHC AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2021 and 2020

#### 2. Accounting Policies (Continued)

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization of Purchased Callable Debt Securities*. The amendments in this ASU shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company adopted ASU 2017-08 on July 1, 2020. The adoption of this ASU did not have a material impact on its 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*. The amendments in this ASU modify the disclosure requirements for fair value measurements for Level 3 assets and liabilities, and eliminate the requirement to disclose transfers between Levels 1 and 2 of the fair value hierarchy, among other modifications. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2019 and are to be applied prospectively for all new disclosures, and retrospectively for existing disclosures that were modified or removed. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. The Company adopted this ASU in the current fiscal year, and it did not have a material effect on its consolidated financial statements.

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**3. Investments in Available-For-Sale Securities**

Debt securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost basis of securities and their approximate fair values are as follows as of June 30:

	<u>Amortized Cost Basis</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(In Thousands)			
<u>Available-for-sale securities</u>				
2021:				
State and municipal	\$ 1,336	\$ 49	\$ –	\$ 1,385
Mortgage-backed securities	64,135	158	348	63,945
Asset-backed securities	<u>29,896</u>	<u>172</u>	<u>163</u>	<u>29,905</u>
	<u>\$ 95,367</u>	<u>\$ 379</u>	<u>\$ 511</u>	<u>\$ 95,235</u>
2020:				
State and municipal	\$ 1,339	\$ 63	\$ –	\$ 1,402
Mortgage-backed securities	36,450	720	25	37,145
Asset-backed securities	<u>17,825</u>	<u>70</u>	<u>222</u>	<u>17,673</u>
	<u>\$ 55,614</u>	<u>\$ 853</u>	<u>\$ 247</u>	<u>\$ 56,220</u>

The scheduled maturities of debt securities were as follows as of June 30, 2021:

	<u>Fair Value</u>
	(In Thousands)
Due after one year through five years	\$ 1,385
Due after five years through ten years	-
Mortgage-backed securities	63,945
Asset-backed securities	<u>29,905</u>
	<u>\$ 95,235</u>

During the year ended June 30, 2021, proceeds from the sales of available-for-sale securities amounted to \$14,670,000. Gross gains of \$191,000 and gross losses of \$47,000 were realized on the sales in 2021. During the year ended June 30, 2020, proceeds from the sale of available-for-sale securities amounted to \$501,000. Gross gains of \$6,000 and gross losses of \$5,000 were realized on the sales in 2020.

There were no securities of issuers whose aggregate carrying amount exceeded 10% of equity as of June 30, 2021.

As of June 30, 2021 and 2020, the total carrying value of securities pledged to secure public deposit accounts and for other purposes was \$2,539,000 and \$2,388,000, respectively.

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**3. Investments in Available-For-Sale Securities (Continued)**

The aggregate fair value and unrealized losses of securities that have been in a continuous unrealized loss position for less than twelve months and for twelve months or longer, and are not other-than-temporarily impaired, are as follows as of June 30:

	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>
	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
	(In Thousands)					
<u>2021</u>						
Mortgage-backed securities	\$ 42,570	\$ 341	\$ 2,343	\$ 7	\$ 44,913	\$ 348
Asset-backed securities	<u>8,687</u>	<u>54</u>	<u>6,391</u>	<u>109</u>	<u>15,078</u>	<u>163</u>
	<u>\$ 51,257</u>	<u>\$ 395</u>	<u>\$ 8,734</u>	<u>\$ 116</u>	<u>\$ 59,991</u>	<u>\$ 511</u>
<u>2020</u>						
Mortgage-backed securities	\$ 5,473	\$ 23	\$ 237	\$ 2	\$ 5,710	\$ 25
Asset-backed securities	<u>2,105</u>	<u>7</u>	<u>11,579</u>	<u>215</u>	<u>13,684</u>	<u>222</u>
	<u>\$ 7,578</u>	<u>\$ 30</u>	<u>\$ 11,816</u>	<u>\$ 217</u>	<u>\$ 19,394</u>	<u>\$ 247</u>

Management evaluates investments for other-than-temporary impairment based on the type of investment and the period of time the investment has been in an unrealized loss position. The unrealized losses at June 30, 2021 were comprised of forty mortgage-backed securities and thirty-one asset-backed securities. Management monitors the credit quality of the issuer, financial results and projections and current events relative to the issuer, and expected cash flows from the bonds on an ongoing basis. Management does not have the intention to sell and believes they will not be required to sell the securities for contractual, regulatory or liquidity reasons as of the reporting date. At June 30, 2021, management believes these investments are not other-than-temporarily impaired.

**4. Loans**

Loans consisted of the following as of June 30:

	<u>2021</u>	<u>2020</u>
	(In Thousands)	
Mortgage loans on real estate:		
Residential	\$261,604	\$258,970
Commercial	84,298	76,162
Commercial	28,805	36,376
Consumer	<u>617</u>	<u>648</u>
	375,324	372,156
Allowance for loan losses	(4,901)	(4,197)
Deferred fees, net	<u>(1,545)</u>	<u>(202)</u>
Net loans	<u>\$368,878</u>	<u>\$367,757</u>

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**4. Loans (Continued)**

The CARES Act authorized the U.S. Small Business Administration (SBA) to temporarily guarantee loans under a new 7(a) loan program called the Paycheck Protection Program (PPP). As a qualified SBA lender, the Company was automatically qualified to originate loans under the PPP. At June 30, 2021, the Company had 300 PPP loans outstanding, with an outstanding principal balance of \$18,481,000. The Company earns a processing fee on each PPP loan originated of 1% to 5%, depending on the size of the PPP loan. Origination fees are being amortized into interest income over the contractual life of the loan. Loans originated under the PPP generally have a two-year or five-year term depending on the origination date. The expected forgiveness amount is the amount of loan principal the lender and SBA reasonably expect the borrower to spend on payroll costs, mortgage interest, rent and utilities during the eight week or twenty-four week period after the loans are funded, as long as certain conditions are met regarding employee retention and compensation levels. PPP loans are included in the commercial loan class.

Certain directors and executive officers of the Company and companies in which they have significant ownership interest were customers of the Bank during the years ended June 30, 2021 and 2020. Total loans to such persons and their companies amounted to \$2,965,000 and \$2,633,000 as of June 30, 2021 and 2020, respectively.

The following tables set forth information regarding the allowance for loan losses by portfolio segment as of and for the years ended June 30:

	<u>Real Estate</u>					
	<u>Residential</u>	<u>Commercial</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
			(In Thousands)			
<b><u>2021</u></b>						
<b><u>Allowance for loan losses</u></b>						
Beginning balance	\$ 2,850	\$ 1,223	\$ 99	\$ 25	\$ –	\$ 4,197
Charge-offs	(2)	-	-	(7)	-	(9)
Recoveries	409	302	-	2	-	713
Provision (benefit)	<u>(746)</u>	<u>621</u>	<u>121</u>	<u>4</u>	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 2,511</u>	<u>\$ 2,146</u>	<u>\$ 220</u>	<u>\$ 24</u>	<u>\$ –</u>	<u>\$ 4,901</u>
Ending balance:						
Individually evaluated for impairment	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Collectively evaluated for impairment	<u>2,511</u>	<u>2,146</u>	<u>220</u>	<u>24</u>	<u>-</u>	<u>4,901</u>
	<u>\$ 2,511</u>	<u>\$ 2,146</u>	<u>\$ 220</u>	<u>\$ 24</u>	<u>\$ –</u>	<u>\$ 4,901</u>
<b><u>Loans</u></b>						
Ending balance:						
Individually evaluated for impairment	\$ 194	\$ 1,467	\$ –	\$ –	\$ –	\$ 1,661
Collectively evaluated for impairment	<u>261,410</u>	<u>82,831</u>	<u>28,805</u>	<u>617</u>	<u>-</u>	<u>373,663</u>
Total loans ending balance	<u>\$ 261,604</u>	<u>\$ 84,298</u>	<u>\$ 28,805</u>	<u>\$ 617</u>	<u>\$ –</u>	<u>\$ 375,324</u>

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2021 and 2020

**4. Loans (Continued)**

	<u>Real Estate</u>		<u>Commercial</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
	<u>Residential</u>	<u>Commercial</u>				
	<u>(In Thousands)</u>					
<b><u>2020</u></b>						
<b><u>Allowance for loan losses</u></b>						
Beginning balance	\$ 2,219	\$ 1,142	\$ 117	\$ 34	\$ 30	\$ 3,542
Charge-offs	(575)	(429)	—	(8)	—	(1,012)
Recoveries	51	52	4	1	—	108
Provision (benefit)	<u>1,155</u>	<u>458</u>	<u>(22)</u>	<u>(2)</u>	<u>(30)</u>	<u>1,559</u>
Ending balance	<u>\$ 2,850</u>	<u>\$ 1,223</u>	<u>\$ 99</u>	<u>\$ 25</u>	<u>\$ —</u>	<u>\$ 4,197</u>
Ending balance:						
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively evaluated for impairment	<u>2,850</u>	<u>1,223</u>	<u>99</u>	<u>25</u>	<u>—</u>	<u>4,197</u>
	<u>\$ 2,850</u>	<u>\$ 1,223</u>	<u>\$ 99</u>	<u>\$ 25</u>	<u>\$ —</u>	<u>\$ 4,197</u>
<b><u>Loans</u></b>						
Ending balance:						
Individually evaluated for impairment	\$ 204	\$ 1,930	\$ —	\$ —	\$ —	\$ 2,134
Collectively evaluated for impairment	<u>258,766</u>	<u>74,232</u>	<u>36,376</u>	<u>648</u>	<u>—</u>	<u>370,022</u>
Total loans ending balance	<u>\$ 258,970</u>	<u>\$ 76,162</u>	<u>\$36,376</u>	<u>\$ 648</u>	<u>\$ —</u>	<u>\$ 372,156</u>

The following tables set forth information regarding nonaccrual loans and past-due loans as of June 30:

	<u>30-59</u>	<u>60-89</u>	<u>90 +</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>	<u>90 Days</u>	<u>Non-</u>
	<u>Days</u>	<u>Days</u>	<u>Days</u>	<u>Past Due</u>	<u>Current</u>	<u>Loans</u>	<u>Past Due</u>	<u>accrual</u>
	<u>(In Thousands)</u>							
<b><u>2021</u></b>								
<b>Real estate:</b>								
Residential	\$ 48	\$ 450	\$ 145	\$ 643	\$ 260,961	\$ 261,604	\$ —	\$ 186
Commercial	104	247	712	1,063	83,235	84,298	—	1,467
Commercial	18	—	—	18	28,787	28,805	—	—
Consumer	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>617</u>	<u>617</u>	<u>—</u>	<u>—</u>
	<u>\$ 170</u>	<u>\$ 697</u>	<u>\$ 857</u>	<u>\$1,724</u>	<u>\$ 373,600</u>	<u>\$ 375,324</u>	<u>\$ —</u>	<u>\$1,653</u>

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2021 and 2020

**4. Loans (Continued)**

	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>90 + Days</u>	<u>Total Past Due</u>	<u>Total Current</u>	<u>Total Loans</u>	<u>90 Days or More Past Due and Accruing</u>	<u>Non- accrual Loans</u>
	(In Thousands)							
<u>2020</u>								
Real estate:								
Residential	\$ -	\$ 233	\$ 330	\$ 563	\$ 258,407	\$ 258,970	\$ -	\$ 531
Commercial	283	9	733	1,025	75,137	76,162	-	1,353
Commercial	9	-	-	9	36,367	36,376	-	-
Consumer	-	-	-	-	648	648	-	-
	<u>\$ 292</u>	<u>\$ 242</u>	<u>\$ 1,063</u>	<u>\$ 1,597</u>	<u>\$ 370,559</u>	<u>\$ 372,156</u>	<u>\$ -</u>	<u>\$ 1,884</u>

Information about loans that meet the definition of an impaired loan in Accounting Standards Codification (ASC) 310-10-35 is as follows as of and for the fiscal year ended June 30:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
	(In Thousands)				
<u>2021</u>					
With no related allowance recorded:					
Real estate loans:					
Residential	\$ 194	\$ 218	\$ -	\$ 199	\$ 11
Commercial	1,467	1,718	-	1,503	30
Commercial	-	-	-	-	-
Total impaired with no related allowance	1,661	1,936	-	1,702	41
With an allowance recorded:					
Real estate loans:					
Residential	-	-	-	-	-
Commercial	-	-	-	-	-
Commercial	-	-	-	-	-
Total impaired with an allowance recorded	-	-	-	-	-
Total					
Real estate loans:					
Residential	194	218	-	199	11
Commercial	1,467	1,718	-	1,503	30
Commercial	-	-	-	-	-
Total impaired loans	<u>\$ 1,661</u>	<u>\$ 1,936</u>	<u>\$ -</u>	<u>\$ 1,702</u>	<u>\$ 41</u>

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2021 and 2020

**4. Loans (Continued)**

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
	(In Thousands)				
<u>2020</u>					
With no related allowance recorded:					
Real estate loans:					
Residential	\$ 204	\$ 228	\$ –	\$ 216	\$ 8
Commercial	1,930	2,822	–	1,884	26
Commercial	<u>–</u>	<u>–</u>	<u>–</u>	<u>3</u>	<u>–</u>
Total impaired with no related allowance	2,134	3,050	–	2,103	34
With an allowance recorded:					
Real estate loans:					
Residential	–	–	–	–	–
Commercial	–	–	–	–	–
Commercial	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total impaired with an allowance recorded	–	–	–	–	–
Total					
Real estate loans:					
Residential	204	228	–	216	8
Commercial	1,930	2,822	–	1,884	26
Commercial	<u>–</u>	<u>–</u>	<u>–</u>	<u>3</u>	<u>–</u>
Total impaired loans	\$ <u>2,134</u>	\$ <u>3,050</u>	\$ <u>–</u>	\$ <u>2,103</u>	\$ <u>34</u>

Loans modified in a troubled debt restructuring during the years ended June 30, 2021 and 2020 were not significant. There were no loans that were modified as TDRs for which there was a payment default within one year of the date of modification during the years ended June 30, 2021 and 2020.

At June 30, 2021 and 2020, there were no commitments to lend additional funds to borrowers whose loans were modified in troubled debt restructurings.

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**4. Loans (Continued)**

The Company has granted COVID-19 related loan modifications in accordance with the provisions of Section 4013 of the CARES Act and applicable interagency regulatory guidance. These modifications generally included payment deferrals of principal and/or interest for a period of time with a balloon payment due upon maturity. As of June 30, 2021, one residential borrower with an outstanding balance of \$104,000, and one commercial borrower with an outstanding balance of \$504,000, were subject to a COVID-19 related loan modification agreement. The Company did not accrue interest on deferred payments. Deferred interest was recognized on a cash basis. Loans are not considered to be delinquent provided the borrower complies with the modified terms of the agreement. Management will continue to periodically assess each loan subject to modification for purposes of identifying potential problem loans that should be evaluated for impairment.

At June 30, 2021, there was no other real estate owned. At June 30, 2020, other real estate owned included one residential real estate property with a carrying value of \$94,000. There was one residential mortgage loan with a total recorded investment of \$63,000 collateralized by residential real estate in the process of foreclosure as of June 30, 2021. There were two residential mortgage loans with a total recorded investment of \$112,000 collateralized by residential real estate in the process of foreclosure as of June 30, 2020.

The following tables present the Company's loans by risk rating as of June 30:

	<u>Real Estate</u>				
	<u>Residential</u>	<u>Commercial</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
			(In Thousands)		
<b><u>2021</u></b>					
Grade:					
Pass	\$ —	\$ 79,970	\$ 28,297	\$ —	\$ 108,267
Special mention	555	1,729	—	—	2,284
Substandard	4	2,599	508	—	3,111
Doubtful	—	—	—	—	—
Not formally rated	<u>261,045</u>	<u>—</u>	<u>—</u>	<u>617</u>	<u>261,662</u>
Total	<u>\$261,604</u>	<u>\$ 84,298</u>	<u>\$28,805</u>	<u>\$ 617</u>	<u>\$375,324</u>



**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**4. Loans (Continued)**

	<u>Real Estate</u>		<u>Commercial</u> (In Thousands)	<u>Consumer</u>	<u>Total</u>
	<u>Residential</u>	<u>Commercial</u>			
<b><u>2020</u></b>					
Grade:					
Pass	\$ –	\$ 74,877	\$ 32,951	\$ –	\$107,828
Special mention	575	1,285	2,693	–	4,553
Substandard	40	–	732	–	772
Doubtful	–	–	–	–	–
Not formally rated	<u>258,355</u>	<u>–</u>	<u>–</u>	<u>648</u>	<u>259,003</u>
Total	<u>\$258,970</u>	<u>\$76,162</u>	<u>\$36,376</u>	<u>\$ 648</u>	<u>\$372,156</u>

*Credit Quality Information*

The Company utilizes a nine grade internal loan rating system for commercial real estate, construction and commercial loans as follows:

Loans rated 10 – 40: Loans in these categories are considered “pass” rated loans with low to average risk.

Loans rated 50: 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 60: 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 obligors and/or the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.

Loans rated 70: 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.

Loans rated 80: Loans in this category are considered uncollectible (loss) and of such little value that their continuance as loans is not warranted.

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial real estate, construction and commercial relationships with an exposure of \$150,000 or more. For residential real estate and consumer loans, the Company initially assesses the credit quality based upon borrowers’ ability to pay and subsequently monitors these loans based on borrowers’ payment activity.

The unpaid principal balances of mortgages and other loans serviced for others were \$28,247,000 and \$35,263,000 at June 30, 2021 and 2020, respectively. Capitalized servicing rights, included in other assets at June 30, 2021 and 2020, amounted to \$124,000 and \$157,000, respectively, which approximates fair value.

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**5. Premises and Equipment**

The following is a summary of premises and equipment as of June 30:

	<u>2021</u>	<u>2020</u>
	(In Thousands)	
Land	\$ 1,536	\$ 1,536
Buildings and improvements	7,042	6,977
Furniture and equipment	<u>4,564</u>	<u>4,479</u>
	13,142	12,992
Accumulated depreciation and amortization	<u>(7,099)</u>	<u>(6,655)</u>
	<u>\$ 6,043</u>	<u>\$ 6,337</u>

Total depreciation and amortization expense for the years ended June 30, 2021 and 2020 amounted to \$444,000 and \$421,000, respectively.

**6. Deposits**

The aggregate amount of time deposit accounts in denominations that meet or exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit of \$250,000 as of June 30, 2021 and 2020 amounted to \$12,236,000 and \$11,881,000, respectively.

At June 30, 2021 and 2020, the Company had IntraFI Network Deposits (formerly CDARS) in the amount of \$4,421,000 and \$5,150,000, respectively.

Deposits from related parties held by the Bank as of June 30, 2021 amounted to \$1,101,000, or 0.25% of total deposits. Deposits from related parties held by the Bank as of June 30, 2020 amounted to \$2,170,000, or 0.59% of total deposits.

For time deposits as of June 30, 2021, the scheduled maturities for each of the following five years ended June 30 are (in thousands):

2022		\$63,216
2023		13,181
2024		6,321
2025		5,045
2026		<u>2,365</u>
		<u>\$90,128</u>

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**7. Federal Home Loan Bank Advances**

Advances consist of funds borrowed from the Federal Home Loan Bank of Boston (FHLB).

Maturities of advances from the FHLB for the five fiscal years ending after June 30, 2021 are summarized as follows (in thousands):

2022	\$10,500
2023	8,500
2024	4,500
2025	8,500
2026	<u>2,000</u>
	<u>\$34,000</u>

Borrowings from the FHLB are secured by a list of specifically identified first mortgages secured by one to four family properties and other qualified assets. These assets as of June 30, 2021 and 2020 amounted to \$221,472,000 and \$234,540,000, respectively.

At June 30, 2021, the interest rates on FHLB advances ranged from 1.38% to 3.09%. At June 30, 2021, the weighted average interest rate on FHLB advances was 2.15%. At June 30, 2020, the interest rates on FHLB advances ranged from 1.38% to 3.09%. At June 30, 2020, the weighted average interest rate on FHLB advances was 2.03%.

**8. Income Taxes**

The components of income tax expense for the fiscal years ended June 30 are as follows:

	<u>2021</u>	<u>2020</u>
	(In Thousands)	
Current:		
Federal	\$ 1,577	\$ 837
State	<u>21</u>	<u>11</u>
	1,598	848
Deferred:		
Federal	<u>(505)</u>	<u>(342)</u>
	<u>(505)</u>	<u>(342)</u>
Total income tax expense	<u>\$ 1,093</u>	<u>\$ 506</u>

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**8. Income Taxes (Continued)**

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows for the years ended June 30:

	<u>2021</u> % of <u>Income</u>	<u>2020</u> % of <u>Income</u>
Federal income tax statutory rates	21.0%	21.0%
Increase (decrease) in tax resulting from:		
State taxes, net of federal tax benefit	0.3	0.3
Bank-owned life insurance	(0.7)	(1.5)
Tax-exempt income	(0.4)	(0.9)
Federal tax credits	(0.9)	(1.8)
Other	<u>(0.2)</u>	<u>1.0</u>
Effective tax rates	<u>19.1%</u>	<u>18.1%</u>

The Company had gross deferred tax assets and gross deferred tax liabilities as follows as of June 30:

	<u>2021</u> (In Thousands)	<u>2020</u> (In Thousands)
Deferred tax assets:		
Allowance for loan losses	\$1,029	\$ 881
Interest on non-performing loans	97	76
Write-down of other real estate owned	–	10
Net unrealized holding loss on available-for-sale securities	28	–
Accrued vacation	23	23
Defined benefit plan	93	110
Deferred compensation	411	372
Deferred directors' fees	336	307
Deferred incentive bonus	–	11
Deferred loan fees	353	80
Capital loss limitation	<u>10</u>	<u>10</u>
Gross deferred tax assets	2,380	1,880
Deferred tax liabilities:		
Depreciation	(225)	(249)
Servicing rights	(26)	(33)
Low-income housing investments net of basis adjustments	(164)	(165)
Prepaid expenses	(12)	(12)
Net unrealized holding gain on available-for-sale securities	–	(127)
Other	<u>(11)</u>	<u>(12)</u>
Gross deferred tax liabilities	<u>(438)</u>	<u>(598)</u>
Net deferred tax asset	<u>\$ 1,942</u>	<u>\$ 1,282</u>

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**8. Income Taxes (Continued)**

Management performs an evaluation of deferred tax assets for expected realization based upon estimates of future taxable income. Based on management's evaluation, no valuation allowance is deemed necessary for the deferred tax assets.

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties (recorded as a component of income tax expense, if any) based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. As of June 30, 2021 and 2020, there were no material uncertain tax positions related to federal and state income tax matters.

**9. Off-Balance Sheet Activities**

The Company is party to 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 originate loans, standby letters of credit and unadvanced funds on loans. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to originate loans are agreements to lend to a customer provided 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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include secured interests in mortgages, accounts receivable, inventory, property, plant and equipment and income-producing properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of June 30, 2021 and 2020, the maximum potential amount of the Company's obligation was \$824,000 and \$1,047,000 for financial and standby letters of credit, respectively. The Company's outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Company may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Company may take possession of the collateral, if any, securing the line of credit.

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**9. Off-Balance Sheet Activities (Continued)**

Notional amounts of financial instrument liabilities with off-balance sheet credit risk are as follows as of June 30:

	<u>2021</u>	<u>2020</u>
	(In Thousands)	
Commitments to grant loans	\$ 13,514	\$ 12,236
Unadvanced portions of loans:		
Consumer commitments under lines of credit	25,671	26,104
Commercial letters of credit	<u>824</u>	<u>1,047</u>
	<u>\$40,009</u>	<u>\$39,387</u>

Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Company enters into commitments to fund residential mortgage loans at specified rates and times in the future, with the intention that these loans will subsequently be sold in the secondary market. Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. The notional amount of undesignated mortgage loan commitments at June 30, 2021 and 2020 were \$459,000 and \$856,000, respectively, and the related derivatives were not significant.

**10. Fair Value Measurements**

ASC 820-10, *Fair Value Measurement – Overall*, provides a framework for measuring fair value under U.S. GAAP. This guidance also allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Company has not elected fair value treatment for any financial assets or liabilities.

In accordance with ASC 820-10, the Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. Government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**10. Fair Value Measurements (Continued)**

Level 3 – Valuations for assets and liabilities that are derived from other methodologies, including option pricing models, discounted cash flow models and similar techniques, are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and financial liabilities carried at fair value for June 30, 2021 and 2020.

Included in other assets are mutual funds for the participant accounts of the deferred directors' compensation plan. The mutual funds are generally classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

The Company's investment in mortgage-backed securities and other debt securities available-for-sale is generally classified within Level 2 of the fair value hierarchy. For these securities, the Company obtains fair value measurements from independent pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. treasury yield curve, trading levels, market consensus prepayment speeds, credit information and the instrument's terms and conditions.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Subsequent to inception, management only changes Level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalization and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows.

The Company's impaired loans are reported at the fair value of the underlying collateral less estimated costs to sell if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based upon appraisals of similar properties obtained from a third party. For Level 3 inputs, fair value is based upon management estimates of the value of the underlying collateral or the present value of the expected cash flows.

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2021 and 2020

**10. Fair Value Measurements (Continued)**

The following summarizes assets measured at fair value on a recurring basis as of June 30:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
	(In Thousands)			
<u>2021</u>				
Securities available for sale:				
State and municipal	\$ 1,385	\$ —	\$ 1,385	\$ —
Mortgage-backed securities	63,945	—	63,945	—
Asset-backed securities	29,905	—	29,905	—
Other assets:				
Mutual funds:				
U.S. government securities	453	453	—	—
Dividend growth	214	214	—	—
Large cap stocks	227	227	—	—
Middle cap stocks	195	195	—	—
Small cap stocks	92	92	—	—
Balanced	<u>460</u>	<u>460</u>	<u>—</u>	<u>—</u>
	<u>\$ 96,876</u>	<u>\$ 1,641</u>	<u>\$ 95,235</u>	<u>\$ —</u>
<u>2020</u>				
Securities available for sale:				
State and municipal	\$ 1,402	\$ —	\$ 1,402	\$ —
Mortgage-backed securities	37,145	—	37,145	—
Asset-backed securities	17,673	—	17,673	—
Other assets:				
Mutual funds:				
U.S. government securities	516	516	—	—
Dividend growth	213	213	—	—
Large cap stocks	17	17	—	—
Middle cap stocks	169	169	—	—
Small cap stocks	63	63	—	—
Balanced	<u>333</u>	<u>333</u>	<u>—</u>	<u>—</u>
	<u>\$ 57,531</u>	<u>\$ 1,311</u>	<u>\$ 56,220</u>	<u>\$ —</u>



**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**10. Fair Value Measurements (Continued)**

Under certain circumstances, the Company makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the consolidated balance sheets by caption and by level in the fair value hierarchy at June 30, 2021 and 2020 for which a nonrecurring change in fair value has been recorded:

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	(In Thousands)			
<u>2021</u>				
Impaired loans	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>
<u>2020</u>				
Impaired loans	\$ <u>6</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>6</u>

**11. Significant Group Concentrations of Credit Risk**

Most of the Company’s business activity is with customers located within the State of Vermont. There are no concentrations of credit to borrowers that have similar economic characteristics. The majority of the Company’s loan portfolio is comprised of loans collateralized by real estate located in the State of Vermont.

**12. Other Comprehensive (Loss) Income**

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

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**12. Other Comprehensive (Loss) Income (Continued)**

The components of other comprehensive (loss) income, included in equity, are as follows for the years ended June 30:

	<u>2021</u>	<u>2020</u>
	(In Thousands)	
Net unrealized holding (losses) gains on available-for-sale securities	\$ (594)	\$ 649
Reclassification adjustment for realized gains in net income <sup>(1)</sup>	<u>(144)</u>	<u>(1)</u>
Other comprehensive (loss) income before income tax effect	(738)	648
Income tax benefit (expense)	<u>155</u>	<u>(136)</u>
Other comprehensive (loss) income, net of tax	<u>\$ (583)</u>	<u>\$ 512</u>

<sup>(1)</sup> The realized available-for-sale securities gains have been reclassified out of accumulated other comprehensive income and have affected certain lines in the consolidated statements of income as follows: the pre-tax amount is included in other income; the tax expense in the amount of \$30,000 and \$0 for the years ended June 30, 2021 and 2020, respectively, is included in income tax expense; and the after-tax amount is included in net income.

Accumulated other comprehensive (loss) income as of June 30, 2021 and 2020 consists of net unrealized holding (losses) gains on available-for-sale securities, net of taxes.

**13. Regulatory Matters**

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

As of March 31, 2020, the Company has elected to opt-in to the Community Bank Leverage Ratio (CBLR) framework. Pursuant to the framework and consistent with section 201 of the *Economic Growth, Regulatory Relief and Consumer Protection Act*, as a qualifying community banking organization, the Bank is no longer required to calculate and report risk-based capital and relies on this simplified method of measuring capital adequacy calculated as Tier 1 Capital to average assets. The institution is considered to be "well-capitalized" and is deemed to have satisfied the risk-based and leverage capital requirements provided it maintains a CBLR greater than 9%.

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**13. Regulatory Matters (Continued)**

In March 2021, Section 4012 of the CARES Act provided temporary regulatory capital relief during the public health emergency which lowered the minimum leverage ratio to 8.0%. The lower ratio is expected to be in place until the public health emergency is lifted, or December 31, 2020, with an increase to 8.5% on January 2021 and to 9.0% on January 1, 2022.

Management believes, as of June 30, 2021 and 2020, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2021, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain a minimum CBLR as set forth in the table below:

	<u>Actual</u>		<u>Minimum Required</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	(Dollars in Thousands)			
<u>2021</u>				
CBLR	\$52,371	9.88%	\$45,047	8.5%
<u>2020</u>				
CBLR	\$48,573	10.74%	\$36,180	8.0%

**14. Employee Benefit Plans**

The Company provides pension benefits for its employees through membership in a noncontributory defined benefit pension plan provided as a participating employer in a Pentegra Defined Benefit Plan (Pentegra Plan). Contributions to the Pentegra Plan are based upon calculations made annually by the Pentegra Plan’s outside actuaries and are designed to fund the normal cost of pension benefits, the cost of preretirement death and disability benefits, and the amortization of unfunded accrued liabilities over various periods prescribed by law. Effective July 1, 2016, the Company suspended the Pentegra Plan whereby further benefits will no longer accrue. The required disclosures follow:

Name of Plan:	The Pentegra Defined Benefit Plan for Financial Institutions	
Plan’s Tax ID #:	13-5645888	
Plan Number:	333	
Plan Year End:	June 30, 2021	June 30, 2020
Actuarial Valuation Date:	July 1, 2020	July 1, 2019
Funded Target Attainment Percentage:	120.09% (Green)	123.73% (Green)

**COMMUNITY FINANCIAL, MHC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2021 and 2020

**14. Employee Benefit Plans (Continued)**

Employer Plan Year Contributions:	\$78,000	\$65,000
	Did not exceed 5%	Did not exceed 5%

Funding Improvement: The Company was not subject to any specific minimum contributions other than amounts determined by the Trustees of the Pentegra Plan that maintain the funded status of the Plan in accordance with the requirements of the *Pension Protection Act* (PPA) and the *Employee Retirement Income Security Act* (ERISA).

The Company has a 401(k) plan whereby substantially all employees participate in the Plan. The Plan provides for participants' contributions as a percentage of compensation, but not in excess of the maximum allowed under the Internal Revenue Code. Effective January 1, 2013, the Plan was amended whereby the Company will make a safe harbor matching contribution equal to 100% of participants' deferrals that do not exceed 3% of compensation, as defined in the Plan, plus 50% of participants' deferrals between 3% and 5% of compensation, as defined in the Plan. Effective January 1, 2017, the Plan was amended whereby the Company will make a fixed contribution equal to 5% of compensation of participants eligible to share in allocations. For the years ended June 30, 2021 and 2020, contributions to the Plan for the employer match amounted to \$264,000 and \$267,000, respectively.

The Company has entered into supplemental executive retirement agreements for five executive officers, including one agreement entered into during the year ended June 30, 2021. The agreements are not funded. The liability for the agreements amounted to \$1,112,000 and \$918,000 at June 30, 2021 and 2020, respectively. The expense for the years ended June 30, 2021 and 2020 was \$47,000 and \$40,000, respectively. Embedded within the agreements are additional change-in-control benefits for the five executive officers. The agreements provide for a lump-sum severance benefit upon termination following a change in control, as defined in the agreements. The executive officers may also elect to defer a percentage of his/her compensation, as defined in the agreements.

The Company has an executive salary continuation plan for three former executive officers. The Company purchased life insurance contracts on these officers and recognized a liability for the Company's postretirement benefit obligations under endorsement split-dollar life insurance arrangements. The accrued liability at June 30, 2021 and 2020 was \$1,074,000 and \$1,089,000, respectively. The effect of deferred compensation on the consolidated statements of income was expense of \$51,000 and \$68,000 for the years ended June 30, 2021 and 2020, respectively.

The Company has a deferred directors' compensation plan, which allows members of the Board of Directors to defer fees currently earned until a later date. Participants are fully vested in their accounts, which are maintained by the Company on their behalf. These participant accounts at June 30, 2021 and 2020 amounted to \$1,641,000 and \$1,311,000, respectively, and were included in other assets on the balance sheet with a corresponding liability included in other liabilities. Benefit payments are made to participants after retirement, based on their elections. The effect of deferred compensation on the consolidated statements of income was expense of \$117,000 and \$165,000 for the years ended June 30, 2021 and 2020, respectively.

## COMMUNITY FINANCIAL, MHC AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2021 and 2020

#### **14. Employee Benefit Plans (Continued)**

The Company has a Directors' Long Term Service Plan. This retirement plan rewards directors who have served at least ten years on the Board of Directors. The accrued liability at June 30, 2021 and 2020 was \$251,000 and \$267,000, respectively. The effect of the retirement plan on the consolidated statements of income was expense of \$21,000 and \$12,000 for the years ended June 30, 2021 and 2020, respectively.

#### **15. Other Investments**

The Company currently holds a 35% interest and 46.67% interest in two related Vermont Limited Liability Companies (the 2016 LLC and 2019 LLC) acquired in 2016 and 2019, respectively. An interest in the 2016 LLC was acquired by an initial capital contribution of \$500,000, and an interest in the 2019 LLC was acquired by an initial capital contribution of \$350,000. For the year ended June 30, 2020, the Company acquired a 30.00% interest in another related LLC with a capital contribution of \$50,000 (the 2021 LLC). The purpose of these LLCs is to acquire and redevelop certain real estate in Bennington, Vermont. The operating agreements between the Company and the LLCs dictate that all distributions, profits and losses will be allocated to each member of the LLCs in proportion to each member's interest. The investment in the LLCs is grouped in other assets in the Company's consolidated balance sheet and is accounted for as an equity method investment. The total combined recorded investment in the LLCs amounted to \$2,118,000 and \$1,281,000 as of June 30, 2021 and 2020, respectively. No investment income or loss was recognized for the years ended June 30, 2021 or 2020 as the amounts were immaterial.

The Company entered into a guarantee agreement with respect to a promissory note executed on June 14, 2019 between a third-party lender and the LLC. The maximum potential amount of future payments under the guarantee is approximately \$1,350,000, including accrued and unpaid interest and other acceptable charges incurred by the third party. This obligation of the Company shall continue until conditions in the promissory note are met. The Company has also guaranteed to the mortgage holder the operational cash flow of the project. This guarantee will continue until the mortgage is retired. The project carries a reserve for funding operational cash flows. In 2021, the Bank originated a \$648,000 line of credit to an entity related to the LLC to provide funds to the project on behalf of the other investors. The outstanding balance of the line of credit as of June 30, 2021 was \$497,000 and it is entirely secured by cash.

At June 30, 2021, there was a \$100,000 commitment to make additional contributions to the 2021 LLC.

#### **16. Subsequent Events**

Management has evaluated subsequent events through September 21, 2021, which is the date the financial statements were available to be issued. There were no subsequent events that require adjustment to or disclosure in the consolidated financial statements.

Report Item 2b:

The Bank of Bennington

Main Office: 155 North Street  
Bennington VT 05201  
802-442-8121

Branches: 78 Center Hill Rd  
Manchester Center VT 05255  
802-362-4760

3198 Route 7A  
Arlington, VT 05250  
802-375-2319

32 Phyllis Lane  
Bennington, VT 05201  
802-445-3123

143 Woodstock Ave  
Rutland, VT 05701  
802-774-5085

Form FR Y-6  
Community Financial MHC  
Fiscal Year Ending June 30, 2021

**Report Item 4: Insiders**

Name, City, State, Country				Principal Occupation if other than with Holding Company	Title & Position with Holding Company (include names of subsidiaries)	Title & Position with Other Businesses (include names of other businesses)	Percentage of Voting Shares in Holding Company	Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	List name s of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
<b>DIRECTORS</b>									
Ahearn	John	M.	Bennington, VT 05201	USA	CFO, Riefenburg Construction	Director	CFO, Riefenburg Construction		
Belnap	Florence	M.	Arlington, VT 05250	USA	CFO, Mack Molding	Director	CFO, Mack Molding		
Brown	James	D.	Greenwich, NY 12834	USA	President, The Bank of Bennington	Director & President (The Bank of Bennington)			
Brownlee	William	W.	Manchester Ctr, VT 05255	USA	Owner/Operator, H.N. Williams	Director	Owner/Operator, H.N.		
Cohen	Laurie	T.	Bennington, VT 05201	D	Partner, Nixon Peabody LLP	Director	Partner, Nixon Peabody LLP		
Kilburn	Michael	W.	Manchester Ctr, VT 05255	USA	Owner/Operator, Dees Electrical Services, Inc.	Director	Owner/Operator, Dees Electrical Services, Inc.		
Morrissey	Jason	P.	North Bennington, VT	USA	Attorney	Director	Owner/Operator, Jason P. Morrissey & Sarah E. Wilson - Attorneys At Law		
Nemlich	Pamela	A.	Manchester Ctr, VT 05255	USA	Recruiting and Compensation Manager, The Orvis Company,	Director	Recruiting and Compensation Manager, The Orvis Company,		
Salem	Justin	P.	Bennington, VT 05201	USA	Owner/Operator, Salem	Director	Owner/Operator, Salem		
<b>EXECUTIVE OFFICERS</b>									
Callahan	Mary	D.	Hoosick Falls, NY 12090	USA		Sr. VP Branch Administration (The Bank of Bennington)			
Dikeman	Scott	L.	Rutland, VT 05701	USA		Sr. VP of Lending (The Bank of Bennington)			
McLenithan	Shannon	L.	Bennington, VT 05201	USA		Sr. VP of Residential Lending (The Bank of Bennington)			
Sargood	Edward	J.	Hoosick Falls, NY 12090	USA		Sr. VP Finance, CFO (The Bank of Bennington)			

Form FRY-6

Community Financial Mutual Holding Company

155 North Street

Bennington, VT 05201

LEI: None Exists

Fiscal Year Ending June 30, 2021

