

First Berlin Bancorp, Inc. and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2021 and 2020



Independent Auditor's Report

Board of Directors
First Berlin Bancorp, Inc. and Subsidiary
Berlin, Wisconsin

Opinion

We have audited the consolidated financial statements (the "financial statements") of First Berlin Bancorp, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and consolidated cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Wipfli LLP

Wipfli LLP

April 26, 2022
Rockford, Illinois

First Berlin Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

As of December 31,

	2021	2020
Assets:		
Cash and due from banks	\$ 18,835,793	\$ 15,294,115
Interest-bearing deposits	97,531,229	41,576,841
Cash and cash equivalents	116,367,022	56,870,956
Certificates of deposit	6,002,877	1,000,000
Debt securities available for sale	107,109,555	54,861,967
Loans, net	348,768,323	389,605,082
Premises and equipment, net	5,600,989	6,654,854
Mortgage servicing rights	2,162,670	1,674,801
Other investments	2,019,100	1,490,000
Bank-owned life insurance	9,128,506	8,912,631
Other assets	3,363,068	2,508,079
Total assets	\$ 600,522,110	\$ 523,578,370
Liabilities:		
Noninterest-bearing deposits	\$ 140,661,656	\$ 128,541,217
Interest-bearing deposits	377,302,956	329,084,990
Total deposits	517,964,612	457,626,207
Other borrowings	22,323,962	22,000,000
Capital lease obligations	132,432	204,707
Other liabilities	2,257,372	2,483,383
Total liabilities	542,678,378	482,314,297
Stockholders' equity:		
Common stock - \$0.10 par value; Authorized - 1,000,000 shares; Issued - 611,262 and 500,000 shares; Outstanding - 554,512 and 443,250 shares	61,126	50,000
Additional paid-in capital	10,502,454	500,000
Retained earnings	49,531,526	41,821,755
Accumulated other comprehensive income (loss)	(19,165)	1,124,527
Treasury stock, 56,750 shares, at cost	(2,232,209)	(2,232,209)
Total stockholders' equity	57,843,732	41,264,073
Total liabilities and stockholders' equity	\$ 600,522,110	\$ 523,578,370

See accompanying notes to consolidated financial statements.

First Berlin Bancorp, Inc. and Subsidiary

Consolidated Statements of Income

As of December 31,

	2021	2020
Interest and dividend income:		
Loans, including fees	\$ 20,065,001	\$ 20,052,923
Debt securities:		
Taxable	695,083	880,751
Tax-exempt	250,396	188,684
Interest-bearing deposits	93,850	151,322
Federal funds sold	3,980	10,066
Dividend income	58,327	50,073
Certificates of deposit	27,377	24,567
Total interest and dividend income	21,194,014	21,358,386
Interest expense:		
Deposits	1,017,763	2,730,160
Other borrowings	435,240	605,530
Capital lease obligations	12,453	16,232
Total interest expense	1,465,456	3,351,922
Net interest income	19,728,558	18,006,464
Provision for loan losses	300,000	1,350,000
Net interest and dividend income after provision for loan losses	19,428,558	16,656,464
Noninterest income:		
Customer service fees	695,197	631,755
Interchange fees	1,177,559	1,031,099
Loan servicing fees	1,268,503	1,130,331
Net gain from sale of loans	2,526,184	3,111,824
Net gain on sale of debt securities available for sale	333	69,061
Income on bank-owned life insurance, net	167,375	189,142
Investment services commission and fees	53,931	142,602
Premium on sale of branch	602,725	-
Other	359,188	392,793
Total noninterest income	6,850,995	6,698,607
Noninterest expense:		
Salaries	6,694,709	6,719,231
Employee benefits	2,171,094	2,179,501
Occupancy	1,159,739	1,155,395
Furniture and equipment expenses	408,697	416,677
Computer and technology services	1,430,638	1,461,870
Advertising	248,377	270,647
Foreclosed assets, net	133,960	948,055
Other	2,643,647	2,746,752
Total noninterest expense	14,890,861	15,898,128
Net income before income taxes	11,388,692	7,456,943
Provision for income taxes	3,124,409	1,961,722
Net income	\$ 8,264,283	\$ 5,495,221

See accompanying notes to consolidated financial statements.

First Berlin Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

As of December 31,

	2021	2020
Net income	\$ 8,264,283	\$ 5,495,221
Other comprehensive income (loss), before tax effect:		
Change in unrealized gain (loss) on debt securities available for sale	(1,613,683)	940,651
Reclassification adjustment for net gains on debt securities available for sale realized in net income	(333)	(69,061)
Other comprehensive income (loss) before tax effect	(1,614,016)	871,590
Income tax expense related to items of other comprehensive income (loss)	470,324	(253,981)
Other comprehensive income (loss), net of tax	(1,143,692)	617,609
Comprehensive income	\$ 7,120,591	\$ 6,112,830

First Berlin Bancorp, Inc. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2020	\$ 50,000	\$ 500,000	\$ 36,769,784	\$ 506,918	\$ (1,982,209)	\$ 35,844,493
Net income	-	-	5,495,221	-	-	5,495,221
Other comprehensive income, net of tax	-	-	-	617,609	-	617,609
Dividends to stockholder (\$1.00 per share)	-	-	(443,250)	-	-	(443,250)
Purchase 5,000 shares of treasury stock	-	-	-	-	(250,000)	(250,000)
Balance at December 31, 2020	50,000	500,000	41,821,755	1,124,527	(2,232,209)	41,264,073
Net income	-	-	8,264,283	-	-	8,264,283
Other comprehensive loss, net of tax	-	-	-	(1,143,692)	-	(1,143,692)
Issuance of 111,262 shares of common stock	11,126	10,002,454	-	-	-	10,013,580
Dividends to stockholders (\$1.00 per share)	-	-	(554,512)	-	-	(554,512)
Balance at December 31, 2021	\$ 61,126	\$ 10,502,454	\$ 49,531,526	\$ (19,165)	\$ (2,232,209)	\$ 57,843,732

See accompanying notes to consolidated financial statements.

First Berlin Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31,	2021	2020
Change in cash and cash equivalents:		
Cash flows from operating activities:		
Net income	\$ 8,264,283	\$ 5,495,221
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	525,360	547,253
Amortization and accretion of bond premiums and discounts, net	688,577	352,751
Amortization of core deposit premium	17,998	17,998
Net gain on sale of debt securities available for sale	(333)	(69,061)
Provision for loan losses	300,000	1,350,000
Deferred loan fees	(759,772)	935,505
Net gain (loss) on disposal of premises and equipment and other bank-owned property	36,133	(6,825)
Net loss on sales of foreclosed assets	-	795,821
Provision for impairments of foreclosed assets	-	6,210
Deferred tax expense	110,248	476,718
Increase in bank-owned life insurance	(215,875)	(217,914)
Mortgage servicing rights	(487,869)	(425,252)
Net change in:		
Other assets	398,755	(580,071)
Other liabilities	(226,011)	(1,088,057)
Cash flows from operating activities	8,651,494	7,590,297
Cash flows from investing activities:		
Net change in certificates of deposit	(5,002,877)	-
Purchases of debt securities available for sale	(73,567,392)	(23,652,451)
Maturities, paydowns, and calls of debt securities available for sale	18,507,783	14,532,166
Proceeds from sale of debt securities available for sale	509,761	7,857,357
Purchase of other investments	(529,100)	(655,000)
Net decrease (increase) in loans	40,384,865	(53,347,247)
Purchase of premises and equipment	(257,561)	(513,524)
Proceeds from sales of premises and equipment	749,933	6,825
Proceeds from sales of foreclosed assets	-	1,657,479
Cash flows from investing activities	(19,204,588)	(54,114,395)

First Berlin Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31,	2021	2020
Cash flows from financing activities:		
Change in deposits	\$ 60,338,405	\$ 57,242,880
Payments on other borrowings	(4,676,038)	(28,000,000)
Proceeds from other borrowings	5,000,000	34,000,000
Purchase of treasury stock	-	(250,000)
Payment of capital lease obligations	(72,275)	(77,249)
Cash dividends paid on common stock	(554,512)	(443,250)
Proceeds from common stock issuance	10,013,580	-
Cash flows from financing activities	70,049,160	62,472,381
Net change in cash and cash equivalents	59,496,066	15,948,283
Cash and cash equivalents at beginning of year	56,870,956	40,922,673
Cash and cash equivalents at end of year	\$ 116,367,022	\$ 56,870,956
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	\$ 1,526,470	\$ 3,550,796
Income taxes	2,155,000	2,037,437
Noncash investing and financing activities:		
Loans transferred to foreclosed assets	\$ 911,666	\$ -
Capital lease obligation incurred for use of equipment	-	127,690

See accompanying notes to consolidated financial statements.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Organization

First Berlin Bancorp, Inc. (the "Company") provides a variety of financial services to individual and corporate customers through its wholly owned subsidiary, Fortifi Bank (the "Bank"), and its wholly owned subsidiary, Fortifi Investment Services, Inc. Effective June 30, 2021, Fortifi Investment Services, Inc. was dissolved, and remaining assets were merged with the Bank. The Bank is a state-chartered bank providing a full range of financial services, including the granting of agribusiness, commercial, residential, and consumer loans and accepting deposits from customers primarily in central Wisconsin. The Bank also offered wealth, retirement, and insurance services to its customers through its subsidiary through June 30, 2021. In addition, the Company is subject to regulations of certain regulatory agencies and undergoes periodic examination by those regulatory agencies.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary, the Bank, and the Bank's subsidiary. All significant intercompany balances and transactions have been eliminated.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates. Material estimates that are susceptible to significant change in the near term relate to the determination of the allowance for loan losses, valuation of debt securities available for sale, mortgage servicing rights, and foreclosed assets.

Cash and Cash Equivalents

For purposes of reporting cash flows in the consolidated financial statements, cash and cash equivalents include cash on hand, balances due from banks, interest-bearing deposits in other financial institutions, and federal funds sold, all of which have original maturities of three months or less.

Certificates of Deposit

Certificates of deposit include interest-bearing certificates of deposit at insured financial institutions that have an original maturity greater than three months and are carried at cost.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Debt Securities

Debt securities are classified as available for sale and are carried at fair value, with unrealized gains and losses reported in other comprehensive income or loss. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the estimated lives or earliest call date of the debt securities, as applicable. Gains and losses on the sale of debt securities are recorded on the trade date and determined using the specific-identification method.

Declines in fair value of debt securities that are deemed to be other than temporary, if applicable, are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and the extent to which fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Marketable Equity Securities

Marketable equity securities have a readily determinable fair value and are measured at fair value with changes in fair value reported in net income. Gains and losses on the sale of marketable equity securities are recorded on the trade date and determined using the specific-identification method.

Other Investments

Other investments include equity securities without a readily determinable fair value, including Bankers' Bancorporation stock and Federal Home Loan Bank (FHLB) stock. The Company has elected to account for equity securities without a readily determinable fair values using the alternative measurement method. Under this method, these securities are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. The Company is required to hold FHLB stock as a member of the FHLB, and transfer of the stock is substantially restricted. Members are required to own certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, minus impairment, if any; and is evaluated for impairment on a periodic basis. FHLB stock is pledged as collateral for outstanding FHLB advances.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Realized gains and losses on sales of loans are based on the difference between the selling price and the carrying value of the related loan sold. The Company had no loans held for sale as of December 31, 2021 and 2020.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Risk and Uncertainties

The United States and world economies continue to suffer adverse effects from the COVID-19 virus pandemic ("CV19 pandemic"). The Company has responded throughout the CV19 pandemic as guided by governmental authorities and regulatory agencies with necessary operational and procedural modifications. The Company has not experienced a material adverse impact to the consolidated financial statements. Future potential impacts to the Company may include disruptions or restrictions on employees and contracted agents ability to work, reduced demand for new loans, and increased repurchase risk or loan defaults. The future impact of the CV19 pandemic on the Company cannot be reasonably estimated at this time.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances adjusted for deferred loan fees, charge-offs, and the allowance for loan losses. Interest on loans is accrued and credited to income based on the unpaid principal balance. Loan fees collected in conjunction with PPP are deferred and recognized over the contractual life of the loan or accelerated at forgiveness. Management has concluded the capitalization of the amount of net deferred fees and costs in originating all other loans are immaterial to the consolidated financial statements.

The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication the borrower may be unable to make payments as they become due. When loans are placed on nonaccrual or charged off, all unpaid accrued interest is reversed against interest income. The interest on these loans is subsequently accounted for on the cash basis until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. 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. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings ("TDRs") and classified as impaired.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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 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.

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan net of the specific allocation equals the present value of estimated future cash flows using the loan's existing rate or the fair value of underlying collateral less applicable estimated selling costs if repayment is expected solely from the collateral.

TDRs are individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs are measured at the present value of estimated future cash flows using the loan's original effective rate. If a TDR is considered to be a collateral dependent loan, the loan is measured at the fair value of the collateral less applicable estimated selling costs. For TDRs that subsequently default, the Company determines the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired.

The general component covers loans that are collectively evaluated for impairment. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment and, accordingly, they are not included in the separately identified impairment disclosures. The general allowance component also includes loans that are not individually identified for impairment evaluation, such as those loans that are individually evaluated, but are not considered impaired.

The general component is based on historical loss experience adjusted for current qualitative factors. The historical loss experience is determined by portfolio segment or loan class and is based on the actual loss history experienced by the Company. This actual loss experience is supplemented with other qualitative factors based on the risks present for each portfolio segment or loan class. These qualitative factors include: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Management considers the following when assessing risk in the Company's loan portfolio segments:

- Agricultural real estate and/or commercial real estate loans are dependent on the industries tied to these loans. Agricultural loans are primarily for land acquisition. Commercial real estate loans are primarily secured by office and industrial buildings, warehouses, small retail shopping facilities, and various special purpose properties, including hotels and restaurants. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service debt and is periodically updated during the life of the loan. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and/or property type.
- Construction and land development loans are secured by vacant land and/or property that are in the process of improvement, including (a) land development preparatory to erecting vertical improvements or (b) the on-site construction of industrial, commercial, residential, or farm buildings. Repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. In the event a loan is made on property that is not yet improved for the planned development, there is the risk that necessary approvals will not be granted or will be delayed. Construction loans also run the risk that improvements will not be completed on time or in accordance with specifications and projected costs.
- Multifamily loans include loans to finance nonfarm properties with five or more units in structures primarily to accommodate households on a temporary or permanent basis. Such credits are typically originated to finance the acquisition of an apartment or condo building/complex. Multifamily loans are made based primarily on the historical and projected cash flow of the subject multifamily property, with assumptions made for vacancy rates. Cash flows and ultimate loan performance rely on the receipt of rental income from the tenants of the property who are themselves subject to fluctuations in national and local economic and unemployment trends.
- Residential real estate loans are affected by the local residential real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination the Company evaluates the borrower's repayment ability through a review of debt to income and credit scores. Appraisals are obtained to support the loan amount. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service debt at the time of origination.
- Commercial and industrial and/or agricultural loans are primarily for working capital, physical asset expansion, asset acquisition loans, and other. These loans are made based primarily on historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Financial information is obtained from the borrowers to evaluate cash flows sufficiency to service debt and are periodically updated during the life of the loan.
- Consumer and other loans may take the form of installment loans, demand loans, or single payment loans and are extended to individuals for household, family, and other personal expenditures. At the time of origination, the Company evaluates the borrower's repayment ability through a review of debt to income and credit scores.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed principally on the straight-line method over the estimated useful lives of the assets, which range from 15 to 40 years for buildings and 3 to 10 years for furniture and equipment.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of cost or the fair value less estimated costs to sell at the date of foreclosure. At date of acquisition, losses are charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations, gains (losses) on sales, and changes in the valuation allowance are included in net expenses from foreclosed assets.

Bank-Owned Life Insurance

The Company has purchased split-dollar life insurance policies on certain key employees. Bank-owned life insurance is recorded at its cash surrender value or the amount that can be realized. In addition, the Company has recorded a liability during the service periods for key employees for split-dollar life insurance agreements which continue after the participants' employment terminates at retirement. The required accrued liability is based on the post-retirement benefit cost for the continuing life insurance.

Mortgage Servicing Rights

The Company services mortgage loans it sells to third-party institutions. Servicing loans includes collecting monthly principal and interest payments from borrowers, passing such payments through to the third-party investors, and maintaining escrow accounts for taxes and insurance. When necessary, the Company also performs collection functions for delinquent loan payments, handles loan foreclosure proceedings, and disposes of foreclosed property. The Company generally earns a servicing fee of 25 basis points on the outstanding loan balance for performing these services as well as fees and interest income from ancillary sources, such as late fees and float. Servicing fees, late fees, and other ancillary income earned each year, net of any amortization expense and impairment charges discussed below, are reported in the consolidated statements of income as a component of loan servicing fee income.

Mortgage servicing rights are recognized as separate assets when rights are acquired through sale of mortgage loans into the secondary market. Mortgage servicing rights acquired through sale of loans are recognized as a component of loan servicing fees and are recorded at their relative fair value. Mortgage servicing rights are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Mortgage Servicing Rights (Continued)

Mortgage servicing rights are evaluated for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The evaluation includes stratifying the mortgage servicing rights by predominant characteristics, such as interest rates and terms, and estimating the fair value of each stratum. Impairment, if any, is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the carrying amount for the stratum.

The fair value of each servicing rights stratum is evaluated based on the present value of estimated future cash flows using a discount rate commensurate with the risk associated with that stratum, given current market conditions. Estimates of fair value include primarily assumptions about prepayments, discount rates, default rates, and other factors which are subject to change over time. Changes in these underlying assumptions could cause the fair value of mortgage servicing rights, and the related valuation allowance, to change significantly in the future.

Intangible Assets

Intangible assets are attributable to the value of ongoing customer relationships, or core deposits, arising from branch acquisitions and are included in other assets on the consolidated balance sheets. These assets are being amortized on a straight-line basis over their estimated useful lives, which range from 5 to 10 years. The Company evaluates intangible assets for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The evaluation includes assessing the estimated fair value of the asset based on market prices for similar assets, where available, and the present value of estimated future cash flows associated with the asset. Adjustments are recorded if it is determined that the benefit of the asset has decreased.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

Income Taxes

Deferred tax assets and liabilities have been determined using the liability method. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities as measured by the current enacted tax rates, which will be in effect when these differences are expected to reverse. Provision for deferred taxes is the result of changes in the deferred tax assets and liabilities.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

The Company may also recognize a liability for unrecognized tax benefits from uncertain tax positions. Unrecognized tax benefits represent the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured in the financial statements. Interest and penalties related to unrecognized tax benefits are classified as income taxes. No liabilities for unrecognized tax benefits from uncertain positions have been recorded.

Revenue from Contracts with Customers

The core revenue recognition principle requires the Company to recognize revenue to depict the transfer of services or products to customers in an amount that reflects the consideration to which the Company expects to be entitled to receive in exchange for those services or products recognized as performance obligations are satisfied. The guidance includes a five-step model to apply to revenue recognition, consisting of the following: (1) identify the contract with a customer; (2) identify the performance obligation(s) within the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation(s) within the contract; and (5) recognize revenue when (or as) the performance obligation(s) are/is satisfied.

The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Since performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying revenue recognition (ASC 606) that significantly affects the determination of the amount and timing of revenue from contracts with customers.

The majority of the Company's revenue is not subject to ASC 606, including net interest income, loan servicing fees and sales of loans, fees related to loans and loan commitments, income on bank-owned life insurance, and gain (loss) on sales of loans and debt securities.

The following significant revenue-generating transactions are within the scope of ASC 606, which are presented in the consolidated statements of income:

Customer service fees – The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, such as ATM use fees, wires, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly service charges and maintenance fees, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs as this corresponds with the Company's performance obligation.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue from Contracts with Customers (Continued)

Interchange fees – Customers use a bank-issued debit card to purchase goods and services, and the Company earns interchange fees on those transactions, typically a percentage of the sale amount of the transaction. The Company is considered an agent with respect to these transactions. Interchange fee payments received, net of related expense, are recognized as income daily, concurrently with the transaction processing services provided to the cardholder through the payment networks. There are no contingent debit card interchange fees recorded by the Company that could be subject to a claw-back in future periods

Investment services commissions and fees – The Company earns commissions and fees through providing investment advisory and brokerage activities as well as the sale of other non-deposit investment and insurance products to customers of the Company through a third-party service provider. The Company earns and recognizes commissions and fees from the third-party provider on a monthly basis based upon customer activity and market value of assets under management and the applicable fee rates. Payment of these fees is generally received shortly after month-end. Because the Company acts as an agent in arranging the relationship between the customer and the third-party service provider and is subject to the third-party pricing terms for those services rendered to the customers, the investment services commissions and fees are presented net of related costs including commissions, clearing fees, insurance, registration and licensing, internet service, and other.

Net gain (loss) on sales of foreclosed assets – The Company records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed and transfer of control is completed. When the Company finances the sale to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether the Company expects to collect substantially all of the transaction price. Once these criteria are met, the asset is derecognized and the gain or loss on the sale is recognized. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if the financing does not include market terms.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). The Company's accumulated other comprehensive income (loss) is comprised of the unrealized gains and losses on debt securities available for sale, net of tax, and is shown as a separate component of equity.

Reclassification adjustments out of other comprehensive income (loss) for (gains) losses realized on sales of debt securities available for sale comprise the entire balance of "Net gain (loss) on sale of debt securities available for sale" on the consolidated statements of income. As part of this reclassification, income tax expense of \$90 at December 31, 2021, and \$18,812 at December 31, 2020, was recognized in "Provision for income taxes" on the consolidated statements of income.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Off-Balance-Sheet Instruments

In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments including commitments to extend credit, unfunded commitments under lines of credit, and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they become payable.

Profit-Sharing Plan

The Company has established a 401(k) profit-sharing plan - Employees are eligible to enroll in this plan the 1st of the month following three months of employment. Profit sharing - Employees must work a full quarter to be eligible. This means they are eligible the beginning of the first new quarter following three full months of employment. Profit sharing is typically paid out the month following the end of the quarter. Employees who terminate employment for any reason must work the full quarter in order to be paid profit sharing for the quarter.

Rate Lock Commitments

The Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Rate lock commitments are recorded only to the extent of fees received since recording the estimated fair value of these commitments would not have a significant impact on the consolidated financial statements.

New Accounting Pronouncements

The following Accounting Standards Updates (ASUs) have been issued by FASB and may impact the Company's consolidated financial statements in future reporting periods:

ASU No. 2016-02, *Leases* - When this standard is adopted, the primary accounting change will require lessees to recognize right of use assets and lease obligations for most operating leases as well as finance leases. This new standard is effective for consolidated financial statements issued for annual periods beginning after December 15, 2021. The Company anticipates recording a right of use asset and lease obligation liability of \$790,909 upon adoption.

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* - This standard will significantly change how financial assets measured at amortized cost are presented. Such assets, which include most loans and securities held to maturity, will be presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses will be based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amounts. The standard will also change the accounting for credit losses related to securities available for sale and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This accounting standard is effective for consolidated financial statements issued for interim and annual periods beginning after December 15, 2022. The Company is evaluating what impact this new standard will have on its consolidated financial statements.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

ASU No. 2019-12, *Simplifying the Accounting for Income Taxes* - This standard is intended to simplify the accounting for income taxes and improve the consistent application of accounting guidance through the following changes: 1) removes certain exceptions for recognizing deferred tax liabilities, tax allocations, and the calculation methodology for an interim year-to-date loss that exceeds the anticipated loss for the year; 2) requires a franchise tax or similar tax based partially on income be recognized as an income-based tax and account for any incremental amount incurred as a non-income based tax; 3) requires an entity evaluate when a step up in the tax basis of goodwill should be considered part of a business combination in which goodwill was originally recognized and when it should be considered a separate transaction; 4) does not require the allocation of consolidated current and deferred tax expense to a member entity that is not subject to tax in separate financial statements, but may elect to do so for certain legal entities that are disregarded by the taxing authority; and 5) amends guidance on the handling of an enacted change in tax law or rates within interim tax periods. This new accounting standard is effective for financial statements issued for annual periods beginning after December 15, 2021. The Company does not believe the adoption of this standard will have a significant impact on its financial statements.

Subsequent Events

Subsequent events have been evaluated through April 26, 2022, which is the date the consolidated financial statements were available to be issued. In March 2022, the Company's Board of Directors authorized a forward stock split of 5 for 1 of the Company's common stock. To affect the split, the shareholders will vote on a proposal to increase the Company's authorized common stock to 5,000,000 shares at the Company's annual meeting scheduled to be held on May 18, 2022.

Reclassifications

Certain amounts in the 2020 consolidated financial statements have been reclassified to conform to the 2021 presentation.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2: Cash and Cash Equivalents

The Company was required to maintain reserve balances, in cash or on deposit with the Federal Reserve Bank, based upon a percentage of deposits prior to March 26, 2020. Effective March 12, 2021, the Federal Reserve's board of directors approved the final rule (interim rule issued on March 26, 2020) reducing the required reserve requirement ratios to zero percent, effectively eliminating the requirement to maintain reserve balances in cash or on deposit with the Federal Reserve Bank. This reduction in the required reserves does not have a defined timeframe and may be revised by the Federal Reserve's board in the future.

In the normal course of business, the Company maintains cash and due from bank balances in noninterest-bearing transaction accounts with correspondent banks. Balances in these accounts may exceed the Federal Deposit Insurance Corporation's insured limit of \$250,000. Management believes these financial institutions have strong credit ratings and that the credit risk related to these deposits is minimal.

Note 3: Certificates of Deposit

The scheduled maturities of certificates of deposit at December 31, 2021, are summarized as follows:

Due in one year or less	\$	750,000
Due after one year through five years	\$	5,252,877
Total	\$	6,002,877

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 4: Debt Securities

The amortized cost and estimated fair value of debt securities with gross unrealized gains and losses at December 31 follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2021				
Debt securities available for sale:				
U.S. treasury notes and bonds	\$ 7,983,580	\$ -	\$ 32,730	\$ 7,950,850
U.S. sponsored agencies	9,389,990	18,263	213,802	9,194,451
Obligations of states and political subdivisions	24,813,634	345,830	166,864	24,992,600
Pooled SBA loans	365,097	4,468	1,528	368,037
U.S. agency residential mortgage-backed securities	22,215,264	451,855	182,306	22,484,812
U.S. agency collateralized debt obligations	42,369,037	109,850	360,082	42,118,805
Total debt securities available for sale	\$ 107,136,602	\$ 930,266	\$ 957,312	\$ 107,109,555
2020				
Securities available for sale:				
U.S. sponsored agencies	\$ 1,651,269	\$ 38,307	\$ 11,986	\$ 1,677,590
Obligations of states and political subdivisions	16,379,034	539,462	11,613	16,906,883
Pooled SBA loans	604,099	6,119	5,139	605,079
U.S. agency residential mortgage-backed securities	20,189,540	755,066	25,254	20,919,352
U.S. agency collateralized debt obligations	14,451,055	311,334	9,326	14,753,063
Total debt securities available for sale	\$ 53,274,997	\$ 1,650,288	\$ 63,318	\$ 54,861,967

Fair values of securities are generally estimated based on financial models or prices paid for similar securities. It is possible interest rates or other key inputs to the valuation estimate could change considerably resulting in a material change in the estimated fair value of securities.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 4: Debt Securities (Continued)

The following tables show the fair value and gross unrealized losses of debt securities with unrealized losses at December 31, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2021						
U.S. Treasury Notes & Bonds	\$ 7,950,850	\$ 32,730	\$ -	\$ -	\$ 7,950,850	\$ 32,730
U.S. sponsored agencies	7,914,416	178,553	901,616	35,249	8,816,032	213,802
Obligations of states and political subdivisions	10,987,430	138,686	803,609	28,178	11,791,039	166,864
Pooled SBA loans	-	-	140,181	1,528	140,181	1,528
U.S. agency residential mortgage backed securities	7,638,702	106,460	1,389,980	75,846	9,028,682	182,306
U.S. agency collateralized debt obligations	29,281,928	290,349	1,659,046	69,733	30,940,974	360,082
Totals	\$ 63,773,326	\$ 746,778	\$ 4,894,432	\$ 210,534	\$ 68,667,758	\$ 957,312
2020						
U.S. sponsored agencies	\$ 1,213,787	\$ 11,986	\$ -	\$ -	\$ 1,213,787	\$ 11,986
Obligations of states and political subdivisions	2,402,630	11,613	-	-	2,402,630	11,613
Pooled SBA loans	-	-	267,282	5,139	267,282	5,139
U.S. agency residential mortgage backed securities	3,007,098	25,254	-	-	3,007,098	25,254
U.S. agency collateralized debt obligations	1,843,278	9,326	-	-	1,843,278	9,326
Totals	\$ 8,466,793	\$ 58,179	\$ 267,282	\$ 5,139	\$ 8,734,075	\$ 63,318

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 4: Debt Securities (Continued)

At December 31, 2021, 221 debt securities have unrealized losses with aggregate depreciation of 1.4% from the Company's amortized cost basis. These unrealized losses relate principally to the changes in interest rates and are not due to changes in the financial condition of the issuer, the quality of any underlying assets, or applicable credit enhancements. In analyzing whether unrealized losses on debt securities are other than temporary, management considers whether the securities are issued by a government body or agency, whether a rating agency has downgraded the securities, industry analysts' reports, the financial condition and performance of the issuer, and the quality of any underlying assets or credit enhancements. Since management has the ability to hold debt securities for the foreseeable future, no declines are deemed to be other than temporary.

The following is a summary of amortized cost and estimated fair value of debt securities by contractual maturity as of December 31, 2021. Contractual maturities will differ from expected maturities for pooled SBA loans, residential mortgage-related securities, and collateralized debt obligations because borrowers may have the right to call or prepay obligations without penalties. Therefore, these securities are not included in the maturity categories in the following maturity summary.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ -	\$ -
Due after one year through five years	14,742,837	14,835,380
Due after five years through ten years	18,329,115	18,230,728
Due after ten years	9,115,252	9,071,793
Subtotal	42,187,204	42,137,901
Pooled SBA loans	365,097	368,037
U.S. agency residential mortgage backed securities	22,215,264	22,484,812
U.S. agency collateralized debt obligations	42,369,037	42,118,805
Totals	\$ 107,136,602	\$ 107,109,555

The following is a summary of the proceeds from sales of securities available for sale, as well as gross gains and losses for the years ended December 31:

	2021	2020
Proceeds from sales of securities	\$ 509,761	\$ 7,857,357
Gross gains on sales	333	72,788
Gross losses on sales	-	3,727

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 4: Debt Securities (Continued)

As of December 31, 2021 and 2020, the amortized cost of securities pledged to secure public deposits, borrowings, and for other purposes required or permitted by law was \$27,257,903 and \$21,179,355 respectively. The estimated fair value was \$27,468,248 and \$21,933,723 as of December 31, 2021 and 2020, respectively.

Note 5: Other Investments

Other investments comprise the following as of December 31, 2021 and 2020:

	2021	2020
FHLB Stock	\$ 1,490,000	\$ 1,490,000
Bankers' Bancorporation Stock	529,100	-
Total	\$ 2,019,100	\$ 1,490,000

Bankers' Bancorporation stock is considered an equity security without a readily determinable fair value and was purchased in 2021. The following table details changes in the carrying amount of Bankers' Bancorporation stock, both annually and cumulatively, as of and for the year ended December 31:

	2021
Carrying value, end of year	\$ 529,100

There were no impairments or adjustments in fair value recognized during the year ending December 31, 2021.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6: Loans

The following table presents total loans at December 31 by portfolio segment and class of loan:

	2021	2020
Commercial:		
Real estate and construction	\$ 215,787,929	\$ 216,591,052
Industrial and other	56,080,559	83,675,722
Agricultural	5,887,257	7,922,001
Residential real estate	69,849,095	78,797,391
Consumer and other	6,099,535	8,492,195
Subtotals	353,704,375	395,478,361
Less - Deferred loan fees	175,733	935,505
Less - Allowance for loan losses	4,760,319	4,937,774
Loans, net	\$ 348,768,323	\$ 389,605,082

The Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, was signed into law on March 27, 2020, in response to the economic fallout of the CV19 pandemic in the United States. One component of the CARES Act was the Paycheck Protection Program ("PPP"), which provided small business with the loan resources needed to maintain payroll and cover applicable operating expenses. The PPP was implemented by the Small Business Administration ("SBA") with support from the Department of the Treasury, and contains provisions to provide loan forgiveness to borrowers if certain criteria are met. The Company participated in the PPP lending program and had approximately \$4,060,000 and \$32,696,000 in outstanding PPP loans included in commercial - industrial and other at December 31, 2021 and 2020, respectively. These loans are fully guaranteed by the SBA.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6: Loans (Continued)

Analysis of the allowance for loan losses for the years ended December 31:

	Commercial	Residential Real Estate	Consumer and Other	Total
Balance at January 1, 2020	\$ 3,135,274	\$ 375,185	\$ 117,814	\$ 3,628,273
Provision for loan losses	1,199,302	140,319	10,379	1,350,000
Loans charged off	(663,765)	-	(34,228)	(697,993)
Recoveries of loans previously charged off	639,528	-	17,966	657,494
Balance at December 31, 2020	4,310,339	515,504	111,931	4,937,774
Provision for loan losses	335,793	(23,137)	(12,656)	300,000
Loans charged off	(490,405)	-	(34,137)	(524,542)
Recoveries of loans previously charged off	36,411	-	10,676	47,087
Balance at December 31, 2021	\$ 4,192,138	\$ 492,367	\$ 75,814	\$ 4,760,319
Allowance for loan losses at December 31, 2021:				
Individually evaluated for impairment	\$ 173,000	\$ -	\$ -	\$ 173,000
Collectively evaluated for impairment	4,019,138	492,367	75,814	4,587,319
Totals	\$ 4,192,138	\$ 492,367	\$ 75,814	\$ 4,760,319
Allowance for loan losses at December 31, 2020:				
Individually evaluated for impairment	\$ 507,000	\$ -	\$ -	\$ 507,000
Collectively evaluated for impairment	3,803,339	515,504	111,931	4,430,774
Totals	\$ 4,310,339	\$ 515,504	\$ 111,931	\$ 4,937,774

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6: Loans (Continued)

Analysis of loans evaluated for impairment as of December 31 follows:

	Commercial	Residential Real Estate	Consumer	Totals
Loans at December 31, 2021:				
Individually evaluated for impairment	\$ 10,337,049	\$ 193,819	\$ 33,219	\$ 10,564,087
Collectively evaluated for impairment	267,418,696	69,655,276	6,066,316	343,140,288
Totals	\$ 277,755,745	\$ 69,849,095	\$ 6,099,535	\$ 353,704,375
Loans at December 31, 2020:				
Individually evaluated for impairment	\$ 10,572,420	\$ 403,221	\$ 113,699	\$ 11,089,340
Collectively evaluated for impairment	297,616,355	78,394,170	8,378,496	384,389,021
Totals	\$ 308,188,775	\$ 78,797,391	\$ 8,492,195	\$ 395,478,361

Information regarding impaired loans for the year ended December 31 follows:

	Recorded Investment	Principal Balance	Related Allowanc	Average Investment	Interest Recognized
2021					
Loans with no related allowance for loan losses:					
Commercial Real estate and construction	\$ 6,802,345	\$ 6,802,345	N/A	\$ 6,780,485	\$ 341,276
Commercial Industrial and other	3,330,878	3,330,878	N/A	3,159,436	116,640
Commercial Agricultural	23,850	23,850	N/A	29,197	2,377
Residential real estate	193,819	193,819	N/A	201,564	4,690
Consumer and other	33,219	33,219	N/A	35,294	-
Total	10,384,111	10,384,111	N/A	10,205,976	464,983
Loans with an allowance for loan losses:					
Commercial Industrial and other	179,976	179,976	173,000	195,851	6,487
Totals	179,976	179,976	173,000	195,851	6,487
Grand total	\$ 10,564,087	\$ 10,564,087	\$173,000	\$ 10,401,827	\$ 471,470

There was approximately \$786,376 of additional funds committed to be advanced in connection with impaired loans as of December 31, 2021.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6: Loans (Continued)

	Recorded Investment	Principal Balance	Related Allowance	Average Investment	Interest Recognized
2020					
Loans with no related allowance for loan losses:					
Commercial Real estate and construction	\$ 5,091,602	\$ 5,091,602	N/A	\$ 5,188,946	\$ 199,268
Commercial Industrial and other	1,286,024	1,286,024	N/A	1,304,840	2,545
Commercial Agricultural	74,687	74,687	N/A	81,635	5,525
Residential real estate	403,221	403,221	N/A	422,953	3,289
Consumer and other	113,699	113,699	N/A	123,399	1,216
Total	6,969,233	6,969,233	N/A	7,121,773	211,843
Loans with an allowance for loan losses:					
Commercial Real estate and construction	1,944,612	1,944,612	110,000	1,274,955	84,117
Commercial Industrial and other	2,175,495	2,175,495	397,000	2,331,060	145,468
Totals	4,120,107	4,120,107	507,000	3,606,015	229,585
Grand total	\$ 11,089,340	\$11,089,340	\$ 507,000	\$ 10,727,788	\$ 441,428

There was approximately \$90,300 of additional funds committed to be advanced in connection with impaired loans as of December 31, 2020.

The Company regularly evaluates various attributes of loans to determine the appropriateness of the allowance for loan losses. The credit quality indicators monitored differ depending on the class of loan.

Commercial loans are generally evaluated using the following internally prepared ratings:

- "Pass" ratings are assigned to loans with adequate collateral and debt service ability such that collectibility of the contractual loan payments is highly probable.
- "Watch/special mention" ratings are assigned to loans where management has some concern that the collateral or debt service ability may not be adequate, though the collectibility of the contractual loan payments is still probable.
- "Substandard" ratings are assigned to loans that do not have adequate collateral and/or debt service ability such that collectibility of the contractual loan payments is no longer probable.
- "Doubtful" ratings are assigned to loans that do not have adequate collateral and/or debt service ability, and collectibility of the contractual loan payments is unlikely.

Residential real estate and consumer loans are generally evaluated based on whether or not the loan is performing according to the contractual terms of the loan. The Company considers residential real estate, consumer, and other loans that are on nonaccrual status, over 90 days past due, have been identified as a delinquency problem, or have been modified in a TDR to be classified as non-performing.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6: Loans (Continued)

Information regarding the credit quality indicators most closely monitored for commercial loans by class as of December 31 follows:

	Pass	Watch/Special Mention	Substandard	Doubtful	Totals
2021					
Commercial Real estate and construction	\$ 187,944,430	\$ 20,970,060	\$ 6,873,439	\$ -	\$ 215,787,929
Commercial Industrial and other	35,706,824	15,320,999	5,052,736	-	\$ 56,080,559
Commercial Agricultural	4,833,712	1,029,695	23,850	-	5,887,257
Totals	\$ 228,484,966	\$ 37,320,754	\$ 11,950,025	\$ -	\$ 277,755,745

2020					
Commercial Real estate and construction	\$ 182,753,416	\$ 27,257,132	\$ 6,580,504	\$ -	\$ 216,591,052
Commercial Industrial and other	60,924,683	18,778,970	3,972,069	-	83,675,722
Commercial Agricultural	7,278,723	568,591	74,687	-	7,922,001
Totals	\$ 250,956,822	\$ 46,604,693	\$ 10,627,260	\$ -	\$ 308,188,775

Information regarding the credit quality indicators most closely monitored for residential real estate and consumer loans by class as of December 31 follows:

	Performing	Non performing	Totals
2021			
Residential real estate	\$ 69,655,276	\$ 193,819	\$ 69,849,095
Consumer and other	6,066,316	33,219	6,099,535
Totals	\$ 75,721,592	\$ 227,038	\$ 75,948,630
2020			
Residential real estate	\$ 78,394,170	\$ 403,221	\$ 78,797,391
Consumer and other	8,378,496	113,699	8,492,195
Totals	\$ 86,772,666	\$ 516,920	\$ 87,289,586

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6: Loans (Continued)

Loan aging information as of December 31 follows:

	Current Loans	Accruing		Nonaccrual Loans	Total Loans
		Loans Past Due 30-89 Days	Loans Past Due 90+ Days		
2021					
Commercial Real estate and construction	\$ 213,065,162	\$ 343,974	\$ -	\$ 2,378,793	\$ 215,787,929
Commercial Industrial and other	53,334,361	10,000	-	2,736,198	56,080,559
Commercial Agricultural	5,887,257	-	-	-	5,887,257
Residential real estate	69,302,250	353,026	-	193,819	69,849,095
Consumer and other	5,951,970	114,346	-	33,219	6,099,535
Totals	\$ 347,541,000	\$ 821,346	\$ -	\$ 5,342,029	\$ 353,704,375

	Current Loans	Accruing		Nonaccrual Loans	Total Loans
		Loans Past Due 30-89 Days	Loans Past Due 90+ Days		
2020					
Commercial Real estate and construction	\$ 213,979,492	\$ 562,779	\$ -	\$ 2,048,781	\$ 216,591,052
Commercial Industrial and other	81,953,949	671,848	-	1,049,925	83,675,722
Commercial Agricultural	7,922,001	-	-	-	7,922,001
Residential real estate	77,389,972	1,004,198	-	403,221	78,797,391
Consumer and other	8,372,445	6,051	-	113,699	8,492,195
Totals	\$ 389,617,859	\$ 2,244,876	\$ -	\$ 3,615,626	\$ 395,478,361

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6: Loans (Continued)

When, for economic or legal reasons related to the borrower's financial difficulties, the Company grants a concession to the borrower that the Company would not otherwise consider, the modified loan is classified as a TDR. Loan modifications may consist of forgiveness of interest and/or principal, a reduction of the interest rate, interest-only payments for a period of time, and/or extending amortization terms. All TDRs are classified as impaired loans.

There were no modifications of loans that are classified as TDRs during the year ended December 31, 2021.

The following presents information regarding modifications of loans that are classified as TDRs during the years ended December 31, 2020. There were no specific reserves for loan losses recognized for these loans at December 31, 2021 and 2020.

	Number of Contracts	Pre Modification Investment	Post Modification Investment
2020			
New troubled debt restructurings:			
Commercial Real estate and construction	1	\$ 679,849	\$ 679,849

The Company considers a troubled debt restructuring in default if it becomes past due more than 30 days. No TDRs defaulted within twelve months of their modification date during the year ended December 31, 2021. The following table summarizes troubled debt restructurings that defaulted within 12 months of their modification date during the year ended December 31, 2020:

	Number of Contracts	Recorded Investment
2020		
Commercial Real estate and construction	1	\$ 650,637

As a result of the pandemic, certain customers of the Company have modified eligible loans under Section 4013, Temporary Relief from Troubled Debt Restructuring, of the CARES Act. This allowed the Company to grant short-term payment deferrals or extended payment terms without classification of these loans as TDRs. As of December 31, 2021 and 2020, 16 and 34 customer loans modified within the Section 4013 loan eligibility guidelines totaling approximately \$11,006,000 and \$14,538,000 were outstanding and excluded from TDR classification based on this law, respectively.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6: Loans (Continued)

Directors, executive officers, and principal stockholders of the Company, including their families and firms in which they are principal owners, are considered to be related parties. Substantially, all loans to these related parties were made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others and did not involve more than the normal risk of collectibility or present other unfavorable features.

A summary of loans to directors, executive officers, and their affiliates as of December 31 is as follows:

	2021	2020
Balance at beginning	\$ 1,588,378	\$ 901,977
Adjustments due to changes in directors, executive officers, and/or principal stockholders	3,536,311	717,808
New loans	-	-
Repayments	(2,332,523)	(31,407)
Balance at end	\$ 2,792,166	\$ 1,588,378

Note 7: Mortgage Servicing Rights

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others totaled \$307,044,730 and \$274,992,424 at December 31, 2021, and 2020, respectively. In addition, the Company maintained custodial balances in connection with the foregoing loan servicing of \$1,401,106 and \$1,210,814 at December 31, 2021, and 2020, respectively.

The following is a summary of changes in the balance of mortgage servicing rights for the years ended December 31:

	2021	2020
Balance at beginning of year	\$ 1,674,801	\$ 1,249,549
Additions	1,199,030	1,649,113
Amortization	(804,872)	(1,014,455)
Change in valuation allowance	93,711	(209,406)
Balance at end of year	\$ 2,162,670	\$ 1,674,801
Estimated fair value at beginning of year	\$ 1,610,000	\$ 1,917,000
Estimated fair value at end of year	\$ 2,662,000	\$ 1,610,000

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 7: Mortgage Servicing Rights (Continued)

A summary of changes in the valuation allowance for mortgage servicing rights at December 31 is as follows:

	2021	2020
Balance at beginning	\$ (209,406)	\$ -
Additions	-	(209,406)
Reversals	93,711	-
Balance at end	\$ (115,695)	\$ (209,406)

The estimated fair value of mortgage servicing rights is determined using a valuation model that calculates the present value of expected future servicing and ancillary income, net of expected servicing costs. The model incorporates various assumptions, such as discount rates, prepayment speeds, default rates, and ancillary income and servicing costs. At December 31, 2021, the model used discount rates at approximately 9% and prepayment speeds ranging from 10% to 13%, both of which were based on market data from independent organizations, and a weighted average default rate of 0.28%.

At December 31, 2020, the model used discount rates at approximately 9% and prepayment speeds ranging from 12% to 19%, both of which were based on market data from independent organizations, and a weighted average default rate of 0.28%.

Note 8: Premises and Equipment

Premises and equipment consisted of at December 31:

	2021	2020
Land and buildings	\$ 7,218,383	\$ 8,221,979
Furniture and equipment	3,915,155	4,899,824
Subtotal	11,133,538	13,121,803
Less Accumulated depreciation	5,532,549	6,466,949
Premises and equipment, net	\$ 5,600,989	\$ 6,654,854

Depreciation and amortization of premises and equipment charged to operating expense totaled \$525,360 and \$547,253 for 2021 and 2020, respectively.

The Company leases five branch facilities and an operation facility under noncancelable operating leases expiring at various periods through June 2028. The Company has an option to renew four of the leases for additional years at the expiration of the initial lease. The Company also pays for real estate taxes on two of the facilities. Insurance, and maintenance under all of these lease agreements. Rent expense under these leases was \$221,528 and \$186,014 for 2021 and 2020 respectively.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 8: Premises and Equipment (Continued)

Future minimum rental payments under noncancelable lease terms as of December 31, 2021, are as follows:

2022	\$ 259,347
2023	208,226
2024	127,594
2025	85,341
2026	47,415
Thereafter	71,123
Total	\$ 799,046

Note 9: Foreclosed Assets

An analysis of the activity in foreclosed assets for the years ended December 31:

	2021	2020
Balance at beginning	\$ -	\$ 2,459,510
Foreclosed assets acquired	911,666	-
Sales of foreclosed assets	-	(2,453,300)
Impairments recognized	-	(6,210)
Balance at end of year	\$ 911,666	\$ -

Expenses related to foreclosed assets include the following for the years ended December 31:

	2021	2020
Net loss on sales of foreclosed assets	\$ -	\$ 795,821
Impairments recognized	-	6,210
Operating expenses, net of rental income	133,960	146,024
Total expense	\$ 133,960	\$ 948,055

Foreclosed assets consist of residential real estate properties totaling \$0 and \$0 and commercial real estate properties of \$911,666 and \$0 at December 31, 2021 and 2020, respectively.

Residential real estate loans that are in the process of foreclosure totaled approximately \$5,000 and \$68,000 at December 31, 2021, and 2020, respectively.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 10: Intangible Asset

The gross carrying amount and accumulated amortization of the intangible asset for the years ended December 31 are as follows:

	2021		2020	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposit premium	\$ 392,114	\$ (359,118)	\$ 392,114	\$ (341,120)

The aggregate amortization expense was \$17,998 for the years ended December 31, 2021 and 2020. The net carrying value of the core deposit premium is included in other assets on the consolidated balance sheets.

The following table shows the estimated future amortization expense for the amortizing intangible asset. The projections of amortization expense are based on existing asset balances as of December 31, 2021.

2022	\$ 17,998
2023	14,998
Total	\$ 32,996

Note 11: Deposits

Deposits consisted of at December 31:

	2021	2020
Non-interest-bearing demand	\$ 140,661,656	\$ 128,541,217
Interest-bearing demand	85,835,227	99,630,023
Savings	88,221,512	78,457,924
Money market	154,219,949	83,643,072
Time	49,026,268	67,353,971
Total deposits	\$ 517,964,612	\$ 457,626,207

Time deposits that met or exceeded the FDIC's insurance limit of \$250,000 or more totaled \$10,145,550 and \$11,978,474 at December 31, 2021, and 2020, respectively.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 11: Deposits (Continued)

The scheduled maturities of time deposits at December 31, 2021, are summarized as follows:

2022	\$ 40,268,597
2023	7,925,208
2024	680,540
2025	102,370
2026	49,553
Total	\$ 49,026,268

Deposits from directors, executive officers, and their affiliates totaled \$4,816,618 and \$1,847,682 at December 31, 2021, and 2020, respectively.

The Company has one customer with a deposit balance in excess of 5% of total deposits, amounting to \$38,074,455 and \$26,463,414 at December 31, 2021, and 2020, respectively.

Note 12: Short-Term Borrowings

The Company has a \$1,000,000 line of credit agreement with another community bank. The line of credit bears interest at the Wall Street Journal prime rate plus 0.25% percentage points, with a floor of 3.95%. Interest is payable quarterly, and the line matures on April 5, 2022. The line is secured by the Bank's stock. At December 31, 2021 and 2020, the balance was \$0.

The line of credit agreement also places various financial covenants upon the Company during the borrowing term. These covenants require the Company and the Bank to maintain capital ratios at "well-capitalized" as defined by regulatory guidelines, to maintain minimum common equity tier 1 capital at the Bank of \$36,000,000, to maintain a trailing twelve-months return on assets ratio of .35% or greater measured quarterly through April 2020, then .50% or greater beginning May 2020, and to have non-performing assets not exceeding 30% of primary capital plus the allowance for loan losses. As of December 31, 2021, the Company was in compliance with all the covenants. In addition, the line of credit agreement is subject to a prepayment penalty if refinanced with another financial institution.

The Company has a federal funds line of credit with its main correspondent institution for up to \$6,500,000 and available federal funds lines of credit of \$6,500,000 and \$5,000,000 with other correspondent institutions. Federal funds purchased generally mature within one to four days from the transaction date. The interest rate is at the daily federal funds rate. The Company had no amounts outstanding on the federal funds lines of credit at December 31, 2021 and 2020.

The Company also has a borrowing availability through the Federal Reserve Company's discount window. The Company pledges securities and/or loans in order to borrow at the discount window. The Company did not borrow at the discount window and did not pledge securities or loans as of December 31, 2021 and 2020.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 13: Other Borrowings

Other borrowings consisted of the following at December 31:

	2021		2020	
	Rates	Amount	Rates	Amount
Federal Home Loan Bank of Chicago:				
Fixed rate, fixed term advances	0% - 0.84%	\$ 15,000,000	0% - 0.84%	\$ 14,000,000
Other notes payable:				
Variable rate, fixed term	3.95%	7,323,962	4.75%	8,000,000
Totals		\$ 22,323,962		\$ 22,000,000

The following is a summary of scheduled maturities of fixed term borrowed funds as of December 31, 2021:

	Weighted Average Rate	Total Amount
2022	0.72%	\$ 15,738,662
2023	3.95%	768,691
2024	3.95%	5,816,609
2025		-
Total		\$ 22,323,962

The Company has a master contract agreement with the FHLB that provides for borrowing capacity levels based on guidelines established by the FHLB. Total potential borrowings are generally limited to the lower of 35% of the Company's total assets or 22.22 times the FHLB stock owned, and includes additional limitations based on pre-determined percentages of the book value of the Company's qualifying real estate loans pledged as collateral. The Company's potential borrowing capacity available may require the purchase of additional FHLB stock to support additional advances up to the total pledged collateral value under current FHLB borrowing guidelines. The Company pledged real estate loans of approximately \$207,226,000 and \$251,782,000 as collateral at December 31, 2021, and 2020, respectively.

The FHLB provides both fixed and floating rate advances. Floating rates are tied to short-term market rates of interest, such as London InterBank Offered Rate (LIBOR), federal funds, or treasury bill rates. Advances with call provisions permit the FHLB to request payment beginning on the call date and quarterly thereafter. FHLB advances are subject to a prepayment penalty if they are repaid prior to maturity. FHLB advances are also secured by \$1,490,000 of FHLB stock owned by the Company at December 31, 2021 and 2020.

At December 31, 2021, the Company's available new advance capacity under this borrowing agreement based on its FHLB stock ownership balance was \$20,842,360.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 13: Other Borrowings (Continued)

The Company has a \$8,000,000 term loan with another community bank. A Change in Terms Agreement was completed October 1, 2021. The balance on the term loan of \$7,323,962 is at a fixed interest rate of 3.95%. Interest is payable quarterly and quarterly principal payments will begin January 1, 2022. This term loan will mature on April 1, 2024, and requires a final payment of the unpaid principal and interest. The loan is secured by the Bank's stock. The term loan agreement is subject to the same financial covenants as detailed under the line of credit agreement in Note 12. In addition, the term loan is subject to an annual declining prepayment penalty if refinanced with another financial institution.

Note 14: Capital Lease Obligations

The Company leases certain equipment under capital lease agreements. These lease agreements require minimum monthly payments ranging from approximately \$181 to \$4,500 and expire in January 2025.

The Company has included these leases in premises and equipment as follows:

	2021	2020
Furniture and equipment	\$ 355,707	509,065
Less Accumulated depreciation and amortization	238,122	320,340
Totals	\$ 117,585	\$ 188,725

Leased assets' amortization is included in depreciation expense and was not material in 2021 and 2020.

The following is a summary by year of the future minimum lease payments under the capital lease obligations, together with the present value of net minimum lease payments as of December 31, 2021:

	Capital Lease
2022	\$ 80,125
2023	30,919
2024	30,919
2025	2,576
-	
Total minimum lease payments	144,539
Less Amount representing imputed interest	12,107
Present value of future minimum lease payments	\$ 132,432

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 15: Income Taxes

The components of the provision for income taxes are as follows as of December 31:

	2021	2020
Current tax expense:		
Federal	\$ 2,205,579	\$ 1,051,340
State	808,582	433,664
Total current	3,014,161	1,485,004
Deferred tax expense (benefit):		
Federal	26,659	324,838
State	83,589	151,880
Total deferred	110,248	476,718
Total provision for income taxes	\$ 3,124,409	\$ 1,961,722

The primary differences between income taxes at the federal statutory rate and the provision for income taxes include state taxes and tax-exempt income.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 15: Income Taxes (Continued)

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The major components of the net deferred tax asset, which is included in other assets on the consolidated balances sheets, as of December 31 are presented below:

	2021	2020
Deferred tax assets:		
Allowance for loan losses	\$ 1,221,948	\$ 1,261,318
State net operating loss carryforwards	922	1,014
Capital lease obligations	36,324	56,148
Other	231,835	257,774
Total deferred tax assets	1,491,029	1,576,254
Deferred tax liabilities:		
Premises and equipment	290,629	409,172
FHLB stock	34,623	34,623
Mortgage servicing rights	593,182	459,368
Unrealized gain (loss) on debt securities available for sale	(7,881)	462,443
Equity investment mark to market	8,641	1,132
Other	17,934	15,691
Total deferred tax liabilities	937,128	1,382,429
Net deferred tax asset	\$ 553,901	\$ 193,825

The Company's policy is to recognize interest and penalties related to income tax issues as components of income tax expense. The Company had no accrual for interest or penalties related to income tax issues as of December 31, 2021 and 2020.

State net operating loss ("NOL") carryforwards totaled \$14,347 and \$15,781 as of December 31, 2021 and 2020, respectively. These NOL carryforwards expire in 2031.

With few exceptions, the Company is no longer subject to federal or state examinations by tax authorities for years before 2017.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 16: Employee Benefit Plans

The Company sponsors a 401(k) profit sharing plan that covers all full-time and part-time employees. Eligible employees can defer a portion of their annual compensation into this 401(k) plan. The Company will match 100% of the amount contributed by an eligible employee up to 4% of the employee's annual compensation.

Each quarter the Company shares with its eligible employees 5% of the Company's after-tax profits from the previous quarter.

Profit sharing and matching contribution expense charged to operations was \$702,040 and \$537,503 for 2021 and 2020, respectively.

Achievement Pay/Incentive Compensation is a discretionary fund that managers can use to reward individuals based on performance and accomplishments. The Company reserves funds each year on a monthly basis as determined by the projected net income. Discretionary payments approved by the President/CEO along with the SVP of Human Resources and paid out of the reserve. If money remains in the reserve account at year-end, the remaining reserve balance will carry over into the following year.

All employees are eligible for achievement pay based on established criteria. A select group of managers and producers are eligible for incentive compensation, which is based on the Company's financial performance and goal achievement.

The President/CEO's bonus is based on the Company's performance measurements established by the Board and is calculated and approved by the Board of Directors. This bonus is also paid from this reserve.

Achievement Pay/Incentive Compensation expenses charged to operations was \$400,000 and \$187,383 for 2021 and 2020, respectively. The reserve accrual for Achievement Pay outstanding as of December 31, 2021 and 2020, was \$368,750 and \$183,122, respectively.

The Company has salary continuation agreements with various executive officers. The agreements provide for the payment of specified amounts upon the employee's retirement or death, which are being accrued over the anticipated remaining period of employment. Amounts accrued and included within other liabilities were \$628,950 and \$715,381 as of December 31, 2021 and 2020, respectively. Expenses recognized for future benefits under these agreements totaled \$42,698 and \$(88,165) in 2021 and 2020, respectively. For the year ending December 31, 2020, salary continuation expense includes a reversal of \$88,165 due to two participants leaving employment causing a reduction of the Company's liability.

In conjunction with the salary continuation agreements, the Company purchased paid-up life insurance on the officers, which provides funding for the payment of benefits. The aggregate death benefits under the insurance contracts were \$16,989,680 and \$16,968,600 as of December 31, 2021 and 2020, respectively. The related aggregate cash surrender value was \$9,128,506 and \$8,912,631 as of December 31, 2021 and 2020, respectively.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 17: Stockholders' Equity and Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by 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 Company'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 assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to Bank Holding Companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Common Equity Tier I, Tier I and Total capital to risk-weighted assets and of Tier I capital to average assets. It is management's opinion, as of December 31, 2021, that the Bank meets all applicable capital adequacy requirements.

As of December 31, 2021, the most recent notification from the regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The payment of dividends by the Bank would be restricted if the Bank does not meet the minimum Capital Conservation Buffer as defined by Basel III regulatory capital guidelines and/or if, after payment of a dividend, the Bank would be unable to maintain satisfactory regulatory capital ratios.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 17: Stockholders' Equity and Regulatory Matters (Continued)

The Bank's actual capital amounts and ratios as of December 31 are presented in the following table:

<i>(Dollars in Thousands)</i>	Actual		For Capital Adequacy Purposes				To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
2021								
Common equity Tier I capital (to risk weighted assets)	\$ 65,115	15.1%	≥	\$ 19,364	4.5%	≥	\$ 27,970	6.5%
Total capital (to risk weighted assets)	69,875	16.2%	≥	34,425	8.0%	≥	43,031	10.0%
Tier I capital (to risk weighted assets)	65,115	15.1%	≥	25,819	6.0%	≥	34,425	8.0%
Tier I capital (to average assets)	65,115	11.0%	≥	23,704	4.0%	≥	29,630	5.0%
2020								
Common equity Tier I capital (to risk weighted assets)	\$ 47,902	11.1%	≥	\$ 19,486	4.5%	≥	\$ 28,146	6.5%
Total capital (to risk weighted assets)	52,840	12.2%	≥	34,642	8.0%	≥	43,302	10.0%
Tier I capital (to risk weighted assets)	47,902	11.1%	≥	25,981	6.0%	≥	34,642	8.0%
Tier I capital (to average assets)	47,902	9.4%	≥	20,355	4.0%	≥	25,444	5.0%

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 18: Commitments, Contingencies, and Credit Risk

Financial Instruments With Off-Balance-Sheet Credit Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual, or notional, amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments. Since some of the commitments are expected to expire without being drawn upon and some of the commitments may not be drawn upon to the total extent of the commitment, the notional amount of these commitments does not necessarily represent future cash requirements.

The following commitments were outstanding at December 31:

	Notional Amount	
	2021	2020
Commitments to extend credit:		
Fixed rate	\$ 95,208,000	\$ 73,329,000
Variable rate	-	-
Commitment to deliver loans to the FHLB Chicago under the Mortgage Partnership Finance Program	9,171,000	22,235,000
Credit card commitments	336,000	478,000
Standby letters of credit	16,086,000	6,216,000
Credit enhancement under the FHLB of Chicago Mortgage Partnership Finance Program	3,458,000	3,324,000

Commitments to extend credit are agreements to lend to a customer at fixed or variable rates 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 amount of collateral obtained upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable; inventory; property, plant, and equipment; real estate; and stocks and bonds.

Credit card commitments are commitments on credit cards issued through the Company and serviced by other companies. These commitments are unsecured.

Standby letters of credit are conditional lending commitments issued by the Company to guarantee the performance of a customer to a third party. Generally, all standby letters of credit issued have expiration dates within one year. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting these commitments. Standby letters of credit are not reflected in the consolidated financial statements since recording the fair value of these guarantees would not have a significant impact on the consolidated financial statements.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 18: Commitments, Contingencies, and Credit Risk (Continued)

The Company participates in the FHLB Mortgage Partnership Finance Program (the "Program"). In addition to entering into forward commitments to sell mortgage loans to a secondary market agency, the Company enters into firm commitments to deliver loans to the FHLB through the Program. Under the Program, loans are funded by the FHLB, and the Company receives an agency fee reported as a component of gain on sale of loans. Once delivered to the Program, the Company provides a contractually agreed-upon credit enhancement and performs servicing of the loans. Under the credit enhancement, the Company is liable for losses on loans delivered to the Program after application of any mortgage insurance and a contractually agreed-upon credit enhancement provided by the Program subject to an agreed-upon maximum. The Company received a fee for this credit enhancement. The Company does not anticipate that any credit losses will be incurred in excess of anticipated credit enhancement fees.

Legal Contingencies

Various legal claims arise from time to time in the normal course of business. In the opinion of management, any liability resulting from such proceedings would not have a material impact on the consolidated financial statements.

Concentration of Credit Risk

The majority of the Company's loans, commitments, and standby letters of credit have been granted to customers in the Company's market area. The concentrations of credit by type are set forth in Note 6. Standby letters of credit were granted primarily to commercial borrowers. Management believes the diversity of the local economy will prevent significant losses in the event of an economic downturn.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 19: Fair Value Measurements

Accounting standards describe three levels of inputs that may be used to measure fair value (the fair value hierarchy). The level of an asset or liability within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement of that asset or liability.

Following is a brief description of each level of the fair value hierarchy:

- Level 1 - Fair value measurement is based on quoted prices for identical assets or liabilities in active markets.
- Level 2 - Fair value measurement is based on: (1) quoted prices for similar assets or liabilities in active markets; (2) quoted prices for identical or similar assets or liabilities in markets that are not active; or (3) valuation models and methodologies for which all significant assumptions are or can be corroborated by observable market data.
- Level 3 - Fair value measurement is based on valuation models and methodologies that incorporate at least one significant assumption that cannot be corroborated by observable market data. Level 3 measurements reflect the Company's estimates about assumptions market participants would use in measuring fair value of the asset or liability.

Some assets and liabilities, such as securities available for sale, are measured at fair value on a recurring basis under GAAP. Other assets and liabilities, such as impaired loans, may be measured at fair value on a nonrecurring basis.

Following is a description of the valuation methodology used for each asset measured at fair value on a recurring or nonrecurring basis, as well as the classification of the asset within the fair value hierarchy:

Debt securities available for sale - Debt securities available for sale are classified as Level 2 measurements within the fair value hierarchy. Level 2 securities include U.S. government and agency securities, obligations of states and political subdivisions, pooled SBA loans, and mortgage-related securities. The fair value measurement of a Level 2 security is obtained from an independent pricing service and is based on recent sales of similar securities and other observable market data.

Loans - Loans are not measured at fair value on a recurring basis. However, loans considered to be impaired (see Note 1) may be measured at fair value on a nonrecurring basis. The fair value measurement of an impaired loan that is collateral dependent is based on the fair value of the underlying collateral. Independent appraisals are obtained that utilize one or more valuation methodologies; typically, they will incorporate a comparable sales approach and an income approach. Management routinely evaluates the fair value measurements of independent appraisers and adjusts those valuations based on differences noted between actual selling prices of collateral and the most recent appraised value. Such adjustments are usually significant and typically result in a Level 3 classification. Nonreal estate collateral may be valued using an appraisal, net book value of the borrower's financial statements or aging reports, adjusted or discounted based on management's expertise and knowledge of the borrower and comparisons to sales of comparable assets, but include significant unobservable data and are, therefore, considered Level 3 classification.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 19: Fair Value Measurements (Continued)

Mortgage servicing rights - Mortgage servicing rights are not measured at fair value on a recurring basis. However, mortgage servicing rights that are impaired (see Note 1) are measured at fair value on a nonrecurring basis. Serviced loan pools are stratified by term and rate ranges, and a valuation model is used to calculate the present value of expected future cash flows for each stratum. When the carrying value of a stratum exceeds its fair value, the stratum is measured at fair value. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as costs to service, a discount rate, custodial earnings rate, ancillary income, default rates and losses, and prepayment speeds. Although some of these assumptions are based on observable market data, other assumptions are based on unobservable estimates of what market participants would use to measure fair value. As a result, the fair value measurement of mortgage servicing rights is considered a Level 3 measurement.

Foreclosed assets - Real estate and other property acquired through or in lieu of loan foreclosure are not measured at fair value on a recurring basis. However, foreclosed assets are initially measured at fair value (less estimated costs to sell) when they are acquired and may also be measured at fair value (less estimated costs to sell) if they become subsequently impaired. The fair value measurement for each asset may be obtained from an independent appraiser or prepared internally. Fair value measurements obtained from independent appraisers generally utilize a market approach based on sales of comparable assets and/or an income approach. Such measurements are usually considered Level 2 measurements. However, management routinely evaluates fair value measurements of independent appraisers by comparing actual selling prices to the most recent appraisals. If management determines significant adjustments should be made to the independent appraisals based on these evaluations, these measurements are considered Level 3 measurements. Fair value measurements prepared internally are based on management's comparisons to sales of comparable assets, but include significant unobservable data and are, therefore, considered Level 3 measurements.

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 19: Fair Value Measurements (Continued)

Information regarding the fair value of assets and liabilities measured at fair value on a recurring basis as of December 31 follows:

	Assets Measured at Fair Value	Recurring Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2021				
Assets:				
Debt securities available for sale:				
U.S. treasury notes and bonds	\$ 7,950,850	\$ -	\$ 7,950,850	\$ -
U.S. sponsored agencies	9,194,451	-	9,194,451	-
Obligations of states and political subdivisions	24,992,600	-	24,992,600	-
Pooled SBA loans	368,037	-	368,037	-
U.S. agency residential mortgage backed securities	22,484,812	-	22,484,812	-
U.S. agency collateralized debt obligations	42,118,805	-	42,118,805	-
Total assets	\$ 107,109,555	\$ -	\$ 107,109,555	\$ -
2020				
Assets:				
Securities available for sale:				
U.S. sponsored agencies	\$ 1,677,590	-	\$ 1,677,590	-
Obligations of states and political subdivisions	16,906,883	-	16,906,883	-
Pooled SBA loans	605,079	-	605,079	-
U.S. agency residential mortgage backed securities	20,919,352	-	20,919,352	-
U.S. agency collateralized debt obligations	14,753,063	-	14,753,063	-
Total assets	\$ 54,861,967	\$ -	\$ 54,861,967	\$ -

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 19: Fair Value Measurements (Continued)

Information regarding the fair value of assets and liabilities measured at fair value on a nonrecurring basis as of December 31 follows:

	Assets Measured at Fair Value	Nonrecurring Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2021				
Impaired loans	\$ 6,976	\$ -	\$ -	\$ 6,976
Mortgage servicing rights	759,303	-	-	759,303
Foreclosed assets	911,666	-	-	911,666
Total assets	\$ 1,677,945	\$ -	\$ -	\$ 1,677,945
2020				
Impaired loans	\$ 3,613,107	\$ -	\$ -	\$ 3,613,107
Mortgage servicing rights	496,017	-	-	496,017
Total assets	\$ 4,109,124	\$ -	\$ -	\$ 4,109,124

First Berlin Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 19: Fair Value Measurements (Continued)

As of December 31, 2021, loans with a carrying amount of \$179,976 were considered impaired and were written down to their estimated fair value of \$6,976. As a result, the Company recognized a specific valuation allowance totaling \$173,000.

As of December 31, 2020, loans with a carrying amount of \$4,120,107 were considered impaired and were written down to their estimated fair value of \$3,613,107. As a result, the Company recognized a specific valuation allowance totaling \$507,000.

As of December 31, 2021, mortgage servicing rights with a carrying amount of \$874,998 were considered impaired and were written down to their estimated fair value of \$759,303. As a result, the Company recognized a specific valuation allowance of \$115,695 as of December 31, 2021.

As of December 31, 2020, mortgage servicing rights with a carrying amount of \$705,423 were considered impaired and were written down to their estimated fair value of \$496,017. As a result, the Company recognized a specific valuation allowance of \$209,406 as of December 31, 2021.

Foreclosed assets with a fair value, net of estimated costs to sell, \$911,666 were acquired through or in lieu of foreclosure as of December 31, 2021. The Company did not recognize an impairment charge for the year ended December 31, 2021.

The following table presents quantitative information about nonrecurring Level 3 fair value measurements at December 31:

2021

Impaired loans	\$ 6,976	Sales comparison	Management discount on appraised values	10%
Mortgage servicing rights	759,303	Discounted cash flows	Discount rate	9%
			Prepayment speeds	10%-13%
			Weighted reserve default rate	0.28%
Foreclosed assets	911,666	Sales comparison	Management discount on appraised values	10%

2020

Impaired loans	\$ 3,613,107	Sales comparison	Management discount on appraised values	10%
Mortgage servicing rights	496,017	Discounted cash flows	Discount rate	9%
			Prepayment speeds	12% 19%