



# **BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

## **FINANCIAL STATEMENTS**

**December 31, 2016 and 2015**

**With Independent Auditor's Report**



## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Bar Harbor Savings and Loan Association

We have audited the accompanying financial statements of Bar Harbor Savings and Loan Association (the Association), which comprise the statements of financial condition as of December 31, 2016 and 2015, and the related statements of income, comprehensive income, retained income, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditor's 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 Bar Harbor Savings and Loan Association as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Board of Directors  
Bar Harbor Savings and Loan Association

***Change in Accounting Principle***

As disclosed in Note 1 to the financial statements, the accompanying 2015 financial statements were restated as follows: certificates of deposit were reclassified from securities available-for-sale to certificates of deposit in other banks, and the related unrealized gain on securities available-for-sale and deferred income taxes were reversed to record certificates of deposit at cost. Our opinion is not modified with respect to that matter.

*Berry Dunn McNeil & Parker, LLC*

Bangor, Maine  
March 6, 2017

**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Statements of Financial Condition**

**December 31, 2016 and 2015**

**ASSETS**

	<u>2016</u>	Restated <u>2015</u>
Cash and due from banks	\$ 68,507	\$ 75,566
Interest-bearing deposits in other banks	<u>4,777,072</u>	<u>3,742,982</u>
Total cash and cash equivalents	<b>4,845,579</b>	3,818,548
Certificates of deposit in other banks	<b>3,969,000</b>	4,767,000
Securities available-for-sale	<b>4,786,335</b>	5,043,074
Federal Home Loan Bank stock, at cost	<b>892,400</b>	731,000
Loans receivable, net of allowance for loan losses of \$769,000 in 2016 and \$691,000 in 2015	<b>83,911,967</b>	80,132,525
Premises and equipment, net	<b>1,229,717</b>	968,587
Accrued interest receivable	<b>217,134</b>	234,531
Other assets	<u>258,275</u>	<u>139,565</u>
Total assets	<b><u>\$100,110,407</u></b>	<b><u>\$ 95,834,830</u></b>

**LIABILITIES AND RETAINED INCOME**

Liabilities		
Savings and NOW deposits	\$ 28,223,025	\$ 26,623,287
Other time deposits	<u>48,291,820</u>	<u>49,094,480</u>
Total deposits	<b>76,514,845</b>	75,717,767
Borrowed funds	<b>13,999,474</b>	11,376,405
Accrued expenses and other liabilities	<u>74,222</u>	<u>61,142</u>
Total liabilities	<b><u>90,588,541</u></b>	<b><u>87,155,314</u></b>
Retained income		
Appropriated to general reserves	<b>3,726,205</b>	3,726,205
Unappropriated	<b>5,699,634</b>	4,798,716
Accumulated other comprehensive income		
Net unrealized appreciation on securities available-for-sale, net of deferred income taxes	<u>96,027</u>	<u>154,595</u>
Total retained income	<b><u>9,521,866</u></b>	<b><u>8,679,516</u></b>
Total liabilities and retained income	<b><u>\$100,110,407</u></b>	<b><u>\$ 95,834,830</u></b>

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

**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Statements of Income**

**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Interest income		
Loans receivable	\$ 3,691,721	\$ 3,440,640
Securities available-for-sale	280,532	292,994
Other interest-earning assets	<u>29,117</u>	<u>13,936</u>
Total interest income	<u>4,001,370</u>	<u>3,747,570</u>
Interest expense		
Deposits	975,493	1,051,329
Borrowed funds	<u>245,328</u>	<u>140,471</u>
Total interest expense	<u>1,220,821</u>	<u>1,191,800</u>
Net interest income	2,780,549	2,555,770
Provision for loan losses	<u>78,000</u>	<u>-</u>
Net interest income after provision for loan losses	<u>2,702,549</u>	<u>2,555,770</u>
Noninterest income		
Rental income	22,900	26,400
Gain on sale of securities available-for-sale	-	7,174
Other	<u>5,200</u>	<u>8,138</u>
Noninterest income	<u>28,100</u>	<u>41,712</u>
Noninterest expenses		
Salaries and benefits	747,233	643,584
Occupancy and equipment	131,612	124,630
Computer services	146,629	116,093
Deposit insurance	110,406	123,250
Regulatory assessment	13,507	8,460
Consulting fees	91,399	87,060
Professional fees	75,883	63,956
Advertising	49,772	52,782
Dues and subscriptions	11,280	10,655
Donations	7,935	8,845
Office supplies and postage	16,049	16,787
Other	<u>26,980</u>	<u>16,754</u>
Total noninterest expenses	<u>1,428,685</u>	<u>1,272,856</u>
Income before income taxes	1,301,964	1,324,626
Income tax expense	<u>401,046</u>	<u>427,010</u>
Net income	<u>\$ 900,918</u>	<u>\$ 897,616</u>

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

**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Statements of Comprehensive Income**

**Years Ended December 31, 2016 and 2015**

	<b><u>2016</u></b>	Restated <b><u>2015</u></b>
Net income	\$ <b><u>900,918</u></b>	\$ <u>897,616</u>
Other comprehensive loss, net of tax		
Net unrealized losses on available-for-sale securities arising during the period	<b>(88,740)</b>	(1,612)
Reclassification of gains included in net income	<u>-</u>	<u>(7,174)</u>
Net change in unrealized appreciation on available-for-sale securities	<b>(88,740)</b>	(8,786)
Deferred income taxes	<u>(30,172)</u>	<u>(2,987)</u>
Other comprehensive loss	<u>(58,568)</u>	<u>(5,799)</u>
Comprehensive income	\$ <b><u>842,350</u></b>	\$ <u>891,817</u>

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

**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Statements of Retained Income**

**Years Ended December 31, 2016 and 2015**

	Appropriated to General <u>Reserves</u>	<u>Unappropriated</u>	Net Unrealized Appreciation on Securities Available- for-Sale	<u>Total</u>
Balance, December 31, 2014, as previously reported	\$ 3,726,205	\$ 3,901,100	\$ 220,836	\$ 7,848,141
Adjustment to remove unrealized gains on certificates of deposit, net of deferred income taxes	<u>-</u>	<u>-</u>	<u>(60,442)</u>	<u>(60,442)</u>
Balance, December 31, 2014, restated	3,726,205	3,901,100	160,394	7,787,699
Net income	-	897,616	-	897,616
Other comprehensive loss	<u>-</u>	<u>-</u>	<u>(5,799)</u>	<u>(5,799)</u>
Balance, December 31, 2015, restated	3,726,205	4,798,716	154,595	8,679,516
Net income	-	<b>900,918</b>	-	<b>900,918</b>
Other comprehensive loss	<u>-</u>	<u>-</u>	<u>(58,568)</u>	<u>(58,568)</u>
Balance, December 31, 2016	<u><b>\$ 3,726,205</b></u>	<u><b>\$ 5,699,634</b></u>	<u><b>\$ 96,027</b></u>	<u><b>\$ 9,521,866</b></u>

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

**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Statements of Cash Flows**

**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>Restated 2015</u>
Cash flows from operating activities		
Net income	\$ 900,918	\$ 897,616
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	58,063	54,652
Amortization of premiums and discounts on securities available-for-sale	16,250	14,200
Provision for loan losses	78,000	-
Net gain on sale of securities available-for-sale	-	(7,174)
Deferred income taxes	(14,301)	29,524
Increase in accrued income receivable and other assets	(87,012)	(12,205)
Increase in accrued expenses and other liabilities	<u>43,252</u>	<u>49,463</u>
Net cash provided by operating activities	<u>995,170</u>	<u>1,026,076</u>
Cash flows from investing activities		
Net increase in loans to customers	(3,857,442)	(8,628,876)
Proceeds from sale, maturities, and principal repayments of available-for-sale securities	151,749	1,452,880
Purchase of Federal Home Loan Bank stock	(161,400)	(231,000)
Net decrease in certificates of deposit in other banks	798,000	548,000
Additions to premises and equipment	<u>(319,193)</u>	<u>(21,010)</u>
Net cash used by investing activities	<u>(3,388,286)</u>	<u>(6,880,006)</u>
Cash flows from financing activities		
Net increase in deposits	797,078	1,193,669
Net increase in short-term borrowings	-	1,000,000
Proceeds from long-term borrowings	3,000,000	5,000,000
Repayment of long-term borrowings	<u>(376,931)</u>	<u>(486,096)</u>
Net cash provided by financing activities	<u>3,420,147</u>	<u>6,707,573</u>
Net increase in cash and cash equivalents	1,027,031	853,643
Cash and cash equivalents, beginning of year	<u>3,818,548</u>	<u>2,964,905</u>
Cash and cash equivalents, end of year	<u>\$ 4,845,579</u>	<u>\$ 3,818,548</u>
Supplementary cash flow information		
Interest paid on deposits and borrowed funds	\$ 1,219,268	\$ 1,191,160
Income taxes paid, net of refunds received	484,944	381,155

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



# BAR HARBOR SAVINGS AND LOAN ASSOCIATION

## Notes to Financial Statements

December 31, 2016 and 2015

### **Nature of Operations**

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

### **1. Summary of Significant Accounting Policies**

#### **Use of Estimates**

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of financial condition and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties.

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

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

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

#### **Securities Available-for-Sale**

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

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of securities available-for-sale below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Association to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

# BAR HARBOR SAVINGS AND LOAN ASSOCIATION

## Notes to Financial Statements

December 31, 2016 and 2015

### **Federal Home Loan Bank (FHLB) Stock**

The Association is required to own shares of capital stock in the FHLB in order to borrow from the FHLB. The stock is carried at its cost and was not evaluated for impairment because (a) the Association did not estimate the fair value of that investment, as it is exempt from the requirement to estimate and disclose the fair value of financial instruments, and (b) the Association did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of that investment.

### **Loans**

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

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

### **Allowance for Loan Losses**

The Association revised its methodology for calculating the allowance for loan losses during 2015. Quantification of the effects of the change in allowance methodology on the December 31, 2015 financial statements is not reasonably determinable.

For the years ended December 31, 2016 and 2015, the allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated components, as further described below. The consumer portfolio segment is 100% secured by deposit balances and, accordingly, no allowance for loan losses deemed necessary.

### **General Component**

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following portfolio segments: residential real estate

# BAR HARBOR SAVINGS AND LOAN ASSOCIATION

## Notes to Financial Statements

December 31, 2016 and 2015

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

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

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

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

### Allocated Component

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

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

# BAR HARBOR SAVINGS AND LOAN ASSOCIATION

## Notes to Financial Statements

December 31, 2016 and 2015

of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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

### Unallocated Component

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

### Premises and Equipment

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

### Advertising

Advertising costs are expensed as incurred.

### Income Taxes

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

### Off-Balance-Sheet Instruments

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

### Change in Accounting Principle

The following adjustments have been made to the previously issued 2015 financial statements:

Certificates of deposit were reclassified from securities available-for-sale to certificates of deposit in other banks to reflect a change in accounting principle. Accordingly, unrealized gains on securities available-for-sale for certificates of deposit and the related deferred income taxes were reversed as certificates of deposit are carried at cost to align with regulatory reporting requirements.

In addition, deferred income taxes on deferred loan costs have been reclassified from other liabilities to other assets.

**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Notes to Financial Statements**

**December 31, 2016 and 2015**

As a result of these adjustments, the following amounts previously reported have been restated as of December 31, 2015:

	Accumulated Other Comprehensive <u>Income</u>	Certificates of Deposit in <u>Other Banks</u>	Securities Available-for- <u>Sale</u>	Other <u>Assets</u>	Other <u>Liabilities</u>
Balance as of December 31, 2015, as previously reported	\$ 197,299	\$ -	\$ 9,874,775	\$ 191,913	\$ 135,487
Reclassification of deferred income taxes on deferred loan costs	-	-	-	(74,345)	(74,345)
Adjustment to remove unrealized gains on certificates of deposit reported at cost, net of deferred income taxes	(42,704)	-	(64,701)	21,997	-
Reclassification of certificates of deposit from securities available-for-sale to certificates of deposit in other banks	<u>-</u>	<u>4,767,000</u>	<u>(4,767,000)</u>	<u>-</u>	<u>-</u>
Balance as of December 31, 2015, as restated	\$ <u>154,595</u>	\$ <u>4,767,000</u>	\$ <u>5,043,074</u>	\$ <u>139,565</u>	\$ <u>61,142</u>

These adjustments had no effect on net income for 2015 as previously reported.

**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Notes to Financial Statements**

**December 31, 2016 and 2015**

**2. Securities Available-for-Sale**

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b><u>December 31, 2016</u></b>				
U.S. government agency Residential mortgage-backed securities	\$ 89,353	\$ -	\$ 3,395	\$ 85,958
Municipal bonds	<u>182,549</u>	<u>-</u>	<u>7,273</u>	<u>175,276</u>
	<u>4,368,937</u>	<u>156,164</u>	<u>-</u>	<u>4,525,101</u>
	<u>\$ 4,640,839</u>	<u>\$ 156,164</u>	<u>\$ 10,668</u>	<u>\$ 4,786,335</u>
 <u>December 31, 2015</u>				
U.S. government agency Residential mortgage-backed securities	\$ 87,897	\$ -	\$ 3,563	\$ 84,334
Municipal bonds	<u>238,576</u>	<u>-</u>	<u>7,601</u>	<u>230,975</u>
	<u>4,482,365</u>	<u>245,400</u>	<u>-</u>	<u>4,727,765</u>
	<u>\$ 4,808,838</u>	<u>\$ 245,400</u>	<u>\$ 11,164</u>	<u>\$ 5,043,074</u>

There were no gross realized gains or losses on sales of securities available-for-sale for the year ended December 31, 2016. Gross realized gains on sales of securities available-for-sale for the year ended December 31, 2015 were \$7,174.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2016 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due within one year	\$ 377,804	\$ 379,201
Due after one year through five years	803,178	829,447
Due after five years through ten years	2,203,458	2,282,470
Due after ten years	1,073,850	1,119,941
Residential mortgage-backed securities	<u>182,549</u>	<u>175,276</u>
	<u>\$ 4,640,839</u>	<u>\$ 4,786,335</u>

**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Notes to Financial Statements**

**December 31, 2016 and 2015**

The following is a summary of gross unrealized losses and fair value of those investments with unrealized losses, aggregated by investment category and length of time the individual securities have been in an unrealized loss position, at December 31, 2016 and 2015.

	<b>2016</b>					
	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
U.S. government agency	\$ -	\$ -	\$ 85,958	\$ 3,395	\$ 85,958	\$ 3,395
Residential mortgage-backed securities	<u>-</u>	<u>-</u>	<u>175,276</u>	<u>7,273</u>	<u>175,276</u>	<u>7,273</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 261,234</u>	<u>\$ 10,668</u>	<u>\$ 261,234</u>	<u>\$ 10,668</u>
	<b>2015</b>					
	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
	U.S. government agency	\$ -	\$ -	\$ 84,334	\$ 3,563	\$ 84,334
Residential mortgage-backed securities	<u>-</u>	<u>-</u>	<u>230,975</u>	<u>7,601</u>	<u>230,975</u>	<u>7,601</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 315,309</u>	<u>\$ 11,164</u>	<u>\$ 315,309</u>	<u>\$ 11,164</u>

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

**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Notes to Financial Statements**

**December 31, 2016 and 2015**

**3. Loans Receivable and Allowance for Loan Losses**

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

	<u>2016</u>	<u>2015</u>
Residential real estate	\$77,574,942	\$74,736,548
Commercial	6,726,412	5,650,284
Consumer	<u>136,501</u>	<u>204,956</u>
Subtotal	<b>84,437,855</b>	80,591,788
Allowance for loan losses	<b>(769,000)</b>	(691,000)
Net deferred loan costs	<u>243,112</u>	<u>231,737</u>
Loans receivable, net	<b><u>\$83,911,967</u></b>	<b><u>\$80,132,525</u></b>

The following table present the allowance for loan losses and select loan information for the year ended December 31, 2016:

	<u>Residential Real Estate</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>2016 Total</u>
Allowance for loan losses					
Beginning balance	\$ 535,411	\$ 69,204	\$ -	\$ 86,385	\$ 691,000
Provision for loan losses	21,232	29,674	-	27,094	78,000
Loans charged off	-	-	-	-	-
Recoveries	-	-	-	-	-
Ending balance	<u>\$ 556,643</u>	<u>\$ 98,878</u>	<u>\$ -</u>	<u>\$ 113,479</u>	<u>\$ 769,000</u>
Individually evaluated for impairment	<u>\$ 30,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,000</u>
Collectively evaluated for impairment	<u>\$ 526,643</u>	<u>\$ 98,878</u>	<u>\$ -</u>	<u>\$ 113,479</u>	<u>\$ 739,000</u>
Loans					
Ending balance	<u>\$ 77,574,942</u>	<u>\$ 6,726,412</u>	<u>\$ 136,501</u>		<u>\$ 84,437,855</u>
Individually evaluated for impairment	<u>\$ 865,078</u>	<u>\$ 198,542</u>	<u>\$ -</u>		<u>\$ 1,063,620</u>
Collectively evaluated for impairment	<u>\$ 76,709,864</u>	<u>\$ 6,527,870</u>	<u>\$ 136,501</u>		<u>\$ 83,374,235</u>



# BAR HARBOR SAVINGS AND LOAN ASSOCIATION

## Notes to Financial Statements

**December 31, 2016 and 2015**

The following table presents the change in the allowance for loan losses for the year ended December 31, 2015:

	<u>Residential Real Estate</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>2015 Total</u>
Allowance for loan losses					
Beginning balance	\$ 594,481	\$ 83,533	\$ -	\$ 12,986	\$ 691,000
Provision for (reduction in) loan losses	(59,070)	(14,329)	-	73,399	-
Loans charged off	-	-	-	-	-
Recoveries	-	-	-	-	-
	<u>535,411</u>	<u>69,204</u>	<u>-</u>	<u>86,385</u>	<u>691,000</u>
Ending balance	<u>\$ 535,411</u>	<u>\$ 69,204</u>	<u>\$ -</u>	<u>\$ 86,385</u>	<u>\$ 691,000</u>
Individually evaluated for impairment	<u>\$ 30,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,000</u>
Collectively evaluated for impairment	<u>\$ 505,411</u>	<u>\$ 69,204</u>	<u>\$ -</u>	<u>\$ 86,385</u>	<u>\$ 661,000</u>
Loans					
Ending balance	<u>\$ 74,736,548</u>	<u>\$ 5,650,284</u>	<u>\$ 204,956</u>		<u>\$ 80,591,788</u>
Individually evaluated for impairment	<u>\$ 758,214</u>	<u>\$ 942,544</u>	<u>\$ -</u>		<u>\$ 1,700,758</u>
Collectively evaluated for impairment	<u>\$ 73,978,334</u>	<u>\$ 4,707,740</u>	<u>\$ 204,956</u>		<u>\$ 78,891,030</u>

The Association classifies loans in each loan category by credit risk exposure. The following tables present the credit risk profile by creditworthiness category as of December 31, 2016 and 2015. The categories are as follows:

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

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

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

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

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

**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Notes to Financial Statements**

**December 31, 2016 and 2015**

Loss: 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 Association reviews the ratings on all commercial and residential loans.

The following tables present loans by risk rating as of December 31, 2016 and 2015:

	<u>Residential Real Estate</u>	<u>Commercial</u>	<u>Consumer</u>
<u>2016</u>			
Satisfactory	\$ 76,709,864	\$ 5,810,451	\$ 136,501
Satisfactory - watch	865,078	-	-
Special mention	-	717,419	-
Substandard	-	<u>198,542</u>	-
Total	<u>\$ 77,574,942</u>	<u>\$ 6,726,412</u>	<u>\$ 136,501</u>
<u>2015</u>			
Satisfactory	\$ 73,978,334	\$ 4,707,740	\$ 204,956
Satisfactory - watch	758,214	-	-
Special mention	-	739,236	-
Substandard	-	<u>203,308</u>	-
Total	<u>\$ 74,736,548</u>	<u>\$ 5,650,284</u>	<u>\$ 204,956</u>

The following tables present an aging analysis of loans as of December 31, 2016 and 2015:

	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90 Days or Greater Past Due</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>	<u>Loans on Nonaccrual</u>
<u>2016</u>							
Residential real estate	\$ 288,855	\$ -	\$ -	\$ 288,855	\$ 77,286,087	\$ 77,574,942	\$ 388,866
Commercial	34,106	-	-	34,106	6,692,306	6,726,412	-
Consumer	-	-	-	-	136,501	136,501	-
Total	<u>\$ 322,961</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 322,961</u>	<u>\$ 84,114,894</u>	<u>\$ 84,437,855</u>	<u>\$ 388,866</u>
<u>2015</u>							
Residential real estate	\$ 150,648	\$ -	\$ -	\$ 150,648	\$ 74,585,900	\$ 74,736,548	\$ 625,417
Commercial	-	-	-	-	5,650,284	5,650,284	-
Consumer	-	-	-	-	204,956	204,956	-
Total	<u>\$ 150,648</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 150,648</u>	<u>\$ 80,441,140</u>	<u>\$ 80,591,788</u>	<u>\$ 625,417</u>

There were no loans 90 days past due and still accruing interest at December 31, 2016 or 2015.

# BAR HARBOR SAVINGS AND LOAN ASSOCIATION

## Notes to Financial Statements

December 31, 2016 and 2015

The following tables present a summary of information pertaining to impaired loans by loan category as of December 31, 2016 and 2015:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>
<u>2016</u>			
With no related allowance			
Residential real estate	\$ 708,096	\$ 708,096	\$ -
Commercial	198,542	198,542	-
With an allowance recorded			
Residential real estate	156,982	156,982	30,000
Total			
Residential real estate	865,078	865,078	30,000
Commercial	198,542	198,542	-
<u>2015</u>			
With no related allowance			
Residential real estate	\$ 589,696	\$ 589,696	\$ -
Commercial	942,544	942,544	-
With an allowance recorded			
Residential real estate	168,518	168,518	30,000
Total			
Residential real estate	758,214	758,214	30,000
Commercial	942,544	942,544	-

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

**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Notes to Financial Statements**

**December 31, 2016 and 2015**

**4. Premises and Equipment**

Components of premises and equipment included in the statements of financial condition at December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Cost		
Land and improvements	\$ 128,498	\$ 128,498
Buildings and improvements	1,610,947	1,291,754
Furniture, fixtures, and equipment	<u>150,382</u>	<u>150,382</u>
	1,889,827	1,570,634
Less accumulated depreciation	<u>660,110</u>	<u>602,047</u>
Net book value	<u>\$1,229,717</u>	<u>\$ 968,587</u>

**5. Deposits**

The aggregate amount of certificates of deposit, each with a minimum denomination of \$250,000, was \$5,200,239 and \$4,108,527 at December 31, 2016 and 2015, respectively.

At December 31, 2016, scheduled maturities of certificates of deposit are as follows:

2017	\$ 13,856,714
2018	8,120,263
2019	9,127,126
2020	9,649,619
2021	7,478,990
2022	<u>59,108</u>
	<u>\$ 48,291,820</u>

# BAR HARBOR SAVINGS AND LOAN ASSOCIATION

## Notes to Financial Statements

December 31, 2016 and 2015

### 6. Borrowed Funds

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

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

	<u>Amount</u>	<u>Interest Rate</u>
2018	\$ 2,000,000	2.05%
2019	2,000,000	1.89% - 1.99%
2020	4,999,474	1.31% - 1.99%
2021	1,000,000	1.85%
Thereafter	<u>4,000,000</u>	1.49% - 1.75%
Total	<u>\$13,999,474</u>	

The Association has a federal funds liquidity line of credit with Bankers Bank Northeast, of \$910,000 and \$700,000 at December 31, 2016 and 2015, respectively. No advances were outstanding at December 31, 2016 and 2015.

### 7. Income Taxes

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

	<u>2016</u>	<u>2015</u>
Current tax provision		
Federal	\$ 398,509	\$ 380,295
State	<u>16,838</u>	<u>17,191</u>
	415,347	397,486
Deferred federal tax (benefit) expense	<u>(14,301)</u>	<u>29,524</u>
	<u>\$ 401,046</u>	<u>\$ 427,010</u>

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 and tax-exempt interest.

# BAR HARBOR SAVINGS AND LOAN ASSOCIATION

## Notes to Financial Statements

December 31, 2016 and 2015

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

	<u>2016</u>	<u>2015</u>
Deferred tax assets		
Allowance for loan losses	\$ <u>261,460</u>	\$ <u>234,940</u>
Deferred tax liabilities		
Accelerated tax depreciation	(14,647)	(17,937)
Deferred loan costs	(40,786)	(25,277)
Allowance for unrealized gains on securities available-for-sale	<u>(49,469)</u>	<u>(79,640)</u>
Total deferred tax liabilities	<u>(104,902)</u>	<u>(122,854)</u>
Net deferred tax asset	\$ <u>156,558</u>	\$ <u>112,086</u>

Appropriated retained income includes \$233,793, representing an allocation for income tax bad debt deductions prior to 1988, for which a deferred income tax liability of \$79,000 has not been provided as it will not be payable as long as the Association remains a qualified financial institution.

### 8. Financial Instruments with Off-Balance-Sheet Risk

The Association is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and lines of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statements of financial condition.

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

At December 31, 2016 and 2015, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>2016</u>	<u>2015</u>
Commitments to extend credit	\$ 357,250	\$ 681,000
Unadvanced commitments under lines of credit	2,767,138	2,454,854

# BAR HARBOR SAVINGS AND LOAN ASSOCIATION

## Notes to Financial Statements

December 31, 2016 and 2015

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Association, is based on management's credit evaluation of the customer.

### 9. Significant Group Concentrations of Credit Risk

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

The Association's policy for requiring collateral is to obtain security in excess of the amount borrowed. The amount of collateral obtained is based on management's credit evaluation of the borrower. The Association requires appraisals of real property held as collateral. For consumer loans, collateral is for an equal deposit balance held by the Association. Collateral held for commercial loans consists primarily of real estate.

### 10. Retirement Plan

The Association has established a 401(k) plan in which employees meeting eligibility requirements can participate. The plan allows employees to contribute, subject to certain limits based on federal tax laws. The Association also makes a 10% of compensation profit sharing contribution to the plan for eligible participants. There was \$50,142 and \$43,643 of expense attributable to the plan in 2016 and 2015, respectively.

### 11. Related Party Transactions

The Association has entered into transactions with its employees, directors, and officers. The aggregate amount of loans to, and deposits from, such related parties at December 31, 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Loans	\$ 2,117,040	\$ 2,150,357
Deposits	1,355,487	1,107,098

# BAR HARBOR SAVINGS AND LOAN ASSOCIATION

## Notes to Financial Statements

December 31, 2016 and 2015

### 12. Regulatory Matters

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

Effective January 1, 2015, the Association implemented the Basel III regulatory framework. These new rules and framework revised minimum capital requirements and adjusted prompt corrective action thresholds. Under the Basel III regulatory framework, the quantitative measures established by regulation to ensure capital adequacy require the Association to maintain minimum amounts and ratios (set forth in the following table) of total, Tier I capital and common equity Tier I (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to adjusted total assets (as defined). Regulatory capital requirements limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% above its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in from January 1, 2016 through January 1, 2019, when the full capital conservation buffer requirement will be effective. As of December 31, 2016, the Association had a capital conservation buffer of 11.1% of risk-weighted assets, which was in excess of the phased-in regulatory requirement of 0.625%. Management believes, as of December 31, 2016 and 2015, that the Association meets all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent notification from the Office of the Comptroller of the Currency categorized the Association as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Association must maintain minimum total risk-based, Tier I risk-based, common equity Tier I and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Association's category.



**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Notes to Financial Statements**

**December 31, 2016 and 2015**

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

	<u>Actual</u>		<u>Minimum for capital adequacy purposes</u>		<u>Minimum to be well capitalized for prompt corrective action provisions</u>	
	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>
<u>2016</u>						
Tangible capital, and ratio to adjusted total assets	9.4%	\$ <u>9,426,000</u>	1.5%	\$ <u>1,505,820</u>		
Tier I (core) capital, and ratio to adjusted total assets	9.4%	\$ <u>9,426,000</u>	4.0%	\$ <u>4,015,520</u>	5.0%	\$ <u>5,019,400</u>
Common equity Tier I capital, and ratio to risk-weighted assets	18.0%	\$ <u>9,426,000</u>	4.5%	\$ <u>2,356,740</u>	6.5%	\$ <u>3,404,180</u>
Tier I capital, and ratio to risk-weighted assets	18.0%	\$ <u>9,426,000</u>	6.0%	\$ <u>3,142,320</u>	8.0%	\$ <u>4,189,760</u>
Total risk-based capital, and ratio to risk-weighted assets	19.1%	\$ <u>10,003,000</u>	8.0%	\$ <u>4,189,760</u>	10.0%	\$ <u>5,237,200</u>

**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Notes to Financial Statements**

**December 31, 2016 and 2015**

	<u>Actual</u>		<u>Minimum for capital adequacy purposes</u>		<u>Minimum to be well capitalized for prompt corrective action provisions</u>	
	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>
<u>2015</u>						
Tangible capital, and ratio to adjusted total assets	9.0%	\$ <u>8,525,000</u>	1.5%	\$ <u>1,411,290</u>		
Tier I (core) capital, and ratio to adjusted total assets	9.0%	\$ <u>8,525,000</u>	4.0%	\$ <u>3,763,440</u>	5.0%	\$ <u>4,704,300</u>
Common equity Tier I capital, and ratio to risk-weighted assets	17.6%	\$ <u>8,525,000</u>	4.5%	\$ <u>2,166,390</u>	6.5%	\$ <u>3,129,230</u>
Tier I capital, and ratio to risk-weighted assets	17.6%	\$ <u>8,525,000</u>	6.0%	\$ <u>2,888,520</u>	8.0%	\$ <u>3,851,360</u>
Total risk-based capital, and ratio to risk-weighted assets	18.8%	\$ <u>9,065,000</u>	8.0%	\$ <u>3,851,360</u>	10.0%	\$ <u>4,814,200</u>

**BAR HARBOR SAVINGS AND LOAN ASSOCIATION**

**Notes to Financial Statements**

**December 31, 2016 and 2015**

**13. Fair Value Measurement**

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, "*Fair Value Measurement*," defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

**Level 2:** Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

**Level 3:** Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

**Assets at Fair Value as of December 31, 2016**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government agency	\$ -	\$ 85,958	\$ -	\$ 85,958
Residential mortgage-backed securities	-	175,276	-	175,276
Municipal bonds	<u>-</u>	<u>4,525,101</u>	<u>-</u>	<u>4,525,101</u>
Total assets at fair value	\$ <u>-</u>	\$ <u>4,786,335</u>	\$ <u>-</u>	\$ <u>4,786,335</u>

**Assets at Fair Value as of December 31, 2015**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government agency	\$ -	\$ 84,334	\$ -	\$ 84,334
Residential mortgage-backed securities	-	230,975	-	230,975
Municipal bonds	<u>-</u>	<u>4,727,765</u>	<u>-</u>	<u>4,727,765</u>
Total assets at fair value	\$ <u>-</u>	\$ <u>5,043,074</u>	\$ <u>-</u>	\$ <u>5,043,074</u>

# BAR HARBOR SAVINGS AND LOAN ASSOCIATION

## Notes to Financial Statements

December 31, 2016 and 2015

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

	<u>Total</u>	<u>Level 2</u>
<b><u>2016</u></b>		
Impaired loans	\$ 126,982	\$ 126,982
<b><u>2015</u></b>		
Impaired loans	\$ 138,518	\$ 138,518

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

#### 14. **Subsequent Events**

Subsequent events are events or transactions that occur after the date of the statement of financial condition but before financial statements are available to be issued. Recognized subsequent events are events or transactions that provide additional evidence about the conditions that existed at the date of the statement of financial condition, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the statement of financial condition, but arose after that date. Management has evaluated subsequent events occurring through March 6, 2017, the date the financial statements were available to be issued.

In June 2016, FASB issued Accounting Standards Update (ASU) No. 2016-13, "*Measurement of Credit Losses on Financial Instruments*." The ASU was issued to require timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU is effective for annual periods beginning after December 15, 2020. The Association is evaluating the potential impact of the ASU, and anticipates that it may have a material impact on the financial statements.