AMB

FINANCIAL CORP.

2019 Annual Report

President's Message
To Our Stockholders:

On behalf of AMB Financial Corp. (the Company), and its wholly owned subsidiary, American Community Bank of Indiana (the Bank or American Community Bank), I am pleased to present our 2019 annual financial report.

Financial highlights:

- Net income available to common shareholders totaled $1,349,000 for 2019 as compared to $1,299,000 for 2018, representing an increase of $50,000, or 3.8%.
- Diluted earnings per share available to common shareholders totaled $1.38 per share for the year ended December 31, 2019 compared to $1.32 per share for 2018.
- Total assets of the Company were $228.6 million at December 31, 2019, an increase of $2.0 million from $226.6 million at December 31, 2018.
- Net loans receivable increased $6.3 million to $181.0 million at December 31, 2019, from $174.7 million at December 31, 2018.
- Deposits increased $0.7 million to $193.3 million at December 31, 2019, from $192.6 million at December 31, 2018.
- Non-accrual loans increased $0.4 million to $2.8 million at December 31, 2019, from $2.4 million at December 31, 2018.
- Classified substandard assets increased $1.4 million to $4.6 million at December 31, 2019, from $3.2 million at December 31, 2018.
- Common stock shares repurchased and retired as treasury stock totaled 21,706 shares at an average cost of $17.02 per share during 2019. The book value per common share outstanding at December 31, 2019 was $20.39.
- The Bank's Tier 1 leverage capital ratio, risked-based common equity Tier 1 capital ratio, Tier 1 capital ratio and risk-based total capital ratios of 9.27%, 11.78%, 11.78% and 12.99%, respectively, at December 31, 2019 exceeded all regulatory requirements and categorize the Bank as well capitalized under applicable regulations.

Our financial performance and stock performance are available on our website at https://www.acbanker.com. I urge you to visit our site to view this information and utilize its other services.

The entire staff of the Bank and the Company appreciates your commitment and support.

Sincerely,

Michael Mellon
President / CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General. AMB Financial Corp. (the "Company") is the bank holding company for American Community Bank of Indiana, (the "Bank") a State of Indiana chartered commercial bank. Collectively, the Company and the Bank are referred to herein as the "Company."

The Company's primary market area consists of the northwest portion of Lake County, Indiana. Business is conducted from our main office at 7880 Wicker Avenue, St. John, Indiana, as well as our four full-service banking offices located in Munster, Dyer, Hammond, and Crown Point, Indiana. The Bank is a community-oriented institution whose business consists primarily of accepting deposits from customers within its market area and investing those funds in mortgage loans secured by residential and non-residential real estate as well as non-real estate commercial and consumer loans. The Company also invests in mortgage-backed and other investment securities.

The Company's results of operations are primarily dependent on net interest income, which is the difference between the interest income on its interest-earning assets, such as loans and securities, and the interest expense on its interest-bearing liabilities, such as deposits and borrowings and to a lesser degree, non-interest income and non-interest expense. Net interest income depends upon the volume of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them, respectively. When the Company’s non-performing assets increase, our volume of interest-earning assets declines, adversely impacting net interest income. Non-interest income primarily consists of fees on deposits and loan products, increase in cash surrender value of life insurance, rental income, income or losses from other real estate owned operations and gains on the sale of loans. The Company's non-interest expenses primarily consist of employee compensation and benefits, professional and legal fees, occupancy and equipment expenses, data processing service fees, federal deposit insurance premiums, and other operating expenses.

The Company's results of operations are also affected by general economic conditions, the monetary and fiscal policies of Federal agencies and the policies of agencies that regulate financial institutions. Future changes in applicable laws, regulations or government policies, which are likely, may have a material impact on the Company. Lending activities are influenced by the demand for real estate loans and other types of loans, competition among lenders, the general level of real estate values, the level of interest rates and the availability of funds. Deposit flows and costs of funds are influenced by prevailing market interest rates, account maturities, and the levels of personal income and savings in the Company's market area.

Status as Non-Reporting Company. We are not subject to the reporting requirements of Section 13 of the Securities Exchange Act of 1934 and accordingly this report has not been prepared in accordance with applicable Securities Exchange Commission rules. This report is intended to cover the year ended December 31, 2019 and should not be read to cover any other periods.

Forward-Looking Statements. The Company and the Bank may from time to time make written or oral “forward-looking statements.” These forward-looking statements may be included in this Annual Report, which are made in good faith by us. These forward-looking statements include statements about our beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond our control. The words “may,” “could,” “should,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan” and similar expressions are intended to identify forward-looking statements. The following factors, among others, could cause our financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in the forward-looking statements:

- the current condition of the United States economy in general and in our local economy (including unemployment) in which we conduct operations;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board and the United States Treasury (“UST”);
- our ability to manage and reduce our non-performing assets;
- our ability to repay our holding company debt, including our $3 million of trust preferred stock, when due;
- the impact of new laws and regulations on financial institutions, the lending market and our regulatory agencies;
- the impact of new regulations imposed by the Federal Reserve System, the Federal Deposit Insurance Corporation (“FDIC”) and the State of Indiana Department of Financial Institutions;
- future deposit premium levels;

- future loan underwriting and consumer protection requirements including those issued by the Consumer Financial Protection Bureau;
- inflation, interest rate, market and monetary fluctuations and its impact on our interest rate sensitive balance sheet;
- the future financial strength, dividend level and activities of the FHLB of Indianapolis in which we own stock and from which we borrow money;
- the timely development of and acceptance of our new products and services and the perceived overall value of these products and services by users, including the features, pricing and quality thereof compared to competitors' products and services;
- the willingness of users to substitute our products and services for products and services of our competitors;
- our ability to reinvest our cash flows in today's interest rate environment;
- our success in gaining regulatory approval of our products and services, when required;
- the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance);
- the impact of technological changes;
- competition from other financial service providers in the Company's market area;
- the success of our executives in managing our business operations;
- the success of our loan restructuring and work out arrangements;
- our ability to accurately estimate the value of our assets and the appropriate level of our allowance for loan losses;
- our ability to lease space in our branch facilities when vacancies occur; and
- future changes in consumer spending and saving habits.

The list of important factors stated above is not exclusive. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company or the Bank.

Operating Strategy. The Company's mission is to maintain its focus as an independent, community-oriented financial institution focused on serving customers in its primary market area. The Board of Directors has sought to accomplish this mission through an operating strategy designed to maintain capital in excess of regulatory requirements, and to manage, to the extent practical, the Company's loan delinquencies and vulnerability to changes in interest rates. The key components of the Company's operating strategy are to: (i) focus its lending operations on the origination of loans secured by one-to-four family residential real estate; (ii) supplement its one-to-four family residential lending activities with non-residential, home equity, multi-family, construction, and business loans in our market area; (iii) augment its lending activities with investments in mortgage-backed and other securities; (iv) emphasize adjustable-rate and/or short and medium duration assets when market conditions permit; (v) build and maintain its regular savings, transaction and money market accounts; and (vi) increase, at a managed pace, to the extent practicable, the volume of the Company's assets and liabilities.

Financial Condition. Total assets of the Company were $228.6 million at December 31, 2019, an increase of $2.0 million, from $226.6 million at December 31, 2018. The increase was primarily due to a $3.4 million increase in mortgage-backed securities, a $6.3 million increase in loans receivable, a $1.1 million increase in other real estate owned, offset in part, by an $8.5 million decline in cash and cash equivalents.

Cash and cash equivalents, which consist primarily of interest-earning deposits, totaled $20.1 million at December 31, 2019, a decrease of $8.5 million, from $28.6 million at December 31, 2018. Cash and cash equivalents can fluctuate significantly on a day-to-day basis due to cash demands, customer deposit levels and loan and investment activity.

Mortgage-backed securities, available for sale, increased $3.4 million to $8.2 million at December 31, 2019, from $4.8 million at December 31, 2018. The increase was the result of new purchases of $5.0 million, offset, in part, by principal repayments of $1.8 million. The Company recorded an unrealized gain on available for sale mortgage-backed securities of $63,000 at December 31, 2019 compared to a $64,000 unrealized loss at December 31, 2018. These amounts are included as part of the carrying cost of mortgage-backed securities, available for sale, at each respective period.

The Bank is a member of the FHLBI and had a $1.4 million investment in stock of the FHLBI at December 31, 2019 and December 31, 2018. Members are required to own a certain amount of stock based on the level of borrowings and other factors. The investment is carried at par value, as there is not an active market for FHLBI stock.

Net loans receivable totaled $181.0 million at December 31, 2019, a $6.3 million increase from the $174.7 million balance at December 31, 2018. The Company originated $32.1 million of loans held for sale which were subsequently sold during the year ended December 31, 2019, as compared to $15.7 million during the prior year. Loans originated for sale are fixed-rate, single-family mortgage loans, which are sold to manage interest rate risk and generate fee income.

The determination of the allowance for loan losses involves material estimates that are susceptible to significant change in the near term. The allowance for loan losses is maintained at a level appropriate to absorb management's estimate of probable incurred losses inherent in the loan portfolio. The provision for loan losses is based upon management's quarterly review of the loan portfolio. The purpose of the review is to assess loan quality, identify impaired loans, analyze delinquencies, ascertain loan growth, evaluate potential charge-offs and recoveries, and assess general economic conditions in the markets that the Company serves. To determine the appropriate level for the allowance for loan losses, management applies historical loss percentages to performing residential real estate, nonresidential real estate, consumer, and commercial business loan balances. In addition, nonperforming loans are evaluated for current collateral deficiencies. When such loans are found to have collateral deficiencies, the deficiency is charged-off to the allowance for loan losses. Management evaluates the results of the allowance for loan losses by applying the historical and subjective loss factors to the current loan balances and identifying any required collateral deficiency reserves for the period. Based upon this analysis, management will record any required loan loss provisions to establish the appropriate level for the allowance for loan losses.

The allowance for loan losses totaled $2.1 million at December 31, 2019, representing a $159,000 increase as compared to December 31, 2018. The Bank's allowance for loan losses to total loans was 1.17% at December 31, 2019 as compared to 1.13% at December 31, 2018. Management believes that the allowance for loan losses is adequate to meet probable incurred loan losses in the portfolio. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in information and economic conditions. In addition, both the FDIC and the Indiana Department of Financial Institutions, as an integral part of their examination process, will periodically review the Bank's allowance for loan losses and may require the Bank to recognize additions to the loan loss allowance based upon their judgments about information available to them at the time of their examination.

Criticized and Classified Assets. The following table sets forth the amounts and categories of non-performing assets and other criticized and classified assets, on the dates indicated.

	December 31, 2019	December 31, 2018
Substandard non-accruing loans:		
One- to four-family	$ 1,998,377	$ 1,543,751
Multi-family	334,761	-
Non-residential	386,917	168,214
Construction	-	358,806
Equity lines of credit	81,552	369,322
Other consumer	880	5,145
Total substandard non-accruing loans	$ 2,802,487	$ 2,445,238
Total loans receivable	$ 183,175,717	$ 176,702,109
Total non-accrual / loans receivable	1.53%	1.38%
Substandard – accruing loans		
Non-residential	$ 557,952	$ 566,514
Total substandard – accruing loans	$ 557,952	$ 566,514
Total loans receivable	$ 183,175,717	$ 176,702,109
Total substandard accruing / loans	0.30%	0.32%
Total classified loans	$ 3,360,439	$ 3,011,752
Total loans receivable	$ 183,175,717	$ 176,702,109
Total classified loans / loans receivable	1.83%	1.70%
Substandard other real estate owned:		
One- to four-family	$ 1,047,717	$ 14,029
Land	$ 169,850	$ 137,350
Total substandard other real estate owned	$ 1,217,567	$ 151,379
Total classified assets	$ 4,578,006	$ 3,163,131
Total assets	$ 228,578,206	$ 226,577,908
Total classified assets / total assets	2.00%	1.40%

Risk Classification of Loans. The Company's policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are of lesser quality as substandard, doubtful, or criticized assets designated as special mention.

A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Risk rating guidance clarifies that a loan with a well-defined weakness does not have to present a probability of default for the loan to be rated substandard, and that an individual loan's loss potential does not have to be distinct for the loan to be rated substandard. An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted; such balances are promptly charged-off as required by applicable federal regulations. A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to enough risk to warrant adverse classification.

Based on a review of the Company's classified assets, loans classified substandard as well as other real estate owned increased $1.4 million to $4.6 million at December 31, 2019. During the year ended December 31, 2019, a borrower relationship totaling $1,759,000 was moved to substandard. The loans are secured by three residential condominium units totaling $1,180,000, a multi-family residential property totaling $335,000 and a non-residential property totaling $244,000.

Non-Performing Loans. Non-performing loans, which consist primarily of those nonaccrual loans which are past due ninety days or more as well as loans less than ninety days past due for which the collectability of principal and interest is in doubt totaled $2.8 million, or 1.53% of total loans receivable at December 31, 2019, compared to $2.4 million, or 1.38% of total loans receivable at December 31, 2018.

Potential Problem Loans. The Company defines potential problem loans as performing loans rated substandard, which do not meet the definition of a non-performing loan. The Company does not necessarily expect to realize losses on potential problem loans but does recognize that potential problem loans carry a higher probability of default and require additional attention by management. As part of its loan review process, the Company evaluates a borrower's financial condition as well as the underlying collateral's cash flows in order to determine the appropriate loan grade/classification. The Company reviews nonresidential real estate loans, commercial business loans and multiple non-owner occupied single-family loans made to the same borrower to determine if these loans should be classified. As a result of these reviews, loans totaling $558,000 were classified as performing substandard at December 31, 2019, compared to $567,000 at December 31, 2018.

The ratio of allowance for loan losses to classified and criticized loans was 63.98% at December 31, 2019, compared to 66.09% at December 31, 2018.

Other real estate owned, which is classified substandard, totaled $1.2 million at December 31, 2019 as compared to $151,000 at December 31, 2018. Other real estate owned at December 31, 2019 consists of three single family residential properties totaling $1.0 million and three vacant residential building lots totaling $170,000. Other real estate owned properties are initially recorded at fair value less estimated cost to sell at acquisition, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. There can be no assurance whether, when, and at what price the Company will be able to sell the remaining inventory of other real estate owned properties.

Office properties and equipment totaled $9.6 million at December 31, 2019, an $80,000 increase from the balance at December 31, 2018. The increase represents additions totaling $489,000, offset, in part, by normal depreciation of $409,000. The increase in fixed asset additions was primarily due to remodeling costs associated with the Company's branch office located in Hammond as well as parking lot repairs for its Dyer and Schererville locations.

Bank owned life insurance decreased $465,000 to $3.8 million at December 31, 2019. The change represents redemption of life insurance totaling $546,000 due to a death benefit claim, offset, in part by an $81,000 increase in the cash surrender value of the life insurance policies. The life insurance policies were purchased in connection with deferred compensation plans utilized by directors and officers of the Company.

Prepaid expenses and other assets decreased $78,000 to $1.5 million at December 31, 2019. Included in prepaid expenses and other assets is a $138,000 net deferred tax asset.

Total deposits increased $0.7 million to $193.3 million at December 31, 2019. The increase in deposits during the period was due to a $7.2 million increase in checking deposits, offset, in part, by a $3.0 million decrease in money market accounts, $0.7 million decrease in passbook deposits and a $2.8 million decline in certificates of deposit accounts. At December 31, 2019, the Bank's core deposits (passbook, checking and money market accounts) comprised $129.0 million, or 66.7% of deposits, compared to $125.5 million, or 65.2% of deposits, at December 31, 2018. Most of the Bank's deposits are derived from core client sources, relating to long-term relationships with local individuals, businesses and municipal entities. The Company does not utilize brokered deposits.

Borrowed money, which consisted of FHLBI advances, decreased $0.2 million to $10.2 million at December 31, 2019. Borrowings from the FHLBI at December 31, 2019 had a weighted average rate of 2.18% and a weighted term to maturity of 2.5 years.

The Company's trust preferred subordinated debentures remained unchanged totaling $3.1 million at December 31, 2019. The interest rate payable on the debentures adjusts quarterly to the three month LIBOR plus 1.65% and was 3.54% at December 31, 2019. These debentures have a contractual maturity date of June 15, 2037 and the Company has the right to redeem the debentures, in whole or in part, on any interest payment date.

Other liabilities increased $0.3 million totaling $2.4 million at December 31, 2019, compared to $2.1 million at December 31, 2018.

Total stockholders' equity increased $1.2 million to $19.7 million, or 8.61% of total assets at December 31, 2019, compared to $18.5 million, or 8.17% of total assets, at December 31, 2018. The increase in stockholders' equity was attributable to $1.3 million of net income for the year ended December 31, 2019, a $55,000 increase in paid-in-capital and a $94,000 decrease in the unrealized loss on available for sale securities, net of tax, offset, in part, by a $336,000 increase in treasury stock. The number of common shares outstanding at December 31, 2019 was 965,352, a decrease of 18,716 shares as compared to the number of shares outstanding at December 31, 2018. During the year ended December 31, 2019, the Company repurchased 21,706 common shares at an average cost of $17.02 per share. The shares were retired as treasury stock. The book value per common share outstanding at December 31, 2019 was $20.39. The Bank's Tier 1 leverage capital ratio, risked-based common equity Tier 1 capital ratio, risk-based Tier 1 capital ratio and risk-based total capital ratio percentages of 9.27%, 11.78%, 11.78% and 12.99%, respectively, at December 31, 2019 exceeded all regulatory requirements and categorize the Bank as well capitalized under applicable regulations.

Comparison of the Results of Operations for the Years Ended December 31, 2019 and December 31, 2018

General. Net income for the year ended December 31, 2019 was $1,349,000, or $1.38 per diluted common share, an increase of $50,000 or 3.8%, compared to $1,299,000, or $1.32 per diluted common share, for the same period in 2018. The increase in the current year net income compared to the prior year was the result of a $735,000 increase in non-interest income and a $4,000 decrease in income tax expense, offset, in part, by a $285,000 decrease in net interest income, an $85,000 increase in the provision for loan losses and a $319,000 increase other non-interest expense.

Interest Income. Total interest income increased $369,000, or 4.1%, to $9.3 million for the year ended December 31, 2019, from the prior year as the result of a $2.6 million increase in the average balance of interest-earning assets outstanding and a 12 basis point increase in the weighted average yield on interest-earning assets to 4.56%.

Interest income on loans receivable increased $272,000, to $8.8 million for the year ended December 31, 2019, as compared to the prior year as the result of a 14 basis point increase in the average yield to 4.86% and a $0.6 million increase in the average balance of loans outstanding. Interest income on mortgage-backed securities increased $101,000 to $176,000 for the year ended December 31, 2019, compared to the prior year as the result of a $3.5 million increase in the average outstanding balance of mortgage-backed securities and a 37 basis point increase in the average yield to 2.53%. Interest income on interest-bearing deposits decreased $22,000 to $317,000 for the year ended December 31, 2019, compared to the prior year as the result of a $1.7 million decrease in the average outstanding balance, offset, in part, by a 7 basis point increase in the average yield to 2.02%. Dividend income on FHLBI stock increased $18,000 to $74,000 for the year ended December 31, 2019, compared to the prior year due to a $258,000 increase in the average balance outstanding and a 39 basis point increase in the average yield to 5.37%.

Interest Expense. Total interest expense increased $655,000, or 32.4%, to $2.7 million for the year ended December 31, 2019, compared to the prior year as the result of an $2.1 million increase in the average balance of interest-bearing liabilities outstanding and a 32 basis point increase in the average cost to 1.34%.

Interest expense on deposits increased $590,000, or 34.2%, to $2.3 million for the year ended December 31, 2019, compared to the prior year as the result of a 32 basis point increase in the average cost of deposits to 1.25%, offset, in part, by a $0.1 million decrease in the average balance of deposits outstanding.

Interest expense on borrowings increased $65,000, or 21.9%, to $360,000 for the year ended December 31, 2019, compared to the prior year as the result of a $2.2 million increase in the average balance of borrowings outstanding and a 4 basis point increase in the average cost to 2.68%.

Net Interest Income. As a result of the above changes in interest income and interest expense, net interest income decreased $285,000 for the year ended December 31, 2019, compared to the prior year ended December 31, 2018. The net interest rate spread decreased 20 basis points to 3.22% for the year ended December 31, 2019, while the net interest margin, expressed as a percentage of average earning assets, decreased 18 basis points to 3.26% for the year ended December 31, 2019.

Provision for Loan Losses. The Company recorded $220,000 in provision for loan losses for the year ended December 31, 2019, compared to $135,000 for the prior year. The provision for loan losses is a function of the allowance for loan loss methodology used to determine the appropriate level of the allowance for inherent loan losses after adjusting for loan charge-offs and recoveries. Loan losses are charged-off against the allowance when it is believed that the loan balance, or a portion of the loan balance, is no longer realizable by the paying capacity of the borrower based on an evaluation of available cash resources and collateral value. Recoveries of amounts previously charged-off are credited to the allowance. The Company recorded net charge-offs of $61,000 for the year ended December 31, 2019, compared to net charge-offs of $75,000 for the prior year ended December 31, 2018.

Non-Interest Income. Non-interest income increased $735,000 to $2.4 million for the year ended December 31, 2019, compared to prior year due primarily to a $377,000 increase in gain on sale of loan income due to an increase in loan sale volume, a $177,000 increase in a non-taxable death benefit gain on Company owned life insurance, an $84,000 increase in miscellaneous income, a $15,000 increase in deposit related fee income, a $25,000 increase in rental income due to the collection of delinquent rents, a $34,000 increase in loan fees and a $19,000 increase in gains on the sale of other real estate owned.

Non-Interest Expense. Non-interest expense increased $319,000 to $7.1 million for the year ended December 31, 2019, compared to prior year primarily as the result of a $120,000 increase in compensation expenses due primarily to increases in salaries and health insurance, a $21,000 increase in occupancy and equipment expenses, a $40,000 increase in data processing expenses, and a $247,000 increase in other operating expenses primarily due to a $170,000 increase in other real estate owned expenses, offset, in part, by a $57,000 decrease in professional expenses and a $45,000 decrease in deposit insurance expenses due to the utilization of a $52,000 FDIC insurance assessment credit applied during the year ended December 31, 2019.

Income Taxes. The Company recorded income tax expense of $413,000 for the year ended December 31, 2019, resulting in an effective tax rate of 23.4%, compared to income tax expense of $417,000, for an effective income tax rate of 24.3%, for the prior year.

The following table presents, for the periods indicated, the total dollar amounts of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. No tax equivalent adjustments were made. All average balances were calculated using average daily balances and include non-accruing loans.

Yield Analysis

(Dollars in thousands)

	Year Ended December 31, 2019			Year Ended December 31, 2018		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets:						
Interest-Earning Assets:						
Loans receivable	$180,483	$8,766	4.86%	$179,882	$8,494	4.72%
Mortgage-backed securities	6,948	176	2.53	3,470	75	2.16
Interest-bearing deposits	15,692	317	2.02	17,398	339	1.95
FHLBI stock	1,372	74	5.37	1,114	55	4.98
Total interest-earning assets	204,495	9,333	4.56	201,864	8,963	4.44
Non interest-earning assets	17,253			16,564		
Total assets	221,748			218,428		
Liabilities and Stockholders' Equity:						
Interest-Bearing Liabilities:						
Passbook accounts	26,999	19	0.07%	28,038	16	0.06%
Demand accounts	93,290	905	0.97	93,591	797	0.85
Certificate accounts	65,548	1,390	2.12	64,319	911	1.42
Total deposits	185,837	2,314	1.25	185,948	1,724	0.93
Borrowings	13,407	360	2.68	11,202	295	2.64
Total interest-bearing liabilities	199,244	2,674	1.34	197,150	2,019	1.02
Non-interest-bearing liabilities	3,525			3,495		
Total liabilities	202,769			200,645		
Stockholders' equity	18,979			17,783		
Total liabilities and stockholders' equity	$221,748			$218,428		
Net interest income / interest rate spread		$6,659	3.22%		$6,944	3.42%
Net interest margin			3.26%			3.44%

Qualitative and Quantitative Disclosure of Market Risk

The principal objectives of the Company's interest rate risk management activities are to: (i) define an acceptable level of risk based on the Company's business focus, economic and regulatory operating environment, capital and liquidity requirements, and performance objectives; (ii) quantify and monitor the amount of interest rate risk inherent in its asset/liability structure; and (iii) modify the Company's asset/liability structure, as necessary, to manage interest rate risk and net interest margins in changing rate environments. Management seeks to achieve these objectives through an analysis of the value of the Company's fair value of equity under different interest rate scenarios and the ratio of interest rate sensitive assets to interest rate sensitive liabilities within specified maturities or repricing periods. The Company does not currently engage in the use of off-balance sheet derivative instruments to control interest rate risk and management does not intend to engage in such activity in the immediate future.

Notwithstanding the Company's interest rate risk management activities, the potential for changing interest rates is an uncertainty that could have an adverse effect on the earnings and net asset value of the Company. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market interest rates could adversely affect net interest income. Similarly, through the prepayment of higher rate long-term loans as well as the rapid repricing of our liquid assets, falling interest rates could result in a decrease in net interest income and net asset value. Also, changes in interest rates usually have an impact on the value of the Company's financial assets. Finally, a flattening or inversion of the "yield curve" (i.e., a narrowing of the spread between long- and short-term interest rates), could adversely impact net interest income to the extent that the Company's assets have a longer average term than its liabilities.

In managing the Company's asset/liability position, the Board and management attempt to manage the Company's interest rate risk while enhancing net interest margins. However, the Board of Directors generally believes that the increased net interest income resulting from a mismatch in the maturity of the Company's asset and liability portfolios can, during periods of declining or stable interest rates and periods in which there is a substantial positive difference between long- and short-term interest rates (i.e., a "positively sloped yield curve"), provide high enough returns to justify the increased exposure to sudden and unexpected increases in interest rates. As a result, the Company's results of operations and net portfolio values remain significantly vulnerable to increases in interest rates and to fluctuations in the difference between long- and short-term interest rates. In particular, our net interest margin has been adversely affected by the recent flat and inverted yield curve interest rate environment.

Presented below, as of December 31, 2019 and 2018, is an analysis of the Bank's interest rate risk as measured by changes in fair value of equity for parallel shifts in the yield curve in basis point increments for both the short and long end of the yield curve. As illustrated in the table, the Bank's fair value of equity is more sensitive to higher rate increases. This occurs in part because, as rates rise, borrowers do not prepay fixed rate loans as quickly as they do when interest rates are declining. Also, the interest the Bank would pay on its deposits in the event of a rate increase would increase more rapidly than the yield on its assets because the Bank's deposits generally have shorter periods to repricing.

Fair Value of Equity

		At December 31, 2019				At December 31, 2018			
		Fair Value of Equity /		Change		Fair Value of Equity /		Change	
Rate Shock	Rate Shift Type	Fair Value of Total Assets	Fair Value of Equity $	$	%	Fair Value of Total Assets	Fair Value of Equity $	$	%
			(dollars in thousands)				(dollars in thousands)		
+400/+400 bp	Instantaneous	8.48%	17,530	(9,118)	(34.22)	7.79%	15,786	(9,179)	(36.77)
+300/+300 bp	12 Months	9.45%	19,954	(6,694)	(25.12)	8.72%	18,033	(6,932)	(27.77)
+200/+200 bp	12 Months	10.37%	22,506	(4,142)	(15.54)	9.69%	20,605	(4,360)	(17.46)
+100/+100 bp	12 Months	11.12%	24,758	(1,890)	(7.09)	10.33%	22,519	(2,446)	(9.80)
Unchanged		11.69%	26,648			11.18%	24,965		
-100/-100 bp	12 Months	11.69%	27,217	569	2.14	11.40%	25,998	1,033	4.14

Certain assumptions in assessing interest rate risk were employed in preparing the preceding table. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates, and the market values of certain assets under the various interest rate scenarios. Even if interest rates change in the designated amounts, there can be no assurance that the Bank's assets and liabilities would perform as set forth above. In addition, an increase or decrease in U.S. Treasury rates in the designated amounts, accompanied by a change in the shape of the Treasury yield curve, would significantly change the results set forth.

Other types of market risk, such as foreign currency exchange risk and commodity price risk, do not arise in the normal course of the Company's business activities.

Liquidity.

The Company's primary sources of funds are deposits, borrowings, principal and interest payments on loans and investment securities and proceeds from the sale of loans. While maturities and scheduled amortization of loans and securities provide a relatively predictable flow of funds, other sources of funds such as loan prepayments and deposit inflows are less predictable due to the effects of changes in interest rates, economic conditions and competition.

The primary investing activities of the Company are the origination of loans for investment in the portfolio and for sale, the purchase of real estate loans and the purchase of investment securities. The Company experienced a net increase in loans of $6.3 million during the year ended December 31, 2019, compared to a net increase in loans of $5.9 million during 2018. The Company experienced a net increase in mortgage-backed securities of $3.4 million during the year ended December 31, 2019, compared to a net increase in mortgage-backed securities of $1.6 million during 2018.

These increases were funded primarily from cash and amounts due from depository institutions, principal repayments on mortgage-backed securities, net increases in deposits and borrowings. The Company experienced a net decrease in cash and amounts due from depository institutions deposits of $8.5 million during the year ended December 31, 2019, compared to a net increase in cash and amounts due from depository institutions of $8.7 million during 2018. Principal repayments on mortgage-backed securities totaled $1.8 million and $0.8 million, respectively for the years ended December 31, 2019 and 2018. The Company experienced a net increase in deposits of $0.7 million during the year ended December 31, 2019, compared to a net increase in deposits of $12.3 million during 2018. Borrowings consist of advances from the FHLBI and other entities. New borrowings totaled $0 during 2019, compared to $5.0 million during 2018. Borrowings of $0.2 million and $1.7 million were repaid in 2019 and 2018, respectively.

The Company may borrow funds from the FHLBI subject to certain limitations. At December 31, 2019, based on the level of qualifying collateral available to secure advances, the Company had an unused borrowing capacity of $43.7 million. At December 31, 2019, the Company also had available $12.5 million of unsecured overnight federal funds borrowing capability from third party sources.

The Company's most liquid assets are cash and cash equivalents, which include highly liquid short-term investments, such as overnight deposits, that are readily convertible to known amounts of cash. The level of these assets is dependent on the Company's operating, financing and investing activities during any given period. At December 31, 2019 and 2018, cash and cash equivalents totaled $20.1 million and $28.6 million, respectively.

The Company had unused construction and commercial lines of credit of $15.1 million, unused home equity lines of credit of $9.1 million and has issued outstanding letters of credit on behalf of third parties totaling approximately $1.1 million at December 31, 2019. The Company anticipates that it will have sufficient funds available to meet its current loan originations and other commitments.

Certificates of deposit scheduled to mature in one year or less from December 31, 2019 totaled $32.5 million. Based on the Company's most recent experience and pricing strategy, management believes that a significant portion of such deposits will remain with the Company.

AMB Financial Corp ("AMB") is the Holding Company of the Bank. The primary source of cash inflows for AMB is through dividend income derived from the Bank and to a lesser extent, income tax reimbursement payments from the Bank. The primary cash outflows are related to repayment of borrowed funds, income taxes, interest on borrowings, common stock repurchases and operating expenses such as legal and administrative expenses. During 2019, AMB recorded cash inflows of $1.6 million and cash outflows of $0.8 million resulting in an increase of $0.8 million to cash and cash equivalents. During 2018, AMB recorded cash inflows of $1.5 million and cash outflows of $1.9 million resulting in a decrease of $0.4 million to cash and cash equivalents. On March 28, 2018, AMB Financial Corp repaid private debt totaling $1.5 million. Cash and cash equivalents totaled $1.7 million and $0.9 million at December 31, 2019 and 2018, respectively.

Capital Standards.

As a state chartered commercial bank, the Bank's deposits are insured up to the applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is a member of the Federal Home Loan Bank ("FHLB") of Indianapolis, which is one of the twelve regional banks comprising the FHLB system. The Bank is regulated by the FDIC and the State of Indiana Department of Financial Institutions. The Holding Company is regulated and examined by the Board of Governors of the Federal Reserve System ("FRB"). Such regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities. Any change in such regulation, whether by the FDIC, State of Indiana Department of Financial Institutions, the FRB or Congress could have a material impact on the Company and its operations.

In July 2013, federal bank regulatory agencies issued a final rule that revised the leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a Tier 1 leverage adequately capitalized ratio of 4.0% (well capitalized ratio of 5.00%), a risked-based common equity Tier 1 adequately capitalized ratio requirement of 4.50% (well capitalized ratio of 6.50%), a risked-based Tier 1 adequately capitalized capital ratio requirement of 6.00% (well capitalized ratio of 8.00%) and a risk-based total capital adequately capitalized ratio of 8.00% (well capitalized ratio of 10.00%). The final rule also required unrealized gains and losses on certain "available-for-sale" securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-in or opt-out is exercised. The Bank elected to opt-out regarding the aforementioned. The rule limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements.

This final rule became effective for the Bank on January 1, 2016. The capital conservation buffer requirement was fully phased in on January 1, 2019. The final rule maintains the continued exemption of consolidated capital requirements for bank holding companies, such as the Company.

The Bank may not declare or pay cash dividends on, or repurchase any of its shares of common stock if the effect thereof would cause equity to be reduced below applicable regulatory capital requirements. The Bank declared and paid a cash dividend to the Company totaling approximately $500,000 at December 31, 2019. Regarding the prior 2018 year, the Bank declared a dividend to the Company totaling approximately $779,000 at December 31, 2018 and subsequently paid the cash dividend to the Company on January 28, 2019.

Impact of Inflation and Changing Prices

The consolidated financial statements and related data presented herein have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company's operations. Unlike industrial companies, nearly all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

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Independent Auditor's Report

To the Audit Committee and the Board of Directors
AMB Financial Corp. and Subsidiary

We have audited the accompanying consolidated financial statements of AMB Financial Corp. and its wholly owned subsidiary, American Community Bank of Indiana, which comprise the consolidated balance sheet as of December 31, 2019 and 2018 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AMB Financial Corp. and Subsidiary as of December 31, 2019 and 2018 and the results their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

January 29, 2020

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Consolidated Balance Sheet

December 31, 2019 and 2018

	2019	2018
Assets		
Cash and amounts due from depository institutions	$ 1,886,373	$ 2,017,311
Interest-bearing deposits in other depository institutions	18,241,353	26,598,024
Total cash and cash equivalents	20,127,726	28,615,335
Mortgage-backed securities - Available for sale (Note 4)	8,244,821	4,798,786
Federal Home Loan Bank of Indianapolis stock	1,372,000	1,372,000
Loans held for sale (Note 6)	924,170	824,728
Loans receivable - Net (Note 5)	181,025,719	174,711,535
Other real estate owned	1,217,567	151,379
Office properties and equipment - Net (Note 7)	9,596,876	9,516,894
Accrued interest receivable	709,546	683,752
Bank-owned life insurance	3,840,169	4,305,588
Prepaid expenses and other assets	1,519,612	1,597,911
Total assets	**$ 228,578,206**	**$ 226,577,908**
Liabilities and Stockholders' Equity		
Liabilities		
Deposits (Note 8)	$ 193,294,379	$ 192,551,877
Borrowed funds (Note 9)	10,172,947	10,335,019
Junior subordinated debentures (Note 10)	3,093,000	3,093,000
Other liabilities	2,338,422	2,080,966
Total liabilities	208,898,748	208,060,862
Stockholders' Equity		
Common stock - Voting - $0.01 par value - Authorized - 1,900,000 shares Issued - 1,683,641 shares Outstanding - 965,352 and 984,068 shares at December 31, 2019 and 2018, respectively	16,837	16,837
Additional paid-in capital	11,665,843	11,610,546
Retained earnings	16,022,234	14,673,158
Accumulated other comprehensive income (loss) - Net	44,400	(49,517)
Treasury stock - 718,289 and 699,573 shares at December 31, 2019 and 2018, respectively	(8,069,856)	(7,733,978)
Total stockholders' equity	19,679,458	18,517,046
Total liabilities and stockholders' equity	**$ 228,578,206**	**$ 226,577,908**

See notes to consolidated financial statements.

Consolidated Statement of Income

Years Ended December 31, 2019 and 2018

	2019	2018
Interest and Dividend Income		
Interest on loans	$ 8,765,624	$ 8,493,961
Interest on mortgage-backed securities	176,045	74,874
Interest on interest-bearing deposits in other depository institutions	317,091	338,863
Dividends on Federal Home Loan Bank stock	73,731	55,528
Total interest and dividend income	9,332,491	8,963,226
Interest Expense		
Interest on deposits	2,313,763	1,723,977
Interest on borrowings	359,923	295,207
Total interest expense	2,673,686	2,019,184
Net Interest Income	6,658,805	6,944,042
Provision for Loan Losses	220,215	135,000
Net Interest Income after Provision for Loan Losses	6,438,590	6,809,042
Noninterest Income		
Loan fees and service charges	487,263	453,433
Deposit-related fees	311,815	296,521
Other fee income	89,732	93,893
Rental income	371,458	345,978
Gain on sale of loans	675,550	298,809
Gain on sale of other real estate owned - Net	40,354	21,106
Increase in cash surrender of value of bank-owned life insurance	80,765	72,784
Benefit from bank-owned life insurance	176,706	-
Other income	179,872	96,220
Total noninterest income	2,413,515	1,678,744
Noninterest Expense		
Salaries and employee benefits	3,890,785	3,770,815
Occupancy and equipment	799,865	778,445
Data processing	723,468	682,964
Professional fees	212,004	269,314
Advertising	235,364	235,658
Federal deposit insurance premiums	95,459	140,917
Insurance	105,128	112,068
Other operating expenses	1,028,183	781,332
Total noninterest expense	7,090,256	6,771,513
Income - Before income taxes	1,761,849	1,716,273
Income Tax Expense (Note 13)	412,773	417,096
Net Income	**$ 1,349,076**	**$ 1,299,177**
Earnings per common share - Basic	$ 1.39	$ 1.32
Earnings per common share - Diluted	$ 1.38	$ 1.32

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Years Ended December 31, 2019 and 2018

	2019	2018
Net Income	$ 1,349,076	$ 1,299,177
Other Comprehensive Income (Loss) - Unrealized gains (losses) on securities available for sale arising during the period - Net of tax	93,917	(21,873)
Comprehensive Income	**$ 1,442,993**	**$ 1,277,304**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Stockholders' Equity

Years Ended December 31, 2019 and 2018

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income - Net	Retained Earnings	Treasury Stock	Total
Balance - January 1, 2018	$ 16,837	$ 11,564,353	$ (27,644)	$ 13,373,981	$ (7,760,843)	$ 17,166,684
Comprehensive income (loss):						
Net income	-	-	-	1,299,177	-	1,299,177
Other comprehensive loss - Net	-	-	(21,873)	-	-	(21,873)
Vesting of 2,430 shares of restricted stock - Issued from treasury stock	-	(26,865)	-	-	26,865	-
Stock-based compensation expense	-	73,058	-	-	-	73,058
Balance - December 31, 2018	16,837	11,610,546	(49,517)	14,673,158	(7,733,978)	18,517,046
Comprehensive income:						
Net income	-	-	-	1,349,076	-	1,349,076
Other comprehensive income - Net	-	-	93,917	-	-	93,917
Vesting of 2,990 shares of restricted stock - Issued from treasury stock	-	(33,535)	-	-	33,535	-
Stock-based compensation expense	-	88,832	-	-	-	88,832
Repurchase of 21,706 shares of common stock	-	-	-	-	(369,413)	(369,413)
Balance - December 31, 2019	**$ 16,837**	**$ 11,665,843**	**$ 44,400**	**$ 16,022,234**	**$ (8,069,856)**	**$ 19,679,458**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Net income	$ 1,349,076	$ 1,299,177
Adjustments to reconcile net income to net cash and cash equivalents from operating activities:		
Depreciation	409,422	402,500
Amortization of premiums and accretion of discounts	(96,877)	50,589
Proceeds from sale of loans originated for sale	32,700,280	15,953,684
Loans originated for sale	(32,124,172)	(15,730,754)
Gain on sale of loans	(675,550)	(298,809)
Gain on sale of other real estate owned - Net	(40,354)	(21,106)
Provision for loan losses	220,215	135,000
Deferred tax expense	89,107	129,142
Stock-based compensation expense	88,832	73,058
Net change in:		
Increase in cash surrender value of life insurance	(80,765)	(72,784)
Increase in net deferred loan fees	53,357	38,063
Increase in accrued interest receivable	(25,794)	(59,749)
Decrease in other assets	285,249	304,171
Increase (decrease) in other liabilities	156,156	(597,003)
Net cash and cash equivalents provided by operating activities	2,308,182	1,605,179
Cash Flows from Investing Activities		
Proceeds from the repayments of mortgage-backed securities	1,779,642	819,342
Purchase of securities	(5,001,993)	(2,539,265)
Net increase in loans	(8,444,612)	(6,417,710)
Proceeds from sale of other real estate owned	702,338	196,762
Office property and equipment expenditures - Net	(489,404)	(202,113)
Purchase of FHLB stock	-	(422,300)
Improvements to other real estate owned	(98,963)	-
Proceeds from life insurance policies	546,184	-
Net cash and cash equivalents used in investing activities	(11,006,808)	(8,565,284)
Cash Flows from Financing Activities		
Net increase in deposits	634,161	12,342,870
Proceeds from borrowed funds	-	5,000,000
Repayment of borrowed funds	(162,072)	(1,671,915)
Increase (decrease) in advance payments by borrowers for taxes and insurance	108,341	(31,070)
Repurchase of treasury stock	(369,413)	-
Net cash and cash equivalents provided by financing activities	211,017	15,639,885
Net (Decrease) Increase in Cash and Cash Equivalents	(8,487,609)	8,679,780
Cash and Cash Equivalents - Beginning of year	28,615,335	19,935,555
Cash and Cash Equivalents - End of year	**$ 20,127,726**	**$ 28,615,335**
Supplemental Cash Flow Information		
Interest paid	$ 2,673,457	$ 2,009,983
Income taxes paid	225,000	175,000
Transfer of loans to other real estate owned	1,629,209	189,685

See notes to consolidated financial statements.

Note 1 - Nature of Business

AMB Financial Corp. and Subsidiary (the "Company"), a Delaware corporation headquartered in St. John, Indiana, is the owner of all of the issued and outstanding capital stock of American Community Bank of Indiana (the “Bank”). The Bank is a State of Indiana commercial bank offering a full range of financial services to customers who are primarily located within northwest Indiana. The Bank is principally engaged in the business of attracting deposits from the general public and using such deposits to originate residential and commercial mortgage loans, as well as other types of consumer and commercial loans.

Note 2 - Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements (the "financial statements") include the accounts of the Company and its wholly owned subsidiary, the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of investment securities and other real estate owned.

Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash and balances due from depository institutions, interest-bearing deposits in other depository institutions, and federal funds sold that mature within 90 days.

Mortgage-backed Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities bought and held principally for the purpose of selling in the near term are classified as "trading" and are reported at fair value, with unrealized gains and losses included in earnings. Securities not classified as held to maturity or trading are classified as "available for sale" and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. All investment securities at December 31, 2019 and 2018 are classified as available for sale.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Company conducts periodic reviews of held-to-maturity and available-for-sale securities with declines in fair value below their cost to evaluate if the impairment is other than temporary. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, and (3) 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. Impairments of debt securities are recorded through earnings as realized losses.

Note 2 - Significant Accounting Policies (Continued)

Federal Home Loan Bank Stock

The Bank, as a member of the Federal Home Loan Bank of Indianapolis (FHLB), is required to maintain an investment in the capital stock of the FHLB. No ready market exists for the stock, and it has no quoted market value. The stock is redeemable at par by the FHLB and is, therefore, carried at cost and periodically evaluated for impairment. Dividends are recorded in income on the dividend date.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at estimated fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recognized in a valuation allowance and charged to earnings.

Loans Receivable

The Bank primarily grants commercial and mortgage loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout the northwest Indiana area. The ability of the Bank's debtors to honor their contracts is dependent upon the general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any net deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment to the related loan's yield using the interest method. Loans are recorded net of $498,122 and $444,765 of net deferred fees as of December 31, 2019 and 2018, respectively.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method, 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.

Loans are considered delinquent when customers fail to make their payments in accordance with the contractual loan agreement. If a loan matures and principal remains outstanding, the loan is considered delinquent until the loan is paid off or renewed.

Allowance for Loan Losses

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

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

The allowance consists of both specific valuation reserves and general reserves. The specific reserves relate to loans that are classified as impaired, and an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan. The general component covers all other loans and is based on historical loss experience adjusted for qualitative factors.

Note 2 - Significant Accounting Policies (Continued)

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including 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. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate; the loan's obtainable market price; or the fair value of the collateral, typically less estimated selling costs, if the loan is collateral dependent.

A troubled debt restructuring of a loan is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule. All modified loans are evaluated to determine whether the loan should be reported as a troubled debt restructuring (TDR). A loan is a TDR when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower by modifying or renewing a loan under terms that the Company would not otherwise consider. To make this determination, the Company must determine whether (a) the borrower is experiencing financial difficulties and (b) the Company granted the borrower a concession. This determination requires consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some level of deterioration in a borrower's financial condition does not inherently mean the borrower is experiencing financial difficulties and the loan is classified as impaired.

Some of the factors considered by management when determining whether a borrower is experiencing financial difficulties are the following: (1) is the borrower currently in default on any of its debts; (2) has the borrower declared or is the borrower in the process of declaring bankruptcy; and (3) absent the current modification, would the borrower likely default.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the fair value of the real estate, less estimated costs to sell, at the date of the foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and write-downs required by changes in estimated fair value are charged to earnings through a valuation allowance and reported in other noninterest expenses. Revenue and expenses from operations are also included in other noninterest expenses.

Office Properties and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation, computed on the straight-line method over the estimated useful lives of the assets. Construction in progress and related costs are capitalized and are not depreciated until placed into service. Useful lives are 25 to 49 years for office properties and 3 to 10 years for furniture, fixtures, and equipment.

Bank-owned Life Insurance

The Bank has purchased life insurance policies on certain of its key employees and directors. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized immediately upon liquidation of the policies.

Note 2 - Significant Accounting Policies (Continued)

Mortgage Servicing Rights

The Company generally retains the right to service mortgage loans sold to others. The mortgage servicing rights have been recognized as a separate asset and are being amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income, using a method that approximates a level yield and taking into consideration prepayment of the underlying loans. Mortgage servicing rights are periodically evaluated for impairment based on the fair value of those rights. Fair values are estimated using discounted cash flows based on current market rates of interest. The carrying value of the Company's mortgage servicing rights, in relation to estimated servicing values, and the related amortization are reviewed by management on a quarterly basis. See Note 6 for a discussion of the current year's impact on the Company's financial position and results of operations.

Income Taxes

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

At December 31, 2019 and 2018, the Company evaluated tax positions taken for filing with the Internal Revenue Service and all state jurisdictions in which it operates. The Company believes that income tax filing positions will be sustained under examination and does not anticipate any adjustments that would result in a material adverse effect on the Company's financial condition, results of operations, or cash flows. Accordingly, the Company has not recorded any reserves or related accruals for interest and penalties for uncertain tax positions at December 31, 2019 and 2018.

Comprehensive Income

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

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 their maturity.

Off-balance-sheet Instruments

In the ordinary course of business, the Company has entered into commitments under commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Reclassification

Certain amounts appearing in the prior year's consolidated financial statements have been reclassified to conform to the current year's consolidated financial statements.

Note 2 - Significant Accounting Policies (Continued)

Stock Options

The Company measures the cost of employee services received in exchange for equity awards, including shares under employee stock purchase plans, stock options, restricted stock, and stock appreciation rights, based on the calculated grant date fair value of the awards. The cost is recognized as compensation expense over the vesting period of the awards.

Earnings per Share

Basic earnings per share are computed by dividing net income by the weighted-average number of shares outstanding during each year. There was a weighted average of 971,291 and 982,657 common shares outstanding for the years ended December 31, 2019 and 2018, respectively. Stock options and restricted stock awards are regarded as future common stock and are considered in the earnings per share calculations and are the only other adjustments made in computing diluted earnings per share. See Note 15 for further details.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including January 29, 2020, which is the date the financial statements were available to be issued.

New Accounting Pronouncement

Effective January 1, 2019, the Company adopted Accounting Standards Update (ASU) No. 2016-02, *Leases*. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Previously, leases were classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the previous guidance. There was no impact on the Company's consolidated financial statements upon the adoption of this new standard, as the Company does not currently lease any branch locations or significant equipment.

Upcoming Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes increased disclosures and various changes to the accounting and measurement of financial assets, including the Company's loans and available-for-sale and held-to-maturity debt securities. Each financial asset presented on the balance sheet would have a unique allowance for credit losses valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current GAAP and, instead, reflect an entity's current estimate of all expected credit losses using reasonable and supportable forecasts. In October 2019, the FASB voted and approved proposed changes to the effective date of this ASU for smaller reporting companies and other non-SEC reporting entities, such as the Company. The new credit loss guidance will be effective for the Company's year ending December 31, 2023. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the first reporting period in which the guidance is effective. The Company believes this standard will have an impact on its future financial statements and is currently assessing the significance thereof. Part of the Company's assessment has revolved around the selection of a methodology. The Company is currently evaluating the static open pool method, as well as the weighted-average remaining maturity method, and has started gathering data required under both methodologies.

Note 3 - Restrictions on Cash and Amounts Due from Banks

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2019 and 2018, these reserve balances amounted to $2,125,000 and $1,791,000, respectively.

Note 4 - Mortgage-backed Securities - Available for Sale

The amortized cost and estimated fair value of mortgage-backed securities, with gross unrealized gains and losses, are as follows:

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 8,182,253	$ 83,713	$ (21,145)	$ 8,244,821

	2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 4,863,025	$ 6,375	$ (70,614)	$ 4,798,786

At December 31, 2019 and 2018, there were no mortgage-backed securities pledged for any purpose.

For the years ended December 31, 2019 and 2018, there were no sales of mortgage-backed securities. Accordingly, there were no gross realized gains or losses on the sale of securities for the years ended December 31, 2019 and 2018.

There were 13 and 23 mortgage-backed securities in an unrealized loss position as of December 31, 2019 and 2018, respectively. Information pertaining to mortgage-backed securities with gross unrealized losses at December 31, 2019 and 2018, aggregated by length of time that individual mortgage-backed securities have been in a continuous loss position, is as follows:

	2019					
	Less than 12 Months		12 Months or Greater		Total	
	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ (9,589)	$ 1,928,509	$ (11,556)	$ 1,096,946	$ (21,145)	$ 3,025,455

	2018					
	Less than 12 Months		12 Months or Greater		Total	
	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ (9,534)	$ 2,190,978	$ (61,080)	$ 1,913,673	$ (70,614)	$ 4,104,651

Unrealized losses on mortgage-backed securities have not been recognized into income because the issuers' bonds are of high credit quality, the Company has the intent and ability to hold the mortgage-backed securities for the foreseeable future, and the declines in fair value are primarily due to increased market interest rates and market volatility. The fair value is expected to recover as the bonds approach their maturity dates.

Note 5 - Loans and Allowance for Loan Losses

A summary of the balances of loans is as follows:

	2019	2018
One-to-four family	$ 63,990,654	$ 64,544,007
Multifamily	5,370,038	6,190,946
Nonresidential	71,949,284	62,158,867
Construction	10,495,108	10,477,557
Land	8,193,394	7,278,765
Equity lines of credit	10,030,826	9,617,544
Other consumer	818,734	962,404
Commercial business loans	12,327,681	15,472,019
Total loans	183,175,719	176,702,109
Less allowance for loan losses	2,150,000	1,990,574
Net loans	$ 181,025,719	$ 174,711,535
Allowance for loan losses as a percentage of loans	1.17 %	1.13 %

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates amounting to approximately $1,736,000 and $1,845,000 at December 31, 2019 and 2018, respectively. Such loans are made on substantially the same terms as those for other loan customers.

The Company's activity in the allowance for loan losses for December 31, 2019 and 2018, by loan segment, is summarized below:

	Year Ended December 31, 2019				
	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Allowance for loan losses:					
One-to-four family	$ 598,386	$ (13,521)	$ 49,850	$ 32,491	$ 667,206
Multifamily	43,857	-	-	(10,241)	33,616
Nonresidential	837,620	-	-	142,909	980,529
Construction	152,864	(1,485)	-	(16,014)	135,365
Land	79,426	-	-	3,459	82,885
Equity lines of credit	82,809	(92,003)	-	110,677	101,483
Other consumer	24,120	(3,882)	118	1,387	21,743
Commercial business loans	171,492	-	134	(44,453)	127,173
Total	$ 1,990,574	$ (110,891)	$ 50,102	$ 220,215	$ 2,150,000

	Year Ended December 31, 2018				
	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Allowance for loan losses:					
One-to-four family	$ 770,735	$ (7,920)	$ 82,560	$ (246,989)	$ 598,386
Multifamily	51,751	-	-	(7,894)	43,857
Nonresidential	627,246	(112,878)	-	323,252	837,620
Construction	120,398	-	-	32,466	152,864
Land	93,997	-	-	(14,571)	79,426
Equity lines of credit	67,834	(42,048)	-	57,023	82,809
Other consumer	17,411	-	-	6,709	24,120
Commercial business loans	181,685	-	4,803	(14,996)	171,492
Total	$ 1,931,057	$ (162,846)	$ 87,363	$ 135,000	$ 1,990,574

Note 5 - Loans and Allowance for Loan Losses (Continued)

The allowance for loan losses and loan balances as of December 31, 2019 and 2018, by loan segment, are as follows:

	Year Ended December 31, 2019		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance
Ending allowance attributable to loans:			
One-to-four family	$ 209,467	$ 457,739	$ 667,206
Multifamily	-	33,616	33,616
Nonresidential	14,791	965,738	980,529
Construction	-	135,365	135,365
Land	-	82,885	82,885
Equity lines of credit	-	101,483	101,483
Other consumer	-	21,743	21,743
Commercial business loans	-	127,173	127,173
Total	$ 224,258	$ 1,925,742	$ 2,150,000

	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance
Ending loans:			
One-to-four family	$ 2,218,291	$ 61,772,363	$ 63,990,654
Multifamily	334,761	5,035,277	5,370,038
Nonresidential	386,917	71,562,367	71,949,284
Construction	-	10,495,108	10,495,108
Land	-	8,193,394	8,193,394
Equity lines of credit	81,552	9,949,274	10,030,826
Other consumer	880	817,854	818,734
Commercial business loans	-	12,327,681	12,327,681
Total	$ 3,022,401	$ 180,153,318	$ 183,175,719

	Year Ended December 31, 2018		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance
Ending allowance attributable to loans:			
One-to-four family	$ 29,573	$ 568,813	$ 598,386
Multifamily	-	43,857	43,857
Nonresidential	-	837,620	837,620
Construction	-	152,864	152,864
Land	-	79,426	79,426
Equity lines of credit	-	82,809	82,809
Other consumer	-	24,120	24,120
Commercial business loans	-	171,492	171,492
Total	$ 29,573	$ 1,961,001	$ 1,990,574

Note 5 - Loans and Allowance for Loan Losses (Continued)

	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance
Ending loans:			
One-to-four family	$ 1,768,390	$ 62,775,617	$ 64,544,007
Multifamily	-	6,190,946	6,190,946
Nonresidential	168,214	61,990,653	62,158,867
Construction	358,806	10,118,751	10,477,557
Land	-	7,278,765	7,278,765
Equity lines of credit	369,322	9,248,222	9,617,544
Other consumer	5,145	957,259	962,404
Commercial business loans	-	15,472,019	15,472,019
Total	$ 2,669,877	$ 174,032,232	$ 176,702,109

Credit Risk Grading

The Company categorized each loan into credit risk categories based on current financial information, overall debt service coverage, comparison against industry averages, collateral coverage, historical payment experience, and current economic trends. The Company uses the following definitions for credit risk ratings:

Pass

Credits not covered by the below definitions are pass credits, which are not considered to be adversely rated.

Watch

Loans classified as watch credits have a potential weakness or weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard

Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution may sustain some loss if the deficiencies are not corrected.

Doubtful

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

Note 5 - Loans and Allowance for Loan Losses (Continued)

The Company's credit quality indicators, by loan segment, at December 31, 2019 and 2018, are summarized below:

	December 31, 2019				
	Pass	Watch	Substandard	Doubtful	Ending Balance
One-to-four family	$ 61,504,411	$ 487,866	$ 1,998,377	$ -	$ 63,990,654
Multifamily	5,035,277	-	334,761	-	5,370,038
Nonresidential	70,660,034	344,381	944,869	-	71,949,284
Construction	10,495,108	-	-	-	10,495,108
Land	8,048,248	145,146	-	-	8,193,394
Equity lines of credit	9,355,376	593,898	81,552	-	10,030,826
Other consumer	730,345	87,509	880	-	818,734
Commercial business loans	10,835,428	1,492,253	-	-	12,327,681
Total	$ 176,664,227	$ 3,151,053	$ 3,360,439	$ -	$ 183,175,719

	December 31, 2018				
	Pass	Watch	Substandard	Doubtful	Ending Balance
One-to-four family	$ 62,376,421	$ 623,835	$ 1,543,751	$ -	$ 64,544,007
Multifamily	6,190,946	-	-	-	6,190,946
Nonresidential	61,179,805	244,334	734,728	-	62,158,867
Construction	8,940,158	1,178,593	358,806	-	10,477,557
Land	7,118,774	159,991	-	-	7,278,765
Equity lines of credit	9,228,261	19,961	369,322	-	9,617,544
Other consumer	957,259	-	5,145	-	962,404
Commercial business loans	15,472,019	-	-	-	15,472,019
Total	$ 171,463,643	$ 2,226,714	$ 3,011,752	$ -	$ 176,702,109

Age Analysis of Past-due Loans

The Company's age analysis of past-due loans, by loan segment, at December 31, 2019 and 2018 is summarized below:

	December 31, 2019					
	30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
One-to-four family	$ 1,103,493	$ 1,659,170	$ 2,762,663	$ 61,227,991	$ 63,990,654	$ -
Multifamily	-	60,000	60,000	5,310,038	5,370,038	-
Nonresidential	89,112	760,868	849,980	71,099,304	71,949,284	557,952
Construction	-	-	-	10,495,108	10,495,108	-
Land	114,373	-	114,373	8,079,021	8,193,394	-
Equity lines of credit	856,926	62	856,988	9,173,838	10,030,826	-
Other consumer	258,227	880	259,107	559,627	818,734	-
Commercial business loans	1,492,253	-	1,492,253	10,835,428	12,327,681	-
Total	$ 3,914,384	$ 2,480,980	$ 6,395,364	$ 176,780,355	$ 183,175,719	$ 557,952

Note 5 - Loans and Allowance for Loan Losses (Continued)

	December 31, 2018					
	30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
One-to-four family	$ 1,139,248	$ 1,344,592	$ 2,483,840	$ 62,060,167	$ 64,544,007	$ -
Multifamily	-	-	-	6,190,946	6,190,946	-
Nonresidential	692,967	168,214	861,181	61,297,686	62,158,867	-
Construction	-	358,806	358,806	10,118,751	10,477,557	-
Land	-	-	-	7,278,765	7,278,765	-
Equity lines of credit	194,176	215,139	409,315	9,208,229	9,617,544	-
Other consumer	85,778	5,145	90,923	871,481	962,404	-
Commercial business loans	113,086	-	113,086	15,358,933	15,472,019	-
Total	$ 2,225,255	$ 2,091,896	$ 4,317,151	$ 172,384,958	$ 176,702,109	$ -

Impaired Loans

A loan is considered impaired when it is probable that not all principal and interest amounts due will be collected according to the loan contract. Individual commercial loans are evaluated for impairment. Impaired loans are written down by the establishment of a specific allowance where necessary.

The Company's impaired loans, by loan segment, at December 31, 2019 and 2018 are summarized below:

	As of and for the Year Ended December 31, 2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With no related allowance recorded:					
One-to-four family	$ 583,284	$ 1,214,695	$ -	$ 930,481	$ 8,301
Multifamily	334,761	339,265	-	345,566	11,528
Nonresidential	142,916	265,275	-	155,694	-
Equity lines of credit	81,552	81,552	-	89,702	5,699
Other consumer	880	9,021	-	8,229	699
Total with no related allowance recorded	1,143,393	1,909,808	-	1,529,672	26,227
With an allowance recorded:					
One-to-four family	1,635,007	1,682,046	209,467	1,635,636	39,996
Nonresidential	244,001	247,331	14,791	246,250	7,700
Total	$ 3,022,401	$ 3,839,185	$ 224,258	$ 3,411,558	$ 73,923

Note 5 - Loans and Allowance for Loan Losses (Continued)

	As of and for the Year Ended December 31, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With no related allowance recorded:					
One-to-four family	$ 1,543,751	$ 2,182,404	$ -	$ 1,856,703	$ 47,957
Nonresidential	168,214	290,573	-	309,388	5,880
Construction	358,806	508,226	-	358,806	-
Land	-	-	-	69,351	5,009
Equity lines of credit	369,322	396,479	-	392,177	8,312
Other consumer	5,145	9,523	-	6,271	464
Total with no related allowance recorded	2,445,238	3,387,205	-	2,992,696	67,622
With an allowance recorded - One-to-four family	224,639	233,596	29,573	226,930	9,739
Total	$ 2,669,877	$ 3,620,801	$ 29,573	$ 3,219,626	$ 77,361

For the purpose of the disclosure above, recorded investment represents the borrower's unpaid principal balance less partial charge-offs to date, if any.

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

Nonaccrual Loans

The Company's loans on nonaccrual status, by loan segment, at December 31, 2019 and 2018 are summarized below:

	2019	2018
One-to-four family	$ 1,998,377	$ 1,543,751
Multifamily	334,761	-
Nonresidential	386,917	168,214
Construction	-	358,806
Equity lines of credit	81,552	369,322
Other consumer	880	5,145
Total	$ 2,802,487	$ 2,445,238

Troubled Debt Restructurings

A modification of a loan constitutes a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Company offers various types of concessions when modifying a loan; however, forgiveness of principal is rarely granted.

During 2019, there was one troubled debt restructuring for a one-to-four family loan that had a premodification and postmodification recorded investment of approximately $235,000. There were no troubled debt restructurings during 2018.

There were no loans modified as TDRs that subsequently defaulted within the same calendar year.

Note 6 - Loan Servicing

The Bank will, from time to time, sell loans to the Federal Home Loan Bank of Indianapolis (FHLB). As such, the Bank may designate a portion of the loan portfolio to be classified as held for sale. There was $924,170 and $824,728 in loans classified as held for sale at December 31, 2019 and 2018, respectively. During the years ended December 31, 2019 and 2018, the Bank sold first mortgage loans approximating $32,025,000 and $15,731,000, respectively, to the FHLB and recognized gains of approximately $448,000 and $195,000, respectively, for the years then ended.

The Company retains the servicing on loans sold to the FHLB and recognized a gain of approximately $228,000 and $103,000 for the years ended December 31, 2019 and 2018, respectively, from the establishment of a mortgage servicing right asset. The carrying value of the Company's mortgage servicing rights was approximately $389,000 and $341,000 at December 31, 2019 and 2018, respectively. During the years ended December 31, 2019 and 2018, the Company amortized approximately $179,000 and $109,000, respectively, of mortgage servicing rights against current servicing fee income.

Loans serviced for the FHLB amounted to approximately $96,655,000 and $86,124,000 at December 31, 2019 and 2018, respectively. The fair value of the mortgage servicing rights related to these loans was approximately $984,000 and $1,029,000 at December 31, 2019 and 2018, respectively. The fair value of these servicing rights was determined using a discount rate of 10.0 percent as of December 31, 2019 and 2018. Conditional prepayment rates (CPR) ranged from 8.3 percent to 14.5 percent and 8.9 percent to 12 percent as of December 31, 2019 and 2018, respectively.

Note 7 - Office Properties and Equipment

A summary of the cost and accumulated depreciation of office properties and equipment at December 31, 2019 and 2018 is as follows:

	2019	2018
Land	$ 1,166,364	$ 1,166,364
Buildings and building improvements	11,363,568	11,004,940
Furniture, fixtures, and equipment	2,141,674	2,703,414
Construction in progress	-	43,653
Total cost	14,671,606	14,918,371
Accumulated depreciation	(5,074,730)	(5,401,477)
Net office properties and equipment	$ 9,596,876	$ 9,516,894

Depreciation expense for 2019 and 2018 totaled $409,422 and $402,500, respectively.

The Bank owns all of its office locations and currently leases office space to unrelated third-party tenants at its Munster, Dyer, and Schererville, Indiana offices. As of December 31, 2019, the Dyer, Indiana office location leased office and parking space to third-party tenants at an annual rent of approximately $233,000 under lease agreements that terminate in 2020 through 2024. The Schererville, Indiana office location leased office and storage space to third-party tenants at an annual rent of approximately $129,000 under lease agreements that terminate in 2020. The Munster, Indiana office location leased office space to third-party tenants at an annual rent of approximately $30,000 under a lease agreement that terminates in 2020.

Note 8 - Deposits

The following is a summary of the distribution of deposits at December 31, 2019 and 2018:

	2019	2018
Passbook accounts	$ 26,637,041	$ 27,372,908
Demand deposits and NOW accounts	91,673,692	85,182,242
Money market accounts	10,686,286	12,915,284
Certificates of deposit:		
Under $250,000	53,911,397	56,105,941
$250,000 and over	10,385,963	10,975,502
Total	$ 193,294,379	$ 192,551,877

At December 31, 2019, the scheduled maturities of time deposits are as follows:

Years Ending	Amount
2020	$ 32,510,581
2021	21,776,284
2022	9,097,780
2023	912,715
Total	$ 64,297,360

As of December 31, 2019 and 2018, deposit balances from officers and directors of the Company totaled approximately $1,584,000 and $1,563,000, respectively.

Note 9 - Borrowed Funds

The Company has advances from the Federal Home Loan Bank of Indianapolis (FHLB) totaling $10,172,947 and $10,335,019 at December 31, 2019 and 2018, respectively. Fixed interest rates on balances outstanding at December 31, 2019 range from 1.32 percent to 6.71 percent. Interest is payable monthly, and the advances mature from 2020 through 2023. The Bank has adopted a collateral pledge agreement whereby the Bank has agreed at all times to keep on hand, free of all other pledges, liens, and encumbrances, first mortgages and qualifying second mortgages on one-to-four family, multifamily, and nonresidential real estate, with unpaid principal balances aggregating no less than 150 percent of the outstanding secured advances from the FHLB. At December 31, 2019 and 2018, no securities were pledged for these borrowings.

At December 31, 2019, the Company had available $12,500,000 of unsecured overnight federal funds borrowing capability from third-party sources. There was no outstanding balance on these lines as of December 31, 2019 or 2018.

Note 10 - Guaranteed Preferred Beneficial Interest in Junior Subordinated Debentures

In 2007, the Company issued $3,000,000 of junior subordinated debentures (2007 debentures) to AMB Financial Statutory Trust II. The 2007 debentures are the sole assets of this trust, which issued common securities to the Company and preferred capital securities to third-party investors. The 2007 debentures bear interest at a fixed rate of 6.55 percent, payable quarterly in arrears, for the first five years and then bear interest at a rate of three-month LIBOR plus 1.65 percent thereafter. These debentures are noncallable for five years and, after that period, are redeemable at par plus accrued unpaid interest, in whole or in part. The 2007 debentures have a scheduled maturity date of June 15, 2037. These debentures were repriced to LIBOR plus 1.65 percent on March 15, 2012. The interest rate in effect as of December 31, 2019 and 2018 is 3.54 percent and 4.44 percent, respectively.

Note 10 - Guaranteed Preferred Beneficial Interest in Junior Subordinated Debentures (Continued)

The trust-preferred securities are issues that qualify and are treated by the Company as Tier I regulatory capital. The Company wholly owns all of the common securities of the trust. The trust-preferred securities issued by the trust rank equally with the common securities in right of payment, except that if an event of default under the indenture governing the debentures has occurred and is continuing, the preferred securities will rank senior to the common securities in right of payment.

At December 31, 2019, the Company is current on interest payments due to the holders of the junior subordinated debentures.

Note 11 - Employee Benefit Plans

The Bank participates in the Pentegra Defined Benefit Plan for Financial Institutions (the "Pentegra DB Plan"), a tax-qualified defined benefit pension plan. The Pentegra DB Plan's employer identification number is 13-5645888, and its plan number is 333. The Pentegra DB Plan operates as a multiemployer plan for accounting purposes and as a multiple-employer plan under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Pentegra DB Plan.

The Pentegra DB Plan is a single plan under Internal Revenue Code Section 413(c), and, as a result, all of the assets stand behind all of the liabilities. Accordingly, under the Pentegra DB Plan, contributions made by a participating employer may be used to provide benefits to participants of other participating employers.

Full-time employees of the Bank who had attained at least 21 years of age and completed one year of service were eligible to participate in the Pentegra DB Plan. Effective June 1, 2014, any employee hired on or after June 1, 2014 shall not become eligible to participate or to accrue benefits under the Pentegra DB Plan. In addition, eligible employees as of May 31, 2014 shall continue to participate in the Pentegra DB Plan under the plan provisions as adopted and amended by the Bank.

Calculations to determine full-funding status of the Pentegra DB Plan are made annually by the third-party plan administrator as of June 30. As of July 1, 2019 and 2018, the MAP 21 funding target, which is defined as the market value of plan assets divided by the plan liabilities of the Bank's portion of the Pentegra DB Plan, was 120.48 percent and 121.51 percent, respectively. As of July 1, 2019 and 2018, the Pre-MAP 21 funding target was 95.98 percent and 91.86 percent, respectively.

Contributions to the Pentegra DB Plan paid by the Bank during the years ended December 31, 2019 and 2018 amounted to $360,027 and $392,236, respectively. The Bank's contributions to the Pentegra DB Plan are not more than 5 percent of the total contributions to the Pentegra DB Plan. Pension expense for the years ended December 31, 2019 and 2018 amounted to $376,132 and $368,526, respectively.

The Bank participates in the Pentegra Thrift Plan, which qualifies under Section 401(k) of the Internal Revenue Code and covers substantially all employees. This plan calls for a discretionary contribution within specified limits and a matching bank contribution equal to 25 percent of the first 6 percent of the employee contributions. Plan expense for the years ended December 31, 2019 and 2018 amounted to $28,873 and $27,911, respectively.

The Bank also has established three nonqualified 401(k) plans providing participating officers of the Bank the opportunity to defer up to 6 percent of their salary into a tax deferred accumulation for future retirement. In addition, the Bank has also established a director deferral plan. Generally, all deferred nonqualified 401(k) plan contributions and deferred director fees are credited with interest from the Bank at the rate of 10 percent per year. Interest credited by the Bank to the nonqualified plans and deferred director fees on accumulated funds were $97,298 and $101,236 for the years ended December 31, 2019 and 2018, respectively. Total accumulation of funds for the nonqualified plans and deferred director fees were $952,218 and $993,722 as of December 31, 2019 and 2018, respectively.

Note 12 - Director, Officer, and Employee Plans

2017 Equity Incentive Plan

The Company's 2017 equity incentive plan (the "Incentive Plan") was adopted by the Company's board of directors on April 19, 2017 and approved by the Company's stockholders on April 19, 2017. The Incentive Plan permits the grant of equity awards for up to 98,000 shares of common stock. Awards granted under the Incentive Plan may be in the form of incentive stock options, nonqualified stock options, or restricted stock. Option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant. There was approximately $41,000 and $34,000 of expense charged against income for incentive stock options and nonqualified stock options during 2019 and 2018, respectively. There was approximately $47,000 and $39,000 of expense charged against income for restricted stock during 2019 and 2018, respectively.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model that used the following weighted-average assumptions: (1) five years time to maturity, (2) 1.75 percent risk-free rate, (3) 0.94 percent dividend yield, and (4) 32.91 percent expected annual stock volatility. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and postvesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The fair value of the incentive stock options and nonqualified stock options awarded during 2017 was $4.61.

A summary of the Company's stock option activity for the years ended December 31, 2019 and 2018 is presented below:

Options	Number of Options	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2018	64,050	$ 16.00	8.51	$ 176,138.00
Outstanding at December 31, 2018	64,050	16.00	7.51	128,100.00
Outstanding at January 1, 2019	64,050	16.00	7.51	128,100.00
Outstanding at December 31, 2019	64,050	16.00	6.51	64,050.00
Vested at December 31, 2019	16,254	-		-

As of December 31, 2019, there was approximately $205,000 in unrecognized compensation costs related to nonvested incentive stock options and nonqualified stock options under the Incentive Plan. The cost is expected to be recognized over a weighted-average period of seven years.

Restricted stock awards are generally granted with an award price equal to the market price of the Company's common stock on the award date. Restricted stock awards have been issued with a 6- to 10-year vesting period. Forfeiture provisions exist for personnel who separate employment before the vesting period expires. Compensation expense related to restricted stock awards is recognized over the vesting period.

There were no stock awards granted during 2019 or 2018. During 2019 and 2018, 2,990 and 2,430 stock awards were vested, respectively. There were no restricted stock awards forfeited during 2019 or 2018. There were 15,930 and 18,920 restricted stock awards outstanding at December 31, 2019 and 2018, respectively.

Note 12 - Director, Officer, and Employee Plans (Continued)

As of December 31, 2019, there was approximately $239,000 in unrecognized compensation costs related to nonvested restricted stock awards under the Incentive Plan. The cost is expected to be recognized over a weighted-average period of 6.3 years.

Employee Stock Ownership Plan (ESOP)

The ESOP is a qualified deferred compensation plan funded by contributions from the Bank. Contributions to the ESOP are at the discretion of the board of directors and are used to purchase shares of the Company's common stock. All employees over the age of 18 meeting minimum service requirements are eligible to participate in the plan. Employee contributions are not permitted. Plan contributions charged to expense totaled $50,000 and $56,000 for the years ended December 31, 2019 and 2018, respectively. Eligible employees were vested in their proportionate shares of ESOP contributions at December 31, 2019.

Note 13 - Income Taxes

The details of the net deferred tax asset are as follows:

	2019	2018
Deferred tax assets:		
Deferred compensation for officers	$ 221,105	$ 231,870
Allowance for loan losses	557,656	516,305
Allowance for uncollected interest	63,643	52,380
Allowance for loss on mortgage loan sales	2,463	4,370
Deferred interest and charges on modified loans	15,941	12,574
Other real estate owned write-downs	17,650	17,012
Unrealized loss on available-for-sale securities	-	14,722
Other	32,555	22,967
Total deferred tax assets	911,013	872,200
Deferred tax liabilities:		
Accelerated tax depreciation	(478,075)	(351,530)
FHLB stock dividend	(21,077)	(21,077)
Prepaid pension expense	(46,691)	(50,868)
Mortgage servicing rights	(100,863)	(88,500)
Unrealized gain on available-for-sale securities	(18,168)	-
Other	(107,808)	(99,897)
Total deferred tax liabilities	(772,682)	(611,872)
Net deferred tax asset	$ 138,331	$ 260,328

The recoverability of the deferred tax asset, which is primarily dependent on the future deductibility of the allowance for loan losses and deferred compensation, is contingent upon future taxable income. The Company believes that future taxable income will support this deferred tax asset and believes that no valuation allowance is necessary.

The allocation of income taxes between current and deferred portions is as follows:

	2019	2018
Current	$ 323,666	$ 287,954
Deferred	89,107	129,142
Total income tax expense	$ 412,773	$ 417,096

Note 13 - Income Taxes (Continued)

The allocation of income taxes between federal and state portions is as follows:

	2019	2018
Federal	$ 347,301	$ 308,679
State	65,472	108,417
Total	$ 412,773	$ 417,096

The reasons for the differences between the income tax expense and the federal statutory income tax rate and the recorded income tax expense are summarized as follows:

	2019	2018
Income before income taxes	$ 1,761,849	$ 1,716,273
Income tax expense at federal statutory rate	369,988	360,417
State income taxes - Net of federal income tax expense	86,991	87,315
Decrease resulting from nontaxable items	(35,849)	982
Other	(8,357)	(31,618)
Total	$ 412,773	$ 417,096

Retained earnings at December 31, 2019 include approximately $1,950,000 of tax bad debt reserves for which no provision for income taxes has been recorded. This amount represents earnings legally appropriated to bad debt reserves and deducted for federal income tax purposes and is generally not available for payment of cash dividends by the Bank or other distributions to stockholders of the Bank. If in the future this amount, or a portion thereof, is used for certain purposes other than to absorb losses on bad debts, an income tax liability will be imposed on the amount so used at the then-current corporate income tax rate. If deferred taxes were required to be provided on this item, the amount of this deferred tax liability would be approximately $780,000.

Note 14 - Minimum Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's 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 its assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Bank may not declare or pay cash dividends on or repurchase any of its shares of common stock if the effect thereof would cause stockholders' equity to be reduced below applicable regulatory capital maintenance requirements or if such declaration and payment would otherwise violate regulatory requirements.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, common, and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2019 and 2018, that the Bank met all capital adequacy requirements to which it is subject.

Note 14 - Minimum Regulatory Capital Requirements (Continued)

As of December 31, 2019, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," an institution must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based, and Tier 1 leverage ratios, as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. At December 31, 2019, the Bank's adjusted total assets were approximately $224,599,000, and its risk-weighted assets were approximately $176,887,000. The Bank's actual capital amounts and ratios as of December 31, 2019 and 2018 are also presented in the table.

These tables do not include the 2.5 percent capital conservation buffer requirement. A bank with a capital conservation buffer greater than 2.5 percent of risk-weighted assets would not be restricted by payout limitations. However, if the 2.5 percent threshold is not met, the bank would be subject to increasing limitations on capital distributions and discretionary bonus payments to executive officers as the capital conservation buffer approaches zero.

	Actual		Minimum for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(000s omitted)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Common equity Tier 1 capital (to risk-weighted assets)	$ 20,831	11.78 %	$ 7,960	4.50 %	$ 11,498	6.50 %
Total risk-based capital (to risk-weighted assets)	22,981	12.99	14,151	8.00	17,689	10.00
Tier 1 capital (to risk-weighted assets)	20,831	11.78	10,613	6.00	14,151	8.00
Tier 1 capital (to adjusted total assets)	20,831	9.27	8,984	4.00	11,230	5.00
As of December 31, 2018						
Common equity tier 1 capital (to risk-weighted assets)	19,726	11.85	7,490	4.50	10,818	6.50
Total risk-based capital (to risk-weighted assets)	21,717	13.05	13,315	8.00	16,644	10.00
Tier 1 capital (to risk-weighted assets)	19,726	11.85	9,986	6.00	13,315	8.00
Tier 1 capital (to adjusted total assets)	19,726	7.97	9,899	4.00	12,374	5.00

Note 15 - Earnings per Share

Earnings per share are based on the weighted-average number of common shares outstanding during the year. Basic and diluted earnings per share attributable to the Company's stockholders are as follows:

	2019	2018
Net income available to common stockholders	$ 1,349,076	$ 1,299,177
Weighted-average number of common shares outstanding used in basic EPS calculation	971,291	982,657
Basic earnings per common share	$ 1.39	$ 1.32
Weighted-average common shares and equivalents outstanding for diluted computation	975,498	986,822
Diluted earnings per common share	$ 1.38	$ 1.32

Note 16 - Financial Instruments with Off-balance-sheet Risk

The Bank is a party to various financial instruments with off-balance-sheet risk in the normal course of business. These instruments are primarily commitments to originate loans and to extend credit on previously approved unused lines of credit. These financial instruments carry varying degrees of credit and interest rate risk in excess of amounts recorded in the consolidated financial statements.

Commitments to originate mortgage loans of approximately $3,112,000 and $1,031,000 at December 31, 2019 and 2018, respectively, represent amounts that the Bank plans to fund within the normal commitment period of 60 to 90 days. These commitments are at fixed rates ranging from 3.88 percent to 5.25 percent and 4.50 percent to 6.13 percent at December 31, 2019 and 2018, respectively. Because the creditworthiness of each customer is reviewed prior to extension of a loan commitment, the Bank adequately controls its credit risk on loan commitments, as it does for loans recorded on the consolidated balance sheet. The Bank primarily conducts all of its lending activities in the northwest Indiana area. Management believes the Bank has a diversified loan portfolio, and the concentration of lending activities in these local communities does not result in an acute dependency upon economic conditions of the lending region.

The Bank has approved, but unused, home equity lines of credit of approximately $9,121,000 and $8,162,000 at December 31, 2019 and 2018, respectively. In addition, the Bank has approved but unused equity lines of credit on various construction and commercial projects of approximately $8,443,000 and $9,291,000 at December 31, 2019 and 2018, respectively. The Bank also has approved but unused business nonreal estate lines of credit of approximately $6,415,000 and $6,406,000 at December 31, 2019 and 2018, respectively.

As a part of the Bank's program to purchase and manage accounts receivable loans to creditworthy merchants, a maximum amount of purchased receivables is allowed to be outstanding at any one time. At December 31, 2019 and 2018, the unused line was approximately $208,000 and $196,000, respectively.

The Bank has also issued outstanding letters of credit on behalf of third parties totaling approximately $1,058,000 and $846,000 at December 31, 2019 and 2018, respectively.

Note 17 - Contingencies

The Bank is, from time to time, a party to certain lawsuits in the ordinary course of its business, including where it enforces its loan security interest. Management believes that the Company and the Bank are not engaged in legal proceedings of a material nature at the present time.

Note 18 - Fair Value of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices; however, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases whereby quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Fair value accounting standards exclude certain financial instruments and all nonfinancial instruments from their disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The following methods and assumptions were used by the Company in estimating fair values disclosures for financial instruments:

Cash and Amounts Due from Depository Institutions

The carrying amounts of cash and amounts due from depository institutions approximate fair value.

Note 18 - Fair Value of Financial Instruments (Continued)

Interest-bearing Deposits in Other Depository Institutions

The carrying amounts of interest-bearing deposits in other depository institutions approximate fair value.

Mortgage-backed Securities

Fair values for mortgage-backed securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Federal Home Loan Bank of Indianapolis Stock

The carrying value of the FHLB stock approximates fair value based on its redemption provisions.

Loans Held for Sale

Loans held for sale comprise residential mortgages and are priced based on outstanding commitments from investors.

Loans Receivable

For variable-rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses that use interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values of nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Accrued Interest Receivable and Payable

The carrying amounts of accrued interest approximate fair value.

Deposits

The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Borrowed Funds

The fair values of the Company's other borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Junior Subordinated Debentures

For variable-rate junior subordinated debentures that reprice frequently, fair values are based on carrying values.

Other Financial Instruments

The fair value of other financial instruments, including loan commitments and unfunded letters of credit, based on discounted cash flow analyses, is not material.

Note 18 - Fair Value of Financial Instruments (Continued)

The carrying amounts and fair values of the Company's financial instruments as of December 31, 2019 and 2018 are as follows:

	2019		2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and cash equivalents	$ 20,127,726	$ 20,127,726	$ 28,615,335	$ 28,615,335
Mortgage-backed securities - Available for sale	8,244,821	8,244,821	4,798,786	4,798,786
Federal Home Loan Bank stock	1,372,000	1,372,000	1,372,000	1,372,000
Loans held for sale	924,170	924,170	824,728	824,728
Loans receivable - Gross	183,175,719	182,778,830	176,702,109	173,609,846
Accrued interest receivable	709,546	709,546	683,752	683,752
Financial Liabilities				
Deposits	193,294,379	187,119,593	192,551,877	184,099,074
Borrowed funds	10,172,947	10,172,000	10,335,019	10,408,000
Junior subordinated debentures	3,093,000	3,093,000	3,093,000	3,093,000
Accrued interest payable	20,007	20,007	10,577	10,577

Note 19 - Fair Value Measurements

The Company measures fair value according to ASC 820-10, *Fair Value Measurements and Disclosures*, which establishes a fair value hierarchy that prioritizes the inputs used in valuation techniques, but not the valuation techniques themselves. ASC 820-10 defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” There are three levels of inputs into the fair value hierarchy (Level 1 being the highest priority and Level 3 being the lowest priority):

Level 1

Unadjusted quoted prices for identical instruments in active markets.

Level 2

Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3

Instruments whose significant value drivers or assumptions are unobservable and that are significant to the fair value of the assets or liabilities.

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

Note 19 - Fair Value Measurements (Continued)

The following table sets forth the Company's financial assets by level within the fair value hierarchy that were measured at fair value on a recurring basis at December 31, 2019 and 2018:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Estimated Fair Value
December 31, 2019				
Mortgage-backed securities	$ -	$ 8,244,821	$ -	$ 8,244,821
Loans held for sale	-	924,170	-	924,170
Total assets	$ -	$ 9,168,991	$ -	$ 9,168,991
December 31, 2018				
Mortgage-backed securities	$ -	$ 4,798,786	$ -	$ 4,798,786
Loans held for sale	-	824,728	-	824,728
Total assets	$ -	$ 5,623,514	$ -	$ 5,623,514

Securities available for sale are measured at fair value on a recurring basis. Level 2 securities are valued by a third-party pricing service commonly used in the banking industry utilizing observable inputs. The pricing provider utilizes evaluated pricing models that vary based on asset class. These models incorporate available market information, including quoted prices of securities with similar characteristics, and, because many fixed-income securities do not trade on a daily basis, apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Changes in the fair market value of the Company's available-for-sale securities are recorded in other comprehensive income.

The Company has elected the fair value option for loans held for sale. These loans are intended for sale, and the Company believes that fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with the Company's policy on loans held for investment. None of these loans are 90 days or more past due or on nonaccrual as of December 31, 2019 and 2018.

The following tables set forth the Company's assets by level within the fair value hierarchy that were measured at fair value on a nonrecurring basis at December 31, 2019 and 2018:

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Impaired loans	$ -	$ -	$ 2,798,143	$ 2,798,143
Other real estate owned	-	-	1,217,567	1,217,567

Note 19 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2018
Impaired loans	$ -	$ -	$ 2,640,304	$ 2,640,304
Other real estate owned	-	-	151,379	151,379

Loans for which it is probable that the Bank will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral-dependent loans. This method utilizes current independent appraisals or analyses to determine the market value of the collateral and then applies a discount factor to the value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Fair value measurements for impaired loans are performed pursuant to ASC 310-10, *Receivables,* and are measured on a nonrecurring basis. These impaired loans were carried at fair value as estimated using current and prior appraisals, discounting factors, and other factors. These adjustments to the estimated fair value of impaired loans may result in increases or decreases to the provision for loan losses recorded in future earnings.

The fair value of the Company's other real estate owned is determined using Level 3 inputs, which include current and prior appraisals and estimated costs to sell.

The numerical range of unobservable inputs for these Level 3 valuation assumptions is not meaningful to this presentation.

AMB Financial Corp.
Stockholder Information

Annual Meeting

Our annual meeting of stockholders will be held on April 22, 2020 at 11:00 a.m. Central time at the Company's corporate office located at 7880 Wicker Avenue, St. John, IN 46373.

Stock Listing

The Company's stock is quoted on the OTC Bulletin Board under the symbol "AMFC".

Price Range of Common Stock and Dividends

The table below shows the range of high and low sale prices and common shareholder dividends paid in 2019.

Quarter Ended	Low	High	Dividends
March 31, 2019	$17.35	$17.67	$0.00
June 30, 2019	$16.70	$17.90	$0.00
September 30, 2019	$16.52	$17.25	$0.00
December 31, 2019	$16.00	$17.25	$0.00

As of December 31, 2019, the Company had 965,352 outstanding shares of common stock.

Shareholder General Inquiries

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AMB Financial Corp.
Corporate Information

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Directors of the Board

Michael Mellon
Chairman of the Board
Director since 2004

Thomas Corsiglia
Director since 2007

Dana Dumezich
Director since 2019

Donald Harle
Director since 1995

Denise Knapp
Director since 2017

Michael Purcell
Director since 2012

Kenneth Reed
Director since 2017

Officers of AMB Financial Corp.

Michael Mellon
President, Chief Executive Officer

Steven Bohn
Chief Financial Officer, Vice President

Denise Knapp
Corporate Secretary

Mohammad Saleem
Vice President

Brian Specht
Vice President

Ginger Watts
Vice President

Todd Williams
Vice President

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Corporate Counsel / Washington DC
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Washington, D.C. 20015

Annual and Other Reports

The Company's reports, including additional information regarding 2019, are posted on its website at https://www.acbanker.com.

AMB

Financial Corp.

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